
PRINCIPLES OF ASSET LIABILITY MANAGEMENT (PALM)

Type of Participant Targeted

This program is designed for safety and soundness examiners, who are starting to review and evaluate interest rate risk activities and market sensitivity of commercial banks and bank holding companies as a part of their routine job functions. Others wanting a review of interest rate risk management products and processes may also benefit from this program.

Prerequisites

Prior to taking this course, safety and soundness assistant examiners should complete the precourse and prerequisite materials for Banking and Supervision Elements (BASE), Financial Analysis Risk Management (FARM), and Self-Study Program #1. Prerequisites for PALM include the Asset Liability Management (ALM) STaRT Module and the ten (10) Acumen ALM modules listed below.

Number of Modules to Complete	ALM Module Name	ALM Module Volume Number	ALM Module Section Number
1	Yield Curve Concepts	02	07
2	Term Structure of the Yield Curve	02	08
3	Creating a Smooth Yield Curve	02	09
4	Interest Rate Swaps	04	13
5	Interest Rate Caps, Floors and Collars	04	14
6	Forwards and Futures Contracts	06	01
7	FRA's	06	02
8	STIR Futures	06	03
9	Introduction to Options	06	04
10	Using Derivatives to Manage I/R Risk	11	11

Course Overview

PALM is a 4-½ day program and should be taken 3-6 months prior to Examination Management (Xman). Precourse work takes approximately 20-30 hours to complete and provides a review of various yield curve concepts, interest rate products including futures, forwards, and swaps, option products such as caps, floors and collars, and the use of derivatives to manage interest rate risk.

Through a combination of lectures and case studies, this program prepares examiners to assign the liquidity and sensitivity rating on a safety and soundness exam. These skills are acquired through a case study approach supplemented by lectures on the economic environment, investments, interest rate risk management and liquidity management. Supplementary topics include hedging and accounting as they relate to IRR and liquidity. This program contains in-depth coverage of liquidity analysis, including evaluations of contingency liquidity planning and strategies are also covered. The course also includes a discussion of the IRR Focus Report, a valuable tool for assessing IRR.

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Historical perspective: PALM has replaced FIRRM in the SR98-2 curriculum. While much of the course content is similar to FIRRM, precourse materials have changed and PALM is more case study oriented. The approval for the course's change in name and precourse materials was granted by the Curriculum Advisory Group (CAG) in its final meeting. FIRRM, and now PALM, do not directly affect the curriculum of consumer affairs or information technology examiners. The former Interest Rate Risk Management class still serves an equivalent program for PALM.

Course Objectives

Upon completion of this course, participants will have a better understanding of:

The relationship between the economic environment and bank supervision.

Investment portfolio management.

IRR sensitivity and the assignment of the "S" rating.

Modeling IRR.

The reasons banks use certain products to hedge their interest rate risk exposures.

How to evaluate liquidity risk management, including contingency funding plans, and the assignment of the "L" rating.

An overview of accounting rules relevant to IRR and hedging.

Class Size

The minimum number of participants is 16 and the maximum is 25.

Instructors

System capital markets personnel teach PALM. A "Lead" instructor is designated prior to the start of the class and is responsible for instructor assignments. If assistance is needed in the process, the course administrator at the SSD Center will help. Three and sometimes four instructors are needed to effectively conduct this program.

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Overview of Course Curricula

Topics Covered	Approximate Class Time
Monday	
The Environment and Bank Supervision	3 ½ hours
Investment Products	1 ½ hours
Investment Portfolio Management	1 ½ hours
Introduction to Case Study	
Tuesday	
Investment Management Case Study	2 hours
Focus Report	1 hours
Focus Report Case Study	2 hours
Assigning the “S” Rating	1 ½ hours
Wednesday	
Interest Rate Risk Case Study	3 hours
Modeling Interest Rate Risk	1 hour
Modeling Interest Rate Risk Case Study	2 ½ hours
Thursday	
Hedging Interest Rate Risk	2 hours
Hedging Interest Rate Risk Case Study	1 hours
Derivatives Accounting	1 ½ hours
Assigning the “L” Component	2 hours
Friday	
Liquidity Summary and Caselettes	3 hours
Course Summary	½ hour
