

ALM & IRRBB: Optimizing the Balance Sheet

How to implement IRRBB into ALM & Liquidity frameworks





In 2018 new Basel standards were introduced for measuring and managing interest rate risk on the banking book (IRRBB). One of the complexities of interest rate risk on the balance sheet is the linkage between **Asset Liability Management (ALM)**, **Liquidity** (LRP, NSFR), and the **IRRBB**. A further complication is that interest rate risk of the balance sheet can be measured either through current and future earnings (i.e. Net Interest Income (NII)) or through changes in Economic Value Added (EVA).

In this training we develop a framework of how to integrate these synergetic areas. You will learn the key building blocks of IRRBB, including analytical modeling, data requirements, and governance. We will explore how the Fundamental Review of the Trading Book (FRTB) is an overlapping framework of IRRBB. We will design a toolkit of stress testing scenarios and spend the final day on real-life case studies, focusing on historical bank failures that involved a combination of interest rate risk, behavioral changes, and triggers of contingent obligations (margin calls, systemic risks, failures in the governance of ALCO). We will also assess what the supervisory process of regulators will be and how to prepare for this examination.

How you will benefit

- Gain insight into IRRBB regulation and how to implement it
- Gain an understanding of how IRRBB is linked to other overlapping frameworks (ALM, Liquidity, Trading)
- Discover how a key to IRRBB lies in the consistency between Economic Value Added (EVA) and earnings (NII)
- Learn how Net Interest Income (NII) derived from IRRBB is a core component of capital stress testing of the regulators
- Get a deeper understanding of how interest risk is linked to IFRS(9) and expected credit losses
- Learn how to apply behavioral assumptions and optionality models to contractual cash flows
- Learn why static balance sheets for any form of stress testing or forecasting have many pitfalls
- Learn how to overlay business strategy in lending and how liability management impacts interest rate risk
- Explore the design of interest rate scenarios and the dynamics of the balance sheet

- Learn how to correctly hedge the balance sheet utilizing derivatives and securitization
- Learn more on governance, disclosure and comprehensive regulatory examination including the Asset Liability Committee (ALCO)
- Learn how to minimize risk weighted assets for an institution

	3 days
	€3,600
	4.0 (out of 5)
	7 – 9 May 2019

Faculty

Dr. **Colin Lawrence** is a Senior Banking Advisor, Board Member & Financial Risk / Regulatory Specialist, and an expert in challenging & advising on critical risk strategies for major global financial institutions. Colin has held positions such as Managing Director & Global Head of Fixed Income Derivatives at UBS, Global Head of Risk at Barclays Bank, Partner for Risk Management & Regulation at Ernst & Young, and various risk leadership positions at IBM Global Business Services in China and Asia Pacific.

In 2008 Colin was appointed to head a new Supervisory Risk Specialist division at the Financial Services Authority (FSA). He is a member of the Strategic Expert group advising the Governor of the Astana International Finance Centre (AIFC), and a Board Member & Chair on Risk and Compliance of Ostc Ltd, one of the world's largest liquidity providers in futures exchanges.

Colin Lawrence's academic career includes a current Honorary Visiting Professor role at University College London, specializing in Finance & Risk Management. Earlier Professorships include Cass Business School and Columbia Business School. He holds an MA and a PhD in money and banking from the University of Chicago.

Program Content

- The overall regulatory and risk architecture and how IRRBB fits in
- The overlapping frameworks of IRRBB, ALM, Liquidity, and FRTB
- Designing IRRBB analytics and leveraging off ALM and traditional market risk
- The consistency between the methodology measuring earning at risk and Economic Capital through the dynamic evolution of the balance sheet
- Categorization of bank instrument categories into amenable instruments with no optionality (term deposits), less amenable with automatic optionality such as caps, floors, swaptions and other embedded options and finally non-amenable instruments with Behavioral Optionality (such as non-maturity deposits), core versus transitory deposits and overdraft facilities

- Asset Liability Management and the management of Liquidity and Cash Flow management; Hedging with derivatives and securitization; Link to risk appetite
- The Business Model, balance sheet capacity, legal entity & optimization of the balance sheet and link to shareholder value
- BCBS standards including IRRBB management process, model validation, enhanced disclosure requirement and supervisory review
- Designing a framework for liquidity and capital stress testing under different interest rate risk shocks including basis risk, term structure risk, and behavioral risks
- The Treasury factory; put into the context of the overlapping frameworks, financial transfer pricing (FTP), capital allocation and balance sheet optimization

Case studies throughout the program - will provide us with insight into how the balance sheet/off balance sheet is impacted. It is never the case that one single shock causes the major problem but rather the shocks in stress are highly correlated involving both internal and external shocks. Only a holistic ALM/ liquidity /trading framework enables us to understand this connectivity

1. S&L crisis in the 1980s-1990s in which one third of the US savings and loans institutions (over 1000) failed and cost the taxpayer an estimated \$160 billion: we will show that a key to the failure was a **steepening of the yield curve** in which net interest margins collapsed (Lincolns, Home State Savings Bank).
2. Continental Illinois 1984 and Washington Mutual 2008: in both cases the banks failed due to **deterioration of investments/ lending in highly risky assets**.
3. **Sovereign uncertainty**: depositors at the Bank of Cyprus lost close to 50% in the value of their savings during the Eurozone crisis in 2013 despite assurances from the IMF and ECB.
4. **Unexpected triggers/draws**: the case of Fin Corp. a real estate trust suddenly stopped accepting loan applications; it was the second largest prime loan originator and its share price collapsed. It also failed to meet regulatory capital requirements.
5. **Deposit runs** of the type from the 1929 big crash happened again in the UK at Kaupthing and Northern Rock. We will study the role of securitization, the behavior of a traditional lender, Northern Rock and the role of the Bank of England.
6. **Margin call**: we will explore the cases of Bear Sterns, Lehman Bros, LTCM and AIG. In each case margin calls sunk the financial institution perpetuating failure. Indeed in the LTCM hedge fund case the collapse of a small fund might have triggered a systemic collapse.

Enrolling & Practical Information

Enrollment requirements

AIF considers each enrollment application carefully to ensure the quality and level of the program is maintained and that participation of candidates is beneficial to both themselves and their organizations. The general prerequisite for all AIF programs is the possession of an academic or equivalent degree, as well as proficiency in English and practical experience.

How to enroll

Enrollment for one of AIF's programs is done via an online application form to be found on AIF's website: www.aif.nl. There is no closing date for enrollment although it is advisable to enroll early, as places are limited and preparation is required for all AIF programs. General Terms & Conditions of Enrollment and Cancellation must be agreed before enrolling and are available on AIF's website.

Accommodation

AIF has special corporate rates available for participants at a number of hotels in central Amsterdam.

Certificates

An AIF certificate of attendance is awarded to all participants who successfully complete the program.

Program location

The programs are held in the center of Amsterdam, within an easy walk from Amsterdam Central Station, and within 30 minutes from Schiphol international airport.

Program fees

Program fees include tuition, all comprehensive program materials, books, and any software that is required for the program, as well as luncheons and daily refreshments. Accommodation is not included.

In-company programs

For information on how AIF can add value to your organization via a tailored in-company program, please contact AIF directly at: +31 20 520 0160.

About Amsterdam Institute of Finance

AIF is a global financial innovation and education institute headquartered in Amsterdam. Through our open enrollment programs in Amsterdam and our in-company programs throughout the world, we connect ambitious professionals with the best minds in finance and other related topics. Taking part in one of our programs is a direct investment in your personal future and the success of your organization.

This is what makes the AIF experience unique:

- We believe in responsible, sustainable and inclusive finance
- Our clients, rather than profits, come first
- AIF is an independent and not-for-profit foundation, which allows us to cherry-pick our faculty from the world's leading business schools, such as INSEAD, NYU Stern, Berkeley Haas, Cambridge Judge and others
- AIF delivers top quality programs. Our alumni give our faculty an average rating of 4.6 out of 5.0
- Enrollment in one of our programs means you become part of the AIF network, connecting you to professionals from more than 1,200 organizations in over 110 countries

AIF VISION: We believe that better-educated professionals can better their world, be it their career, their organization, their sector or the world itself.