

Course Outline

Liquidity Risk Management



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Session 1: Liquidity Risk:

- Why Liquidity Risk is in the focus of financial institutions world-wide?
- Liquidity risk in the context of the financial crisis
- Relationship between liquidity and solvency

Session 2: Analytical Overview/ Governance:

- Forms of liquidity
- Defining liquidity risk : funding and market liquidity
- Strategy for liquidity risk, policies and practices
- Inter-relationship between liquidity, credit, market (interest rates), operational, legal and reputation risks
- Relevant parameters affecting liquidity status

Session 3: Liquidity Risk in Asset Liability Management:

- Sound practices for measuring and managing liquidity risk
- Asset & Liability Management in the modern environment
- Scope of Asset/Liability Management function
- Optimizing and managing the balance sheet – Purpose & Roles of ALCO
 - Managing Interest Rate & Currency Risk
 - Funding and Capital Planning
 - Profitability
 - Net Interest Income
- Organizational issues
 - Case Study

Session4: Funds Transfer Pricing:

- Overview of FTP
- Improvement of cash flows, earnings, risk and value through FTP
- Alternative methods and addressing FTP objectives
- Approach for implementation of FTP mechanism
- Using the FTP for performance forecasting and measuring branch profitability
- Incentives, policies and procedures

Session 5: Liquidity Risk Measurement:

- The components of the balance sheet
- The liquidity balance sheet
- Liquidity Gap Analysis
- Cash Flows
- Cash flow forecasting
- Deterministic and stochastic behaviour of instruments
- Types of maturities
- Statistical techniques
- Simulation techniques



- Liquidity at Risk & Liquidity Value at Risk
 - Case Study 3

Session 6: Managing Liquidity Risk – Metrics & Limits:

- Range of liquidity metrics
- Types of liquidity measures
- Liquidity ratios
- Concentrations
- Management Information System/ Internal reporting
- External communication
- Examples from large international banks
- Strategies for banks

Session 7: Liquidity Risk Stress Testing:

- Stress Test Parameters
- Basel principals for stress testing
- Implement Stress Testing in various scenarios
- How stress tests fit into the ICAAP
- Impact of ICAAP

Session 8: Contingency Funding Plan:

- Potential Funding Sources
- Measures To Enhance The Liquidity Of Assets And The Stability Of Liabilities
- Reliability Of Each Liquidity Source For Various Potential Need Environments
- Funds Management And Liquidity Monitoring Process
- Early indicators
- Back-up liquidity