

Title:

Balance Sheet shaping and the role of the Funds Transfer Pricing process in banks

Short description:

FTP is a regulatory requirement and tool used in the management of firms' balance sheet structure that takes into account liquidity risk, maturity transformation and interest rate risk. Due to increased cost of funding and illiquidity firms have had to reassess transfer pricing policies in recent years, and regulators expect a precise assessment of cost, benefits and risk. In addition, it is powerful tool with the objective to achieve the target position of the balance sheet. This course will give participants a platform for discussion and learning how to apply the process of FTP to business functions, the role of the ALM and practical techniques for balance sheet shaping.

The presenter offers the practical approach related to the implementation of the FTP framework and structuring the FTP policy and Practice Guidelines. In addition, through practical exercises it provides "deep dive" into balance sheet management and shaping through the FTP process.

Overview:

The first day of the course focus on the role of the ALM function being "a bank within a bank" and covers some aspects of IRRBB positioning and maturity transformation management. It explains, in detail, how the split of the customer rate into FTP rate and commercial margin impacts the P&L result of the ALM function. The analysis is supported by the practical cases and exercises. This section also covers the methodological approach for the incorporation of the indirect liquidity cost into the FTP rate and its respective quantification.

The second day is mostly focus on the FTP curve construct and importance of getting it correctly and in transparent way. It provides the audience with the practical examples of techniques adopted by the major market participants and the construct itself. Finally, it analyses the techniques for balance sheet shaping through the FTP process and stimulation to encourage origination of certain product instead of others.

Learning Objectives:

- Understand the FTP rate components and the role of the FTP process
- Gain knowledge on the FTP construct
- Gain knowledge on the pricing of contingent liquidity
- Understand the principles for Interest and Liquidity transfer pricing
- Understand the balance sheet shaping techniques

Who The Course is For:

- Liquidity managers and IRRBB managers
- Finance professionals
- Bank treasurers and treasury professionals
- ALM professionals
- Advisors at consultancy firms
- Bank supervisors

Prior Knowledge:

- Basic understanding of banking treasury/ALM aspects
- Familiarity with Basel III requirements
- Familiarity with the concept of Interest rate risk and liquidity risk in banks

Outline:

Day One

What is Funds Transfer Pricing?

- Sum of policies and methodologies for the use and generation of liquidity
- Robust model with different participants involved
- Maturity transformation as a main source of earnings
- External pricing versus internal pricing
- Objectives of FTP

ALM role

- The bank within a bank
- Match Maturity Transfer Pricing
- Separating interest and liquidity component within FTP
- Cost of contingent liquidity
- ALM - Zero sum game
- Why is it important to transfer risks to ALM?

Case study: calculation of Net Interest Margin in business units and ALM

- ALM as a business unit
- Interest Rate positioning, extent of maturity transformation and the optimal amount of liquidity buffer – decisions taken within ALM

Case study: analysis of the ALM P&L components

Case study: hedging IRR - liquidity risk positions and FTP rate

Interest Transfer Pricing best practices

- Fixed rate products
- Floating rate products
- Prime rate products – basis risk
- Interest rate treatment of items without deterministic maturity

Case study: calculation of FTP rate for current accounts

Liquidity Transfer Pricing best practices

- Does the liquidity component matter?
- Case study: example of mortgage pricing
- Calculation and allocation of contingent liquidity cost to short term assets based on LCR
- Treatment of behavioural options in FTP (prepayments and liquidity treatment of items without deterministic maturity)

Day Two

FTP curve set up

- Short term FTP curve
- Medium long-term curve
- Balance sheet shaping through FTP curve: application of management overlays and incentive premium scheme

Case study: FTP curve set up in major banks

Case study: Balance sheet shaping through FTP

Calculation of transfer prices for different products based on LCR and NSFR

- Introduction to the behaviouralisation concept
- Behaviouralisation of balance sheet items

Case study: pricing of corporate loans and committed lines including LCR and NSFR

- What if there are more behavioural liabilities than assets?

FTP- are there any pitfalls?

- Importance of transparency
- FTP as a right pocket – left pocket
- What if FTP model is wrong?

Target Operating Model and governance around FTP

- FTP implementation challenges
- FTP policy
- FTP Practice Guidelines

Conclusions and questions