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Counterparty Credit Risk: The Impact of CVA, Basel III, Funding and Central Clearing

A TWO-DAY COURSE LED BY
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AMSTERDAM

Thursday & Friday
April 18th - 19th, 2013
9:00 a.m. - 5:00 p.m.

Counterparty credit risk and CVA have become key concepts since the outset of the global financial crisis. In addition, funding has become a key concern for assessing trading costs. Regulation means that counterparty risk quantification and management will be key challenges over the coming years for banks and other financial institutions. The large move towards centralized clearing for many types of OTC derivatives will also be a key dynamic defining the structure of financial markets.

**All participants will receive Jon Gregory's latest book:
"Counterparty Credit Risk: A Continuing Challenge for Global
Financial Markets"**



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PRMIA, Amsterdam April 2013

Day 1

1. Background

- Historical and definitions
- Accounting and regulatory capital rules
- Exposure
- Default probability

2. Quantifying credit exposure

- Simple approaches
- Simulation methodology
- Incremental and marginal exposure
- The impact of collateral

Example: *quantifying the impact of netting and collateral on credit exposure*

3. Credit value adjustment (CVA)

- CVA formulas
- Examples
- Incremental CVA
- CVA for collateralised counterparties
- Curve mapping methodologies

Example: *computing CVA using approximate and more accurate methods. Computing incremental CVA.*

4. Wrong-way risk

- Examples and empirical evidence
- Portfolio wrong-way risk
- Trade-level wrong-way risk
- The impact of collateral and DVA

correlation - Default and Exposure (gemeinsames Risiko durch Default)
- Default and Exposure (gemeinsames Risiko durch Default und PD) (Korrelationsrisiko)
- Default and Collateral

Example: *simple wrong-way risk model and simple CDS counterparty risk calculation*

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Day 2

5. Counterparty Risk Capital Requirements

- Default risk capital charge
- EPE at the portfolio level
- Basel III modifications (IMM)
- Basel III and CVA VAR
- CVA VAR examples

Workshop: *computing the alpha factor for various difference credit portfolios*

6. Beyond CVA

- Bilateral CVA and DVA
- Monetising DVA
- OIS discounting
- Funding value adjustment (FVA)
- Collateral value adjustment

Example: *computing CVA in the presence of netting and collateral and computing DVA*

7. Central counterparties

- Multilateral netting
- The mechanics of trading through a CCP
- Margining and the loss waterfall
- Important CCP questions
- Optimisation of CVA, DVA and FVA

8. Managing CVA volatility

- The role of a CVA desk
- Dynamic vs. passive approach
- CVA greeks and practical hedging
- The "basis book" approach and DVA
- Obtaining capital relief via hedging