

ADVANCED LIQUIDITY RISK MEASUREMENT & MANAGEMENT

Overview

Liquidity risk was one of the main drivers of the 2008-2012 global financial crisis. The global financial crisis revealed that a far more stringent approach to Liquidity Risk Management was required across the industry. This course will give an overview of the challenges of managing liquidity risk, regulatory initiatives to address this important risk, and updates on how it is managed today. This was further reinforced by the inclusion of a formal liquidity regime within the Basel III Accords for the very first time. Using real-life case studies and excel based simulations, this intensive course explains how liquidity risk is effectively measured, assessed, and managed. It will consider the impact that regulation has had on the value/cost of liquidity and the role of Funds Transfer Pricing in ensuring this is reflected in asset pricing.

Target Participants

Regulators, analysts, risk and banking professionals who need to better understand the liquidity risk management challenges and strategy within a bank. The course is targeted at an intermediate level and assumes a basic understanding of banking products and services.

- Risk Managers
- Risk Controllers
- Treasurers
- Analysts
- Fund Managers
- Account Managers
- IT-employees
- Financial Authorities
- Internal Auditors
- Compliance

Course Objectives

By the end of the course, you will be better equipped to work in or with the Liquidity Management function and achieve optimal levels of liquidity.

- Understand the issues relating to liquidity risk management
- Define the sources and types of liquidity risk and how it is measured
- Recognise best practice in terms of Individual Liquidity Adequacy Assessment Process and Stress Testing
- Explain the role of Funds Transfer Pricing in Liquidity Risk Management
- Review liquidity management lessons learned from the recent crisis
- Use a structured approach to assess liquidity risk management, asset and liability management and funding strategy
- Understand how banks forecast, control and stress-test their liquidity sources and uses (on and off-balance sheet) and develop their contingency plans
- Identify banks with weak liquidity and contingency planning
- Assess the effect of changing regulations and supervisory guidance on the management of bank liquidity

COURSE CONTENTS

Analytic Overview

- Defining liquidity risk in a bank: Funding liquidity and market liquidity
- Key drivers: Asset liquidity and funding needs, funding strategy
- Liquidity risk in the global financial crisis
- Fundamental principles (Basel Principle 1): Risk management framework within the overall risk management of a bank
- Inter-relationships among liquidity, credit, market, operational, legal and reputation risks
- Supervisory role: Expectations and remedial actions
- **Case study:** Reviewing liquidity position and liquidity risk management at a failed major financial institution

Funding Strategy

- Funding appropriate for the risk profile of the assets, and commercial needs of products and business lines
- Issues: Stability, diversity and tenor matching of funding sources
- Appropriate deposit funding and deposit insurance schemes
- Refinancing risk of money market and capital markets funding
- Key issues: Off balance sheet, derivatives, securitization, intraday
- Gap management across tenor and currency buckets
- Key metrics for measuring funding strategy and refinancing risk
- **Case study:** Weak funding strategies and gap management

Asset Liquidity

- Define and measure liquid and illiquid assets
- Liquidity of assets under stressed market conditions
- Key metrics for measuring asset liquidity and funding needs
- Fair value asset pricing hierarchies in financial reporting (Level 1, 2, 3 assets under SFAS 157 and IFRS 7)
- Collateral-based liquidity transactions (e.g. securities financing transactions)
- Collateral assessment: Haircuts/margin, available collateral for access to funding, client balances, central bank eligibility criteria.

Contingencies

- Types and magnitude of off-balance sheet exposures
- Margin calls from derivative and repo contracts
- Investment vehicles and securitization
- Custody, correspondent and settlement balances
- Intra-day risk
- **Exercise:** Illustration of liquidity risk in a commercial bank caused by excessive

contingent liquidity exposures to special-purpose vehicles.

Governance

- Liquidity risk tolerance (Basel Principle 2) given different business models, e.g. retail and wholesale banks, multi-nationals and investment banks
- Strategies, policies and practices (Basel Principle 3)
- Liquidity costs, benefits and risks (Basel Principle 4)
- Early warning signals of unacceptable risk appetite
- Banks that failed due primarily to weak liquidity management
- Liquidity risk management disclosure (Basel Principle 13)
- **Case study:** Liquidity risk governance in a complex banking group
- **Exercise:** Costs associated with failure to adequately price for liquidity.

Liquidity Forecasting and Stress Testing

- Asset and liability management: Balance sheet matching, including the extent of maturity mismatch
- Relationship between stress testing and the contingency funding plans
- Forecasting liquidity needs
- Stress testing: Key scenarios relating to business activities, products and funding sources
- Contingency funding plan: Sufficient liquidity to meet the potential demands of stress outflows

Supervision and Regulation

- Run through of LCR components, with examples
- Run through of NSFR components and implementation
- Supervisory monitoring tools
- **Exercise:** Calculating the NSFR

Case study: Disclosed and undisclosed components of LCR of a major European bank.

End of Course & Closure.

COURSE DURATION	DELIVERY MODE	DELEGATE CLASS SIZE	COURSE FEE/PARTICIPANT
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