

BUSADMIN F711
Financial Institutions
Fall 2019 Course Outline

Finance and Business Economics Area
DeGroote School of Business
McMaster University

COURSE OBJECTIVE

The goal of this course is to help students understand how Canadian financial institutions (FIs) measure and manage their risks. Special emphasis will be given to the management of asset and liability risk of deposit-taking financial institutions. FIs' perspective on risk is different from other corporations because a major role of FIs is to bear, transform, price and monitor risk.

INSTRUCTOR AND CONTACT INFORMATION

Instructor: **Dr. Sultan M. Awan**

Office: RJC 217C

awan@mcmaster.ca

Student TA

TBD

Class Schedule: Wednesday 11:30 AM ~ 2:20 PM

Office Hours: after class or by appointment

COURSE ELEMENTS

Avenue:	Yes	Leadership:	Yes	IT skills:	Yes	Global view:	Yes
Participation:	Yes	Ethics:	Yes	Numeracy:	Yes	Written skills:	Yes
Evidence-based:	Yes	Innovation:	Yes	Group work:	Yes	Oral skills:	Yes
Experiential:	Yes	Guest speaker(s):	Yes	Final Exam:	No		

COURSE DESCRIPTION

In the first part of the course, students will be introduced to the financial services industry. We then go through the major risks of financial institutions management: interest rate risk, liquidity risk, foreign exchange risk and credit risk. We discuss how financial institutions can identify and measure their exposures to each of these risks. In the second part of the course, we focus our attention on the risk management of financial institutions. Regulatory requirements dealing with capital adequacy and deposit insurance will be discussed. Finally, we will briefly talk about the role of derivative instruments (e.g. forward contracts and swaps) in risk mitigation.

LEARNING OUTCOMES

Upon completion of this course, students should be able to complete the following key tasks:

- Appreciate the economic challenges and opportunities encountered by FIs;
- Understand the risk/return trade-off of FIs' businesses in bearing, transforming and managing financial risks;
- Measure and manage FIs' interest rate risk, liquidity risk, market risk and credit risk;
- Assess the implications of national and international regulatory requirements on FIs business strategies.

REQUIRED COURSE MATERIALS AND READINGS

Financial Institutions Management: A Risk Management Approach, 9th Edition, by Anthony Saunders, and Marcia M. Cornett, McGraw-Hill 2018.

https://campusstore.mcmaster.ca/cgi-mcm/ws/txsub.pl?wsTERMG1=194&wsDEPTG1=BUSADMIN&wsCOURSEG1=F711&wsSECTIONG1=DAY%20C01&crit_cnt=1

For course contents such as lecture notes, assignments, chapter-end quantitative problem solution, other reference materials, and course related announcements, please visit course webpage on Avenue:

<http://avenue.mcmaster.ca>

Texas Instruments BA II Plus financial calculator is recommended for this course. However, any calculator that performs time value of money functions is acceptable.

OPTIONAL COURSE MATERIALS AND READINGS

Quantitative Financial Risk Management: Theory and Practice, by Constantin Zopounidis, Emiliios Galariotis, Wiley Finance series 2015.

Financial Risk Management: Applications in Market, Credit, Asset and Liability Management and Firmwide Risk, by Jimmy Skoglund, Wei Chen, Wiley Finance series 2015.

Risk Management and Financial Institutions, 5th Edition, by John C. Hull, Wiley March 2018.

EVALUATION

Learning in this course results primarily from lectures, in-class discussions of cases, home readings, and from assigned projects. Students learning and progress in this course will be evaluated on group and individual basis. Final letter grades in this course will be calculated as follows:

Assignment # 1	Mini Quantitative Case (Group)	15%
Midterm	Multiple Choice – Quantitative and Qualitative	30%
Assignment # 2	Mini Quantitative Case (Group)	15%
Final Exam	Multiple Choice – Quantitative and Qualitative – Semi Cumulative	40%
Total		100%

NOTE: The use of a McMaster and Financial calculator is allowed during examinations in this course. See McMaster calculator policy at the following URL:

<http://www.mcmaster.ca/policy/Students-AcademicStudies/UGCourseMgmt.pdf>

Group Assignments

Two quantitative case studies will be assigned during this term; one in pre-midterm period (assignment #1) and one in post-midterm period (assignment #2). Students are expected to work in a self-chosen group of maximum of three students each. However, a submission from a group of two or an individual student will also be accepted without any deductions of marks. As some algebra and fundamental statistical concepts are important components of quantitative risk and management analysis, it is imperative students practice quantitative problems that require use of such analytical tools. Therefore, two assigned evaluation activity should provide students an opportunity to practice quantitative problems with the help of the concepts and methodologies learnt in class. As fairly large number of questions on the midterm and the final will be quantitative in nature, therefore this assigned work should help students to prepare well for the exams. You may find some problems challenging. Please do your best. Serious attempts to arrive at the correct answer will be rewarded. The quantitative problem sets and rest of the submission details will be posted on Avenue.

Midterm and Final Exam

Midterm and final will be multiple-choice questions exams. The nature and format of the questions will be similar to ones on slides, examples discussed in class, and the ones found in assigned evaluation activities. The answer key to selected chapter-end qualitative and quantitative questions will be posted on avenue once a topic is discussed in the class. This answer key should provide enough sample questions for practice and enough details to work on similar chapter-end questions. The info on the readings for the midterm and the final is provided at the end of this outlines and will also be posted on avenue before the exams. Final will be semi-cumulative and only selected topics will make to the readings list for the final. Such details will be posted on avenue well before the final. The midterm and finals will be an open book exam. Students will be allowed to use reading material such as course textbook (hard copy), copy of lecture slides, handwritten notes, and formula sheets in the midterm and the final exams. However, use of PC and any other digital devices will not be allowed during the midterm and final exam. Use of financial calculator is highly recommended.

PLEASE NOTE:

1. Students who do not submit the assignments by the deadline, with approval, will receive an extension of 3 days unless approved by the student experience office based on the supporting documentation submitted.
2. Students who do not write midterm, with approval, will have marks moved to final and will write a cumulative final of 70%.

3. If a student misses a lecture for any reason, it is student's responsibility to obtain class lecture notes and other relevant material from other classmates.
4. Marks for all pre-final exam evaluation activities will be posted on Avenue.
5. Your letter grade will come through official channels. Hence, marks for the final exam will not be posted on Avenue.
6. You are encouraged to contact course instructor or course TA for any questions on the course material and outlines, evaluation scheme, and the final Exam.

Grade Conversion

At the end of the course your overall percentage grade will be converted to your letter grade in accordance with the following conversion scheme.

LETTER GRADE	PERCENT	POINTS
A+	90 - 100	12
A	85 - 89	11
A-	80 - 84	10
B+	75 - 79	9
B	70 - 74	8
B-	60 - 69	7
F	00 - 59	0

Communication and Feedback

Students that are uncomfortable in directly approaching an instructor regarding a course concern may send a confidential and anonymous email to the respective Area Chair or Associate Dean:

<http://mbastudent.degroote.mcmaster.ca/contact/anonymous/>

Students who wish to correspond with instructors or TAs directly via email must send messages that originate from their official McMaster University email account. This protects the confidentiality and sensitivity of information as well as confirms the identity of the student. Emails regarding course issues should NOT be sent to the Administrative Assistant.

Instructors are encouraged to conduct an informal course review with students by Week #4 to allow time for modifications in curriculum delivery. Instructors should provide evaluation feedback for at least 10% of the final grade to students prior to Week #8 in the term.

ACADEMIC DISHONESTY

You are expected to exhibit honesty and use ethical behavior in all aspects of the learning process. Academic credentials you earn are rooted in principles of honesty and academic integrity.

Academic dishonesty is to knowingly act or fail to act in a way that results or could result in unearned academic credit or advantage. This behavior can result in serious consequences, e.g. the grade of zero on an assignment, loss of credit with a notation on the transcript (notation reads: "Grade of F assigned for academic dishonesty"), and/or suspension or expulsion from the university.

It is your responsibility to understand what constitutes academic dishonesty. For information on the various types of academic dishonesty please refer to the Academic Integrity Policy, located at:

www.mcmaster.ca/academicintegrity

The following illustrates only three forms of academic dishonesty:

1. Plagiarism, e.g. the submission of work that is not one's own or for which other credit has been obtained.
2. Improper collaboration in group work.
3. Copying or using unauthorized aids in tests and examinations

MISSED ACADEMIC WORK

Missed Mid-Term Examinations / Tests / Class Participation

Where students miss a regularly scheduled mid-term or class participation for legitimate reasons as determined by the Student Experience – Academic (MBA) office, the weight for that test/participation will be distributed across other evaluative components of the course at the discretion of the instructor. Documentation explaining such an absence must be provided to the Student Experience – Academic (MBA) office within five (5) working days upon returning to school.

To document absences for health related reasons, please provide to Student Experience – Academic (MBA) office the Petition for relief for MBA missed term work and the McMaster University Student Health Certificate which can be found on the DeGroote website at

<http://mbastudent.degroote.mcmaster.ca/forms-and-applications/>

Please do not use the online McMaster Student Absence Form as this is for Undergraduate students only. University policy states that a student may submit a maximum of three (3) medical certificates per year after which the student must meet with the Director of the program.

To document absences for reasons other than health related, please provide Student Experience – Academic (MBA) office the Petition for Relief for MBA Missed Term Work and documentation supporting the reason for the absence.

Students unable to write a mid-term at the posted exam time due to the following reasons: religious; work-related (for part-time students only); representing university at an academic or varsity athletic event; conflicts between two overlapping scheduled mid-term exams; or other extenuating circumstances, have the option of applying for special exam arrangements. Such requests must be made to the Student Experience – Academic (MBA) office at least ten (10) working days before the scheduled exam along with acceptable documentation. Instructors cannot themselves allow students to unofficially write make-up exams/tests. Adjudication of the request must be handled by Student Experience – Academic (MBA).

If a mid-term exam is missed without a valid reason, students will receive a grade of zero (0) for that component.

Missed final Examinations

A student who misses a final examination without good reason will receive a mark of 0 on the examination.

All applications for deferred and special examination arrangements must be made to the Student Experience – Academic (MBA) office. Failure to meet the stated deadlines may result in the denial of these arrangements. Deferred examination privileges, if granted, must be satisfied during the examination period at the end of the following term. There will be one common sitting for all deferred exams.

Failure to write an approved deferred examination at the pre-scheduled time will result in a failure for that examination, except in the case of exceptional circumstances where documentation has been provided and approved. Upon approval, no credit will be given for the course, and the notation N.C. (no credit) will be placed on the student's transcript. Students receiving no credit for a required course must repeat the course. Optional or elective courses for which no credit is given may be repeated or replaced with another course of equal credit value.

Requests for a second deferral or rescheduling of a deferred examination will not be considered.

Any student who is unable to write a final examination because of illness is required to submit the Application for Deferred MBA Final Examination and a statement from a doctor certifying illness on the date of the examination. The Application for Deferred MBA Final Examination and the McMaster University Student Health Certificate can be found on the DeGroote website at

<http://mbastudent.degroote.mcmaster.ca/forms-and-applications/>

Please do not use the online McMaster Student Absence Form as this is for Undergraduate students only. Students who write examinations while ill will not be given special consideration after the fact.

In such cases, the request for a deferred examination privilege must be made in writing to the Student Experience – Academic (MBA) office within five business days of the missed examination.

Special examination arrangements may be made for students unable to write at the posted exam time due to compelling reasons (for example religious, or for part-time students only, work-related reasons):

Students who have religious obligations which make it impossible to write examinations at the times posted are required to produce a letter from their religious leader stating that they are unable to be present owing to a religious obligation.

Part-time students who have business commitments which make it impossible to write examinations at the times posted are required to produce a letter on company letterhead from the student's immediate supervisor stating that they are unable to be present owing to a specific job commitment.

In such cases, applications must be made in writing to the Student Experience – Academic (MBA) office at least ten business days before the scheduled examination date and acceptable documentation must be supplied.

If a student is representing the University at an academic or athletic event and is available at an overlapping scheduled time of the test/examination, the student may write the test/examination at an approved location with an approved invigilator, as determined by the Student Experience – Academic (MBA) office. In such cases, the request for a deferred examination privilege must be made in writing to the Student Experience – Academic (MBA) office within ten business days of the end of the examination period.

Note: A fee of \$50 will be charged for a deferred exam written on campus and a fee of \$100 for deferred exams written elsewhere. In cases where the student's standing is in doubt, the Graduate Admissions and Study Committee may require that the student with one or more deferred examination privileges refrain from re-registering until the examination(s) have been cleared.

STUDENT ACCESSIBILITY SERVICES

Student Accessibility Services (SAS) offers various support services for students with disabilities. Students are required to inform SAS of accommodation needs for course work at the outset of term. Students must forward a copy of such SAS accommodation to the instructor normally, within the first three (3) weeks of classes by setting up an appointment with the instructor. If a student with a disability chooses NOT to take advantage of an SAS accommodation and chooses to sit for a regular exam, a petition for relief may not be filed after the examination is complete. The SAS website is:

<http://sas.mcmaster.ca>

POTENTIAL MODIFICATIONS TO THE COURSE

The instructor and university reserve the right to modify elements of the course during the term. The university may change the dates and deadlines for any or all courses in extreme circumstances. If either type of modification becomes necessary, reasonable notice and communication with the students will be given with explanation and the opportunity to comment on changes. It is the responsibility of the student to check their McMaster email and course websites weekly during the term and to note any changes.

ACKNOWLEDGEMENT OF THE COURSE POLICIES

Your registration and continuous participation, e.g. on Avenue to Learn (A2L), in the classroom, etc. to the various learning activities of Commerce 4FD3 will be considered to be an implicit acknowledgement of the course policies outlined above, or of any other that may be announced during lecture and/or on A2L. It is your responsibility to read this course outline, to familiarize yourself with the course policies and to act accordingly.

Lack of awareness of the course policies cannot be invoked at any point during this course for failure to meet them. It is your responsibility to ask for clarification on any policies that you do not understand.

TENTATIVE COURSE SCHEDULE

Below is a **tentative** course schedule. As we progress in the course, contents of some of the topics listed below may be modified, if required.

Date	Topics	Chapters
<i>Sept. 11</i>	Syllabus Review, FI functions, risk and return trade-off	Lecture Notes 1
<i>Sept. 18</i>	interest rate and money creation: role of central bank, commercial banks, Insurance Companies, Investment Banks, Funds	Lecture Notes 2 Chapter 2, 7, Appendix 2A&2B
<i>Sept. 25</i>	Interest rate risk – I: Central bank and interest rate Gap analysis, repricing and duration model	8
<i>Oct. 2</i>	Interest rate risk – II: Central bank and interest rate Gap analysis, repricing and duration model	9
<i>Oct. 9</i>	Credit risk– I: Individual loans	10
<i>Oct. 16</i>	Assignment # 1 Due Credit risk– II: Loan portfolio and concentration risk	11
<i>Oct. 23</i>	Midterm Exam (Readings: Lecture 1&2, Chapters 2, 8 – 11)	
<i>Oct. 30</i>	Liquidity risk: measure of liquidity risk exposure, consequence of extreme liquidity risk, variations of liquidity risk among FIs.	12
<i>Nov. 6</i>	Foreign exchange risk: foreign asset and liability position, interaction of interest rates, inflation, and exchange rate	13
<i>Nov. 13</i>	Futures and Forward contracts: FI use of forward and future contracts to manage interest, FX, and credit risk	22
<i>Nov. 20</i>	Futures and Forward contracts: FI use of forward and future contracts to manage interest, FX, and credit risk	22
<i>Nov. 27</i>	Options and Floors: FI use of options in hedging FX and credit risk	23
<i>Dec. 4</i>	Assignment # 2 Due Swaps: FI credit risk concerns related to interest, currency, and credits swaps	24
Dec. 7 - 20	Final Exam – Scheduled by Registrar Office	