



Basel II and Credit Risk

Basel II is a requirement for many banks. This course provides a comprehensive study of the credit risk requirements and an overview of market and operational risk requirements. Moreover, attention is also devoted to proposed changes in Basel II by the Basel Committee in light of the financial crisis. The course is interactive and is comprised of a lecture, case studies, and topical articles to supplement discussion of recent developments in Basel II implementation.

Targeted Audience

Credit and risk officers, business analysts working on Basel II, audit and compliance officers, regulators, finance and IT personnel.

Special Offer

Clients who register for this course will receive a complimentary 3 month subscription to the Financial Times and FT.com. The Financial Times is the world's most respected financial newspaper, providing a broad assessment on finance, business and the industrial sector. Subscriptions will start within 6-8 weeks of the application process and are limited to one per client. For questions about your subscription, call 800-628-8088 or email uscirculation@ft.com. U.S. enrollees only. (All non-U.S. enrollees will receive a subscription to FT.com only.) Lunch included for all students taking day classes.

Advance Preparation

No advance preparation required.

Prerequisites

General knowledge of banking products, preferably to include on and off balance sheet products and derivatives.

Learning Objectives

Students will be able to:

- . Identify the core concepts involved in Basel II
- . - for allocation of capital to credit risk using the standardized and advanced approaches
- . Compare and contrast advantages and shortcomings of Basel II
- . Work out a core theoretical quantitative/qualitative mix of statistical and business process management methods for the management of credit risk at a banking institution
- . Discuss challenges in Basel II implementation
- . Apply the concepts and skills attained during the course to work in groups and frame solutions for real-life case studies involving credit risk
- . Identify potential changes to Basel II this year

Alumni Comments

"A very knowledgeable instructor, who was open to further discuss specific topics."

"The course included relevant and timely materials."

Level: Intermediate

CPE Credits: 21.5

Instructional Method: Group-Live

Detailed Outline

Day 1

Module I - Overview of Basel Accord

- . Evaluate key factors leading to The Basel Accord
- . Identify Herstatt risk
- . Identify key risks in financial institutions
- . Evaluate interconnectedness of risks
- . Evaluate why financial risks led to Basel Accord and Basel II

Day 2

Module IV - Minimum Capital Requirements for Credit Risk: The Standardized Approach

- . Identify three approaches to credit risk measurement
- . Evaluate inputs required for Pillar I approaches
- . Evaluate requirements for

- . Identify main components of The Basel Accord
- . Identify key amendments to Basel Accord

Case Study

Module II - Overview of Basel II

- . Identify framework of Basel II and its objectives
 - . - Overview of the three pillars and their purpose
 - . - Application to credit, market and operations risk
- . Identify Basel II's scope of application
- . Evaluate interconnectedness of Basel II's three pillars
- . Differentiate between Basel I and II
- . Explain what regulators hope will be the outcome of Basel II
 - . - Discuss regulators' challenges in implementing Basel II
- . Identify positive results that banks expect from Basel II
 - . - Discuss challenges that they have encountered already
 - . - Challenge with models and data
 - . - Cost
 - . - Capacity gaps
 - . - Bank professionals, auditors, regulators
 - . - Uneven playing field between
 - . - Different sized banks
 - . - US and European banks

Exercise: Read two articles provided by the instructor on current views on Basel II. Debate how the current crisis is influencing regulators to change Basel II

Module III - Overview of Pillar I

- . Identify key concepts in Pillar I
- . Define components of capital
 - . - Why did BIS choose this definition
- . Identify application of Pillar I to credit risk
 - . - Compare briefly standardized approach with advanced approaches

Standardized Approach

Module V - Minimum Capital Requirements for Credit Risk: Internal Rating Based Approaches

- . Identify key aspects and inputs of the Foundation and Advanced Internal Rating based approaches
 - . Define economic capital
 - . - Evaluate inputs banks use to determine probabilities of default, loss given default, and exposure at default
 - . Evaluate securitization guidance under Basel II
 - . Explore regulators' concerns about advanced approaches

Case Study

. - Define challenges with models and data in adopting this pillar

. - What best practices are regulators looking for in the adoption of this pillar

Exercise: Participants will break out into groups and role play being in a bank and being the regulator. They will debate the advantages and disadvantages of Basel II's Pillar I implementation. They will also discuss what the risks of not implementing Basel II could be.

Day 3

Module V (continued)

Module VI - Pillar II and Operations Risk

- . Define key concepts in Pillar II
- . identify application of Pillar II to credit risk

Module VII - Pillar III and Credit Risk

- . Identify key concepts in Pillar III
- . Evaluate application of Pillar III to credit risk

Module VIII - Implications of and Compliance with Basel II

- . Debate the impact of the current credit crisis on Basel II
 - . Evaluate the US's readiness to comply with Basel II
 - . Evaluate different views on the purpose of Basel II
 - . Identify concerns from different countries about readiness to comply
 - . Discuss recent proposed changes to Basel II
- Case Study

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