



Basel III: Measuring & Managing Operational Risk

A flurry of news headlines on developments about Basel II requirements is a daily reminder about the importance of understanding the potential changes to capital regulatory requirements in the banking sector globally. In contrast to credit and market risks, operations risk remains poorly understood and managed.

This course is designed for finance professionals who want to increase their understanding of operations risk within the Basel II framework. The course is interactive and is comprised of a lecture, case studies, and relevant articles to supplement discussion of recent developments of Basel II implementation.

Targeted Audience

Operations management staff, IT executives, Operational Risk Managers, Back-Office Managers, Settlement Officers, Internal Auditors, Risk Auditors

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

Introduction to Operational Risk or equivalent knowledge

Learning Objectives

Students will be able to:

- . Define operations risk
- . Identify the core concepts involved in Basel II for allocation of capital to operations risk
- . Compare and contrast the three Basel II measurement methodologies for operations risk
- . Work out a core theoretical quantitative/qualitative mix of statistical and business process management methods for the management of operations risk at a banking institution
- . Compare and contrast advantages and challenges in the 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 operations risk

Alumni Comments

"Teacher's knowledge and relevant experience"

"Expert resource person"

Level: Intermediate

CPE Credits: 21.5

Instructional Method: Group-Live

Detailed Outline

DAY ONE

Module I - Risks Facing Financial Institutions

- . Identify key risk terms
 - . Evaluate why financial risks led to Basel Accord and Basel II
- Case Study - Herstatt Risk

Module II - Overview of Basel II

DAY TWO

Module IV - Pillar I and Measuring Operational Risk

- . Identify key concepts in Pillar I
- . Define components of capital
- . - Why did BIS choose this definition?
- . Identify application of Pillar I to operations risk

- . 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

- . Compare and contrast methodologies recommended by Basel II
 - . - Basic indicator approach
 - . - Standardized approach
 - . - Advanced measurement approaches (AMA)
 - . Describe challenges with models and data in adopting this pillar
 - . - What best practices are regulators looking for in the adoption of this pillar?
- Exercise 1 - Participants will break 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.
- Exercise 2 - Participants will select an operation risk measurement methodology and run the calculation for a bank of their choice.

Module III - Identifying Operational Risk

- . Define operational risk
- . Evaluate why attention to operational risk has lagged

Case Studies: Evaluate two banks which were significantly impacted by operational risk

DAY THREE

Module V - Monitoring Operations Risk

- . Define monitoring operations risk

- . Evaluate guidance by Basel II to monitor operations risk

Module VI - Pillar II and Operations Risk

- . Identify key concepts in Pillar II
- . Identify application of Pillar II to operational risk

Module VII - Pillar III and Operations Risk

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

Module VIII - Implications of and Compliance with Basel II

- . Debate the impact of the current 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
- . Debate how the current crisis has influenced regulators to change Basel II
- . Evaluate proposed changes to Basel II

Exercise - Read several recent articles about proposed changes for Basel II and debate their potential usefulness and challenges

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