



Peter Skerritt & Associates
Derivatives & Financial Risk Specialists

TRADING & STRUCTURING FX OPTIONS

12 - 16 September 2011,

The Lemon Yard, Johannesburg

“The most influential development in terms of impact on finance practice was the Black-Scholes model for option pricing.”

- Robert C. Merton, Nobel Laureate, 1997

Overview

This workshop offers a unique opportunity to investigate the key theory and practical skills required to successfully manage portfolios of option instruments in the global foreign exchange market.

The workshop also examines best practices for structuring option-based solutions for hedging and investment purposes.

Please see Appendix 1 for a list of learning outcomes.

Supervisor

Peter Skerritt

Peter has spent twenty-five years in the financial markets as an option trader, financial engineer, author, and trainer, with experience in Europe, the United States, the Middle East, and Africa.

He has worked with foreign exchange, interest rate, and equity derivative instruments, and has spent much of his career in the FX options world, as both a trader and structurer. Notable achievements include the development and trading of the first exotic options in the Rand market, as well as the creation and mentoring of a leading local FX option trading and structuring team.

Methodology

This five-day workshop provides a highly practical opportunity to learn about foreign exchange options. Delegates are required to set up and manage option portfolios utilising the FENICS® option system, which is currently in use in many local and international banks.

A series of lectures covering both theoretical and practical concepts will complement the pricing and trading sessions.

Simulated trading will be used extensively throughout the workshop; this will incorporate inter-bank, broker, and client quotation of relevant option strategies, as well as state-of-the-art techniques for operating profitable portfolios of these complex instruments.

Post-assessment

Delegates are encouraged to complete an online multiple choice test following the workshop to confirm their understanding of the key learning outcomes.

Eligibility and suitability

While this initiative is aimed primarily at individuals who wish to trade or structure foreign exchange options, attendance could be of benefit to the following parties:

- Risk managers
- Financial engineers
- Corporate dealers
- Operations personnel
- Brokers
- Senior dealing room managers
- Regulators
- Information vendors
- Software developers

Delegates should already possess a sound grasp of the following:

- The time value of money.
- The jargon and conventions of the foreign exchange market, including forward contracts.
- A basic knowledge of option concepts and jargon.

Pre-course reading and assessments are provided to ensure that delegates are able to meet this requirement.

Programme

Please see Appendix 2.

Pre-course assessment

Delegates are required to complete pre-course reading comprising two short papers:

- Foreign Exchange Forwards and Options
- Randomness and Probability

Following the reading, the delegates are required to complete an assessment, comprising twenty multiple choice questions which can be taken online at a delegate's convenience.

Cost

R 16 950.00 + VAT per delegate.

Contact

For further information please contact Drew Williams:

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Appendix 1 – Learning Outcomes

Delegates who successfully complete this workshop will acquire knowledge and skills in the following areas:

- The logic and mathematics of the Lognormal Random Walk and associated probability distributions
- Stochastic processes of foreign exchange rates, dynamic asset replication and basic calculus
- The meaning and significance of ‘risk neutrality’ when valuing contingent claims
- The real-world nature of exchange rate behaviour
- Statistical concepts and techniques relevant to options
- The Black-Scholes, Cox Ross Rubinstein, and Garman Kohlhagen option models
- ‘Holes in Black-Scholes’
- Creating option models in Excel
- The first and second order risk sensitivities of options and their interrelationships
- Techniques for creating option portfolios with desired risk characteristics
- The design and interpretation of option risk reports, including VaR limits
- The mathematical logic and practical importance of different types of volatility
- Latest techniques for estimating and trading volatility
- Key market-making jargon and etiquette
- Pricing option combinations
- Economic imperatives and recognized best practices regarding the use of options for hedging and investing
- The design and pricing of relevant option-based structures for hedging and investing
- Profitably managing an option portfolio within pertinent risk capital limits

Appendix 2 - Programme

Day 1

08.30	Introduction to the FENICS® system
09.15	Arbitrage versus expectation pricing of contingent claims
10.00	Coffee
10.30	The Lognormal Random Walk and exchange rate behaviour
12.30	Lunch
13.30	The Garman / Kohlhagen model for pricing currency options
15.00	Tea
15.30	Trading simulation
17.00	Close

Day 2

08.30	Option risk sensitivities – the ‘Greeks’
10.00	Coffee
10.30	Trading simulation
12.30	Lunch
13.30	Creating and interpreting risk reports
15.00	Tea
15.30	Defining and measuring volatility
16.15	Trading simulation
17.00	Close

Day 3

08.30	Implied volatility and volatility skews
10.00	Coffee
10.30	Volatility trading: jargon and conventions
11.30	Trading simulation
12.30	Lunch
13.30	Volatility trading: strategies
15.00	Tea
15.30	Trading simulation
17.00	Close

Day 4

08.30 Hedging foreign exchange exposures with options
10.00 Coffee
10.30 Using options to create synthetic investments
11.30 Trading simulation
12.30 Lunch
13.30 Pricing option combinations
15.00 Coffee
15.30 Trading simulation
17.00 Close

Day 5

08.30 Exotic options
10.00 Coffee
10.30 Trading simulation
12.30 Lunch
13.30 Option VaR
14.30 Trading simulation
16.00 P&L reconciliation and prize-giving
16.30 Close