

# Short Dated Investment Ideas

## Thailand Wealth Management Forum

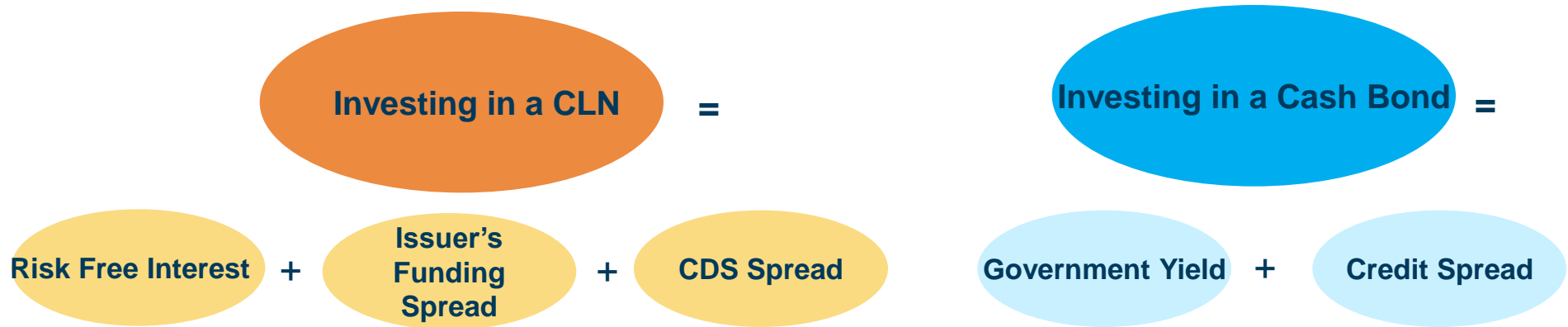


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# Credit Linked Notes

# Comparing a CLN and a bond



CLNs work in a similar way to cash bonds, except for these major differences:

- In a CLN, investor takes the credit risk of the obligations issued by the reference entity, as opposed to a bondholder taking the risk of a particular bond at a particular maturity (although cross default provisions in bonds can make this similar)
- In a CLN, the note holder will receive the recovery value post the auction settlement. Bondholder will have the value of that particular obligation

# Credit Linked Notes

Credit Linked Notes allow investors to achieve yield pick-up by combining Issuer risk with additional credit risk of investor's choice, in a convenient and efficient manner

Investors can get exposure to bespoke credit combinations, tailored to their risk preferences. Credit linked notes allow Investors to access credit combinations, where

- Issuers have no interest in private placements (i.e. Corporate names)
- Intended investment size is much lower than market size for new issuances
- Investor preferences on payoffs are different from what can be issued (i.e. Structured or index linked coupons)

# Credit Linked Notes

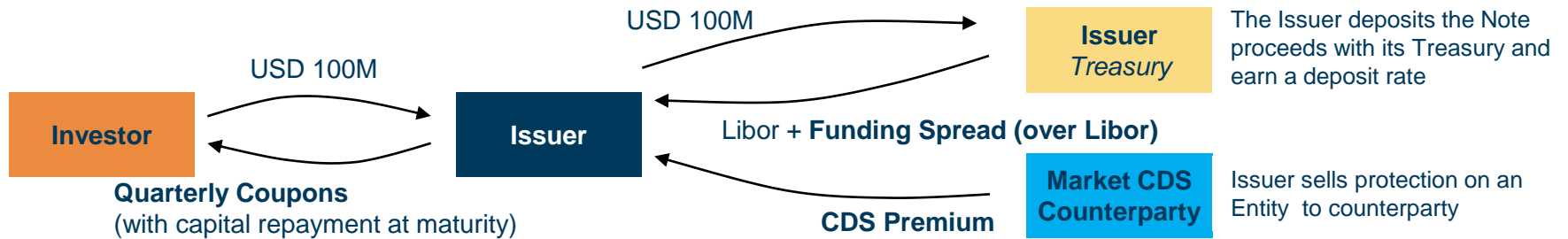
Credit Linked Notes offer increased flexibility for

- The coupon on the Note can be floating or fixed depending on the investor's preference
- Replacement of individual names in the credit combination with a portfolio or basket of names

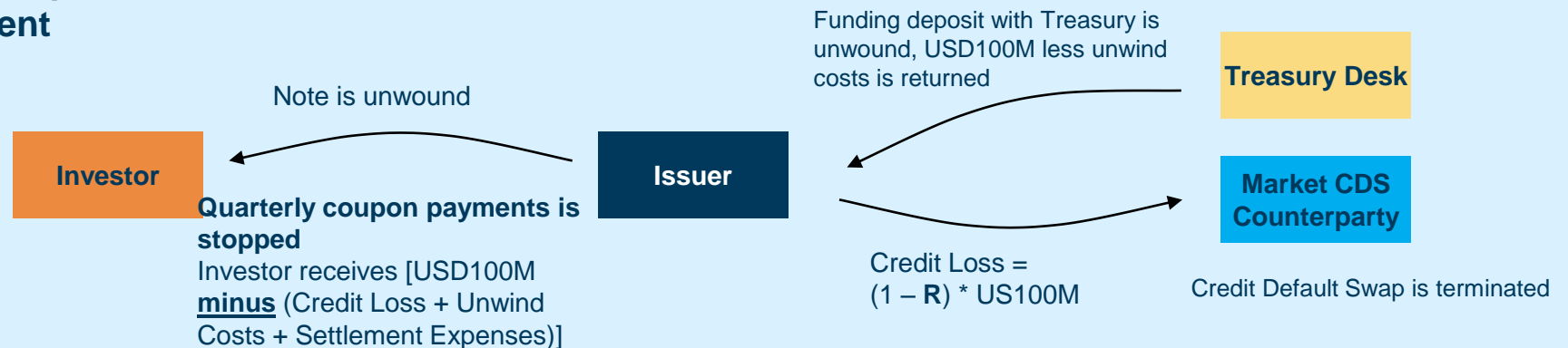
# Mechanisms of CLN

Example below is based on the assumption that the total notional of the note USD100 million

## Example of Cashflows if there is no Credit Event

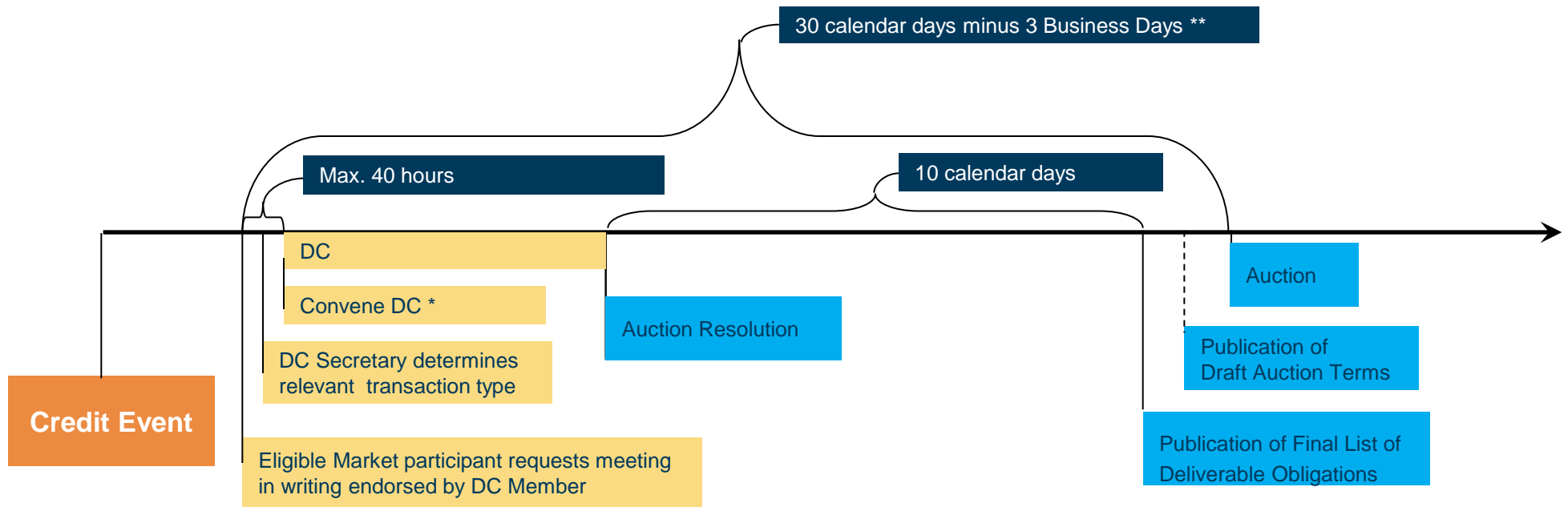


## Example of Cashflows if there is a Credit Event



R = Recovery of Reference Entity

# Credit Event & Auction Timeline



- Auction Resolution – If the Determinations Committee (“DC”) determines a Credit Event has occurred, DC will determine whether to hold Auction
- Auction – Auction Settlement Terms will be published for each Auction the DC determines should be held
  - A final price is determined from the Auction which will be used to cash settle transactions adhering to Auction Settlement

\* If a binding vote was not held by email.

\*\* Can be amended by Majority vote.

Timeline is subject to amendment by 80% DC vote

# Fallback Settlement Method and Timeline

Referencing a standard Barclays-issued CLN as an illustrative example for discussion purpose

If there is no ISDA auction, Fallback Settlement Method shall apply. This is typically Cash Settlement (as defined in 2003 ISDA Credit Derivatives Definitions, commonly known as dealer poll settlement)

Process and timeline:

- **Step 1 (Valuation Date):** 5 business days following Auction Cancellation Date or any No Auction Announcement Date, Determination Agent shall, in accordance with the ISDA Definitions and Valuation Method as specified in the terms and conditions of the notes, obtain Quotations from at least 5 eligible dealers and calculate the Final Price
- **Step 2 (Credit Event Redemption Date):** 5 business days following calculation of the Final Price



# Variations on Credit Linked Notes

# Variations on Credit Linked Notes

Some of the variations we see on regular CLNs, include the below:

- Cap/Floor overlay on a floating coupon
- Range Accrual on the coupon:
  - Coupon will accrue only a days that a chosen index falls within a certain range
  - For example coupon to accrue only when 6M USD Libor falls in a pre-defined range
  - Dual Range Accrual is possible as well
- Fixed Recovery CLNs

# Short Dated Basis Trades

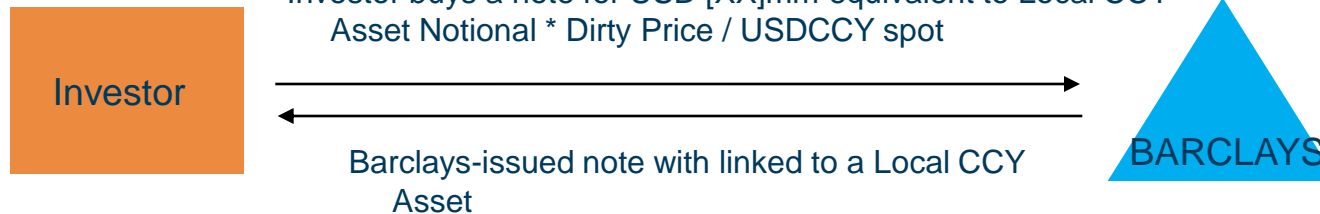
# Basis Trades

- A typical basis trade would be as follows
  - Investor would be long a local currency asset denominated in local currency
  - Investor would enter into FX swap to hedge the local currency returns into USD
- In other parts of EM, from time to time such basis may arise due to speculation in the non deliverable forwards markets where bullish EM currencies and bearish USD sentiment may drive forward points in the shorter tenors low
- We have seen such basis with AED, CNH, ILS, CLP in the past as well
- Private Bank investors may consider to opportunistically take advantage of such basis when they arise via a passthrough note
- Major risks of such a trade are credit risk of the underlying asset and inconvertibility risk

# Pass-through Notes

## Illustration: 1 Year Local CCY Asset Pass-through Note

### Inception:



### Maturity (on no default):



To give a few examples, a Local CCY Asset could be a local currency denominated CD, direct deposit with a local bank or a bond

# Short Dated USD deposits with EM Banks

# Short Dated USD deposits

- We see some opportunities in EM jurisdictions where EM banks start to pay attractive rates for USD deposits in short tenors
- Some of these banks are able to issue MTNs or CDs directly if they have the programme
- Some banks do not have such programmes and are only able to take direct deposits
  - For investors who require Note format for their investment, Barclays may offer in such case, a Barclays-issued note passing through the returns of a USD direct deposit made with the EM bank

# Short Dated USD deposits

- Some examples we have seen in recent times include:
  - USD MTNs and CDs issued by Brazilian Banks
  - Offshore branches of Indian Banks issuing MTNs and CDs
  - Offshore branches of Indian Banks offering direct USD deposits only



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