

# MONECO FINANCIAL TRAINING

## FUNDAMENTAL REVIEW OF THE TRADING BOOK

**November 26-27, 2018**

**Lecturer: Gary Dunn**

**Registration Deadline: November 12, 2018**

**MONECO**  
Financial Training

Upcoming Seminar

# FUNDAMENTAL REVIEW OF THE TRADING BOOK

DATES: November 26 – 27, 2018 • PRICE: € 1,400 • LOCATION: Prague, NH Hotel Prague

**UPDATED**

*A comprehensive overview of the proposed new minimum capital requirements for market risk, the changes required for internal models and the new standard rules approach.*

## How you will benefit:

- **An understanding of the rationale for the regulatory initiatives under FRTB and the implementation challenges**
- **Understand some of the weaknesses in the new proposals and the further regulatory changes proposed**
- **Understand the divergences between BCBS proposals and EU proposed implementation**
- **Understand implications of greater model permission uncertainty and ways to minimise uncertainty**
- **Understand the capital impacts of the new rules prescribed by regulators**
- **Consider ways to optimise allocation of capital across trading desks to mitigate the impact of higher capital requirements**

The Fundamental Review of the Trading Book (FRTB), which began following the 2008 financial crisis, was 'finalised' by BCBS with the publication of paper D352 in January 2016. The EU commission published a first revised draft of CRD and CRR in November 2016.

The revised framework does indeed fundamentally overhaul the way banks are required to capitalise market risk on the Trading Book and has implications for the management of risk on the banking book as well. Some of the more significant revisions to the internal model approach (IMA) include a move from 'VaR + stressed VaR' to a single stressed expected shortfall measure (ES), with restrictions on diversification benefits and a capital penalty for less liquid risks; the incremental risk charge (IRC) replaced by a version of its simpler predecessor the default risk charge (DRC) but with equity exposures now included; and the abolition of the comprehensive risk measure (CRM). Also the standard rules calculations for market risk have been replaced by a new sensitivity based approach (SBA) combined with a standardised default risk charge. Banks using internal models will also be required to compute the standardised charges, as a benchmark, and the standard rules charge may be used to create a floor to the capital requirements based on internal models. New rules are also proposed to restrict movement of positions and the transfer of risk between the banking book and the trading book.

Many issues remained outstanding however with the proposed framework and further work has been undertaken by the BCBS resulting in the publication of two further papers at the end of 2017 (d424) and in March 2018 (d436). A consultation paper was also issued by the EBA at the end of 2017.

Implementation of the new rules is due by end 2022 according to the revised BCBS timetable although regulatory jurisdictions may not keep to this timeframe and the revised CRR proposes a phased introduction.

This course will provide a comprehensive overview of the proposed new market risk regulations, with practical examples and exercises, and will discuss in detail technical issues that have been debated between regulators and the industry, outstanding issues and challenges banks face. It will also take a look at the draft revised CRD and CRR and the revisions proposed recently proposed in the latest BCBS and EBA publications.

MONDAY, NOVEMBER 26<sup>th</sup>

09<sup>00</sup>–09<sup>15</sup>

**Welcome**

09<sup>15</sup>–12<sup>15</sup>

**Overview**

- Regulatory concerns with Basel 2.5
- BCBS timelines/EU timelines – some of the challenges
- D424 and D436 proposals

### Trading Book/Banking book

- Definition of the Trading Book
  - Trading Book instruments: standards and presumptive list
- Risk management Policies, reporting requirements
- Definition of trading desks
  - Regulatory requirements
  - Model approval will be given at desk level so firms should consider optimal desk structures:
    - Minimise P&L volatility relative to VaR at regulatory desk level
    - Impact of model withdrawal for a regulatory desk
    - Make use of sub-desk structures
    - Optimise allocation of capital across desks
- Restrictions on moving instruments between banking book and trading book
- Internal risk transfer
  - Credit risk
  - Equity risk
  - Interest rate risk
- Comparison between FRTB and current rules

12<sup>15</sup>–13<sup>15</sup>

**Lunch**

13<sup>15</sup>–17<sup>00</sup>

### Introduction to Internal Models Approach

- Elements of the internal model
- The Approval Process
- Identifying eligible desks

### Expected Shortfall implementation under FRTB

- Overview of requirements (D352)
- A review of 1-day VaR and 1-day Expected Shortfall calculations
- Some simple examples to work through
- Introducing liquidity horizons
  - Preliminary discussion on time-scaling
  - The original proposal by regulators
    - problem with retaining correlation structure
  - The industry responses
  - Final proposals by BCBS (D352)
- Exercise/Example: Computing Expected shortfall with different liquidity horizons
- Restriction on diversification benefits
  - Preliminary discussion on correlation and stressed periods
  - The original proposal by regulators
  - The industry response
  - Final proposal by BCBS (D352)
- Identifying Modelling and Non-Modelling Risk Factors (NMRFs)
  - Industry initiatives: Bloomberg; Markit
  - Additional requirements for data quality set out in D436
- Computing Stressed Expected Shortfall

TUESDAY, NOVEMBER 27<sup>th</sup>

09<sup>00</sup>–12<sup>15</sup>

**Model Validation Standards**

- Regulatory requirements (D352)

### Back testing VaR

- Actual P+L, Hypothetical P+L and Risk Theoretical P+L
- Back testing liquidity adjusted ES
- Back testing VaR
- Exception counting – traffic lights – binomial tests
- Problems with back testing ES and VaR

### P+L Attribution

- Discussion of the requirements
- The D352 Proposals and industry concerns
- D436 Proposals
- P-Values
- Example/Exercises: Computing the regulatory P+L attribution tests and p-values

### The Default Risk Charge (DRC)

- Copula models
- DRC compared with the Basel 2.5 IRC model
- A Spreadsheet example/exercise
- Challenges building with DRC models
  - Equities introduced
  - Computing correlations
  - Sovereign default
  - Concentration risk in periods of stress
  - Validation

12<sup>15</sup>–13<sup>15</sup>

## Lunch

13<sup>15</sup>–17<sup>00</sup>

### Standard Rules

- SBA – sensitivity based approach
  - Overview
  - Some practical examples
- Curvature risk - D436 revisions
- Aggregation – D436 revisions
- Standard Rules for default risk
- Exercise/example calculations
- Residual Risk
- Requirements for desks with internal model approval
- D408 and D436 – proposed simplified alternative to SBA

### Capitalisation

- Capitalisation requirements derived from internal models with D436 amendments
- Adding in unapproved desks
- Estimates of capital impact of FRTB on banks
- Capital (output) floor

### EU Implementation of FRTB

- Scope of draft revisions to CRD and CRR – much more than just FRTB
- Guide to CRR revisions for FRTB
- Divergence between draft CRR and FRTB
- EU timetable and phase in

### Role Play Exercise – Meet the Regulator

- Prepare for and play out a review meeting with the regulator

### Stress Testing

- Supervisory scenarios
- Bank scenarios

### Related Topics

- Illiquid Positions
- SREP and Pillar 2
- Counterparty risk
- D424 – Finalising post – crisis reforms
  - CVA
    - Reduced basic approach
    - Full Basic Approach
    - Standardised Approach
  - Capital (output) floor

## Lecturer: Gary Dunn

Started out life as a statistician at the Bank of England in 1977 and after a 16-year career there ended up as a senior manager within UK foreign currency reserve management with responsibility for interest rate risk strategy and liquidity management. To aid liquidity management Gary created an internal market for funding between fixed income portfolio managers and the FX desks.

Gary ventured into the private sector where he spent a further 10 years as a proprietary trader.

Gary joined the FSA in 2005 where his main responsibility was reviewing regulatory market risk models (CAD models including VaR and IRC). Whilst at FSA Gary conducted a thematic review of the management of interest rate risk in the banking book (IRRBB) across London based banks. He also attended the AIG/TBG, a BCBS working group responsible for technical design of proposed market risk regulatory capital rules. Gary contributed to the design and calibration of IRC for Basel 2.5 and also wrote internal working papers on VaR, ES and other spectral risk measures which contributed to a review of the academic literature on market risk measures, the first in a long series of FRTB papers from BCBS and industry.

From 2010, as a senior manager at HSBC, Gary participated in many dialogues between industry and regulators covering topics such as FRTB, central clearing, margining, liquidity risk and IRRBB (interest rate risk in the banking book), as well as working on internal projects such as stress testing, IRC development, regulatory interactions and CRD IV submissions. Finally, before moving into consultancy and training, Gary took on an MD role at Morgan Stanley where he was head of risk analytics for the EMEA region.

Now Gary works as a private consultant and trainer.



*Knowledge Leads the Way...*

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# Terms and Conditions of the MONECO Financial Training

## MONECO Financial Training

MONECO Financial Training offers a comprehensive programme of English-language seminars, trainings and practical workshops lectured by qualified tutors. Our objective is to provide the industry professionals with advanced financial know-how and up-to-date analytical methods and skills.

## Seminar Venue and Accommodation

The bulk of the MONECO seminars are traditionally held at the international four-star NH Prague Hotel in Prague, Czech Republic. Since we are expanding our training activities, we run some selected seminars also in other European destinations. Accommodation is not included in the seminar price, but upon request we are happy to offer you hotel reservations in every of our training destinations at special discounted prices for our valued clients.

## Tuition Language

Seminar tuition is in English language, as are all manuals, training software etc. Therefore, in order to benefit from participation, at least a passive knowledge of English, including common financial phrases and related terminology, is required.

## Registration

Clients who decided to participate, should submit us in advance a registration for a particular seminar (letter, fax, internet etc.). Subject to availability, the participant will then receive a confirmation of participation. The number of participants is always strictly limited in order to secure an effective and focused learning environment.

## Seminar Prices

The quoted seminar prices are per person and include all the training manuals, lunches and refreshments, certification diploma in English and selected software solutions used at the seminar. The price does not include hotel accommodation. Quoted prices are exclusive of local VAT (21 %) "Bundle" prices represent the total fee for participation in mutually related seminars (i.e. "Bundles 3+2, 2+3, 2+2, 3+1, 1+3, 1+2+2 and 2+2+1"). "Bundle" prices are provided in the Calendar of the MONECO Financial Training seminars.

## Discounts

Bulk discounts are offered when submitting an application for the participation of more than one person. A 10 % discount is offered when at least two participants from one company register for a seminar or one participant registers at once for two or more seminars. The discounts do not apply for "bundle" prices, as these already represent discounted prices.

## Invoicing and Payment

An invoice for the seminar price will be sent to the participants no later than 10 working days prior to the beginning of the seminar. **Full payment of the invoice must be made before the start of the seminar as a precondition of participation.**

## Terms of Cancellation

If for whatever reasons a registered participant is unable to attend, a substitute delegate may be appointed to participate instead. For cancellations received 20 days or more before the beginning of the seminar, a 10 % cancellation fee of the full price will be invoiced i.e. 90 % of the price is refunded. **For cancellations received less than 20 days prior to the beginning of the seminar, the full price is payable i.e. no refund will be provided. All cancellations must be in writing.** The organizers of the MONECO Financial Training courses reserve the right to cancel the individual participation or cancel the entire seminar or part of it for whatever unspecified reasons, including possible force majeure. In this case, the price paid will be refunded in full or in part, accordingly.

## REGISTRATION FORM

**Registration Deadline:  
November 12, 2018**

• Fundamental Review of the Trading Book

November 26 – 27, 2016

€ 1400

## COMPANY

Name:

Approving Manager:

Person responsible for training:

Address:

Tax Registration No.:  VAT Identification No.:

## PARTICIPANTS

1. Title: Name:  Phone:   
Mr/Mrs/Ms

E-mail:  Position:

2. Title: Name:  Phone:   
Mr/Mrs/Ms

E-mail:  Position:

3. Title: Name:  Phone:   
Mr/Mrs/Ms

E-mail:  Position:

Date:  Signature: