

MaFiRM 2020/21

Introduction to Asset Liability Management in Treasury Departments

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8 Hours

Course objectives

The aim of the course is to introduce the basic concepts of Asset Liability Management (ALM) in modern banking institutions, with particular focus on the models and methodologies used to steer and control Interest Rate Risk in Banking Book (IRRBB).

Topics

The scope of the Asset Liability Management (ALM) function in banking institutions:

- The sources of Interest Rate Risk in the Banking Book (IRRBB): Repricing Risk, Basis Risk, Embedded Options Risk, Prepayment Risk, Pipeline Risk, Funding Spread Risk and others.
- The “gap management” of Interest Rate Risks originated by commercial assets and liabilities.
- The optimization of Equity investments in the medium long term.

Methodologies and metrics used to steer and control IRRBB:

- Cash flows gap analysis.
- Static sensitivity analysis with earning and market value perspective.
- Dynamic analysis of earnings and market values, under multiple stress assumptions.

The ALM operational model:

- Fund Transfer Pricing and Risk Allocations.
- Definition of hedging strategies for Banking Book exposures.
- The operational ALM cycle in Treasury departments.

The ALM organizational structure:

- The three lines of defense principle.
- Steering, oversight and execution of ALM processes.
- The roles of Treasury and Risk Management functions.

The governance of IRRBB in banking institutions

- The definition of Risk Appetite Framework (RAF) for IRRBB
- The implementation of Risk Control Policies & Procedures
- Limits management and escalation procedures

Prerequisites

Derivatives, Fixed Income, Market and Liquidity Risk

Textbook and course material

Material distributed by the Professor.