

Federal Reserve Board

Course Description for Trading Risk Management (TRM)

Course Catalog Detail

Trading Risk Management (TRM)

Type of Participant Targeted

TRM is designed for an examiner who has (1) completed the System's core curriculum or possess comparable equivalent working knowledge, (2) the requisite skills necessary to significantly contribute to trading review activities at regional institutions or money-center banking organizations and (3) a strong interest in developing a depth of knowledge in the capital markets.

Prerequisites

Course participants should possess examiner credentials or have a comparable level of experience based on their Reserve Bank's assessment. Participants are expected to assess their depth of knowledge in a number of critical areas prior to the classroom experience by taking a series of online quizzes. Participants can access an online training module for each of the critical areas, as required. The courseware vendor estimates that completion of all of the online modules in the critical areas will require 15 hours.

Course Overview

TRM is a 4.5 day course offered by Intuition that will equip examiners with the specialized skills necessary to assess the quality of trading book risk management. The course provides an overview of various traded products, their risk measurement (sensitivity measures), and how the liquidity characteristics and settlement processes differ across products. Participants will be introduced to trade cycles, trade execution issues, front office controls and market risk limits, middle office controls and valuation, and the back-office activities of verification and settlement.

Course Objectives

By the end of TRM, participants will be able to:

- Evaluate the risk management of individual traded products such as futures, swaps, options, interest rate derivatives, credit derivatives/structured credit products, and equity derivatives.
- Explain at an intermediate level the risks inherent in the trading activities of large, globally-active financial institutions.
- List the strengths and weaknesses of market risk and counterparty credit risk measurement models, how they complement each other, and the complexity and importance of developing strong assumptions.
- Assess the risks and control systems of complex trading related products in U.S. banks and foreign branch and agencies operating in the U.S.

- Explain the roles of front office, middle office and back office and appropriate segregation of duties.
- Evaluate the TRM processes at large, globally active financial institutions, with an emphasis on market and counterparty credit risk management, as well as front, middle and back office control activities.
- Evaluate the impact of trading risk management functions on the overall risk management rating.
- Identify applicable laws, regulations and supervisory guidance.
- Apply System and District-specific procedures to the examination of the various components of a trading operation.

Overview of Curriculum

Day 1: Trading Risk Basics

- Trading Business Overview
- Market Movements and Risk
- Market Risk Measurement
- Cash and OTC Derivatives: P&L, Product Life Cycles and Events

Day 2: Risk Resolution

- Roles, Responsibilities and Limits: Front, Middle and Back Office
- Risk Management Systems: Technology, Reporting and Risk Management
- Challenges of Volatility and Illiquidity
- Risk dynamics in FX and Equity

Day 3: Interest Rate Risk Management

- Yield Curves and Interest Rate Risk
- Rates Business: Market Risk Identification & Analysis
- OTC Interest Rate Derivatives: Market Risk Identification and Analysis

Day 4: Trading Credit and Credit Risk Management

- Risk Dynamics of Credit Derivatives
- Potential Future Exposure (PFE) and Credit Valuation Adjustment (CVA)
- Changing Regulatory Environment
- Trading and the Dodd Frank Act
- Basel 2.5 and 3

Day 5: Modern Risk Management Challenges

- Model Development and Validation
- Approval Process for New Products
- Documentation Risk

Class Size

The targeted class size is 25; however the course may be run with as few as 15 participants with a maximum of 25.

Instructors

Instructors for this course are provided by Intuition, the developer of the course. System capital market subject matter experts will attend to assist with the application of the course material to the examination process.