

An introduction to Market Risk, (One Day)

This practical workshop is an introduction to market risk. It explains the basic methods used by financial institutions. How the calculations are made and what they show. It will also explain the advantages and disadvantages of the techniques and why several risk measures are normally used together. The course is designed for those who prepare or use these reports and need to know more.

The course will cover:

- Gap reports
- Duration
- Basis point value, (PV01/DV01)
- Futures equivalency
- Value at risk
- Stress testing
- When things go wrong

Below is a summary of the workshop content. The day has been placed in a logical sequence and emphasis will be placed on practical case study examples.

Morning

Market Risk

- What it is
- Why we measure it

How market risk occurs

- Foreign exchange exposure
- Interest rate risk
- Day-to-day mismatches
- Trading
- Ineffective hedging

Measuring foreign exchange risk

- Spot equivalency
- Strengths & weaknesses

Measuring interest rate risk:

Gap reports

- What they are
- What they show
- Pipeline risk
- Use in balance sheet management
- Strengths & weaknesses

Duration

- Simple & modified duration
- How it is calculated
- What it shows
- How you can use it
- Use in the industry
- Strengths & weaknesses

Basis point value

- How it is calculated
- What it shows
- How you can use it
- Use in the industry
- Strengths & weaknesses

Afternoon

Futures equivalency

- Interest rate futures & bond futures
- How it is calculated
- What it shows
- How you can use it
- Use in the industry
- Strengths & weaknesses

Value at risk

- What it is
- Some of the calculations involved
- Single position VAR
- Diversified & undiversified VAR
- Variance Covariance, what it is
- Why it is used
- Strengths & weaknesses
- Importance of validation & testing
- Importance of stress testing

“Normal” market conditions

- Why risk measures do not capture all the risks you have
- Why it is important to use a combination of measures to report risk
- Why consistency in the risk reports produced is important

Where risk reporting can go wrong

- Timeliness/availability
- Understanding
- Validity of data
- Accuracy
- Reporting of excesses and action
- Real life case study

End of workshop and review

