Asset & Liability Management (ALM) with FTP and Simulation
14-18 Nov 2022 (28 CPD Points)

Overview:

This comprehensive workshop will give delegates a thorough understanding of managing interest rate and liquidity risk and exploring best practice in risk reporting, contingency planning and regulatory compliance. This course will explore the issues and challenges of Asset and Liability Management for bank risk managers, auditors and regulators.
The course will emphasise practical advantages and disadvantages of risk measurement and management tools and techniques, using samples of best practice risk reports.
The course combines theoretical training describing and explaining many of the specific ALM concepts involved with a hands-on application via an Excel simulator.

Basic knowledge in risk management, control and statistics is required.
Active participation of the class is necessary to benefit from the full value of this programme. The course is designed to provide a mix of concepts with practical applications with fundamentals and proceed to advanced concepts.
There will be significant emphasis on data and algorithm limits on quantitative modelling.

The course offers hands on exercises, for 4 methods of measuring rate risk, plus liquidity stress testing. Case case studies (based on real-world examples) will be worked through.

Who should attend?
The course will be extremely valuable to the following people:
- **Group Treasurers**
- **Chief Risk Officers**
- **Asset Managers**
- **Liquidity Managers**
- **Risk Managers and Risk Controllers**
- **Risk Officers**
- **Auditors and Bank Regulators**

Sessions:
- **Session 1: The evolving role of Asset and Liability Management [ALM]**
- **Session 2: Linking Asset and Liability Optimisation to Return on Equity**
- **Session 3: Optimising Assets - Internal Rating Based (IRB) approach for Credit Risk**
- **Session 4: Traded Market Risk**
- **Session 5: Asset and Liability Gap Analysis**
- **Session 6: Non-Traded Market Risk - Overview of IRRBB**
- **Session 7: Liquidity Risk**
- **Session 8: Beyond Pillar I**
- **Session 9: Funds Transfer Pricing and Profitability of Cash Flows**
- **Session 10: Deriving the FTP Curve**

- **Session 11: Operating FTP**
- **Session 12: Pricing with FTP**
- **Session 13: Tools for Managing FX and IR Risk Recap on Cash FX instruments**
- **Session 14: Applications of Cross Currency Swaps [XCCY] in managing FX and IR risk**
- **Session 15: Structural Hedging**
- **Session 16: Future Challenges for ALM and wrap up**
- **Session 17: Simulation Exercise**

Day 1: ALM explained

Session 1: The evolving role of Asset and Liability Management [ALM]
- Defining the role of ALM
- Recap on the Global Financial Crisis
- What caused it?
- What resolved it?
- What were the lessons learnt?
- How has it impacted ALM functions

Session 2: Linking Asset and Liability Optimisation to Return on Equity
- Impact of Basel III on Capital
- The risk constraint ratio
- The leverage ratio
- Recap on the Standardised Methodology for Credit Risk
- Credit Conversion Factors
- Adjusting for Collateral
- Gearing - Linking asset and liability pricing to returns on capital
- So what does this mean for ALM and ultimately, strategy?

Session 3: Optimising Assets - Internal Rating Based (IRB) approach for Credit Risk
- Incentives for adopting IRB – more complexity less capital
- Foundation IRB (FIRB) compared to Advanced IRB (AIRB)
- Constructing the IRB equation for wholesale
- Constructing the IRB equation for retail
- Adjusting IRB for calculation of Economic Capital

Session 4: Traded Market Risk
- Sources of Market Risk
- Evolution of Market Risk Regulation
- Measuring Market Risk using Regulatory VaR and Stressed VaR
- Limitations of Basel II.5 and overview and Fundamental Review of the Trading Book [FRTB]

Day 2: Interest Rate and Liquidity Risk

Session 1: Asset and Liability Gap Analysis
- Challenges of Maturity Transformation
- Selecting appropriate time buckets
- Distribution of maturing and non-maturing assets and liabilities
- Introduction to behavioural modelling
- Adjusting for prepayment and redemption

Session 2: Non-Traded Market Risk - Overview of IRRBB
- What is IRRBB and what are the sources of it
- Comparing IRRBB to CSRBB
- Measuring IRRBB
- Economic Value of Equity [EVE} vs Earnings at Risk [EAR]
- Review of BIS 368 'Final' Standards for IRRBB
- Treatment of cash flows
- Time bucketing of cash flows
- Discounting of cash flows
- Stressing of cash flows

Session 3: Liquidity Risk
- Typical Liquidity Metrics
- Evolution of Liquidity Regulation
- Basel III Liquidity Regime
- Liquidity Coverage Ratio [LCR]
- Net Stable Funding Ration [NSFR]
- How they work in harmony
- So what does this mean for ALM and ultimately strategy and liquidity preferences?

Session 4: Beyond Pillar I
- Summary of the Individual Capital Adequacy Assessment Process [ICAAP]
- Overview of the Individual Liquidity Adequacy Assessment Process [ILAAP]
- What stress is appropriate – what qualifies as 'severe but plausible.'
- Harmonising ICAAP and ILAAP
- Effective Recovery and Resolution Planning [RRP]

Day 3: Internal Risk Management - Role of Funds Transfer Pricing [FTP]

Session 1: Funds Transfer Pricing and Profitability of Cash Flows
- Defining FTP
  - What is it?
  - Why have it?
- Evolution of FTP methodologies
  - Zero cost curve
  - Average cost curve
  - Maturity matched curve
- The regulatory view
- FTP as an appetite statement/rudder to steer the ship

Session 2: Deriving the FTP Curve
- Market sources and proxies
  - Secondary Trading
  - CDS
  - Peer spreads
- Challenges of deriving the curve in an underdeveloped wholesale environment
- Use of basis and cross-currency swaps
- Ownership and governance

Session 3: Operating FTP
- Behavioural Models
- Methodologies
- Ownership and governance
- Including in management reporting – stock/flow rate blending
- Driving behaviours
- Aligning business incentivisation
- Tools/Products to optimise

Session 4: Pricing with FTP
- Pricing flow business
- Pricing 'cushions'/buffers
- Reflecting regulation in FTP, e.g. impact of LCR
- Trends and trajectories in FTP methodologies – the inclusion of capital in an FTP mechanism

Day 4: External Risk Management – Role of FX and IR Hedging Products

Session 1: Tools for Managing FX and IR Risk
- Recap on Cash FX instruments
- Spot
- Forwards
- Swaps
- Deriving Forwards rates and their applications
- Using FX swaps to optimise funding
- Interest Rate Swaps [IRS] defined
- Types of IRS and their application
- Fixed for Floating IRS [coupon swaps]
- Floating for Floating IRS [basis swaps]
- Pricing and valuation of IRS

Session 2: Applications of Cross Currency Swaps [XCCY] in managing FX and IR risk
- XCCY swaps defined
- Application of XCCY swaps
- Long term FX risk management
- Synthetic funding efficiency
- Pricing and valuation of XCCY swaps

Session 3: Structural Hedging
- Best practice in Structural Hedging
- What to hedge
- When to hedge
- How much to hedge
- Governance and review– keeping the structural hedge appropriate
- Distributing the cost of unwinding

Session 4: Future Challenges for ALM and wrap up
- Total Loss-Absorbing Capacity [TLAC]/Minimum Requirement for Eligible Liabilities [MREL]
- Overview of Basel IV – focus on consistency
- What does this mean for ALM?

Day 5: Session 1: Simulation Exercise