



## Market Risk for OTC Products

In this three-day course, participants will learn to identify, measure, control, and monitor market risks, especially interest and foreign exchange risks. This course will combine the perspective of market participants, as well as bank regulators. Exercises and case studies focusing on US and international financial institutions will complement lectures and reading assignments.

## Targeted Audience

Front, middle and back office personnel, IT professionals, regulators, auditors, and compliance professionals, management consultants, and financial journalists.

## Special Offer

Clients who register for this course will receive a complimentary 4-month subscription to FT.com. The Financial Times is the world's most respected financial newspaper, providing a broad assessment on finance, business and the industrial sector. The move to the electronic version follows an ongoing review of our environmental responsibilities as a global business and as part of the Pearson group. FT.com also has features that are not available in hard copy, such as: Special Reports, Alphaville, editor blogs, education sections and much more! Subscriptions will start within 6-8 weeks of the start of class and are limited to one subscription per client. (Please note: as of May 1, 2011, the electronic subscription replaces the hard-copy 3-month Financial Times subscription.)

## Advance Preparation

No advance preparation required.

## Prerequisites

Attendees must have a solid knowledge of macroeconomics and the banking sector.

## Learning Objectives

Students will be able to:

- . Discuss the risk management process
- . Explain the importance of risk-based supervision (RBS) and distinguish RBS from compliance-based supervision
- . Describe the significance of market risk as a component of risk management and the increasing importance of supervision of market risk
- . Identify and discuss the basic measures of market risk and interpret the results thereof
- . Define interest rate risk and identify/discuss its sources
- . Quantify and analyze interest rate risk in banking books
- . Discuss how interest rate risk is monitored and assess adequacy of bank's risk monitoring system
- . Discuss how interest rate risk is controlled and assess adequacy of bank's risk control measures
- . Describe the supervisory approaches to interest rate risk
- . Identify and apply the appropriate interest rate risk examination procedures
- . Identify and discuss factors that influence the foreign exchange market
- . Describe foreign exchange mechanics and conventions
- . Describe the different methodologies used to measure FX risk and assess bank's exposure to FX risk
- . Determine how FX risk is monitored and controlled
- . Identify appropriate FX risk examination and auditing procedures

## **Follow-Up Courses**

Value At Risk

Derivative Products I

Derivative Products II

**Level: Basic**

**CPE Credits: 21.5**

**Instructional Method: Group-Live**

## **Detailed Outline**

### **Day 1 - Risk Management and Risk Based Supervision**

#### **Risk Management**

- . Phases of risk management
- . Elements of a sound risk management system
- . Role of the risk manager

#### **Risk Based Supervision**

- . Basel II's requirements on risk based supervision
- . Risk based supervision vs. compliance
- . Implications for bank examiners and auditors
- . Key steps in risk based examinations

#### **Market Risk - A Significant Component of Risk**

- . Defining market risk
- . Evaluating the current emphasis on market risk

#### **Introduction to Measuring Market Risk**

- . Risk measures and metrics
- . Banking vs. trading books
- . Approaches to measuring market risk: notional; factor sensitivity; scenario simulations; value at risk
- . Weaknesses in market risk measure models: validation; calibration; back testing; stress testing; interconnection risk

### **Day 2 - Identifying, Measuring, Controlling and Monitoring Interest Rate Risk**

#### **Identifying Interest Rate Risk**

- . Interest rate risk defined: re-pricing; basis risk; yield curve risk; options risk
- . Identifying interest rate risk in major instruments

#### **Measuring Interest Rate Risk**

- . Earnings at risk
- . Economic value of equity at risk
- . Characteristics of models: GAP reports, earnings at risk modeling and income simulations

#### **Monitoring Interest Rate Risk**

- . Evaluating and implementing strategies
- . Interest rate risk reporting

#### **Controlling Interest Rate Risk**

- . Risk limits: EAR limits, capital-at-risk limits, GAP limits
- . Hedging with: FRAs; futures; swaps; options

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### **Day 3 - Identifying, Measuring, Controlling**

## **and Monitoring Foreign Exchange Rate Risk**

### **Identifying Foreign Exchange Rate Risk**

- . Defining foreign exchange risk
- . Identifying foreign exchange in major FX transactions

### **Measuring Foreign Exchange Rate Risk**

- . FX positions
- . Market-to-market positions
- . Value at risk

### **Controlling Foreign Exchange Rate Risk**

- . Hedging alternatives: forwards; futures; swaps; options
- . Risk limits
- . Internal control measures

### **Monitoring Foreign Exchange Rate Risk**

- . Monitoring and reporting foreign exchange risk

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