

Trading Risks in Financial Institutions

A one-day credit workshop for those working in credit risk management and fixed income who are involved in analysing the credit standing of financial institutions.

TARGET AUDIENCE

This course is for those working in credit risk management and fixed income who are involved in analysing the credit standing of financial institutions.

There may be some overlap with this training workshop and Risk Management in Banks & the Capital Implications and Counterparty Credit Risk in Derivatives. Overall, they are designed to be complementary. Risk Management in Banks & the Capital Implications focuses on the credit and market risks in the trading activities of banks. The workshop Counterparty Credit Risk in Derivatives includes some aspects of market risk. Please contact Fitch Training for further guidance.

COURSE OBJECTIVES

Participants will be equipped to:

- Identify how and where the trading, investing and hedging activities of a financial institution impact its financial statements
- Understand how market risks are quantified, measured and monitored
- Understand the various methods used to monitor and manage market risks and the potential for underestimating losses
- Distinguish between methods of quantifying and monitoring credit risks associated with derivative products from those used for measuring market risks
- Ask pertinent questions to assess management credibility and evaluate the financial institution's risk appetite and controls.

CONTENT

TRADING, INVESTMENT AND HEDGING ACTIVITIES: BUSINESS DYNAMICS

- Transaction flows - understanding securities and derivatives trading
- Impact on financial statements
- Assessing the investment account: hidden value or black hole?

MEASURING AND MONITORING MARKET EXPOSURES

- Define and quantify market risk
- Methodologies for quantifying market risk - understanding factors affecting VaR calculations
- Reporting standards - practical implementation issues regarding systems and procedures for aggregating exposures
- Best practice - holding periods, confidence levels and disclosure
- Regulatory considerations - understanding the regulators requirements for approving a models based approach - a UK perspective
- Assessing market risk management - questions to ask

MEASURING & MONITORING CREDIT EXPOSURES

- Define and quantify credit risks embedded in derivatives and securities trading
- Methodologies for quantifying credit risk - understanding factors affecting potential future exposure (PFE) calculations
- Reporting standards - practical implementation issues regarding systems and procedures for aggregating exposures
- Best practice - the need for global systems (limits and outstandings), models that accommodate correlated variables, etc.
- Assessing credit risk management of trading activities - questions to ask

EVALUATING THE CREDIT IMPLICATIONS OF A FIRM'S TRADING RISK

- Relating market risks to the success of the bank's business model - uncovering key sensitivities to interest rate and / or FX positions
- Reliance on, and volatility of, trading profits
- Uncovering vulnerable activities - emerging markets, high yield, private equity
- Measuring VaR levels - benchmarking performance against peers
- Assessing appropriateness of risk appetite and levels of disclosure.

