

Federal Reserve Board of Governors

# Course Description for Trading Risk Management

Last Revised: January 16, 2019

## Trading Risk Management Course

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### 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. Intuition, an external vendor, 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.

### 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

## 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.

## Type of Participant Targeted

TRM is designed for an attendee 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 will be granted access to online training modules for each of the critical areas, as required, 8 weeks prior to attending the in-person component. Intuition estimates 15 hours to complete the critical the online material.

## Class Size and Instructors

The course may be run with as few as 15 participants with a maximum of 25. 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.

