



## Financial Risk Management (MBA 397) Spring 2016

**Professor:** Andreas D. Christopoulos

**Office:** CBA 6.456

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

**E-Mail:** andreas.christopoulos@mcombs.utexas.edu

**Course Times:** MBA: TTH 8:00am-9:30am in CBA 4.326

**Course Web Page:** Canvas

**Teaching Assistants:** Samantha Smith

**TA Office Hours:** TBD

---

**1. Overview:** This class is an advanced elective in Finance. 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;
  - Two In-Class Examinations (Timed);
  - M3P Project on Cases (Written and Slide Deck in pairs; I will give you guidelines);
  - M3P Presentation of Slide and Analysis (10 minutes, in pairs)
  - Constructive Class Participation

**3. Course Structure:** The idea is to ensure that what is learned in the 1st module is advanced in the 2nd module resulting in key demonstration of FRM capabilities at a professional level in the 3rd module. The course is partitioned into three (3) modules:

- Module 1.) Basics will be the foundations of risk management including: Interest Rate/Market Risk, Credit risk premia, basic hedging, Forwards/Futures, Options Caps/Floor, Black Scholes and Binomial Lattice, Swaps, Beginning VAR.
- Module 2.) Applications of Basics covers Capital Adequacy, Credit VAR, CreditMetrics, Regulation, Securitization, Mock Securitization, Hedging.
- Module 3.) The Cases/Project. Here we will use a number of cases and outside readings pertaining to FRM. The set of cases is provided in a course package. The 3 weeks of cases will focus on the Origins of the 2008 Financial Crisis beginning with the Savings and Loan/RTC Crisis of the early to mid 90's, LTCM and Bank Concentration and Conduits; We then will look at important cases from the Crisis and finally cases related to Reform. Of the cases provided you will be expected to read them all during the 3 weeks and be prepared to introduce, present, discuss, and make recommendations related to these cases succinctly and accurately under cold call. Your attendance and participation in this portion of the class beginning April 19<sup>th</sup> accounts for 50% of your Class Participation Grade. I will incorporate peer review using Poll Everywhere in this segment to assist in my assessment. For the M3P project, I will assign at random the cases and the pairs (like work you don't always get to pick with whom you will work). You will then write a 7-11 page double-spaced analysis of the issues and questions I ask. This written piece is due on May 9<sup>th</sup> at 8am. You may incorporate a single supplementary spreadsheet to the case as a reference, if necessary. You are also required to provide on May 8<sup>th</sup> at 8am a 6 slide power point presentation introducing the issue, summarizing your findings, and making recommendations. You will, in pairs, then provide a verbal in-person presentation of your slides and be prepared to answer a few questions in a 10minute format the date which will be determined during Finals Week.

**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 and other sources.
- 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:**

1. 10 Homeworks, 5% each: I count your best 9 (drop lowest), no extra credit kicker	45.0%
2. Exam 1: 1.5hrs, in-class, 8.5 x 5.5 index card, calculator, pencils	15.0%
3. Exam 2: 1.5hrs, in-class, 8.5 x 5.5 index card, calculator, pencils	15.0%
4. Exam 3a – Final (M3P, written project & slides in pairs that I select)	10.0%
5. Exam 3b – Final (M3P, in person presentation of slides)	5.0%
6. Class Participation	10.0%
<b>Grand Total</b>	<b>100.0%</b>

Risk Syllabus for MBA - 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: 19		
2	1/21/16	The Fed, Money Market & Repo Financing: 4 & 5	1/21/16	1/25/16
3	1/26/16	Rates and Bond Market and Repo: 2, 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	Market Risk & VAR: 15* & HBS Case VAR	2/4/16	2/8/16
7	2/9/16	Stock Market & Foreign Exchange Market: 8 & 9		
8	2/11/16	Derivatives/Futures and Forwards: 10 & 22*	2/11/16	2/15/16
9	2/16/16	Derivatives/Futures and Forwards: 10 & 22*		
10	2/18/16	Derivatives/Options, Caps, Floors, Collars: 10 & 23*	2/18/16	2/22/16
11	2/23/16	Derivatives/Options, Caps, Floors, Collars: 10 & 23*		
12	2/25/16	Derivatives/Black Scholes Merton & Binomial: 10 & 23*	2/25/16	2/29/16
13	3/1/16	Managing Risk off Balance Sheet w Deriv/Swaps: 23 & 24*		
14	3/3/16	Managing Risk off Balance Sheet w Deriv/Swaps: 23 & 24*	3/3/16	3/7/16
15	3/8/16	Review/Catch-up		
16	3/10/16	<b>Exam 1 - In Class</b>		
Spring Break - next Class is Tuesday 3/22/2016				
Module 2 (Advancing)				
Class	Date	Required Readings (* is 8th Edition)	HW Assigned	HW Due 6pm
17	3/22/16	Capital Adequacy: 20*		
18	3/24/16	Basel PD, LGD, Eloss; Merton revisited, RiskMetrics, 16*	3/24/16	3/28/16
18	3/29/16	Credit Risk Individual Loan Risk: 10*		
19	3/31/16	Credit Risk Loan Portfolio Risk, Credit VAR: 11*, (25*, maybe)	3/31/16	4/4/16
19	4/5/16	Mortgage Markets & Managing Credit Risk w/Securitization: 7 & 24		
20	4/7/16	Mock Securitization Lending/Hedging, finish: 7 & 24 (maybe 26*)	4/7/16	4/11/16
20	4/12/16	Review/Catch-up		
21	4/14/16	<b>Exam 2 - In Class</b>		
Module 3 (Internalization/Cases)				
Class	Date	Required Readings (Cases)	HW Assigned	HW Due
22	4/19/16	<u>Origins</u> : Savings & Loans and the Mortgage Market; Fannie Mae: A Shaky Foundation; Long Term Capital Mgmt (A) and (C); Chase Manhattan Corp.: The Making of America's Largest Bank; Who's to Blame for Bubble?; GM and Cerberus: Unusual Partners	Do all readings, prepare for cold call and work on your M3P project	
23	4/21/16			
24	4/26/16	<u>Crisis</u> : What Happened at Citigroup? (A); Rise and Fall of the Bear; Investment banking in 2008 (B); Lehman Brothers' Fall; The Rise and Fall of AIG; AIG - Blame for the Bailout; JP Morgan and the London Whale; BlackRock Money Market Management in September 2008 (A)		
25	4/28/16			
26	5/3/16	<u>Reform</u> : JPMorgan and the Dodd-Frank Act; JP Morgan: Lessons Learned; Corporate Reform Elements of the Dodd-Frank Act; Overview of Ratings; Rating Agency Reform; Allstate Corporation		
27	5/5/16			

**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 Modules 1 and 2 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. Module 3 will entail greater discussion and I will use cold-calling frequently in this portion of the class. 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](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.