

SMA, Scenario Assessment and Stress-Testing

Two-day Executive Course

Synopsis

This course provides a synthesis of different types of risk management and regulatory context covered by Basel III to build a bank ICAAP (Internal capital adequacy assessment process). There is a particular focus on the SMA capital revision for operational risks and scenario assessment and quantification for capital purposes.

This highly interactive workshop will allow participants to directly apply the methods proposed to their own organisation, for concrete take-away of the course.

Outline

Day One: ICAAP context & objectives, and scenario assessment

Session 1: ICAAP context and SMA reform

- Regulatory Internal Capital Adequacy Assessment Process (ICAAP) for banks
- ICAAP and SREP (Solvency Review Evaluation Process), Pillar 2 of Basle
- The increasing pressure on Pillar 2 following the SMA reform of Operational Risk Capital
- Regulatory revision operational risk:
 - from AMA to SMA
 - SMA rules
 - What to expect for the future

Session 2: *Class workshop*: ICAAP practice and challenges

Session 3: Scenario assessment: preparing for the unexpected

- What are structured scenarios?
- Simple methods to
 - Identify scenarios
 - Reflect on controls and exposures
- Risk drivers and controls layering
- Assessing rare events

Session 4: *Class workshop*: identifying & structuring scenarios

- Brainstorming on scenario identification
- Group work on scenario structuring, e.g.: cyber-attack, third-party failure, rogue trading...

Day Two: ICAAP structure and group exercise + feedback and analysis

Session 1: ICAAP content and quality criteria

- The content of an ICAAP report
- Business model, Risk profile and Governance: assessing exposure and idiosyncratic risks
- Risk management framework and its effectiveness: internal controls and monitoring
- Capital coverage for each risk type
- Stress-testing and scenario testing
 - Financial risks
 - Non-financial risks
- Wind-down planning

Session 2: Class workshop: ICAAP: business model and risk profile

- Guided exercise: risk identification to the firm's business profile
- Risk governance and ICAAP

Session 3: Resilience and incident management

- Cross-risks view: interactions between financial and non-financial risks
- Resilience to external risks
- Resilience to internal risks
- Crisis response team
- Incident management and lessons learnt

Session 4: Class workshop - War Games: simulating response to external scenario

- Priority response when crisis hits
- Group work and feedback
- Solvent wind down in ICAAP plan
- Summarising ICAAP

Session 5: Course wrap-up

- What we have learnt
 - What we will remember
 - What we will apply
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