

*Enhancing Risk Management and Governance in the Region's Banking System to Implement Basel II and to Meet Contemporary Risks and Challenges Arising from the Global Financial and Banking Crisis*

**Training Program ~ 16 – 22 September 2009**

**Mr David Jones  
Program Leader and Academic Coordinator**

## **COURSE PROGRAM**

### **Background and Objectives:**

Policy makers and regulators from APEC developing economies banking supervisory systems will be exposed to current thinking and practices regarding the implementation of Basel II from both a regulatory and an industry practitioners' perspective. The course will focus on key risk categories and the techniques to measure and manage risk. Specific attention will be devoted to liquidity risk and the pressures arising from the global financial crisis, tightening global credit and liquidity conditions and measures to deal with them in the region's banking systems. How banking regulators might approach banking risks arising under current liquidity conditions will be considered, as will pressures for reforms to governance arrangements in banking supervisory agencies and in commercial banks to implement Basel II and to manage emerging financial pressures.

### **Faculty:**

The Academic Coordinator for this program is Mr David Jones, who has had 40 years experience in the finance industry, particularly in the banking sector. He has brought together presenters and panellists who have both expertise and significant experience in the areas that will be addressed throughout the program. Each presenter will develop presentations for inclusion in the course. The presenters come from Australian and international industries and academic institutions.

### **Structure:**

Each day of the program, chaired by the Academic Coordinator, will have a specific theme that will underpin all the sessions of that day. The sessions themselves will be arranged to reflect the theme and to fit in with the overall objective of the program. The program below lists the topics that will be discussed in each session. In general, following each presentation, a discussion will ensue, moderated by the Academic Coordinator. The discussions will be an opportunity for participants to ask specific questions and for presenters to clarify any aspects of their presentation.

On the first day, representatives from the region will showcase the issues that are prevalent in their economy. Throughout the course, participants will be divided up into various groups for interactive workshops and sessions. On day 7, the workshop groups will deliver their presentations based on knowledge gained throughout the course, to the rest of the group.

### **Participation:**

The program includes officials from the following economies: China, Indonesia, Mexico, Papua New Guinea, Philippines, Peru, Thailand and Vietnam. Participants come from Central Banks, Banking Commissions, Foreign Exchange agencies, Treasuries and Ministries of Finance.

## DAY ONE ~ Wednesday 16 September 2009

**Venue: Mantra 1, Mantra on Russell Hotel**

**Theme of the Day ~ *The Current Banking Environment and Recent Experiences***

**The Contemporary Environment:** Lessons from the subprime crisis and implications for bank supervisors and impacts on Basel II regulatory approaches; including systemic stability and Central Bank liquidity management techniques, deposit insurance and bank “bail outs”, Nationalisation of banks, internal model weaknesses failures associated with the role of credit rating agencies as well as governance issues.

**APEC Economy Issues and experience sharing:** Course participants will make presentations on key issues facing policy makers and banking regulators in their own economies arising from the financial crisis.

**Regulatory Trends:** The Australian financial regulatory framework, and a comparison with regulation in other countries. Trends in the approach to bank regulation, the strengths and weaknesses of the original Basel Accord.

	<b>8:30 – 9:00</b>	Orientation, Registration and Administration Matters, as well as Overview and Objectives – <i>Academic Coordinator and Centre Staff</i>
<b>Session 1.1</b>	<b>9:00 – 9:40</b>	The Financial Crisis: <ul style="list-style-type: none"> <li>• Causes and consequences of the crisis</li> </ul>
	<i>Presenter</i>	<b>Prof Kevin Davis</b> , Melbourne Centre for Financial Studies
<b>Session 1.2</b>	<b>9:40 – 10:30</b>	<u>Interactive Workshop:</u> Regulatory Responses to the Financial Crisis <ul style="list-style-type: none"> <li>• Participants will (in small groups) develop a list of regulatory responses used internationally in dealing with the financial crisis. These will then be compiled, and discussed and evaluated – in terms of effectiveness, consequences, and suitability for use in future crises as “lessons learned”.</li> </ul>
	<i>Facilitator</i>	<b>Prof Kevin Davis</b> , Melbourne Centre for Financial Studies
	<b>10:30 – 11:00</b>	Coffee Break
<b>Session 1.3</b>	<b>11:00 – 12:30</b>	<u>Participant Presentations:</u> APEC Experience in the Financial Crisis <ul style="list-style-type: none"> <li>• A representative of each economy will provide a brief outline for the group of how the financial crisis has affected their financial sector and regulatory responses.</li> </ul>
	<i>Presenters</i>	<b>Participants</b>
	<i>Panellists</i>	<b>Mr Ken Waller</b> , Director, Australian APEC Study Centre <b>Mr David Jones</b> , Academic Coordinator
	<b>12:30 – 13:30</b>	LUNCH
<b>Session 1.4</b>	<b>13:30 – 14:10</b>	The Australian Regulatory Framework <ul style="list-style-type: none"> <li>• An outline of the framework of financial regulation in Australia; how this compares /contrasts with the regimes in some other key countries; funding of Australian regulatory bodies.</li> </ul>
	<i>Presenter</i>	<b>Ms Kerstin Wijewardene</b> , Australian Treasury
<b>Session 1.5</b>	<b>14:10 – 15:00</b>	<u>Panel Session:</u> Basel II – a reassessment <ul style="list-style-type: none"> <li>• Following a brief review of the fundamentals of the Basel II approach to bank regulation by Kevin Davis, experts from industry, a regulatory agency and academia will give their perspectives on how the Basel II agenda has been affected by the financial crisis.</li> </ul>
	<i>Facilitator</i>	<b>Prof Kevin Davis</b> , Melbourne Centre for Financial Studies
	<i>Panellists</i>	<b>Ms Kerstin Wijewardene</b> , Australian Treasury <b>Dr Luo Ping</b> , China Banking Regulatory Commission <b>Mr John Nguyen</b> , Financial Services Advisory, Ernst & Young <b>Mr Bruce Le Bransky</b> , Basel Strategy, National Australia Bank <b>Mr Morris Batty</b> , Enterprise Risk, ANZ Banking Group

	<b>15:00 – 15:30</b>	Coffee Break
<b>Session 1.6</b>	<b>15:30 – 17:00</b>	<u>Participant Presentations:</u> APEC Economies and Basel II <ul style="list-style-type: none"> <li>A representative of each economy will provide a brief outline for the group of the stage reached in implementing the Basel Accord, focusing on specific issues arising from their economy's financial structure and development.</li> </ul>
	<i>Presenters</i>	<b>Participants</b>
	<i>Panellists</i>	<b>Mr Ken Waller</b> , Director, Australian APEC Study Centre <b>Mr David Jones</b> , Academic Coordinator
<b>Session 1.7</b>	<b>17:00 – 17:30</b>	Workshop Groups <ul style="list-style-type: none"> <li>Each group will decide upon a particular topic on which they will prepare a short group presentation for delivery on the last day of the program, drawing on their own knowledge and specific learnings during the course.</li> </ul>
	<i>Facilitators</i>	<b>Mr Ken Waller</b> , Director, Australian APEC Study Centre <b>Dr Jules Gribble</b> , Partner Advisory Services, Ernst & Young <b>Mr David Jones</b> , Academic Coordinator

## DAY TWO ~ Thursday 17 September 2009

**Venue: Mantra 1, Mantra on Russell Hotel**

**Theme of the Day ~ *Techniques of Risk Management and Liquidity Management***

There will be an initial recap on the theme of the previous day – via a comparison between the FSA's Turner review and the regulatory response in China. Then this module will focus upon the **Value at Risk** concept which is a common risk management technique relevant for the determination of capital requirements, and a bank and regulatory perspective on bank risk management arrangements will be provided. Major bank risk management failings will be considered by participants, and approaches to liquidity risk management and regulation will be outlined.

	<b>8:30 – 8:45</b>	Welcome and administration matters – Centre Staff
<b>Session 2.1</b>	<b>8:45 – 9:45</b>	<u>Presentation:</u> Regulation & Supervisory Practices in China <ul style="list-style-type: none"> <li>A comparison between the recommendations of the FSA's Turner review, and the approach in China.</li> </ul>
	<i>Presenter</i>	<b>Dr Luo Ping</b> , China Banking Regulatory Commission
<b>Session 2.2</b>	<b>9:45 – 11:40</b>	<u>Presentation and Workshop:</u> Introduction to VAR <ul style="list-style-type: none"> <li>Interactive session demonstrating the concept, strengths and weakness of VAR ("Value at Risk"), its use in bank risk management and role in the Basel Accord <i>(Coffee break during this session approx 10.30)</i></li> </ul>
	<i>Presenter</i>	<b>Assoc Prof Christine Brown</b> , Finance, University of Melbourne
<b>Session 2.3</b>	<b>11:40 – 12:30</b>	Bank Risk Management <ul style="list-style-type: none"> <li>Current bank approaches to the organisation of risk management – risk structures; pricing for risk.</li> </ul>
	<i>Presenter</i>	<b>Mr Bruce Le Bransky</b> , Basel Strategy, National Australia Bank
	<b>12:30 – 13:30</b>	LUNCH
<b>Session 2.4</b>	<b>13:30 – 14:20</b>	Regulatory Expectations of Bank Risk Management <ul style="list-style-type: none"> <li>What the Australian Regulator, APRA, focuses on in examining bank risk management arrangements. Implications post the financial crisis.</li> </ul>
	<i>Presenter</i>	<b>Mr Andrew Lush</b> , Market Risk Specialist, APRA

<b>Session 2.5</b> <i>Note:</i> participants will need to have read the case studies provided before attending this session.	<b>14:20 – 16:00</b>	<u>Interactive Workshop:</u> Bank Risk Management failures <ul style="list-style-type: none"> <li>Participants will break into small groups and discuss lessons learnt by examining a number of cases studies of bank risk management failures, for subsequent reporting back to other participants.</li> </ul> <i>(Coffee break during this session approx 15.00 )</i>
	<i>Facilitator</i>	<b>Prof Kevin Davis</b> , Melbourne Centre for Financial Studies
<b>Session 2.6</b>	<b>16:00 – 16:40</b>	Liquidity Risk Management <ul style="list-style-type: none"> <li>Contemporary approaches to liquidity risk management in a major Australian Bank.</li> </ul>
	<i>Presenter</i>	<b>Mr Adrian Went</b> , Group Treasury, ANZ Banking Group
<b>Session 2.7</b>	<b>16:40 – 17:30</b>	Liquidity Risk Management Regulation <ul style="list-style-type: none"> <li>An explanation of APRA’s approach to liquidity risk management supervision and regulation.</li> </ul>
	<i>Presenter</i>	<b>Mr Andrew Lush</b> , Market Risk Specialist, APRA

### DAY THREE ~ Friday 18 September 2009

**Venue: Mantra 1, Mantra on Russell Hotel**

**Theme of the Day ~ System Stability and Liquidity Management,  
Asset Liability Management and Bank Capital**

The sessions in this module aim to facilitate an understanding of **key financial system concepts**, particularly in relation to stability, prudential regulation and liquidity management, and additionally, asset & liability management practices. Will also impart an understanding of contemporary capital management standards and planning.

	<b>8:30 – 8:45</b>	Welcome and administration matters – Centre Staff
<b>Session 3.1</b>	<b>8:45 – 9:30</b>	System Stability, System Liquidity and Prudential Regulation <ul style="list-style-type: none"> <li>Best practice principles of prudential regulation and system stability, system liquidity management and liquidity support arrangements.</li> </ul>
	<i>Presenter</i>	<b>Prof Kim Dietrich</b> , University of Southern California
<b>Session 3.2</b>	<b>9:30 – 10:15</b>	System Liquidity – RBA experiences during the crisis <ul style="list-style-type: none"> <li>Experiences and lessons learnt during the financial crisis – Australian Regulator’s perspective.</li> </ul>
	<i>Presenter</i>	<b>Dr Jonathon Kearns</b> , Markets Dept, Reserve Bank of Australia
	<b>10:15 – 10:30</b>	Coffee Break
<b>Session 3.3</b>	<b>10:30 – 11:00</b>	<u>Panel Session:</u> APEC economy liquidity issues <ul style="list-style-type: none"> <li>Participants to direct specific questions on liquidity management to the panellists; an opportunity to share their experiences and lessons learnt during the crisis.</li> </ul>
	<i>Facilitator</i>	<b>Prof Kevin Davis</b> , Melbourne Centre for Financial Studies
	<i>Panellists</i>	<b>Prof Kim Dietrich</b> , University of Southern California <b>Dr Jonathon Kearns</b> , Markets Dept, Reserve Bank of Australia
<b>Session 3.4</b>	<b>11:00 – 11:45</b>	Bank Capital <ul style="list-style-type: none"> <li>Capital adequacy standards and the role of bank capital; measurement of capital, economic capital, regulatory capital and requirements.</li> </ul>
	<i>Presenter</i>	<b>Prof Kevin Davis</b> , Melbourne Centre for Financial Studies
<b>Session 3.5</b>	<b>11:45 – 12:30</b>	Bank Capital Management <ul style="list-style-type: none"> <li>The determination of an optimal aggregate capital position; the capital management process; the optimal mix of tier 1 and tier 2 capital.</li> </ul>
	<i>Presenter</i>	<b>Mr Mozammel Ali</b> , Director Hybrid Capital, Deutsche Bank

	<b>12:30 – 13:30</b>	LUNCH
<b>Session 3.6</b>	<b>13:30 – 14:30</b>	Asset Liability Management – Interest Rate Risk Management <ul style="list-style-type: none"> <li>Asset and Liability Management concepts, practices and tools.</li> </ul>
	<i>Presenter</i>	<b>Assoc Prof Christine Brown</b> , University of Melbourne
	<b>14:30 – 15:00</b>	Coffee Break
<b>Session 3.7</b>	<b>15:00 – 16:00</b>	<u>Workshop: Asset &amp; Liability Management</u> <ul style="list-style-type: none"> <li>Participants will use a regulatory template to assess the interest rate of a hypothetical bank.</li> </ul>
	<i>Facilitator</i>	<b>Assoc Prof Christine Brown</b> , University of Melbourne
<b>Session 3.8</b>	<b>16:00 – 17:00</b>	<u>Open Forum:</u> <ul style="list-style-type: none"> <li>Moderated discussion on key lessons from sessions to date with a view to identifying strengths and weaknesses in contemporary capital and risk management, and for experiences to be shared between regional supervisors. Kim Dietrich will also comment on the US policy response to the financial crisis.</li> </ul>
	<i>Facilitators</i>	<b>Prof Kevin Davis</b> , Melbourne Centre for Financial Studies <b>Prof Kim Dietrich</b> , University of Southern California <b>Mr Ken Waller</b> , Director, Australian APEC Study Centre
<b>Group Dinner</b> (Red Spice Rd)	<b>18:30 – 21:30</b>	During dinner, Dr Andreas Haider from zeb/ will provide an overview for approx 30 minutes. This will be an introduction to a risk modelling system which will be demonstrated the following day.

## DAY FOUR ~ Saturday 19 September 2009

**Venue: Mantra 1, Mantra on Russell Hotel**

**Theme of the Day ~ Innovations in Contemporary Risk Modelling tools**

	<b>9:15 – 9:30</b>	Welcome and administration matters – Centre Staff
<b>Session 4.1</b>	<b>9:30 – 10:15</b>	Credit Risk Modelling <ul style="list-style-type: none"> <li>Overview, functionality, scope of use, demonstration, discussion.</li> </ul>
	<i>Presenters</i>	<b>Dr Andreas Haider</b> and <b>Dr Primoz Perc</b> , Senior Managers, zeb/
<b>Session 4.2</b>	<b>10:15 – 10:45</b>	Basel II Modelling <ul style="list-style-type: none"> <li>Overview, functionality, scope of use, demonstration, discussion.</li> </ul>
	<i>Presenters</i>	<b>Dr Andreas Haider</b> and <b>Dr Primoz Perc</b> , Senior Managers, zeb/
	<b>10:45 – 11:00</b>	Coffee Break
<b>Session 4.3</b>	<b>11:00 – 11:45</b>	Operational Risk Modelling <ul style="list-style-type: none"> <li>Overview, functionality, scope of use, demonstration, discussion.</li> </ul>
	<i>Presenters</i>	<b>Dr Andreas Haider</b> and <b>Dr Primoz Perc</b> , Senior Managers, zeb/
<b>Session 4.4</b>	<b>11:45 – 12:30</b>	A & LM, Market Risk Modelling <ul style="list-style-type: none"> <li>Overview, functionality, scope of use, demonstration, discussion.</li> </ul>
	<i>Presenters</i>	<b>Dr Andreas Haider</b> and <b>Dr Primoz Perc</b> , Senior Managers, zeb/
<b>Session 4.5</b>	<b>12:30 – 13:00</b>	Summary and questions, integration of solutions, discussion
	<i>Facilitators</i>	<b>Dr Andreas Haider</b> and <b>Dr Primoz Perc</b> , Senior Managers, zeb/

## DAYS FOUR & FIVE ~ Saturday 19 & Sunday 20 September 2009

The rest of the weekend is an opportunity for participants to prepare their group presentations for day 7

## DAY SIX ~ Monday 21 September 2009

**Venue: Mantra 1, Mantra on Russell Hotel**

**Theme of the Day ~ *Operational Risk and Market Discipline***

**Operational Risk:** Concept, measurement, capital requirements. Management structures and systems. Basel II involves the introduction of a separate capital charge for operational risk. Measurement and management of operational risk is a rapidly developing topic, and this module provides insights into some techniques being adopted.

**Disclosure, Market Discipline and Supervisory Practices:** Bank risk disclosure practices; the role of market discipline and Basel II recommendations; Accounting issues; Ratings.

	<b>8:45 – 9:00</b>	Welcome and administration matters – Centre Staff
<b>Session 6.1</b>	<b>9:00 – 10:00</b>	Managing Operational Risk <ul style="list-style-type: none"> <li>• Identification of Operational Risk, Management Structures and responsibilities; Corporate Governance.</li> </ul>
	<i>Presenter</i>	<b>Dr Jules Gribble</b> , Partner Advisory Services, Ernst & Young
<b>Session 6.2</b>	<b>10:00 – 10:45</b>	Basel II and Operational Risk <ul style="list-style-type: none"> <li>• The framework and regulatory expectations for the measurement and management of Operational Risk</li> </ul>
	<i>Presenter</i>	<b>Mr Matthew Williamson</b> , Senior Manager Op Risk, ANZ Bank
	<b>10:45 – 11:00</b>	Coffee Break
<b>Session 6.3</b>	<b>11:00 – 11:50</b>	Practical implementation of Basel II Operational Risk <ul style="list-style-type: none"> <li>• Implementing an Operational Risk Framework and meeting the Advanced Measurement regulatory standard.</li> </ul>
	<i>Presenter</i>	<b>Mr Matthew Williamson</b> , Senior Manager Op Risk, ANZ Bank
<b>Session 6.4</b>	<b>11:50 – 12:30</b>	<u>Workshop:</u> Operational Risk <ul style="list-style-type: none"> <li>• Participants will consider and assess the importance of various types of operational risks.</li> </ul>
	<i>Facilitator</i>	<b>Prof Kevin Davis</b> , Melbourne Centre for Financial Studies
	<b>12:30 – 13:30</b>	LUNCH
<b>Session 6.5</b>	<b>13:30 – 14:20</b>	Basel II, Disclosures and Market Discipline <ul style="list-style-type: none"> <li>• Basel II proposals; the role of disclosure and market discipline.</li> </ul>
	<i>Presenter</i>	<b>Ms Katrina Squires</b> , Basel II Senior Manager, APRA
<b>Session 6.6</b>	<b>14:20 – 15:00</b>	Current Bank Risk Disclosure Practices <ul style="list-style-type: none"> <li>• The content of bank disclosures, communications with stakeholders.</li> </ul>
	<i>Presenter</i>	<b>Mr John Hatton</b> , Commonwealth Bank of Australia
	<b>15:00 – 15:30</b>	Coffee Break
<b>Session 6.7</b>	<b>15:30 – 16:15</b>	Accounting and Disclosure <ul style="list-style-type: none"> <li>• Market Value Accounting, Provisioning.</li> </ul>
	<i>Presenter</i>	<b>Mr Paul Lichtenstein</b> , Financial Risk Partner, KPMG
<b>Session 6.8</b>	<b>16:15 – 17:00</b>	<u>Panel:</u> Market Discipline and Ratings agencies <ul style="list-style-type: none"> <li>• Do ratings of banks help with market discipline? What role should ratings play in determining capital requirements in bank prudential regulation? What are the best market indicators of bank strength?</li> </ul>
	<i>Panellists</i>	<b>Prof Kevin Davis</b> , Melbourne Centre for Financial Studies <b>Mr Paul Lichtenstein</b> , Financial Risk Partner, KPMG <b>Ms Katrina Squires</b> , Basel II Senior Manager, APRA <b>Mr Ian Thompson</b> , Credit Rating Officer, Standard & Poor's <b>Mr John Hatton</b> , Commonwealth Bank of Australia

## DAY SEVEN ~ Tuesday 22 September 2009

**Venue: Mantra 1, Mantra on Russell Hotel**

**Theme of the Day ~ Bank Governance and Risk Management; Final Review**

Themes include: Identification of risks, allocation of risk management responsibilities, governance and reporting structures (line management, executive, board). Governance practices and expectations. International Harmonisation and Cooperation. The day also includes workshop presentations and overall course review.

	<b>8:45 – 9:00</b>	Welcome and administration matters – Centre Staff
<b>Session 7.1</b>	<b>9:00 – 9:45</b>	The Organisation of Risk Management <ul style="list-style-type: none"> <li>Organisational Structures for Identification and Management of Risks; Board Policies, Governance and Reporting.</li> </ul>
	<i>Presenter</i>	<b>Mr Tim Coyne</b> , Partner Financial Services, Ernst & Young
<b>Session 7.2</b>	<b>9:45 – 10:30</b>	Regulatory expectations about governance <ul style="list-style-type: none"> <li>Role of governance and governance issues contributing to the financial crisis.</li> </ul>
	<i>Presenter</i>	<b>Mr Stephen Glenfield</b> , Specialised Institutions Division, APRA
	<b>10:30 – 11:00</b>	Coffee Break
<b>Session 7.3</b>	<b>11:00 – 11:45</b>	<u>Panel:</u> Bank-Supervisor Relationships <ul style="list-style-type: none"> <li>Management of the relationship between supervisors and deposit taking institutions – regulators’ expectations of Bank external auditors.</li> </ul>
	<i>Panellists</i>	<b>Mr Tim Coyne</b> , Partner Financial Services, Ernst & Young <b>Mr Stephen Glenfield</b> , Specialised Institutions Division, APRA <b>Mr Morris Batty</b> , Enterprise Risk, ANZ Banking Group
<b>Session 7.4</b>	<b>11:45 – 12:30</b>	International Regulatory Harmonisation <ul style="list-style-type: none"> <li>From the perspective of a bank which operates in many different regulatory jurisdictions and the challenges presented; thoughts about supervisor co-ordination when issues arise impacting institutions which operate globally.</li> </ul>
	<i>Presenter</i>	<b>Mr Morris Batty</b> , Enterprise Risk, ANZ Banking Group
	<b>12:30 – 13:30</b>	LUNCH
<b>Session 7.5</b>	<b>13:30 – 15:30</b>	<u>Workshop:</u> Participant Presentations <ul style="list-style-type: none"> <li>Participants present on the topic(s) agreed in session 1.7.</li> </ul>
	<i>Facilitator</i>	<b>Dr Jules Gribble</b> , Partner Advisory Services, Ernst & Young
	<b>15:30 – 15:45</b>	Coffee Break
<b>Session 7.6</b>	<b>15:45 – 16:45</b>	Program Review – Facilitated Group Discussion <ul style="list-style-type: none"> <li>Issues arising from the course and workshop presentations.</li> </ul>
	<i>Facilitator</i>	<b>Mr David Jones</b> , Academic Coordinator
	<b>16:45 – 18:00</b>	Graduation and cocktails – including presentation of certificates