

Federal Reserve Board

Course Description for Principles of Asset Liability Management (PALM)

Course Catalog Detail

Principles of Asset Liability Management (PALM)

Type of Participant Targeted

This program is designed for safety and soundness examiners, who are starting to review and evaluate interest rate risk activities and market sensitivity of commercial banks and bank holding companies as a part of their routine job functions. Others wanting a review of interest rate risk management products and processes may also benefit from this program.

Prerequisites

Prior to taking this course, safety and soundness assistant examiners should complete all Level 1 Examiner's Orientation (EO) & Banking and Supervision Elements (BASE) requirements and Self-Study Program #1. Prerequisites for PALM include the Asset Liability Management (ALM) STaRT Module and Foundations of Market Data (in FedLearn).

Course Overview

PALM is a 4-½ day program. Precourse work takes approximately 20-30 hours to complete and provides a review of various yield curve concepts, interest rate products including futures, forwards, and swaps, option products such as caps, floors and collars, and the use of derivatives to manage interest rate risk. Through a combination of lectures and case studies, this program prepares examiners to assign the liquidity and sensitivity rating on a safety and soundness exam. These skills are acquired through a case study approach supplemented by lectures on the economic environment, investments, interest rate risk management and liquidity management. Supplementary topics include hedging and accounting as they relate to IRR and liquidity. This program contains in-depth coverage of liquidity analysis, including evaluations of contingency liquidity planning and strategies. The course also includes a discussion of the IRR Focus Report, a valuable tool for assessing IRR. There is 10-12 hours of pre-course work.

Course Objectives

Upon completion of this course, participants will have a better understanding of: The relationship between the economic environment and bank supervision.

- Investment portfolio management.

- IRR sensitivity and the assignment of the “S” rating.
- Modeling IRR.
- The reasons banks use certain products to hedge their interest rate risk exposures.
- How to evaluate liquidity risk management, including contingency funding plans, and the assignment of the “L” rating.
- An overview of accounting rules relevant to IRR and hedging.

Post-Course Intervention

Postcourse Assignment: Market Data in Action (Launch from FedLearn) This July 2008 requirement prepares participant for taking the revised Second Safety and Soundness Proficiency Exam.

Overview of Curriculum

Topics Covered	Approx. Class Time
Monday	
The Environment and Bank Supervision	3.5 hours
Use of Market Data in Supervision	0.5 hour
Investment Products	2.0 hours
Investment Portfolio Management	2.0 hours
Tuesday	
Investment Portfolio Management Case Study	4.0 hours
Sensitivity to Market Risk & Assigning the “S” Rating	2.0 hours
Interest Rate Risk Management Case Study	2.0 hours
Wednesday	
Interest Rate Risk Case Study	2.0 hours
Introducing the IRR Focus Report	1.0 hour
Focus Report Caselet	1.0 hour
Hedging Interest Rate Risk, Futures Caselet, Swaps Caselet	2.0 hours
Modeling Interest Rate Risk	1.0 hour
Modeling Interest Rate Risk Case Study	1.0 hour
Thursday	
Modeling Interest Rate Risk Management Case Study	2.0 hours
Liquidity Risk Management & Assigning the	

“L” Rating to Section I & II	2.0 hours
Liquidity Risk Management Sections III & IV	1.0 hour
Liquidity Risk Management Case Study	3.0 hours
Friday	
Liquidity Cash Flow and CFP (and caselet)	3.0 hours
Course Summary	0.5 hour
Total: 35 hours	

Learning Objectives

The Environment and Bank Supervision

- Explain how the economic environment, especially interest rates, relates to our work as supervisors

Investment Products

- Behaviors of key investment areas
- Describe how changes in interest rates affect a bank’s balance sheet

Investment Portfolio Management

- Overview of loan portfolio structures
- Review basic risk measurement concepts as building blocks
- Describe Investment Officer and decision-makers investment knowledge
- Describe ALCO’s and Investment Committee Investment’s Portfolio Goals and Strategies
- Explain Portfolio Risks
- Identify Portfolio Risk Management Elements

Focus Report

- Describe the Focus Report economic value model.
- Explain the use of the Focus Report

Assigning the “S” rating

- Define market risk and review how market risk is measured and managed by different institutions

Interest Rate Risk Case Study

- Provide a framework for examination reviews of IRR models

Modeling Interest Rate Risk

Modeling Interest Rate Risk Case Study

Hedging Interest Rate Risk
Hedging Interest Rate Risk Case Study
Derivatives Accounting
Assigning the “L” Component

Liquidity Summary & Caseletters
Course Summary

Class Size

The minimum number of participants is 16 and the maximum is 25.

Instructors

System capital markets personnel teach PALM. A “Lead” instructor is designated prior to the start of the class and is responsible for instructor assignments. If assistance is needed in the process, the curriculum analyst at the SSD Center may be able to help. Three and sometimes four instructors are needed to effectively conduct this program.