

MONECO FINANCIAL TRAINING

LIQUIDITY RISK MANAGEMENT AND CROSS CURRENCY FUNDING RISKS with Dr. Robert Fiedler

May 20-21, 2019

Registration Deadline: May 6, 2019

MONECO
Financial Training

Upcoming Seminar

Learning objectives

- Learn from the best practice within leading international banks
- Identify the nature of liquidity risk and how to distinguish its different types
- Develop an economic methodology to measure, monitor and manage illiquidity risk
- Learn to model liquidity risk exposures and their mitigating strategies
- Understand, implement and learn how to manage the impacts of regulatory liquidity related requirements such as Basel III, BCBS 248, CEBS' Guidelines on Liquidity Cost Benefit Allocation
- Understand the role of liquidity risk in the bank's transfer pricing process and quantify its direct and indirect costs

Introduction to the course

Liquidity Risk has always been the ultimate risk for financial institution, although in times of financial stability ongoing growth and ample cash liquidity supply between banks, it has not been at the forefront of perception. Other than market and credit risk, and even operational risk, its methods have not been that far developed and moreover, regulators have been a bit reluctant to explicitly deal with it. During the Financial Crisis 2007-2008, however, esteemed institutions like Lehman Brothers, Merrill Lynch, AIG, Freddie Mac, Fannie Mae, HBOS, Royal Bank of Scotland, Fortis, Dexia, Hypo Real Estate etc. became unable to raise sufficient cash for the ordinary course of their business and went into bankruptcy or had to be saved by their governments. This completely changed the picture: the top banks have developed and implemented sophisticated liquidity methodologies and the regulators followed with according standards (Basel 3). After this course the attendants will understand the roots of liquidity risk and its effects their business model. They will be able to distinguish economic and regulatory measures for liquidity risk and learn how to optimize their balance sheet accordingly.

Learning format

class room teaching with the possibility of question and answers as well as joint discussion of case studies

Who should attend

CEOs, CFOs, CROs, MDs, VPs, Directors, Division Heads, Senior Managers and Executives responsible for:

- Liquidity Management / Liquidity Risk Management / Liquidity Transfer Pricing
- Treasury / ALM / Money Markets / Repo Trading / ALM Risk
- Balance Sheet Management / Business Planning
- Funds Transfer Pricing / Origination
- Risk Management / Model Risk
- Finance and Accounting
- Auditors (Internal & External)

MONDAY, MAY 2009⁰⁰ – 09¹⁰**Welcome and Introduction**09¹⁰ – 12³⁰**Session 1: Liquidity Risk in General****Key Concepts**

- Insolvency (illiquidity and over-indebtedness)
- Illiquidity risk & liquidity induced value / earnings risks
- Payments, loro and nostro accounts, cash flows and balances

Measuring Illiquidity Risk

- Building a liquidity balance sheet from a complete set of transactions
- Future payments, flows and cash inventories (stock and flow)
- Forecasting the bank's future nostro balance: Projected Liquidity Exposure ()
- The substitute of capital for liquidity purposes: CounterBalancing Capacity ()
- Net Liquidity Exposure

12³⁰ – 13³⁰**Lunch**13³⁰ – 17⁰⁰**Session 2: Refined Liquidity Risk Issues****Scenarios**

- What is a scenario?
- Generation of contracts / transactions / payments (cash flows)
- Liquidity options, dependency from market values and counterparty decisions
- Scenario liquidity units
- Stochastic Concepts (Liquidity-at-Risk, Cash-Flow-at-Risk, Value-Liquidity-at-Risk)

Liquidity Generating Strategies

- Exposures and Strategies
- Contingency funding and the need for liquidity generation
- Term-structures: Ownership, Possession and Encumbrance of Assets
- Forward Asset Flows (FAF) and Inventories (FAI)
- Liquification by Sale and Repo
- Eligibility and Liquification Venues
- The Liquifiability Index (LiX)

Liquid Assets

- Characteristics of liquid assets
- Eligibility: availability for the anticipated liquification process
 - encumberedness of assets
 - liquification venues
- Possession and ownership in time: The Forward Asset Inventory
- Classification of liquifiability: The LiX of an asset

The CounterBalancing Capacity (CBC)

- Liquification classes, haircuts, value decays and upper limits
- The liquification algorithm and its parameters
- Scenarios for the CounterBalancing Capacity
- Related Liquidity Generation concepts: Liquidity Buffer, Day-Count-to-Default, Liquidity Barometer, Survival Horizon

Session 3: The Cost of Liquidity

- Basics of transfer pricing
- 'Riding the Yield Curve'
- Costs of funding, interest, liquidity

- 'Matched Funding' (congruent replication) and the role of treasury
- Expected and unexpected risks, the role of PLE and CBC

TUESDAY, MAY 2109⁰⁰ – 12³⁰**Session 4: Intraday Liquidity Risk (ILR)****Typical Issues**

- Relationship between cash and liquidity (risk) management
- Direct and indirect payments vs. cash flows
- Case study: Fortis and Dexia in the 2008 crisis
- Settlement systems (RTGS / End of Day)
- Active and passive credit risk in the payment process
- Forecasting and back-testing of payments
- Case Study 'Herstatt-Risk'
- CLS (Continuously Linked Settlement)
- Time-critical payments
- Stop of payments and cease of payments

ILR – Regulatory Requirements

- BCBS – Monitoring Tools for Intraday Liquidity Management
- Liquidity Risk Management and Liquidity Management
- Definitions: intraday liquidity sources / usage
- The seven intraday monitoring tools
- Detailed design of the intraday liquidity monitoring tools
- Intraday liquidity stress scenarios
- Scope of application of the tools

- Implementation date and reporting frequency
- Example: derivation of the regulatory reporting

Integration of Intraday Issues into Liquidity Risk Methods

- Time delay between liquidity risk origination and realization
- Refinement of the term structure / local minimums
- Mitigation / usage of liquidity buffers
- The role of collateral – possession and ownership
- How late can we pay: game theory between optimization of liquid funds and chaos
- Near-illiquidity situations and reactions

Stochastic Intraday Simulation

- Intraday stress scenarios (BCBS 248) derived from historic intraday monitoring data Does this make sense? Do we really measure (intraday) liquidity risk?
- The idea of stochastic intraday simulation: planned outflows / stochastic inflows
- Modelisation of flows and implementation of payment algorithm
- Implementation of (stochastic) stress scenarios
- Interpretation of results – where is the liquidity risk?

- Intraday time-value of payments
- Intraday time risk measures as measures for ILR

12³⁰-13³⁰

Lunch

13³⁰-17⁰⁰

Session 5: Cross-Currency Liquidity Risks

- Problem: total surpluses (in currencies) outweigh total deficits – but can the bank translate the funds between currencies?
- Case study: USD short squeeze during the 2008 crisis

FX Liquidity Risks

- FX-induced liquidity cost risks
- Intraday payments risks
- Cross-currency illiquidity risk
- The Projected Liquidity Exposure (PLE) in multiple currencies
 - ‘consolidation’ across currencies
 - scenario dependency of the PLE
 - market variability
 - the bank’s short optionalit

FX Translations in a Business-as-Usual Regime

- Do we translate cash flows or future balances between currencies?
- From full FX squaring to latest possible interventions
- Repeated pointwise FX zeroing
- The cost of FX squaring

Potential FX-Translation Restrictions

- Transaction between legal entities (net lending restrictions)
- Local legal constraints (minimum liquidity requirements)
- Operational / legal restraints

The FX Translation Capacity (FTC)

- The bank’s long optionality
- Role of the central banks
- Use of liquid assets (in multiple currencies)
- The FX Swaps market
- Measuring the bank’s ability to square cross currency deficits
- Influencing factors (risk drivers) of the FTC
 - idiosyncratic risk (the bank’s probability of default)
 - the counterparty’s exposure at default
- Forms of Wrong-Way-Risk

Managing Cross-Currency (Il-)liquidity Risks

- Capturing liquidity-induced loss risks with synthetic bid/offer-spreads
- Reporting, monitoring and limiting the PLE with the FTC
- Underlying FX-specific scenarios
- Statistical estimation of the bank’s FTC

Lecturer:

Dr. Robert Fiedler

- Studied Mathematics, Computer Sciences and Philosophy at the Universities of Heidelberg and Darmstadt
- Cash, money market and derivatives trader, later heading up the asset/ liability management at Banque Nationale de Paris in Frankfurt
- Deputy Head of Financial Markets at NatWest Markets in Frankfurt
- He headed the treasury and liquidity risk methodology in Deutsche Bank; developed and implemented the methodological framework for liquidity risk (LiMA – Liquidity Measurement & Analysis)
- Executive Director Algorithmics’ ALM and Liquidity Risk Solutions
- Board member and head of product management for Fernbach Software, Luxembourg
- Since 1999 until now he speaks at major (liquidity) risk conferences, tutors seminars and workshops on liquidity risk and ALM and consults banks and institutions such as the ECB and the BIS (where he is a regular speaker at the Financial Stability Institute) on liquidity risk
- Since 2008 he focuses on Liquidity Risk in his own firm, Liquidity Risk Corp. (LRC) where he advises private banks, central banks and regulators on liquidity risk methodologies and helps to build software solutions to implement the resulting policies



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:
May 6, 2019**

• Liquidity Risk Management and Cross Currency Funding Risks
with Dr. Robert Fiedler

May 20 – 21, 2019

€ 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:
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E-mail: Position:

3. Title: Name: Phone:
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E-mail: Position:

Date: Signature: