

FINANCIAL RISK MANAGEMENT (FI-283)

Course Title-Country Financial Risk Management

Course Coordinator-Prof Ashok Banerjee

Area : Finance & Accounting

Visiting Faculty : Mr. D.N.Mukherjee

Course Objectives

Increasing Criticality of Risk Management: For longtime now, the function of risk management has been a cornerstone for financial institutions globally. However post 2008, it is widely observed that risk management has become a strategic tool that provides competitive advantage to institutions who use this to pursue risk adjusted, sustained profitability. In addition, risk management as a function is no longer restricted to financial institutions but is used in world class non-financial corporates. Recall that risks pertaining to interest rate, foreign currency, commodity, markets and operations to name a few also affects the sustainability and profitability of corporates as much as it affects purely financial institutions. It may be pointed out that some corporate treasuries are way larger than the size of treasury operations of large bank!

How will this Course Help: The objective of the course is to help students identify measure and manage risk as faced financial institutions as well as non-financial corporates. The Course starts with focusing individual risk and how they all add up at a corporate/strategic wide level. Specifically how Chief Risk Officer's (CRO) may view and act of such risk. Apart from discussing transaction level risk, the course discusses tools and techniques to aggregate risks at level of balance sheets. A quantitative aptitude may be beneficial in developing a better grasp of some of the quantitatively more involved topics that will be discussed in the course.

Pedagogy

The course would be taught in a lecture/classroom framework/ laboratory work/Case Study. Apart from the text book a selection of reading materials will be provided. The

Class lectures will use a combination of PowerPoints as well as demo/illustrations based on excel.

Prerequisites

Students applying for this course are **required** to have either **completed** their course in Derivatives or are **pursuing currently**.

Textbook

Risk Management and Financial Institutions by John C. Hull

Reference Books

1. Financial Institutions Management-A Risk Management Approach by Anthony Saunders and Marcia Millon Cornett
2. Risk Management and Shareholder's Value in Banking by Andrea Resti and Andrea Sironi
3. Strategic Risk Taking by Aswath Damodaran
4. Enterprise Risk Management by John Fraser and Betty Simkins
5. Risk Management in Commodity Markets by Helyette Geman
6. Others Materials and published research

Session Plan

1	Topics	Introduction to Risk Management: Definition of Risk and Brief History of Risk and Development of Risk Management Practice
2	Topics	Risk and Strategic Choices
3	Topics	Understanding Risk : Interest Rate Repricing Gap Model; Duration Gap Model;Cashflow Mapping; Internal Transfer Rates
4	Topics	Understanding Risk : Foreign Currency [Case Study :FX Risk Hedging at EADS]
5	Topics	Understanding Risk : Liquidity
6	Topics	Understanding Market Risk: Variance-Covariance Approach; Sensitivity of Portfolio market factors; Mapping of Risk Position
7	Topics	Understanding Market Risk::Value at Risk- Alternate Approaches, Shortcomings, Usage[Finance Lab]
8	Topics	Understanding Market Risk: Extreme Value Theorem, Power

		Curves[Finance Lab]
9	Topics	Managing Risk: Focus on hedging approaches and instruments
10	Topics	Managing Risk: Focus on hedging approaches and instruments
11	Topics	Managing Risk: Focus on hedging approaches and instruments [Case Study : JP Morgan and London Whale]
12	Topics	Operations Risk& Model Risk
13	Topics	Regulations and Risk Management: Reactive Events Driven/Regulatory Arbitrage/Implementation Issue
15	Topics	Commodity Risk Management: Basics of Commodity Prices
16	Topics	Commodity Risk M management: Hedging Risk by Producers/Users/Suppliers/Investors
17	Topics	Corporate Value at Risk; Earnings at risk
18	Topics	Enterprise Risk Management: [Case Study : TBD]
19	Topics	Final Project Presentation
20	Topics	Final Project Presentation

Reading materials: Risk Management & Financial Institutions by John C. Hull.

, Other Material will be provided before.

Evaluation Scheme: Four Pre-Announced Class Test [10 X 4=40]; Project Work & Presentation: 20; Final Written Examination 40 (No Mid-term)