Finance F733
Financial Risk Management
Fall 2026 Course Outline

Finance and Business Economics
DeGroote School of Business
McMaster University

COURSE OBJECTIVE

This course provides a systematic and advanced treatment of financial risk management. It focuses on interest rate risk, market risk, credit risk, operational risk and liquidity risk. Case studies and spreadsheet modeling in the area will be introduced. In addition to lectures, the course will also include students' project reports and presentations.

INSTRUCTOR AND CONTACT INFORMATION

Instructor: R. Luo,

Office hours: TBA

Student TA

Office Hours: TBA

PREREQUISITE

Eight 600-level courses including A600, E600, F600 and Q600.

COURSE ELEMENTS

Credit Value:	3	Team skills:	Yes	IT skills:	Yes	Global:	Yes
WebCT:	No	Verbal skills:	Yes	Numeracy:	Yes	Political:	No
Participation:	*Yes*	*Written skills:*	*Yes*	*Innovation:*	*Yes*	*Social:*	*No*

REQUIRED TEXT

- Risk Management and Financial Institutions by J. Hull, 6th Edition, Wiley Finance.

EVALUATION: COMPONENTS AND WEIGHTS

Class Participation (pop quizzes)	10%
Spreadsheet Assignments	15%
Group Presentation Project	10%
Group Written Project	10%
Midterm Test	25%
Final Exam	30%

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+	77 - 79	9
B	73 - 76	8
B-	70 – 72	7
F	00 - 69	0

Learning Outcomes

Upon completion of this course, students will have the tools needed to identify, assess, and manage

(1) market risk, including interest rate risk and liquidity risk;
(2) credit risk, including default risk and downgrade risk;
(3) operational risk;
(4) model risk.

In addition, students will learn the methods used to compute value at risk for market risk, credit risk and operational risk.

Furthermore, students will learn how to model and compute value at risk in the spreadsheets and learn the skills to write a report and present it in a group setting.

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.

ACADEMIC INTEGRITY

You are expected to exhibit honesty and use ethical behaviour 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 behaviour 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

Students are responsible for being aware of and demonstrating behaviour that is honest and ethical in their academic work. Such behaviour includes:

- following the expectations articulated by instructors for referencing sources of information and for group work;
- asking for clarification of expectations as necessary;
- identifying testing situations that may allow copying;
- preventing their work from being used by others (e.g., protecting access to computer files); and
- adhering to the principles of academic integrity when conducting and reporting research.

CONDUCT EXPECTATIONS

As a McMaster student, you have the right to experience, and the responsibility to demonstrate, respectful and dignified interactions within all of our living, learning and working communities. These expectations are described in the *Code of Student Rights & Responsibilities* (the "Code"). All students share the responsibility of maintaining a positive environment for the academic and personal growth of all McMaster community members, **whether in person or online**.

It is essential that students be mindful of their interactions online, as the Code remains in effect in virtual learning environments. The Code applies to any interactions that adversely affect, disrupt, or interfere with reasonable participation in University activities. Student disruptions or behaviours that interfere with university functions on online platforms (e.g. use of Avenue 2 Learn, WebEx, Teams, or Zoom for delivery), will be taken very seriously and will be investigated. Outcomes may include restriction or removal of the involved students' access to these platforms.

MISSED ACADEMIC WORK

Missed Mid-Term Examinations / Tests / Class Participation

Please do not use the online McMaster Student Absence Form (MSAF) as this is for Undergraduate students only. The MBA program will not accept an MSAF.

When students miss regularly scheduled term work which contributes 10% or more to the final grade, for legitimate reasons as determined by the DSB Student Services – Academic Office (DSSAO (DSB Student Services Academic Office)), the activity necessary to compensate for the missed work will be determined by the course instructor. The compensatory activities assigned will vary with the nature of the course and the missed requirement. They include, but are not restricted to, an alternative assignment, a rescheduled midterm exam, or re-weighting the marks for the missed component to other mark components. Documentation explaining such missed work must be provided to the DSSAO (DSB Student Services Academic Office) **within five (5) working days** of the scheduled date for completion of the work.

Acceptable reasons for missed work, along with the Petition for Missed Term Work and the MBA Student McMaster University Student Health Certificate, can be found on the DeGroote MBA Student website (mbastudent.degroote.mcmaster.ca). Please direct any questions about acceptable documentation to the MBA Academic Advisors (askmba@mcmaster.ca).

University policy states that a student may submit a **maximum of three** (3) Petition for Missed Term Work per academic year, after which the student must meet with the Director of the program.

If term work is missed without an approved reason, students will receive a grade of zero (0) for that component.

Missed Final Examinations

Students must be available for the duration of the posted exam period regardless of their personal exam schedule. This is to ensure student availability throughout the entire exam period in the event that an exam must be rescheduled due to unforeseen circumstances (university closure, power outage, storm policy, etc.). A student who misses a final examination without valid reason will receive a mark of 0 on the examination.

Students who have missed a final exam for a valid reason can apply to the DSSAO (DSB Student Services Academic Office) to write a deferred examination by submitting an Application for Deferring a Final Exam with supporting documentation. The application must be made **within five days** of the scheduled exam.

The Application for Deferring a Final Exam and the MBA Student McMaster University Student Health Certificate can be found on the DeGroote MBA Current Student website (mbastudent.degroote.mcmaster.ca)

Deferred examination privileges, if granted, are normally satisfied during the deferred examination period as set by the Office of the Registrar.

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

ACADEMIC ACCOMMODATION FOR STUDENTS WITH DISABILITIES

Student Accessibility Services (SAS) offers various support services for students with disabilities. Students must activate their accommodation(s) (e.g., extra-time, alone room, etc.) via mySAS portal at the beginning of each term, normally, within the first three (3) weeks of classes. 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

Use of Test Accommodations at McMaster University Burlington Campus Ron Joyce Centre

Whereas Student Accessibility Services (SAS), on Main Campus, determines all MBA student accommodations, the MBA Faculty Office manages the coordination of accommodations for tests, midterms, and exams at the Ron Joyce Centre in Burlington.

Process for Students

- Student Accessibility Services (SAS) now uses the online mySAS Portal for graduate students to share accommodation letters with their instructors and Faculty/Program. Students are responsible for activating their accommodations each term through the mySAS Portal. Once activated, an approved accommodation letter will be automatically sent to the instructors associated with the student's enrolled courses for that term.

- Students must engage the DSSAO (DSB Student Services Academic Office) to implement their accommodation(s) (e.g., extra-time, alone room, etc.) for each upcoming test, midterm, or exam, at **least two weeks in advance**. Students can do this by emailing DeGroote MBA SAS scheduling office at DSBSAS@mcmaster.ca or completing the Accommodation Implementation form. If a student cannot meet this deadline, they should contact DSBSAS@mcmaster.ca to discuss alternative arrangements. The program is committed to exploring flexibilities where possible to support students.

- All tests, midterms, and exams are booked synchronously with the class's start time. Any deviations from the start time (e.g. start earlier than the class to enable

completion at the same end time) requires a discussion with their instructor on protocol at the time of accommodation activation.

- Students will leverage the accommodation (e.g., extra-time, alone room, etc.), in a designated testing room. Rooms will be booked according to the student's SAS accommodation. Unless the accommodation states otherwise, students should expect that they will be writing in a room with other students. One or more invigilators will always be in the room.

- Following the request to implement the accommodation(s), dsbsas@mcmaster.ca will reach out to the student with their test, midterm, or exam details, including the date, time, and room number. As there may be other students writing tests in the room, we ask that students enter the room quietly and leave all personal items at the front of the room.

All policies and procedures, including restroom access, how extra-time is allocated for assessments under Universal Design, and the submission of memory aids in advance, are consistent with those of SAS on Main Campus. The only variance in procedure is communication around, and physical location of, assessment. There is not a dedicated testing space at RJC. Existing classrooms and lecture halls will be used for most testing. All SAS-approved accommodations will be honoured by our staff; however, core testing elements are not eliminated in alternative testing formats. Students should expect and plan for invigilation, incidental noise, and other potential distractions.

ACADEMIC ACCOMMODATION FOR RELIGIOUS, INDIGENOUS OR SPIRITUAL OBSERVANCES (RISO)

Students requiring academic accommodation based on religious, indigenous or spiritual observances should follow the procedures set out in the RISO policy. Students should submit their request to the DSSAO (DSB Student Services Academic Office) ***normally within 10 working days*** of the beginning of term in which they anticipate a need for accommodation. Students should also contact their instructors as soon as possible to make alternative arrangements for classes, assignments, and tests.

COPYRIGHT AND RECORDING

Students are advised that lectures, demonstrations, performances, and any other course material provided by an instructor include copyright protected works. The Copyright Act and copyright law protect every original literary, dramatic, musical and artistic work, **including lectures** by University instructors.

The recording of lectures, tutorials, or other methods of instruction may occur during a course. Recording may be done by either the instructor for the purpose of authorized distribution, or by a student for the purpose of personal study. Students should be aware that their voice and/or image may be recorded by others during the class. Please speak with the instructor if this is a concern for you.

ARTIFICIAL INTELLIGENCE POLICY

Students are allowed to use Generative AI tools to support their studies on this course. However, any written report or presentation must be students' own work not the AI summaries of the existing literature.

POTENTIAL MODIFICATION 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 COURSE POLICIES

Your registration and continuous participation (e.g. on A2L, in the classroom, etc.) to the various learning activities of MBA F733 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.

TOPICS TO BE COVERED

1. Motivation for risk management
2. How traders manage their exposures (readings: Chapter 8 (5th edition))
3. Interest rate risk (readings: chapter 14)
4. Value at Risk (readings: Chapter 11)
5. Market Risk VaR (readings: Chapter 12 & 13)
6. Credit risk (readings: Chapter 17, 18 &19)
7. Operational risk (readings: Chapter 20)
8. Liquidity risk (readings: Chapter 21)
9. Model risk (readings: Chapter 22)
10. Economic capital and RAROC (readings: Chapter 28)
11. Concluding remarks: Learning from some big losses (readings: Chapter 30 and Student's presentations)