

Liquidity Risk and Bank Performance During Crises Masterclass



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Course Overview

Liquidity risk is an important risk source for banks. While liquidity creation is a fundamental function of banks, it carries significant risk for them. The subprime crisis of recent times demonstrates that liquidity risk can be a serious threat to financial institutions. During the crisis, banks with higher liquidity risk had worse stock performance, shrank credit production more heavily, and paid higher interest rates on deposits. To address this concern, the Basel Committee on Banking Supervision imposed two bank liquidity regulations.s.

This masterclass explains through a practical approach to understand the concepts of liquidity, liquidity risk and a framework for implementing liquidity-risk management (LRM) in banks and financial institutions (FIs). It also delves into the liquidity Standards under Basel-III guidelines, along with overcoming the challenges faced in adopting and implementing the Basel-III liquidity framework in a practical banking environment. The programme also equips the participants with the required knowledge and expertise to manage a bank's balance sheet from the liquidity perspective or carry out internal or external audit of liquidity. Attendees will leave the course with the tools to embed a liquidity stress-testing framework and leverage the results from stress-testing analyses in decision-making processes

Ensuring Financial Stability in the Face of Liquidity Risk



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Benefits of Attending



- Implement Liquidity Risk Management Framework
- Implement an adaptable and flexible action plan for ALCO
- Best practices in model validation for liquidity (stress-testing) models
- Case studies: Causes of Banking Crises 2023
- Implement best-practice ICAAP/ILAAP
- The internal liquidity adequacy assessment process (ILAAP) and stress-testing
- Implement Liquidity Risk Management Framework
- IRRBB and stress testing (Reverse Stress Testing)

Investment Risk Management, Stress Testing and Liquidity Management

Liquidity Management Plan (LMP) (p.31)

- a LMP that covers each investment option;
- outlines the procedures for measuring and managing liquidity risk and the liquidity risk tolerances;
- outlines the circumstances considered to be a significantly adverse liquidity event that requires action; and
- documents the process for reporting various liquidity issues

Stress Testing Reporting and Review (p.28)

- results and reporting provided at least annually to senior management and the Board; and
- periodic review of stress test results by senior management are documented in the investment governance framework



Investment Risk Reporting (p.25)

- market and economic developments that may result in altered risk exposures;
- investment manager risk indicators (key staff changes); and
- investment option risk profiles measured by tracking error and standard deviation

Review of Investment Risk Management Arrangements (p.25)

- appropriate segregation of duties between those making investment decisions and those making investment risk management arrangements

Stress Testing Program (p.26)

- the stress testing methodology and process for the review of the methodology;
- procedures for reviewing and analysing the results of stress testing outcomes;
- the frequency of stress testing; and
- triggers for the escalation of stress testing outcomes

Who Should Attend :

The in-house training version may be tailored to your specific industry need. This course is suitable for novice and experienced participants. It is designed robustly to give you both basic concepts and principles for novice participants as well as ample opportunity for experienced participants to amplify the principles and concepts through reflection on your own work experience.

- Chief Risk Officer/Head of Risk
- Head of Liquidity Risk
- Head of Treasury/Balance Sheet.
- Management/Asset-Liability Management
- Head of Market Risk
- Head of Finance
- Head of Compliance/Regulation
- Programme Directors/Project
- Managers for ICAAP
- Risk Team
- Risk Managers
- Liquidity Managers.
- Capital Management Managers.
- Senior/Executive Management.
- Heads of Audit.
- Basel III Project Managers.
- Business Heads.
- Risk Management Professionals.
- Regulators.
- Managers for ILAAP



After Attending This Course You Will Be Able To:

- Identify potential alternative sources of liquidity when market access deteriorates
- The challenges and opportunities of intraday day liquidity management.
- Use the above to anticipate liquidity issues that may arise
- Understanding the scope of operational and other associated risks
- Market vs. funding liquidity risk; different types of bank and market
- Get a deeper understanding of how interest risk is linked to IFRS(9) and expected credit losses
- Learn how to overlay business strategy in lending and how liability management impacts interest rate risk (IRR)
- Explore the design of interest rate scenarios and the dynamics of the balance sheet
- Understand risk transfer, fund transfer pricing
- Gain experience of facing regulatory challenge on proposed model
- Applicable balance sheet management strategies for interest rate capital liquidity metrics
- The impact of regulatory change, specifically Basel III LCR and NSFR and derivative clearing and margining rules
- Support the Bank's Asset Liability Management from Liquidity Perspective

AGENDA

Strategic ALM and Best-practice ALM

principles:

- Customer product origination process and strategic plan
- Board Risk Appetite Statement, Key Risk Indicators & strategic planning process
- Basel III Liquidity: NSFR and LCR
- Strategic ALM and balance sheet management implications
- Basel III Additional monitoring metrics
- Basel III Liquidity principles
- Ensuring an efficient & value-added ILAAP process

Contingent Liquidity Risk :

- The need for contingency planning
- Written contingency plans
- Crisis management plans for assets
- Crisis management plans for liabilities
- Internal and external communication

Balance sheet optimization's:

- Balance sheet planning
- Management of funding costs
- Generating results on balance sheet position
- Having the right balance sheet mix
 - Product Mix
 - Business Mix

Funds Transfer Pricing (FTP) :

- How FTP affect a bank's liquidity reporting
- Contingent liquidity premium
 - Potential liquidity shocks
- Stress test liquidity position
- Optimisation of internal funding
- Cross-border funding

ICAAP and ILAAP: Risk models

- Requirements, implementation options and challenges
- ICAAP and ILAAP Risk inventory
- Interplay between statistical & non-statistical modelling approaches
- Integration and use of the risk appetite framework

IRRBB and stress testing :

- Addressing key challenges of running stress testing exercises
- Selection process of shock and stress scenarios
- Reverse stress tests
- Ensuring continuity and efficiency
- Applying IRRBB stress testing models to other treasury stress tests

Impact of Basel III on the Business Model of Banking :

- Impact of the Basel III LCR on balance sheet exposures to non HQLA assets
- Hoarding of Level 1 HQLA assets
- Unintended consequences for macro liquidity from Basel III regulations
- Explanation of Contingent Capital instruments (CoCo's)
- Impact of TLAC on G-SIB banks

Interest Rate Risk in the Balance Sheet :

- Components of Interest Rate Risk
- Critical tasks and risk elements
- Balance sheet products, positions & options
- Gap Analysis



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