



Financial Risk Management (MSF 297) Spring 2016

Professor: Andreas D. Christopoulos

Office: CBA 6.456

Office Hours: Tuesdays and Thursdays from 3-5pm (or by appointment)

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Course Times: MSF: TTH 1:00pm-3:00pm in GSB 5.142A

Course Web Page: Canvas

Teaching Assistants: Samantha Smith

TA Office Hours: TBD

1. Overview: This class is an advanced and compressed elective in Finance (January 19-March 3) with mandatory exams held week of March 7-11. As such there is an assumed competency/prior exposure to fundamentals of equity and fixed income instruments as well as an understanding of capital markets and corporate structure. Though you may have seen aspects of this course in other courses the application of such prior exposure to the discipline of Financial Risk Management (“FRM”) is not assumed. That is the purpose of this class: the focusing and expansion of your thinking on the discipline of FRM. I approach the topic of risk from both academic and senior practitioner perspectives. This is reflected in my research and teaching pedagogy. This class can be demanding of your time, but it will be highly structured and so you can plan ahead. In my experience this approach has been effective in ensuring we secure the objectives of this class in a limited amount of time to prepare you for your interaction with Risk.

2. Course Learning Objectives: This course can be demanding of your time. As such, I advise you work a little bit every day (some days that might be a lot) and immerse yourself in the materials related to FRM on an ongoing basis. My objective for you is for you to be able to demonstrate your capabilities related to FRM in a professional capacity and have the ability, if you choose, to pursue more advanced topics and training in Risk. Specifically, in this class we will:

- Distill prior knowledge in Finance and focus such knowledge on FRM.
- Introduce new concepts, definitions, and techniques essential to FRM.
- Discern and develop your capabilities, competence and mastery of FRM with a variety of methods including, but not limited to:
 - Homework
 - A comprehensive Final Exam (Timed);
 - Constructive Class Participation

3. Course Structure: This is a compressed course and so we will move quickly, typically covering 3-4 chapters per week. The objective of the homework weighting is to facilitate cumulative learning. The homework will substantially inform your studying and will always be timed. In this sense the homeworks are capstones for reading and work aside from the homework problems. They thus have an exam-like characteristics, albeit take home/open resources in that they represent an ongoing opportunity to demonstrate your learning. Homework content will often be cumulative covering more and more chapters through the semester to secure this objective.

4. Required Materials:

- **Custom Book:** Saunders/Cornett - Financial Markets and Institutions (6E) and selections from Saunders/Cornett - Financial Institutions Management – A Risk Management Approach (8E), There is an mandatory online e-book platform McGraw Hill Connect required for the course and we will have a walkthrough from McGraw Hill representative on Day 2 of the class. Between 90% and 100% of the Homeworks will utilize the McGrawHill Connect platform and it is mandatory that you are registered for it by Day 2. There are a two options for materials:
 - i. The package at the bookstore which includes the 1 semester license for the ebook McGrawHill Connect platform and the custom print book as described above; and
 - ii. The 1 semester license for the ebook McGrawHill Connect platform license only (in such case you are responsible for securing the print chapters for S/C (8E) from another source.
- **Cases and Readings Course Pack:** HBS package, not required but highly recommended.
- **Laptop or Tablet:** Excel including Solver and Analytical Toolpak for some homeworks.
- **Financial Calculator (HP 12C, TIBAll...).** This may not be an internet or cell enabled device.
- **Poll Everywhere:** You will need to have a 1 semester license for Poll Everywhere.

5. Grading Policy & Syllabus Schedule:

1. 7 Homeworks, 9% each, I will drop the lowest of the 7 (no extra credit)	54.0%
2. Comprehensive Exam	40.0%
3. Class Participation (some notes TBD, fin calculator, no book laptop/phone/tablets)	6.0%
Grand Total	100.0%

Risk Syllabus for MSF - Spring 2016				
Module 1 (Foundation): Assumed Background on Institutional Lenders (11 & 14) and Institutional Investors (15-18)				
Class	Date	Required Readings (* is 8th Edition)	HW Assigned	HW Due 6pm
1	1/19/16	Intro to Risk, The Fed: 19 & 4		
2	1/21/16	Money Market & Repo Financing and Rates 1: 5 & 2	1/21/16	1/25/16
3	1/26/16	Rates and Bond Market: 3 & 6		
4	1/28/16	Duration/Convexity & Rate Risk on-Balance Sheet: 3 & 22	1/28/16	2/1/16
5	2/2/16	Market Risk & VAR: 15* & HBS Case VAR		
6	2/4/16	Derivatives/Futures and Forwards: 10 & 22*	2/4/16	2/8/16
7	2/9/16	Derivatives/Options, Caps, Floors, Collars: 10 & 23*		
8	2/11/16	Derivatives/Black Scholes Merton & Binomial: 10 & 23*	2/11/16	2/15/16
9	2/16/16	Managing Risk off Balance Sheet w Deriv/Swaps: 23 & 24*		
10	2/18/16	Capital Adequacy: 20*	2/18/16	2/22/16
11	2/23/16	Basel PD, LGD, Eloss; Merton revisited, RiskMetrics, 16*		
12	2/25/16	Credit Risk Individual Loan Risk: 10* (25*, maybe)	2/25/16	2/29/16
13	3/1/16	Credit Risk Loan Portfolio Risk, Credit VAR: 11*, Start Mortgages 7		
14	3/3/16	Mortgages & Credit Risk w/Securitization: 7 & 24 (26* maybe)	3/3/16	3/7/16
Final Exam Comprehensive - Date & Time TBD in week of 3/7 to 3/11				

6. Class Structure Rules and Etiquette: It is my right to eject any student from my class who acts in a manner that is disruptive to the class and/or violates the rules and codes of conduct of the McCombs School, University of Texas at Austin. Escalation of continued violations subject to disciplinary penalties, including the possibility of failure in the course and/or dismissal from the University. The format of class is lecture. When I get to a concept ‘check-point’ I will ask if there are questions. If you have one, raise your hand and I will answer when I can. On occasion I will use cold-calling. Some additional points:

- No Food Consumption At All (Drinks are fine; clean up your own trash don't leave it).
- No Phone Calls/No Texts/No Music/No Entertainment/No Headsets
- No Video Recording, No Photography (Audio recording is fine; cannot be redistributed)
- Professional corporate behavior at the Associate level at a bank; Shoes on, Feet down.
- Further discussion about code of conduct and academic integrity are discussed in Sections 8 & 9. Staying in the class is evidence of your acceptance of these rules.

7. Questions/Electronic Communication: If after coming to class and doing the work, you have remaining questions about material in class or on the homework, there are two ways to get them answered. The first is to come to either my office hours or those of the TA's. The second is to submit the question on Canvas. Either I or one of the TA's will answer your questions as soon as possible typically within 24 hours on Canvas. This interaction of posting is in no way an invitation use such public forum to secure answers from me or my TA's for Homework questions in advance of the due date. Requesting answers to Homework questions or synopses of concepts oriented or intended to tacitly reveal answers to homework or materials is inappropriate, bad form at best, and could be considered a form of Cheating as defined by the policies of UT-Austin. Emails to me or to my TA's are not used for questions in this class. Emails are for emergencies (see below).

8. McCombs Classroom Professionalism Policy: The highest professional standards are expected of all members of the McCombs community. The collective class reputation and the value of the Texas MBA/MPA/BBA experience hinges on this. Faculty are expected to be professional and prepared to deliver value for each and every class session. Students are expected to be professional in all respects. The Texas MBA/MPA/BBA classroom experience is enhanced when:

- **Students arrive on time.** On time arrival ensures that classes are able to start and finish at the scheduled time. On time arrival shows respect for both fellow students and faculty and it enhances learning by reducing avoidable distractions.
- **Students display their name cards.** This permits fellow students and faculty to learn names, enhancing opportunities for community building and evaluation of in-class contributions.
- **Students minimize unscheduled personal breaks.** The learning environment improves when disruptions are limited.
- **Students are fully prepared for each class.** Much of the learning in the Texas MBA/MPA/BBA program takes place during classroom discussions. When students are not prepared they cannot contribute to the overall learning process. This affects not only the individual, but their peers who count on them as well.
- **Students attend the class section to which they are registered.** Learning is enhanced when class sizes are optimized. Limits are set to ensure a quality experience. When section hopping takes place some classes become too large and it becomes difficult to contribute. When they are too small, the breadth of experience and opinion suffers.
- **Students respect the views and opinions of their colleagues.** Disagreement and debate are encouraged. Intolerance for the views of others is unacceptable.
- **Laptops are closed and put away.** When students are surfing the web, responding to e-mail, instant messaging each other, and otherwise not devoting their full attention to the topic at hand they are doing themselves and their peers a major disservice. Those around them face additional distraction. Fellow students cannot benefit from the insights of the students who are not engaged. Faculty office hours are spent going over class material with students who chose not to pay attention, rather than truly adding value by helping students who want a better understanding of the material or want to explore the issues in more depth. Students with real needs may not be able to obtain adequate help if faculty

time is spent repeating what was said in class. There are often cases where learning is enhanced by the use of laptops in class. Faculty will let you know when it is appropriate to use them. In such cases, professional behavior is exhibited when misuse does not take place.

- **Phones and wireless devices are turned off.** We've all heard the annoying ringing in the middle of a meeting. Not only is it not professional, it cuts off the flow of discussion when the search for the offender begins. When a true need to communicate with someone outside of class exists (eg. some medical need) please inform the professor prior to class.

9. Academic Dishonesty: The McCombs School of Business has no tolerance for acts of scholastic dishonesty.

The responsibilities of both students & faculty with regard to scholastic dishonesty are described in detail at <http://search.mcombs.utexas.edu/Pages/results.aspx?k=code%20of%20ethics>.

By teaching this course, I have agreed to observe all faculty responsibilities described in that document. By enrolling in this class, you have agreed to observe all student responsibilities described in that document. If the application of the Statement on Scholastic Dishonesty to this class or its assignments is unclear in any way, it is your responsibility to ask me for clarification. Students who violate University rules on scholastic dishonesty are subject to disciplinary penalties, including the possibility of failure in the course and/or dismissal from the University. Since dishonesty harms the individual, all students, the integrity of the University, and the value of our academic brand, policies on scholastic dishonesty will be strictly enforced. You should refer to the Student Judicial Services website at <http://deanofstudents.utexas.edu/sjs> to access the official University policies and procedures on scholastic dishonesty as well as further elaboration on what constitutes scholastic dishonesty. Academic dishonesty includes but is not limited to: lying, cheating, stealing (e.g., answers), multiple submissions, plagiarism (including, improper attribution of sources), unauthorized cooperation, and misrepresentation of facts. It is your responsibility to understand all attributes of proper conduct. Please carefully read: http://deanofstudents.utexas.edu/sjs/scholdis_plagiarism.php

Any individual assignment should be completed individually without help from others. Group preparation for examinations is acceptable and encouraged.

10. Students with Disabilities: Students with disabilities may request appropriate academic accommodations from the Division of Diversity and Community Engagement, Services for Students with Disabilities, 512-471-6259, <http://www.utexas.edu/diversity/ddce/ssd/>.

11. Religious Holy Days: By UT Austin policy, you must notify me of your pending absence at least 14 days prior to the date of observance of a religious holy day. If you must miss a class, an examination, a work assignment, or a project in order to observe a religious holy day, you will be given an opportunity to complete the missed work within a reasonable time after the absence.

12. Missed Assignments or Exams: If you miss a homework assignment or an exam due to a family or personal emergency, you will be given an opportunity to complete the missed work within a reasonable time. The emergency must be documented and verified by UT's Student Emergency Services (<http://deanofstudents.utexas.edu/emergency/>); only then will I grant an assignment modification, extension, or a make-up exam.

13. Campus Safety: Please note the following recommendations regarding emergency evacuation, provided by the Office of Campus Safety and Security, 512-471-5767,

<http://www.utexas.edu/safety>. Occupants of buildings on The University of Texas at Austin campus are required to evacuate buildings when a fire alarm is activated. Alarm activation or announcement requires exiting and assembling outside.

- Familiarize yourself with all exit doors of each classroom and building you may occupy. Remember that the nearest exit door may not be the one you used when entering the building.
- Students requiring assistance in evacuation should inform the instructor in writing during the first week of class.
- In the event of an evacuation, follow the instruction of faculty or class instructors.
- Do not re-enter a building unless given instructions by the following: Austin Fire Department, The University of Texas at Austin Police Department, or Fire Prevention Services office
- Behavior Concerns Advice Line (BCAL): 512-232-5050
- Further information regarding emergency evacuation routes and emergency procedures can be found at: <http://www.utexas.edu/emergency>.

14. Privacy in Canvas: Information in Canvas is protected by your UTEID login. Please be aware that I will use a merged Canvas site for all sections of the course that I am teaching this semester. This will allow students in other sections to see that you are enrolled in the course and send you email from within Canvas. However, they will not actually learn your email address and no other personal data will be revealed through Canvas. If you have any concerns, please contact the ITS Help Desk at 475-9400 for help removing your name from view of other students.