

Financial Risk Management

Module guide 2016 - 2017
International Business School

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Module overview

The subject of financial risk management continues to be the topic that dominates the global financial headlines. The fallout from the global financial meltdown of 2008 is being felt in the global and local financial markets and will last for some time to come. The main lesson that has been learned is that the role and a robust understanding of financial risk management is essential for all economic entities (small or large firms) in the international financial markets. The course follows a managerial approach to help new entrepreneurs and managers identify, quantify and manage the risks embedded in their daily business operations and trades. The study materials discussed in this course are also suitable for the preparation of:

- “Financial Risk Manager Certificate” offered by the GARP Institute (www.garp.org).
- “Chartered Financial Analyst Certificate” offered by the CFA Institute (www.cfainstitute.org).

This guide gives you an overview of Financial Risk Management. More detailed information can be found on the DLWO (<https://dlwo.dem.hva.nl>)

1.1 Content

Financial Risk Management (FRM) module presents an advanced treatment of the FRM theory and its application to financial institutions and international corporations. This module will provide you with a comprehensive overview of the main types of risk that have such a substantial impact on international firms and financial institutions. This course consists of six units, which will enrich your knowledge with an invaluable grounding in the subject and enable you to acquire a strong theoretical and practical understanding of the current and essential risk management practices.

Financial Risk Management is a down-to-earth module that de-bunks the thought that just an elite few can truly grasp the dynamics of risk. Since the course has been structured to help students get to grips with the mechanics that underpin modern risk management, the study materials will focus on three key areas that pervade through all types of risk: *risk identification, risk quantification and risk management*. The module will provide you with a workable framework that will help you deepening your understanding of: Unit 1. *Assets-Liabilities Management*, Unit 2. *Credit risk*, Unit 3. *Market risk*, Unit 4. *Forwards and Futures*, Unit 5. *Options* and Unit 6. *Swaps*.

1.2 Learning goals

#	You can:
1.	Forecast the financial risks that financial institutions and corporations could face in the international market.
2.	Measure the risks that arise from financial markets - such as credit risk, market risk, liquidity risk etc. - using different valuation techniques like Value at risk, expected short fall, duration, convexity and others.
3.	Valuate financial derivatives such as Forwards, Futures, Options and Swaps.
4.	Classify derivative instruments that could be used in managing the risks of financial institutions and international corporations.
5.	Perform the hedging and trading techniques of derivative instruments in the international financial markets.



Appendix 1 defines the relationship of the learning goals within this module with your programme's profile competences.

1.3 Coherence with other modules

Modern managers are risk managers. Having identified and quantified which risks a firm is exposed to, managers have to choose which risks to shed, which to moderate and which to keep. They can no longer afford simply to accept the firm's financial landscape as it comes. To make such crucial business decisions, the FRM module will equip you with a useful risk skillset to make such choices. This Risk-skillset is not only related to the fundamentals and techniques delivered in the other IFC minor modules - such as investment, control and accounting modules - but it also fine tunes them by providing you with a holistic analysis of business risks that most firms are exposed to. A pre-knowledge of basic finance you have gained in the previous years such as financial management and accounting will be of a great help for your success in this minor.

1.4 Study materials & recommended further reading

Required study materials:

Study books					
Title	Author(s)	Publisher	Year	Edition	ISBN
Financial Risk Management: Reader (on DLWO)	J. Mrabti & Bas Schoorel	-----	-----	----	-----

Other study materials		
Title	Author(s)	Where to find this material?
FRM module guide	J. Mrabti	On the school's intranet (DLWO)
Lecture PPTs	J. Mrabti	On the school's intranet (DLWO)
Business Cases	J. Mrabti	On the school's intranet (DLWO)
Educational Videos	J. Mrabti	Links on the school's intranet (DLWO)

Recommended study materials:

Study books					
Title	Author(s)	Publisher	Year	Edition	ISBN
Financial Institutions Management: A Risk Management Approach	A. Saunders & M. M. Cornett	Mc.Graw-Hill	---	-----	-----

1.5 Questions and who to contact

Questions about the module's content and study materials can be addressed to your lecturer(s) during the lessons. The consultation hours of the individual lecturers as well as their office location can be found in the lecturers' profile on the DLWO.



Set-up of this module

1.1 Teaching methodology

The FRM module is a semester based module that runs twice a year. You will have weekly classes of 3 lecturing hours each. Each weekly class will consist of two sessions: the first lecture hour is a *Lecture session* in which the lecturer will handle the most challenging subjects of the weekly study materials using *problem based learning*. In this interactive session, a problem will be presented first by the lecturer and then students should identify the theories needed to solve the problem (based on their *class preparation*). Afterwards, the identified theories and the analytical frameworks will be presented and applied to various mini-business cases.

The second and the third lecture hours are a *Tutorial session* in which teams will be formed to work on solving cases and problems. The didactic approach adopted during this class is a combination of *team based learning* and *flipped classrooms*. The students will work together and lead the lesson. Meanwhile, the lecturer will provide guidance either by explaining the subjects requested by students or by helping them solving the cases and problems. Problem solution and feedback will be provided by fellow students and the lecturer during the class.

You are required to do the *Class Preparation* that consists of: 1) reading the weekly study materials; 2) doing the weekly homework or business cases reading. Outside the lecturing hours, you are expected to spend at least 8 hours per week to prepare the weekly study materials. This includes 4 hours for reading the weekly study materials, and 4 hours for doing your homework or business case reading.

Class structure:

Aside from its learning format, it's the modular approach (each unit¹ covers one subject in-depth) that really makes this course stand out. The class is structured to equip you with the perfect synergy between theoretical knowledge and detailed practical understanding that you can actually implement. The modular nature allows you to fully grasp each of the essential risks before moving onto the next unit of content. Since the course will run for 12 weeks, we will try to cover two units besides a large business case every 4 weeks. In total, we will have three periods of four weeks, six units of study materials and three large business cases. For further details, look at the tentative lesson plan in section 2.7 below.

1.2 Assignments

Business case (40%)

At the end of each period of four weeks (lecture week 4, week 8 and week 12), groups of four or five students will work together to solve a large business case. The result of this teamwork is a concise business presentation of the main findings. The first two business cases are not graded (consider them as training for the business case exam) whereas the last case is a graded business case exam and counts for 40 percent of your course grade. The *business case exam* could cover any unit or topic discussed during this course.

Group structure:



¹ Unit is a bundle of (two or three) chapters that cover the same topic to provide a deep understanding of the subject matter.

- The business cases will be delivered to students at the beginning of week 4, week 8, and week 12. Every student must read the case before class and be prepared for discussing and solving the case in class.
- At the beginning of the class, groups will be formed randomly by the teacher to ensure efficient allocation of resources based on gender, age, nationalities.
- Team leader and time keeper have to be assigned by the team members themselves.
- Individual tasks' list has to be made and allocated (especially making PPT presentation).
- Peer review form has to be filled in at the end of the class (feedback on free-riders and individual contributions).
- Feedback will be provided in class by the teacher, team members and your classmates.
- The last business case is a *business case exam* and it will be graded.

Grade structure:

- **40%:** the *business case exam* counts for 40% of the final grade and is based on the content and discussion of the main findings in the PPT presentation.
- **IMPORTANT:**
 - **The grade of the business case exam (40%) counts only with the final exam (60%) and not with the resit exam. Because the resit exam of this module counts for 100%, the grade of the business case exam will be revoked as long as you take part in the resit exam.**

1.3 Exams

Final written exam (60%)

The final exam is a central exam, which includes all the materials that are covered during the course.

- The exam is a written exam.
- The exam will be scheduled in the exam week at the end of the semester.
- The exam will address the learning goals from 1 to 5.
- The exam will take 2 hours.
- The grade will be calculated as follows: the points earned of the total 50 points divided by 5.
- The Exam Review will be held and organized after the exam week.

1.4 Assessment

The assessment methods used in this module are summarised below. The table also shows how the grade for this module will be calculated.

2	Business case exam	De-central test (written)	1-5	Week 12 (mostly)	40%
3	Final exam	Central test (written)	1-5	S1T & S2T	60%
					100%

1.5 Resit

If the average grade obtained for this module is below 5.5 you must do the 100% resit exam as illustrated in the table below.



1	Average grade for the whole module ≥ 5.5	No resit needed	N.A.	N.A.
2	Average grade for the whole module < 5.5	1 central written resit exam (replacing all previous grades obtained)	Grade of the resit exam counts for 100%	Resit week S1R & S2R

1.6 General regulations

- 1 You are required to prepare for lessons. If you come to class unprepared, the lecturer has the right to deny you access to the lesson. What is requested of you in terms of lesson preparation is stated below and/ or on the DLWO for this module.
- 2 You must bring a laptop to school for each class. It is your responsibility to make sure that the battery lasts throughout each lesson. If you fail to bring a laptop to class and/or if the battery does not last throughout class, this is regarded as not being prepared. A lecturer then has the right to deny you (further) access to that lesson.
- 3 The assignments will not be graded if the level of English is inadequate or if other non-compliance with the IBS Reporting Guidelines is verified. If that is the case, you have to hand in your assignment again in the appointed resit period.

1.7 Lesson plan (Tentative)

Units	Lecture week	Study Materials ²	Topics	Homework
UNIT 1 & 2	W1	Chapter 7 & 14	Market risk (Unit 1)	TBD*
	W2	Chapter 13	Market risk (U1)	TBD
	W3	Chapter 23	Options (U2)	TBD
	W4	Business case	All of the above	Read business case
UNIT 3 & 4	W5	Chapter 8 & 9	Asset-Liability Management (U3)	TBD
	W6	Chapter 17 & 18	Asset-Liability Management (U3)	TBD
	W7	Chapter 22	Futures & Forwards (U4)	TBD
	W8	Business case	All of the above	Read business case
UNIT 5 & 6	W9	Chapter 11	Credit Risk (U5)	TBD
	W10	Chapter 12	Credit Risk(U5)	TBD
	W11	Chapter 24	Swaps (U6)	TBD
	W12	Business case Exam	All of the above	Read business case
		Final Exam	All chapters	Be ready for the exam

* TBD: to be decided and communicated in class

** The chapters' numbers could be different in the FRM Reader.



Appendix 1: Relationship with your programme's profile competencies

#	You can:
1.	Forecast the financial risks that financial institutions and corporations could encounter in the international market.
2.	Measure the financial risks that arise from the financial markets - such as credit risk, market risk, liquidity risk etc. - using different valuation techniques like Value at risk, expected short fall, duration, convexity and others.
3.	Valuate financial derivatives such as Forwards, Futures, Options and Swaps.
4.	Classify derivative instruments that could be used in managing the risks of financial institutions and international corporations.
5.	Perform the hedging and trading techniques of derivative instruments in the international financial markets.

LG	IBMS Profile Competencies	Level
1.	III.8 Int. Finance & Accounting III.1 Int. Business Awareness	3 3
2.	III.8 Int. Finance & Accounting	3
3.	III.8 Int. Finance & Accounting	3
4.	III.8 Int. Finance & Accounting III.1 Int. Business Awareness	3 3
5.	III.8 Int. Finance & Accounting III.3 Int. Strategic Vision Development	3 3

