FINANCIAL RISK MANAGEMENT

INSTITUTE FOR PROFESSIONAL AND EXECUTIVE DEVELOPMENT

United Kingdom

UNIT SPECIFICATION

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Unit Title

Financial Risk Management

Credit value

The credit value for this unit is 30 30 credits equivalent to 300 hours of teaching and learning (10 hours is equivalent to 1 credit) Guided learning hours (GLH) = 50 hours GLH includes lectures, tutorials and supervised study. This may vary to suit the needs and requirements of the learner and/or the approved centre of study. Directed learning = 50 hours: This includes advance reading and preparation, group study, and undertaking research tasks. Self-managed learning = 200 hours: This includes completing assignments and working through the core and additional reading texts. It also includes personal research reading via other physical and/or electronic resources.

Learning outcome Learner will:	**Assessment criteria** Learner can:
1.0 Understand the significance of financial risk management	1.1 Explain what is meant by a financial risk 1.2 Describe the types of risks that financial firms face 1.3 Discuss the need for effective financial risk management
2.0 Understand the nature of asset liability management	2.1 Analyse the asset management strategy 2.2 Evaluate the liability management strategy 2.3 Analyse the funds management strategy 2.3.1 Identify the key objectives of the funds management strategy 2.4 Describe the contribution of the asset, liability and funds management strategies to financial risk management
3.0 Understand key issues relating to interest rate risk	3.1 Explain what is meant by interest rate and interest rate risk 3.2 Analyse the impact of changes in interest rate on financial firms 3.3 Evaluate the factors that determine interest rates 3.4 Analyse how interest rates are determined in the financial market place where demand and supply of credit interact to set the price of credit 3.5 Examine the two major kinds of interest rate risk faced by financial firms as market interest rates move (i.e. price risk, reinvestment risk) 3.5.1 Examine other types of interest rate risks faced by Banks (such as basis risk, yield curve risk, model risk, option risk) 3.6 Explore how interest rates are measured 3.6.1 Calculate interest rate using Yield To Maturity (YTM) and Bank discount rate

	3.7 Examine the components of interest rates (i.e. real risk free rate, expected inflation, default risk premium, liquidity premium, maturity premium) 3.8 Discuss how a financial firm may respond to interest rate risk e.g. by conducting asset liability management strategies under the guidance of an asset liability committee (ALCO), by insulating profits; i.e. management seeking to hold fixed the financial firm's net interest margin (NIM) 3.9 Calculate the net interest margin for a financial firm and discuss its significance 3.9.1 Discuss the factors that influence the net interest margin of a financial service provider
4.0 Understand how the interest sensitive gap management is used as a risk management tool	4.1 Examine the interest sensitive gap management strategy 4.1.1 Evaluate the use of interest sensitive gap management as an interest rate hedging strategy 4.1.2 Describe what is meant by a repriceable asset and a repriceable liability 4.1.3 Differentiate between non repriceable assets and non repriceable liabilities 4.1.4 Differentiate between asset sensitive (positive) gap and liability sensitive (negative) gap 4.2 Calculate and interpret the interest sensitivity ratio (ISR) of a firm 4.3 Discuss the key considerations that must be made when using gapping methods 4.4 Examine the problems with interest sensitive gap management 4.5 Explain the concept of weighted interest sensitive gap 4.5.1 Discuss how the weighted interest sensitive gap can aid

	management in measuring a financial institution's real interest sensitive gap risk exposure 4.6 Evaluate the possible management responses that could be taken with positive gap and negative gap
5.0 Understand how the concept of duration is used as a risk management tool	5.1 Explain the meaning of duration in the context of financial risk management 5.2 Evaluate how a financial institution's duration gap is determined 5.3 Examine the advantages of using duration as an asset liability management tool as opposed to interest sensitive gap analysis 5.4 Evaluate how a financial firm can assess if it is fully hedged using duration gap analysis 5.5 Explore the principal limitations of duration gap analysis 5.5.1 Examine ways of reducing the impact of these limitations
6.0 Understand how futures, options, swaps and other derivatives aid in the control of interest rate risk exposure	6.1 Examine the use of financial futures 6.1.1 Identify the most popular financial futures contracts 6.1.2 Describe how short hedge and long hedge financial futures work 6.1.3 Evaluate the use of long and short hedges to protect income and value 6.2 Explore the nature of interest rate options 6.2.1 Distinguish between options and futures contracts 6.2.2 Examine the principal uses of options (such as protecting a security portfolio through the use of put options to insulate against falling security prices, hedging against positive or negative gaps between interest sensitive assets and interest sensitive liabilities) 6.2.3 Differentiate between put options and call options

	6.3 Analyse the regulations and accounting rules for bank futures and options trading 6.4 Examine the nature of interest rate swaps 6.4.1 Explain the purpose of an interest rate swap 6.4.2 Evaluate the advantages and disadvantages of interest rate swaps 6.5 Explore the nature of caps, floors and collars 6.5.1 Examine the use of interest rate caps 6.5.2 Examine the characteristics and use of interest rate floors 6.5.3 Describe how interest rate collars are used
7.0 Understand how to manage credit risk and the burden of raising new capital to meeting funding needs of customers, and to meet regulatory requirements	7.1 Discuss the importance of securitization of loans and other assets 7.1.1 Explain what is meant by securitization and examine why it has been widely used among many financial service firms 7.1.2 Evaluate the impact of securitization on lending institutions 7.1.3 Analyse regulators' concerns about securitization. 7.2 Give an account on the sale of loans to raise funds and reduce risks 7.2.1 Explain what is meant by a loan sale 7.2.2 Explore the reasons behind loan sales 7.2.3 Analyse the risks in loan sales 7.3 Discuss the significance of Standby Letters of Credit (SLCs) 7.3.1 Explain what SLCs are 7.3.2 Examine the reasons for the increasing use of SLCs 7.3.3 Identify the principal parties to a SLCs 7.3.4 Discuss the key advantages of a financial institution issuing SLCs 7.3.5 Examine the sources of risk with SLCs 7.3.6 Identify the regulatory concerns about SLCs

	7.4 Explore the use of credit derivatives 7.4.1 Examine why credit derivatives were developed 7.4.2 Explain what a credit swap is and identify the kinds of situations for which it was developed 7.4.3 Explain what a total return swap is and describe the advantages it offers the swap beneficiary institution 7.4.4 Explain how credit options work 7.4.5 Examine the usefulness of credit default swaps, credit-linked notes and collateralized debt obligations (CDOs) 7.4.6 Discuss the risks associated with the use of credit derivatives

Recommended learning resources

Indicative reading	Peter S. et al 2010; Bank Management and Financial Services 8th Edition: McGraw Hill USA ISBN 978-007-126965-0 • For a full list of textbooks and publications relevant to this unit, please contact IPED - UK.
Learning Aid	A learning resource material is provided to guide the learner/tutor and to serve as a quick reference point for contents of the programme. The student is advised not to be over reliant on the study guide but to access the relevant textbooks or other academic materials as much as possible to help him/her with the course.