

# Mastering the Essentials of the Global Financial Industry

## Why Attend

- Mastering the Essentials of the Global Financial Industry is designed to provide an introductory insight into and overview of the global financial industry, financial markets, and macro-economic drivers of capital flows. It is supplemented with an examination of major financial asset classes, portfolio theory, asset allocation and risk management.
- The course will examine the business models and resilience of financial institutions, the activities of buy side and sell side firms with regards to financial products, securities and derivatives, the global regulatory framework and the capacity of financial activity that lead to bouts of financial instability and systemic risk. It will also cover techniques in risk management and the impact of Basel III and other regulations and legislation that have been introduced following the 2007/2008 financial crisis.

## Course Objectives

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

- Apply global capital markets analytical skills
- Develop a deep understanding of the practices of modern finance
- Demonstrate advanced competence within the financial regulatory community
- Explain the interrelation of financial instruments in modern markets
- Apply state of the art techniques in financial risk management
- Apply best practice knowledge within the buy side or sell side of financial institutions

## Target Audience

- This course is designed to be beneficial for the full spectrum of management personnel, including senior executives, working within the banking sector, asset management companies, sovereign wealth funds, pension funds, hedge funds, as well as those engaged in risk controls in middle and back office functions within the financial services sector. The course is also beneficial for the customers of financial services.

## Target Competencies

- Modern finance best practice
- Global capital markets and global capital flows insight
- Thought leadership
- Technical proficiency across finance platforms
- Best practice analytical skills

## Functions and Business Models of Financial Institutions

- Commercial banks and deposit takers
- Maturity transformation model
- Sensitivity of banking sector to market stress
- Deposit insurance
- Resolution
- Living wills
- Bail in instruments
- Insurance companies
- Asset/liability management
- Risk tolerance
- Economic capital
- Structure and functions of Investment Banks (IB's)
- Financing
- Client facilitation
- Mergers and Acquisitions
- Contrast business models of buy side firms
- Asset managers and sell side firms
- IB's
- Fund management
- Pension funds
- Defined benefit versus defined contribution
- Investment management
- Performance ratios
- Benchmarks
- Passive versus active
- Hedge funds
- Hedge fund size
- Assets Under Management (AUM)/incentive fees business model
- Regulatory oversight



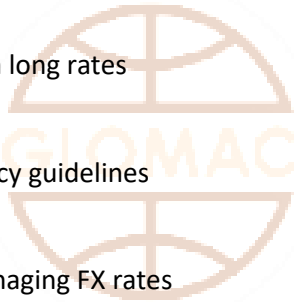
## Macro-Economic Drivers of Financial Markets

- Growth Domestic Product (GDP) growth, productivity, employment, capacity utilization
- Increasing role of emerging market (EM) economies, frontier markets and frontier currencies
- Interest rate differentials
- Comparison of short term rates
- US, EU, UK, Japanese rates

- Foreign Exchange (FX) carry trade
- Traditional pairs and increasing use of dollar as funding currency
- Balance of payments, trade imbalances, capital flows
- Inflation outlooks for developed and developing economies
- Consumer Price Index (CPI) and Producer Price Index (PPI)
- Productivity differentials
- Costs for labor and capital, and Return on Investment (ROI)
- Geo-political events
- Political crises, currency wars, trade policy

## Monetary Policy of Central Banks

- Monetary policies of US, EU, UK, Japan and China
- Quantitative Easing (QE)
- Outright Monetary Transactions (OMT)
- Capital controls
- Traditional tools of open market operations
- Liquidity provisioning, reserves
- Unorthodox techniques
- QE/asset purchase programs
- Yield curve characteristics
- Influence of short term rates on long rates
- Macro-prudential tools
- Scope and purpose
- Status of non-discretionary policy guidelines
- Taylor ratio
- FX reserves management
- Role of EM central banks in managing FX rates
- Implications of interest rate policy normalization for asset markets, impact on EM



## Overview of Risk Management

- Statistical nature of risk versus absence of probabilistic dimension to uncertainty
- Summarizing the principal types of financial risk
- Types of risk
- Market risk and capital adequacy
- Credit risk
- Liquidity risk
- Sovereign risk
- Systemic risk
- Operational, legal and reputational risk
- Methodological principles of Value at Risk (VaR)
- Are financial returns normally distributed?
- Risk/reward concepts from Capital Asset Pricing Model (CAPM)
- Modelling risk scenarios
- Stress testing
- Regressions based on outlier values

- Monte Carlo simulations
- Back testing
- Hedging strategies
- Use of swaps and other derivatives to manage risk
- Corporate governance issues
- Conflicts of interest
- Internal risk control processes
- Non-executive directors (NED's)
- Major regulatory initiatives
- Sarbanes-Oxley
- Dodd-Frank Act
- BCBS and Basel II and III
- Revamped UK regulatory structure
- Financial Stability Board

### Root Causes of Financial Instability and Systemic Risk

- Historical illustrations of investment manias (e.g. South Sea Bubble, 1929 Crash, 1987 Crash, Asian Crisis, Japanese asset markets crash 1990, Nasdaq Collapse 2000/1)
- Special characteristics of the systemic crisis of 2007/8
- Counter party credit risk
- American International Group (AIG)
- Financial contagion
- Joint probability of defaults, left tail dependencies, heightened asset movement correlations, tail risk
- Macro-economic theory
- How satisfactory are mainstream explanations for crashes?
- Credit cycles
- Boom/bust
- Excessive leverage
- Inadequate capital and liquidity
- Minsky's view of the inherent instability of financial systems
- New directions in explaining "non-rationality" in economic behavior, over-confidence, cognitive and emotional dissonance, "herding behavior"
- Episodic crashes from market micro-structure
- 1987 program trading
- 2010 "Flash Crash"