

## LAW FIRMS Converge for Derivatives Seminar



Legal practitioners from three of The Bahamas' leading law firms came together for a two-day derivatives seminar. Pictured l-r are Linda Beidler-D'Aguilar, Partner, Graham, Thompson & Co; Heather L. Thompson, Partner, Higgs & Johnson; Schuyler K. Henderson, Lecturer, Euromoney, and author of *Henderson On Derivatives*; and Michael F. Allen, Partner, McKinney Bancroft & Hughes.

**For more information**

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Legal practitioners from three of The Bahamas' leading law firms came together last weekend for a two-day seminar entitled *Swaps and Other OTC Derivatives*.

Attorneys from Graham, Thompson & Co and McKinney Bancroft & Hughes joined partners and associates of Higgs & Johnson at their offices at Ocean Centre for the seminar, which was led by Schuyler K Henderson, consultant on derivatives law affiliated with the global legal and financial industry training company, Euromoney Training. His book, *Henderson on Derivatives*, provided much of the instructional material for the course.

"A seminar on derivatives is very timely,"

says Higgs & Johnson partner, Heather Thompson. "Derivatives are here to stay and as a serious international financial centre, we must grapple with and understand the often complicated concepts involved"

According to Henderson, a derivative is a contract for the exchange of cash or delivery flows between two parties, each of which is, in the eyes of the respective parties, equal to the other at the start of the agreement. It is essentially a financial arrangement involving mutuality, and valued by reference to current market rates, prices or levels. The derivative structure has been applied gradually across all lending markets, commodities, equities and other areas such as insurance risk and credit. They are used to reduce risk

(hedging), manage treasury exposure, reduce borrowing costs, achieve accounting, tax and regulatory results, and as a dealing instrument for financial institutions.

“The OTC derivatives dealing market is global, everywhere and nowhere, with no fixed location,” says Henderson. “It is principally a wholesale market, consisting of thousands upon thousands of individually negotiated contracts, each between two parties...at the end of 2005 the market was valued at \$285 trillion.”

The main advantage of OTC Derivatives is flexibility, says Henderson: “They are a ubiquitous and significant element of global financing. Since they are contracts between two parties, there is great flexibility; two parties can agree to anything they want. This

flexibility allows for the quick and easy taking of positions, and allows the parties to have each of their respective needs met.”

Henderson advises practitioners to keep themselves informed of the rapidly evolving part of the industry to avoid claims of misrepresentation and to counsel clients against misinterpretation of the complex terms of the agreements. “Lawyers will be called upon to advise their clients who enter into derivatives. The challenge is in lack of understanding of the basic risks and the issues involved. In addition, the complexities of some derivatives and the way they are valued raises some serious questions as to valuation and transparency of pricing,” Henderson added.

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