



Managing corporate FX risk

Course description

Aim

To provide an overview of the main applications of FX derivatives within a corporate context

Topics

Identifying FX risk

- Sources of FX
- Where to look in a set of financial reports to identify FX risk

Product building blocks

- Asian options
- Compound options
- Barrier options
- Barrier parity

Vanilla risk management solutions

- Single option strategies
- Premium reduction strategies
- Using put - call parity to identify value in hedging strategies

Structured risk management solutions

- Extendible structures
- Knock out forward
- Forward plus / Window forward plus
- Window boosted forward
- KIKO (conditional window forward plus)
- Reset window forward plus

Objective

By the end of the session the participant will be able to:

- Identify the nature of the FX risk within a set of company financials

Asian options

- Explain the main features of average price and average strike options
- Describe the main principles behind the pricing of average rate options

Compound options

- Explain the main features of compound options
- Describe some possible applications of compound options

Barrier options

- Describe the main features of barrier options, distinguishing between “standard” and “reverse” structures
- Identify the main option Greeks for barrier options and describe how they differ from vanilla equivalents
- Identify how barrier hedging activities will have an impact on the spot market
- Explain the concept of “barrier parity”

Constructing vanilla risk management solutions

- Construct a number of single option strategies and describe how they will perform under a number of different market scenarios (single call / put strategies vs. Asian equivalent)
- Construct a number of premium reduction strategies (e.g. range forwards, participations, seagulls) and analyse how they will perform under a number of different market scenarios
- Using put - call parity to identify “value” in hedging strategies

Constructing structured risk management solutions

- Analyse a variety of “structured” solutions and describe how they will perform under a variety of different scenarios

Duration

One day