



### Who's attending?

This course is beneficial to:

- Chief Information Officers
- Chief Risk Officers
- IT Professionals
- Members of Group Risk Committee
- Members of the Board of Directors
- Regulators
- Treasury Heads
- Auditors

Why not recommend this course to a colleague?

## 3-Day Intensive Course

# Basel III

## *For IT Professionals*

### Intermediate Level

14 – 16 May 2012, Singapore

The global banking system is at the centre of the financial intermediation process between savers and investors and if a bank fails it can be disastrous not only for its shareholders, but also for its depositors, and one bank's failure can lead to other banks failing. The trigger for Basel III was the 2007/8 crisis and is built upon the lessons learnt from it. However its focus is the next crisis, not the last.

Well before the crisis, globalization and ever increasing financial product innovation had left the global banking system with too little capital and insufficient liquidity resources to protect it against unexpected risks.

The objectives of Basel III include improving the banking sectors ability to absorb shocks arising from financial and economic stress, no matter what the source, to improve risk management and governance, to improve the banking sector's transparency and disclosures and to manage the effects of systemically significant, large, cross border banks, those banks "too big to fail" and to minimize any spillover from the financial sector into the economy.

There are bank specific provisions and system wide provisions. The bank specific provisions address regulatory capital, which modifies, and adds to the Basel II minimum capital requirements, a more comprehensive coverage of risks and new liquidity requirements. In addition there is a non-risk provision, which constrains leverage. The macro provisions address system wide risks because, as we have learnt, addressing the problem at the firm only level is not sufficient.

This course is for those who need to understand Basel III and the IT aspects, including systems, data and communications. It covers the new capital requirements, the expanded risk coverage, the leverage provisions, the system wide buffer provisions and the new liquidity requirements.

### What will I get out of it?

By the end of the programme participants:

- Understand some of the issues that lead to the 2007/8 crisis, the casualties
- Learn the fundamentals of the Basel committee's approach to addressing the lessons to be learnt from the crisis
- Understand the new regulatory capital requirements for more and higher quality capital and how to determine regulatory capital
- Understand the expanded risk coverage
- Learn the new leverage ratio provision and how it can provide a backstop to the regulatory provisions
- Understand how the pro-cyclical and countercyclical buffers are built and their goals
- Understand the issues associated with systemically important banks and the Basel Committee's approach to dealing with them
- Understand the IT aspects and implications for IT professionals, systems, data and communications

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## COURSE CONTENT

### Day 1

#### Session 1: The 2007/2009 crisis and the Basel Committee's response

- Financial Risk Management: What is it?
- A quick review of Basel I and II, the Three Pillars
- The build up to the causes of the 2007/8 global crisis
- Leverage, insufficient capital
- The prime mortgage business develops, MBAs and investors
- Illiquidity and solvency issues, confidence is lost
- The fallout from the crisis and what we should learn
- The goals of Basel III
- Bank specific and system wide provisions

*Class Participation:* Merrill Lynch case study

#### Session 2: More and Better Capital

- Common equity and revisions to the capital definitions
- Capital absorbency
- Trading Book exposures, securitizations and Off Balance Sheet vehicles
- Tier 1 and Tier 2 (gone concern) capital; elimination of Tier 3 capital
- IT implications
- Regulatory adjustments

*Class Participation:* Please draw up an organization chart for risk. Please use the information gathered in the previous *Class Participation* exercise

#### Session 3: Stress VaR, Counterparty Credit Risk, and Centralized Clearing

- Incremental Risk Charges
- Stress VaR, met continuously
- Capital charges for counterparty credit risk
- Credit Valuation Adjustment
- Harmonization with IFRS
- Centralized clearing of OTC derivatives
- The comprehensive risk approach
- IT implications

*Class Participation*

#### Session 4: Enhanced Risk Coverage

- Who should be managing risk?
- The need for a risk culture
- Raised capital for the Trading Book and securitization exposures
- Off Balance Sheet vehicles
- IT implications
- Raised standards for Pillar II supervisory review process
- Strengthened Pillar III disclosures

*Class Participation*

### Day 2

#### Session 1:

- Counterparty credit exposures from derivatives, repos and securities funding
- Strengthened capital requirements for counterparty credit exposures using stressed inputs
- Central Counter Parties
- Capital charges, CVA for potential mark to market losses
- IOSCO Code of Conduct
- Collateral management; initial margining
- Role of central counterparties

*Class Participation*

#### Session 2: The Leverage Ratio

- Is capital the only risk mitigant?
- The leverage ratio is a backstop to the risk based capital measures; a sanity check
- What is leverage and why constrain it?
- Model risk and leverage
- The proposed leverage approach
- Mitigating the deleveraging process
- IT implications

*Class Participation*

#### Session 3:

- The proposed timetable for the back stop
- Model risk
- IT implications
- Internationally harmonized
- Tier 1 capital and leverage
- Based on gross expenses
- On and Off Balance Sheet

*Homework:* A list of topics will be provided

#### Session 4: Capital Buffers

- The banking sector needs to be a shock absorber and not a transmitter of risk
- Why is Basel II procyclical? What are the problems?
- Capital Conservation buffer reduces procyclicality, building it in good times and drawing down on it in bad times
- Early warning signs of a buildup/bust cycle
- Estimation of the buffer, what it achieves
- Home and host issues
- Estimation of credit to GDP
- IT issues

*Class Participation*

#### BACKGROUND READING

- Basel Committee on Banking Supervision *Basel III: International framework for liquidity risk measurement, standards and monitoring* (December 2010)
- Basel Committee on Banking Supervision *Basel III: A global regulatory framework for more resilient banks and banking system* (December 2010)
- Brickhill, Christopher J *Risk Management Basel III* (This material will be distributed during the course)

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## Day 3

### Session 1: Liquidity Framework

- What is funding liquidity? What is market liquidity?
- What is liquidity risk management?
- Illiquidity warnings; Flight to quality, liquidation fire sales
- Gaps, the repo market, haircuts
- Contingency liquidity planning; stress testing
- Systemic risk
- No tools to measure liquidity risk across the industry
- The Basel III documentation on liquidity and liquidity risk
- IT implications

*Class Participation: Northern Rock case study*

### Session 2: Liquidity framework

- Liquidity Coverage Ratio and how it works
- What are eligible liquid assets; stocks of liquid assets
- High Quality Liquid Assets; tests for quality
- Net Stable Funding Ratio
- Available stable funding
- Net cash outflows
- Composition of asset categories; OBS
- Common Metrics
- Tests: monetizing
- Stress testing and calibration
- International harmonization
- IT implications

*Class Participation: You are in the midst of the 2008/9 crisis. Design a set of monitoring tools which would have alerted the management of Lehman and Merrill earlier.*

### Session 3: Basel III timescales; Wrapping it all up

- Implementation issues
- Basel III timescales
- Models
- Risk and Return
- RAROC and Economic Capital
- The roles of the supervisor and the supervised
- Liquidation risk in the context of market, credit and operational risk

*Class Participation: Long Term Capital Management case study*

### Session 4: Systems Architecture, communications, data and timescales;

- Risk systems architecture for Basel III
- Communications requirements for Basel III
- Database requirements for Basel III
- Implementation timescales

### Christopher John Brickhill

Christopher has over 30 years experience in financial markets risk and technology, and has worked in Asia, Europe, and North America. He provides consultancy and training services though out Asia Pacific and specializes in Risk, Risk IT, Tactical and Strategic planning. His banking career began with Chase Manhattan Bank in New York, and has worked or consulted for Citibank (New York and Dubai), Bankers Trust (Deutsche), DBS, China Everbrite, Standard Chartered Bank, HSBC, Schroders, Westpac, BNI, BRI, Bank Syariah Mandiri, SEB, Mizuho, Daiwa, Santander and LTCB. He managed Reuters's Basel II program in Asia Pacific and he teaches and examines part of the Enterprise Risk Management Diploma courses for ARIMI/NUS.

Christopher's knowledge and experience in financial consultancy and training derives from his extensive experience both as a banker and a vendor to the banking industry. He has taught at universities, written and published academic material, managed technology for global organizations, and managed multinational teams developing, and implementing financial software. His areas of consultancy include Risk, Basel II and III (market, credit, operational and liquidity), capital adequacy, Economic Capital, risk capital frameworks, policy formation and implementation, treasury and risk automation initiatives and strategy.

Christopher has taught at the University of Oxford, the University of Essex and the University of Melbourne where he lectured in Mathematical Logic and wrote *What is Mathematical Logic?* with John Crossley and others and which was published by Oxford University Press in 1972, and continues in press today in multiple languages.

### Venue

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The Monetary Authority of Singapore (MAS) administers Financial Training Scheme (FTS) grants to financial sector organisations that sponsor eligible Singapore based participants to training programmes that meet qualifying criteria.  
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# Basel III for IT Professionals

14 – 16 May 2012, Singapore

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<b>Registration fee</b>	S\$2,250 <b>Save \$250</b>	S\$2,500		
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## Company/Invoicing details

Organization name.....

Address.....

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Invoice attention to..... Job title.....

Tel..... Email.....

## Approving Manager signature

**NB: Signatory must be authorized to sign on behalf of contracting organization**

Name.....

Email..... Job title.....

Tel..... Fax.....

**Authorizing signature \*** (Mandatory).....

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