

Federal Reserve Board

# Course Description for Trading Risk Management (TRM)

Course Catalog Detail

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## Trading Risk Management (TRM)

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### Type of Participant Targeted

TRM is designed for an examiner who has (1) completed the System's core curriculum or possess comparable equivalent working knowledge, (2) the requisite skills necessary to significantly contribute to trading review activities at regional institutions or money-center banking organizations and (3) a strong interest in capital markets along with a willingness to undertake by independent means to increase their subject matter level of knowledge of trading activities.

### Prerequisites

The participant will have completed the TRM Self-Study on-line courses (which take approximately 41 hours to complete), possess examiner credentials or have a comparable level of experience based on their Reserve Banks' assessment.

### Course Overview

TRM is a 4.5 day vendor course that is being offered by Global Financial Markets Institute (GFMI) that will provide an overview of various traded products, their risk measurement (sensitivity measures), and how the liquidity characteristics and settlement processes can be different for the various products. Participants will be introduced to trade cycles, trade execution issues, front office controls and market risk limits, middle office controls and valuation, and back-office activities of verification and settlement. Through a classroom simulation exercise using the vendor's *RiskManager*, participants will be able to engage in spot foreign exchange trading activities.

### Course Objectives

By the end of TRM, participants will be able to:

- Evaluate the risk management of traded products such as futures, swaps, options, interest rate derivatives, credit derivatives/structured credit products, and equity derivatives.
- Evaluate trading risk management functions and their impact on the overall risk management rating.
- Evaluate the TRM processes at large, complex banking organizations (LCBOs) with an emphasis on market and counterparty credit risk management, as well as front, middle and back office control activities.
- Assess the risks and control systems of complex trading related products in U.S. banks and foreign branch and agencies operating in the U.S.

- Explain at an intermediate level the advanced concepts of trading and inherent risks in these activities at LCBOs.
- Explain the roles of front office, middle office and back office and appropriate segregation of duties.
- List the strengths and weaknesses of market risk and counterparty credit risk measurement models, how they complement each other, and the complexity and importance of developing strong assumptions,
- Identify applicable laws, regulations and supervisory guidance, and
- Apply System and District-specific procedures to the examination of the various components of a trading operation.

## Overview of Curriculum

<b>Topics Covered</b>	<b>Approximate Class Time</b>
	<b>Hours: Minutes</b>
<b>Monday</b>	
Intro to Trading Floor	0:50
Examining Market Risk Management (Trading Risk Controls)	1:00
VAR, Stress Testing & Backtesting	1:00
Lifecycle Trade Process for Cash and Derivative Instruments	2:00
Spot Risk – Trade Execution FX Spot	1:00
FX Trading Simulation	1.00
<b>Tuesday</b>	
LCBO Market Risk Assessment & Control Framework	1:50
Forward Risk (Futures, Forwards & Swaps)	2:00
Managing an Interest Rate Swap Book	2:00
LCBO Case Study (Market Risk Policies & Controls)	1:50
<b>Wednesday</b>	
Options Risk ("Greek" Sensitivities, Risk Values, FX Option Simulations)	3:00
MBS & ABS Trading	1:00
Other Option Types (Swaptions & Exotics)	1.00
LCBO Case Study (VAR, Fixed Income & FX trading)	1.00
Review Inherent Risk Reports	1:00
<b>Thursday</b>	
Credit Trading Risk (limit structures, CS01, counterparty risk)	3.00
Other Asset Class Trading (Equity, Commodities & Emerging Markets)	1.00
LCBO Case Study (High Grade, Securitized Products, Other Asset Class Trading)	2.00
Review Inherent Risk Reports	1:00

**Friday**

LCBO Case Study Debrief  
Class Wrap Up

2:00  
1:00

Total hours: 30.5 hours

**Class Size**

The targeted class size is 20; however the course may be run with as few as 15 participants with a maximum of 25.

**Instructors**

Instructors for this course are vendor provided by GFMI. System capital market subject matter experts will initially attend and assist in a limited capacity with the program.