



## Practical Approach on Market and Liquidity Risk Management

### Background

Market risk management is becoming complex discipline over the years, with increased focus on internal risk standards, evolving market conditions and significantly increased regulatory requirements. Volatility of instruments traded in market as well as market interest rates may result in multiple risks to banks and financial institutions as market participants. This increases the importance of effective management of market and interest rate risk.

Liquidity Risk is pervasive in financial markets ranging from simple treasury funding risks to asset and liability management. Banks and financial institutions are critically dependent on liquidity and its risks.

Risk Management Guidelines for Banks and Financial Institutions 2018 issued by Nepal Rastra Bank requires every bank and financial institution to objectively identify, measure, monitor, mitigate and report these risks. Due to complexity of these risks, effective tools such as Earnings-at-Risk, Duration Model, Economic Value of Equity, Market Value-at-Risk, etc. for effective risk management. The program aims to impart conceptual knowledge and application of practical approaches on various tools applied in management of Market, Interest Rate and Liquidity Risk.

### Program Details

**Date: & Time:** 28th Feb to 7th March 2023 (7:00am - 10:15am) No class on 4th & 6th March

**Duration:** 12 sessions (1 session=1.5hrs)

**Level:** Mid to Senior Level Management

**Venue:** NBI Hall, Kathmandu

# Program Details

## Program Takeaways:

- Basic understanding of Market, Interest rate and Liquidity Risk and how these risks arise in many real business cases.
- Basic understanding of tools and metrics used for effective identification, measurement, monitoring, reporting and management of Market, Interest rate and Liquidity Risk.

## Target Audience:

Middle and senior level staff overlooking risk management function, treasury function, and ALCO members

**Program Requirement: Participants are requested to bring their laptops for exercise sessions**

## Course Content:

<b>Introduction to Market Risk</b> <ul style="list-style-type: none"><li>• What is Market Risk?</li><li>• Identification of Market Risk</li><li>• Assessment and measurement of market risk</li><li>• Market risk management tools or techniques</li><li>• Mitigation of market risk</li><li>• Monitoring and reporting</li><li>• Stress testing</li><li>• Quiz</li></ul>	<b>Interest Rate Risk on Banking Book (IRRBB)</b> <ul style="list-style-type: none"><li>• Introduction</li><li>• IRRBB Metrics</li><li>• IRRBB Measurement</li><li>• Behavioral Issues in Banking Book</li><li>• Earnings at Risk</li><li>• Duration Model</li><li>• Creating Value through ALM</li><li>• Economic Value of Equity</li><li>• Stress Testing</li><li>• Economic Capital</li></ul> <p><i>Exercise: Practical exercises on Earnings at risk, Repricing Risk, Yield Curve Risk, Basis Risk, Optionality Risk, Duration, and Economic Value of Equity</i></p> <ul style="list-style-type: none"><li>• Quiz</li></ul>
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# Program Details

## Market Risk Management

- Market Risk and Return
- Concept of Value-at-Risk (VAR)
- Application of VAR
- Computation of VAR
- Monte Carlo Simulation
- Stress Testing
- Economic Capital
- Creating Value through ALM

*Exercise: VAR based on Historical Simulation, Risk Metrics, and Portfolio VAR*

- Quiz

## Liquidity Risk Management

- Introduction
- Liquidity Risk Drivers
- Liquidity Risk Types
- Liquidity Risk Management
- Stock vs. Flow Approach
- Basel III and Liquidity Risk
- Contingency Funding Plan
- Strategic ALM
- Liquidity Coverage Ratio
- Net Stable Funding Ratio
- Stress Testing

*Exercise: Building Stress Scenario for Liquidity Risk*

- Quiz



## Facilitator's Profile

**Lumb Dhoj Mahat**

**Chartered Accountant, Financial Adviser & Risk Management Specialist**

LD Mahat possesses 30 years of diverse experience across several sectors covering a wide spectrum of assurance, business advisory and taxation disciplines. He possesses Masters degree in risk management from New York University, Stern Business School, and has undergone executive education at Harvard Business School and Insead Business School. Additionally, he has completed a Risk Modeling course at Wharton Business School.

LD Mahat was risk management specialist in several Asian Development Bank Funded projects. He has designed operational Risk Management System Software which is widely used by Nepalese Banking Industry. He has Provided risk management advisory services in various Nepalese corporate sectors. He has worked on large projects jointly with big 4 international accounting firms ~ PwC, Deloitte, Ernst & Young and KPMG in the field of Assurance, Diagnostic Review, Capacity Building, e-Government Procurement, e-Governance, Special Review, Investment Climate and IFRS Implementation. He is adjunct faculty in the School of Management of Asian Institute of Technology for the course "Risk Management" for the program "Professional Master's in Banking and Finance"