Risk and Modelling Fixed Income Interest Rates

Examining changes in modelling LIBOR term structures, yield curves, sovereign debt spreads and its implications on hedging risk

Central London, UK

15th & 16th April 2010

STAY AHEAD OF THE TREND IN THE INEVITABLE SHIFT OF THE FIXED INCOME MODELLING PARADIGM

marcusevans

Attending this Premier **marcus evans** Conference Will Enable You to:

- **Examine** the effects of the financial crisis on modeling fixed income products
- **Discover** the advancements of making the most out of your yield curve
- **Investigate** the most current updates on sovereign debt spreads and what this means for the industry
- **Assessing** investors' appetite on exotic and plain vanilla products in the current climate
- **Realising** the modeller's role in creating a safer and more secure financial market
- **Explore** the macroeconomic view in fixed income volatility and systemic risks

Learn from Key Practical Case Studies:

- **Dexia Bank** explores the irony in derivatives discounting, FRA and futures as well as the impact on options
- **London School of Economics** presents a macroeconomic view of the fixed income market and the factors that affect hedge funds' investment decisions as a result of the crisis
- **Bloomberg Research** discovers the new methodologies to make the most out of your yield curve
- **DZ Bank** investigates the robust sensitivities and stress testing with Monte Carlo valuation frameworks
- **Swiss Finance Institute** and the **Vontobel Group** demonstrates the most effective methods to hedge term structures during the occurance of estimation errors

marcus evans Expert Speaker Panel:

Raoul Pietersz
Co-Head Quantitative Analytics
ABN AMRO

Marc Henrard
Head of Interest Rates Quantitative Modelling
Dexia

Giovanni Barone-Adesi
Professor of Finance and Head of the Lugano Center
Swiss Finance Institute

Dr. Nicola Carcano
Head of Product Development and Engineering
Vontobel Group

Dr. Christian Fries
Head of Model Development, Risk Control
DZ Bank

Roberto Violi
Director
Banca Italia Portfolio Management

Andrea Pallavicini
Head of Financial Engineering
Banca Leonardo

Erik Stjernstrom
Financial Product Engineer
Swedbank

Dr. Marco Bianchetti
Senior Quantitative Analyst, Risk Management, Market Risk Pricing & Financial Modelling
Intesa San Paolo

Fabio Mercurio
Senior Researcher
Bloomberg LP

Dr. Yuval Millo
Department of Accounting
London School of Economics

Dr. Jörg Kienitz
Head of Quantitative Analysis, Treasury
Deutsche Postbank AG

Dong Qu
Global Head of Quants
UniCredit Group

Dr. Henrik Jönsson
Research Fellow
Eurandom, Eindhoven University of Technology

Antonio Mele
Professor of Finance
London School of Economics

Sandrine Ungari
Senior Interest Rates Quantitative Strategist
Societe Generale

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09:00 Opening Comments From the Chair

THE MACRO STRATEGIC VIEW

09:10 **The Implicit Volatility and Systemic Risk in Fixed Income Interest Rates**
- Assessing the risks in the interest rate market by considering the macroeconomic environment
- Importance of awareness on macroeconomics among modellers
- LIBOR models – Applications for swaps and options
- The macroeconomic fundamental factors within pricing interest rates and payoffs

Reserved:
Senior Representative
European Central Ban

09:50 **Measuring the inflation component in nominal rates**
- Defining a three-factor affine macro-economic framework for the yield curve.
- Including the inflation-linked instruments in the pricing framework
- Measuring inflation risk premia
- How to construct a benchmark for inflation break-evens
- Trading applications

Sandrine Ungari
Senior Interest Rates Quantitative Strategist
Societe Generale

10:30 Morning Coffee and Networking Break

A NEW PARADIGM IN MODELLING

11:00 **Making the Most Out of Your Yield Curve**
- Hedging interest rate derivatives using different yield curves
- Market variables – Implementing uncertain data into the yield curve effectively
- Testing for instability in factor structure of yield curves
- Discounting and forwarding
- Maximising fixed income attribution

Fabio Mercurio
Senior Researcher
Bloomberg LP

11:30 Panel Discussion:
Impact of the Financial Crisis on Modelling
- Looking back at past crises and their effects on fixed income interest rates
- Computing on the same yield curve – Forward rates, cash flow, discount factors
- Developing the consistency of One-Factor and Two-Factor models
- Comparing market practice versus best practice
- Improving the consistency of models – Incorporating the breakdown of LIBOR into current models

Dong Qu
Head of Quantitative Products
Unicredit Group

Erik Stjernstrom
Financial Product Engineer
Swedbank

Raoul Pietersz
Co-Head Quantitative Analytics
ABN AMRO

12:10 **Robust Sensitivities and Stress Testing with Monte-Carlo Valuation Frameworks**
- Discussing the calculation of sensitivities in the context of risk management and risk control
- Looking into conflicts in model assumptions
  – Getting stable and consistent sensitivities
  – Retaining performance
- Discussing stress scenarios and large market data movements

Dr. Christian Fries
Head of Model Development, Risk Control
DZ Bank

13:10 Lunch

A RENEWED SENSE OF PRICING METHODS

14:20 **Option Valuation in Multivariate SABR Models**
- Multivariate SABR models
- Applying the Markovian Projection to Multivariate SABR models
- Applications to Constant Maturity Spread options
- Dependency of cross skews and other dependency measures on the prices
- Comparison with other methods for instance the Copula approach
- Directions of future research

Dr. Jörg Kienitz
Head of Quantitative Analysis, Treasury
Deutsche Postbank AG

15:00 **Pricing in Implied Volatility Structures Using the Brace Gatarek Musiela (BGM) Model**
- Implementing Monte Carlo pricing with the LIBOR model
- Compare and contrast short rates, instantaneous forward rates (Heath Jarrow-Morton framework), market rates
- Assessing the parameters for the LIBOR model in a volatile environment
- How to deal with the dislocation of the market in the LIBOR model

15:40 Afternoon Tea and Networking Break

16:10 **Pricing and Hedging in a Double Curve Framework**
- Limitations on a standard single curve
- Basis adjustment
- Introducing a micro term structure
- Double curve pricing and hedging strategies

Dr. Marco Bianchetti
Senior Quantitative Analyst, Risk Management, Market Risk, Pricing & Financial Modelling
Intesa San Paolo

16:50 Closing Comments from the Chair

17:00 End of Day One

09:00 Opening Comments From the Chair

09:10 **The Irony in Derivatives Discounting**
- Coherent discounting and LIBOR
- FRA and futures: Not so simple instruments
- Delta risk in multi-curve
- Impact on options

Marc Henrard
Head of Interest Rates Quantitative Modelling
Dexia

THE INVESTOR OUTLOOK ON FIXED INCOME

09:50 **Discovering the Effects of the Rise in Sovereign Debt Spreads**
- Exploring long term government bond rates within the Eurozone
- Sovereign bonds to watch out for – What is going on?
- Case Study: The view on Dubai's debt risk
- Recognising widening CDS spreads and its effects
- What does it mean for modellers?

Antonio Mele
Professor of Finance
London School of Economics

10:30 Morning Coffee and Networking Break

11:00 **Assessing Hedge Funds' Investment Decisions During the Crisis**
- An overwhelming call for for reduced risk exposure
- Are exotics still in demand?
- Delving into Constant Maturity Swap and the market swap rate
- Examining the shift from exotics to plain vanilla products
- How will modellers deal with the change in investor appetite?
- Expectations for 2010

Dr. Yuval Millo
Department of Accounting
London School of Economics

11:40 **Active Performance Maximisation in Fixed Income Portfolio Management**
- (Manipulation-Proof) performance evaluation and linear (Affine) models of the term structure of interest rates
- Estimation (Model) risk and return predictability in linear term structure models
- Variations in the term structure of risk and macroeconomics
- Enhancing active portfolio management by volatility-trading strategies

Roberto Violi
Director
Banca Italia Portfolio Management

12:40 Lunch

UNCERTAINTY IN INTEREST RATES

14:00 Joint Presentation:
Hedging The Term Structure In the Presence of Estimation Errors
- Improved hedging schemes
- Hedging bonds with default risk
- Compare different hedging strategies

Giovanni Barone-Adesi
Professor of Finance and Head of the Lugano Center
Swiss Finance Institute

Dr. Nicola Carcano
Head of Product Development and Engineering
Vontobel Group

14:40 **Counterparty Risk Evaluation for Interest Rate Derivatives**
- Risk-neutral evaluation of counterparty risk
- Bilateral counterparty risk
- Interest-rate and credit-spread modeling assumptions
- Managing correlations
- Pricing examples and discussion
- Conclusions

Andrea Pallavicini
Head of Financial Engineering
Banca Leonardo

15:10 Afternoon Tea and Networking Break

15:40 **Model Risk and Parameter Uncertainty in Asset-Backed Securities Ratings**
- Rating asset-backed securities (ABSs)
- Cashflow modelling and the modelling of default and prepayment risks
- Model risk and parameter uncertainty - the impact of model choice and parameter assumptions

Dr. Henrik Jönsson
Research Fellow
Eurandom, Eindhoven University of Technology

16:20 Closing Comments From the Chair

16:30 End of Conference

Risk and Modelling Fixed Income Interest Rates

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CONFERENCE: RISK AND MODELLING FIXED INCOME INTEREST RATES
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