

Basel II: Calculating Credit RWA in the Banking & Trading Book by Algorithmics

A three-day workshop for regulatory and economic capital modelling, validation and reporting professionals to calculate and validate Pillar 1 Credit RWA results.

TARGET AUDIENCE

Those responsible for (a) Regulatory or Economic Capital Reporting, validation, analysis or management (b) financial reporting, regulatory supervision or project management of risk-based projects (c) credit risk or market risk with CCR exposure measurement methodologies and modelling (d) credit and IT advisory services, enterprise wide risk management oversight or IT managers tasked with data warehouse or similar supporting IT infrastructure management. Participants should have an understanding of basic banking book and trading book products and services.

Participants seeking a strategic overview of regulatory and economic capital with an emphasis on Basel II implementation best practices, should also take the Basel II: Best Practices for Pillar 1, 2 & 3 Implementation.

COURSE OBJECTIVES

Specifically participants will be equipped to:

- Calculate facility undrawn allocation - apply optimization
- Allocate Credit Risk Mitigants
- Determine retail pooling criteria calculate RWA at the pool level
- Determine the inputs to Credit RWA and their impact
- Calculate Credit RWA for Wholesale, Retail, Securitization and CCR exposures
- Decompose exposures to meet reporting requirements
- Explain the differences between FSA, CEBS, OSFI and Fed reporting requirements.

CONTENT

OVERVIEW OF BASEL II

- History of BIS, BCBS and regulation
- Comparing Basel I to Basel II, regulation to supervision
- Global implementations, current industry progress
- National Discretion – Home versus Host reporting; calculation requirements
- Reporting results across regions.

PILLAR 1 – OVERVIEW

- Defining risk – a stakeholders perspective
- Exposure and Asset Classification
- Overview of Risks, RWA Approaches and requirements.

PROBABILITY OF DEFAULT – RISK RATING THE BORROWER

- Transitioning from traditional credit analysis to ASRF model requirements
- Retail PD, - techniques and pooling requirements
- Wholesale PD - Score Cards, Fundamental and Asset Volatility
- Point in Time versus Through the Cycle PD
- Substitution versus. Double Default.

LOSS GIVEN DEFAULT – RISK RATING THE FACILITY

- Silos, Decision Trees and other LGD model Approaches
- Estimating Down Turn LGDs and ELGD
- EL, UL and LGD and defaulted exposures
- Double Recovery Effects?

EFFECTIVE MATURITY (AND OTHER MATURITY EFFECTS)

- Regulatory Default, RTTM and EM
- OTTM, Maturity Adjustments and Haircut effects.

EXPOSURE AT DEFAULT

- Banking Book versus. Trading Book, defining PFE
- Specific Provisions, General Loan Losses, EL and UL.

CORRELATION

- Measuring SME effect - Retail considerations
- ASRF considerations for Economic Capital differences
- Moving beyond Basel II.

RISK WEIGHTS

- Corporate exposures and national discretions
- Capital Requirement and RW
- Generating Risk Weight.

FACILITY – UNDRAWN ALLOCATION AND OPTIMIZATION

- Nominal Facility structure
- Undrawn Allocation, calculations
- Optimization options and Credit RWA.

CREDIT RISK MITIGATION

- Classifying eligible mitigants
- Effects of CRM by approach
- Regulatory haircuts and adjustments.

BANKING BOOK EXPOSURES – RWA EXPOSURE LEVEL CALCULATIONS

- Credit RWA calculations for Wholesale exposures
- Credit RWA calculations for Retail exposures.

SECURITIZATION EXPOSURES – RWA EXPOSURE LEVEL CALCULATIONS

- CDO's, CDS and Tranching criteria
- Originate-to-Distribute model overview
- Credit RWA for Seller's for Securitization exposures.

TRADING BOOK – MEASURING EAD UNDER COUNTERPARTY CREDIT RISK

- Over-the-Counter, from the regulatory perspective
- Simple Approaches for OTCs
- Simple Approaches for SFTs
- Advanced Approaches – PFE, EEPE and Alpha.

REPORTING REQUIREMENTS,

- Reporting requirements of FSA, CEBS, OSFI and FED
- Lessons learned from global institutions.