

# MONECO FINANCIAL TRAINING

## INTEREST RATE RISK IN THE BANKING BOOK

**October 18-19, 2018**

**Lecturer: Gary Dunn**

**Registration Deadline: October 4, 2018**

**MONECO**  
Financial Training

Upcoming Seminar

# INTEREST RATE RISK IN THE BANKING BOOK

DATES: October 18 – 19, 2018 • PRICE: € 1,400 • LOCATION: Prague, NH Hotel Prague

A comprehensive overview of the BCBS IRRBB standards published in April 2016, comparison with EBA standards and a refresher of the mathematical tools required

## How you will benefit:

- **An understanding of the revised standards**
- **Gain theoretical and practical understanding of IRRBB methodology**
- **Understand links between IRRBB and other regulatory initiatives such as FRTB and liquidity risk management.**
- **Understand risk transfer, fund transfer pricing**
- **Gain experience of facing regulatory challenge on proposed model.**

## The course has three main objectives:

- To provide a comprehensive overview of the new standards presented in BCBS paper D368 and compare them with existing requirements set out in 2004 and requirements set out by the EBA.
- Provide a refresher course to participants in the necessary mathematics required to construct zero curves, obtain discount factors and compute EVE and NII. This will involve numerical examples and case studies including constructing a regulatory report based on the standardised framework proposed in D368. A role-playing exercise will be used to practice engagement with a regulator, defending assumptions and responding to likely regulatory challenge.
- Look at the interaction of banking book interest rate risk with other areas of regulation, for example covering topics such as risk transfer, fund transfer pricing, liquidity risk capture in FRTB and interactions between the banking book and the trading book.

Those with less quantitative backgrounds should not be discouraged by the mathematical content. Spread sheet examples will be provided with all data and formulae that will allow all participants to engage in 'what-if' scenarios to gain a feel for how different assumptions can affect the results in regulatory reports and the likely challenges. Participants will be invited to work in groups to prepare a report based on their own assumptions and a role-playing session will be used to give participants experience of a meeting with regulators to review their submissions.

THURSDAY, OCTOBER 18<sup>th</sup>

09<sup>00</sup>–09<sup>15</sup>

### Welcome

09<sup>15</sup>–12<sup>15</sup>

### Introduction

- Definition of IRRBB
- Accounting and IRRBB
- Changes in the Basel III Framework
- Components of interest rates
  - Risk free rate, duration spread, liquidity spread, credit spreads, commercial margins
  - IRRBB and credit spread risk
- Measurement of IRRBB
  - Earnings based measures– NII
  - Economic value based measures – PV01, EV, EVE and EVaR
  - Interest rate scenarios
  - Options
  - Non maturing deposits – behaviouralisation, core deposits

### Refresher 1

- Time value of money
- Forward Rates
- Compounding and day count conventions
  - Net Present Value of a future cash flow – bond example
  - PV01, duration and convexity
- Study Example

### Draft Revised CRD and CRR

- CRD – Articles 84, 98
- CRR – Articles 106, 448

12<sup>15</sup>–13<sup>15</sup>

### Lunch

13<sup>15</sup>–17<sup>00</sup>

### BCBS D368

- IRRBB – Scope and timelines
- IRR Principles:
  - Comparison with current EBA requirements and bcbs 2004 (BCBS 108)
  - Discussion of Principles

### Refresher 2

- Constructing zero curves
- Discount factors
- Forward Curves
- Interest Rate Swap Curves
- Study Example

### BCBS D368 – The standardised Framework

- Overall structure
- The components
- Treatment of NMDs and capital
- Behavioural options
- Contractual options

FRIDAY, OCTOBER 19<sup>th</sup>

09<sup>00</sup>–12<sup>15</sup>

### Calculation of the standardised EVE risk measure and NII

- Case study using bank disclosures and based on D368 reporting requirements
  - Construct calculations and report using provided Spreadsheet
  - Discuss base assumptions and bank performance under the prescribed regulatory scenarios
  - Split into groups and consider revised submission
- Role-play, face the regulator – a Pillar 2 meeting

### Managing Interest Rate Risk

- Hedging duration risk
  - Bonds
  - Futures
  - Swaps
- Hedging convexity risk
  - Options

12<sup>15</sup>–13<sup>15</sup>

### Lunch

13<sup>15</sup>–17<sup>00</sup>

### Comparison with revised market risk rules for the trading book (FRTB BCBS D352)

- Introduction to FRTB
- Trading book/banking book boundary definition under FRTB
- Risk transfers from banking book to trading book
- Standardised approach for interest rate risk under FRTB
- Interest rate VaR (EVAR)
  - Expected Shortfall
  - Liquidity Horizons

### Backtesting and model validation

#### Stress Testing

- Supervisory scenarios
- Bank scenarios

#### Related Topics

- FTP/LTP

### Evaluation and Termination of the Course

## Lecturer: Gary Dunn

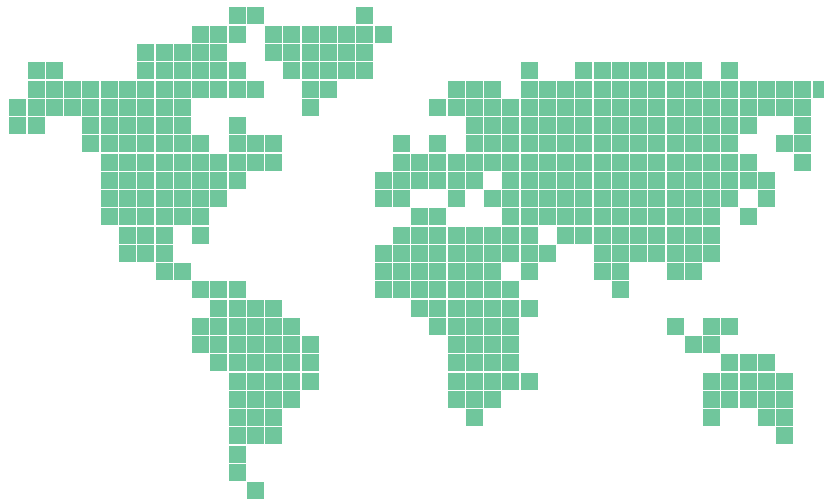
Started out life as a statistician at the Bank of England in 1977 and after a 16-year career there ended up as a senior manager within UK foreign currency reserve management with responsibility for interest rate risk strategy and liquidity management. To aid liquidity management Gary created an internal 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:  
October 4, 2018**

• Interest Rate Risk in the Banking Book

October 18 – 19, 2018

€ 1,400

## 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: