Risk Management for Finance Sector Enterprises (FIN114)

(6 credit points)
DISCLAIMER

These materials are issued by Kaplan Higher Education on the understanding that:

1. Kaplan Higher Education and individual contributors are not responsible for the results of any action taken on the basis of information in these materials, nor for any errors or omissions; and

2. Kaplan Higher Education and individual contributors expressly disclaim all and any liability to any person in respect of anything and of the consequences of anything done or omitted to be done by such a person in reliance, whether whole or partial, upon the whole or any part of the contents of these materials; and

3. Kaplan Higher Education and individual contributors do not purport to provide legal or other expert advice in these materials and if legal or other expert advice is required, the services of a competent professional person should be sought.

The views expressed by presenters delivering course material by lecture or workshop may not necessarily be those of Kaplan.

COPYRIGHT

© Kaplan Higher Education, 2009. All rights strictly reserved. No part of these materials covered by copyright may be reproduced or copied in any form or by any means (graphic, electronic or mechanical, including photocopying, recording, taping or information retrieval systems) without the written permission of Kaplan Higher Education.

Kaplan Higher Education makes every effort to contact copyright owners and request permission for all copyright material reproduced. However, despite our best efforts, there may be instances where we have been unable to trace or contact copyright holders. If notified, Kaplan Higher Education will ensure full acknowledgement of the use of copyright material.

ACKNOWLEDGEMENTS

All ASX material is © ASX Limited. All rights reserved. All ASX material is reproduced by the publisher with the permission of ASX Limited. No part of this material may be photocopied, reproduced, stored in a retrieval system, or transmitted in any form or by any means, whether electronic, mechanical or otherwise, without the prior written permission of ASX Limited.

Kaplan Higher Education acknowledges the support of Morningstar, EBSCO Australia and ProQuest in the development of its course material.

KAPLAN PROFESSIONAL’S COMMITMENT TO ENVIRONMENTAL SUSTAINABILITY

Kaplan Professional is committed to protecting our natural resources and reducing our environmental footprint by using recyclable materials and paperless products where possible. These study notes are printed on paper manufactured under the Programme for the Endorsement of Forest Certification (PEFC)* scheme.

* For more information visit www.pefc.org.
Contents

Introduction

**Topic 1**  Describing risk: Measures of location and dispersion

**Topic 2**  Probability and measures of association

**Topic 3**  Normal distributions

**Topic 4**  Introduction to financial risk management

**Topic 5**  Market risk

**Topic 6**  Credit risk

**Topic 7**  Operational risk

**Topic 8**  Legal/regulatory and reputation risk

**Topic 9**  Basel II and risk management
Welcome from Kaplan

Welcome to your studies in Risk Management for Finance Sector Enterprises (FIN114). This introduction provides you with an overview of the subject and outlines the aims, learning outcomes, study commitment and assessment requirements.

The learning resources for this subject contain theoretical and practical content emphasising application to the workplace. Combined with a supportive learning environment, they will guide your learning in this subject.

Kaplan wishes you success in your studies and looks forward to building your future with you.

Contributors

These subject notes and associated assessment items have been developed by Kaplan Higher Education (Kaplan) in consultation with industry practitioners and academics. The contributors to these items are listed in the table below.

<table>
<thead>
<tr>
<th>Name</th>
<th>Employer</th>
<th>Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Professor Michael Drew</td>
<td>Griffith Business School, Griffith University</td>
<td>Professor of finance</td>
</tr>
<tr>
<td>Ms Susan Campbell</td>
<td>ARGYLL Financial Consulting</td>
<td>Director</td>
</tr>
<tr>
<td>Mr Craig Davis</td>
<td>KPMG</td>
<td>Director</td>
</tr>
<tr>
<td>Mr David Khuat</td>
<td>Omniwealth Services Pty Ltd</td>
<td>Research manager</td>
</tr>
<tr>
<td>Mr Kevin Masling</td>
<td>Bank of Scotland, Treasury</td>
<td>Head of risk</td>
</tr>
<tr>
<td>Mr Darren O’Connell</td>
<td>Synergy</td>
<td>Market risk and compliance manager</td>
</tr>
<tr>
<td>Mr John Tsekas</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Ms Sarah Smith</td>
<td>Kaplan Higher Education</td>
<td>Editor</td>
</tr>
</tbody>
</table>
Subject aims

This core subject introduces students to the concept of risk, its forms, how it is regulated and how it is managed in finance sector enterprises. Specifically, the subject provides students with introductory concepts and applications in relation to market, credit, operational, legal/regulatory and reputation risk, and how risk is considered in and outside enterprises. Students are also introduced to quantitative and qualitative concepts used in measuring risk, and ways of protecting against risk.

This subject links to the following course outcomes:

• Discuss and apply risk management strategies to inform financial decision making.
• Demonstrate creative and flexible approaches to solving complex problems in professional contexts.

It also builds towards generic graduate attributes of research and inquiry; ethical, social and professional understanding; and integration of theory and practice.

Subject learning outcomes

After successfully completing this subject students should be able to:

• Undertake basic statistical computations.
• Define the main types of risk and discuss the effect of risk on various finance sector enterprises.
• Identify and explain the components of risk and losses.
• Describe the role of regulators in risk management and discuss the effects of legal/regulatory and reputation risk on organisations.
• Explain how risk is identified and measured.
• Identify, assess and manage internal and external risks to assets, people and systems
• Explain the role of Basel II in risk management.

Prerequisites

There are no prerequisites for this core subject.
Assumed knowledge

Students are assumed to have a basic understanding of Microsoft® Excel (using the worksheet and cells, entering and editing data, working with formulas, formatting the worksheet, creating a chart, printing the worksheet and saving the worksheet).

It is also assumed that students undertaking this subject have a basic understanding of the financial markets and the participants in the market.

Study commitment

It is anticipated that the total study commitment time for this subject will be approximately 120 hours (10–11 hours per week). This includes:

- reading subject notes and any required readings (e.g. articles and textbook chapters)
- completing specified learning activities as set out in the subject notes and/or Subject Room (e.g. ‘Discuss this’ and/or ‘Apply your knowledge’ activities)
- listening to any pre-recorded lectures/presentations available in the Subject Room
- undertaking relevant research activities specified in the subject notes or assessment tasks
- preparing for and undertaking assessment activities.

Student support

Each student is allocated a Student Adviser when they enrol. For information or queries about administration matters relating to subjects or course progression, or to discuss confidential issues that may impact on study, students should contact their nominated Student Adviser. Contact details can be found in the Subject Room under ‘Contact Kaplan’.

Policies and forms

It is the student’s responsibility to be aware of relevant policies and how they apply to their study. Policies and forms for trimester-based study can be accessed on the Kaplan Professional website at <www.kaplanprofessional.edu.au> by selecting ‘Study information’ and then ‘Financial services’.

© Kaplan Higher Education
Subject snapshot

The table below provides a quick overview of this subject. It lists key learning activities for each topic, identifies when assessment items occur and recommends the study effort for each topic or assessment task. This snapshot is a useful tool for developing a study plan.

<table>
<thead>
<tr>
<th>Week</th>
<th>Topic</th>
<th>Topic name</th>
<th>Key learning activities</th>
<th>Recommended student effort</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>Topic 1</td>
<td>Describing risk: Measures of location and dispersion</td>
<td>Apply your knowledge, Discuss this</td>
<td>10 hours</td>
</tr>
<tr>
<td>2</td>
<td>Topic 2</td>
<td>Probability and measures of association</td>
<td>Apply your knowledge, Discuss this</td>
<td>10 hours</td>
</tr>
<tr>
<td>3</td>
<td>Topic 3</td>
<td>Normal distributions</td>
<td>Apply your knowledge, Discuss this</td>
<td>10 hours</td>
</tr>
<tr>
<td>4</td>
<td>Topic 4</td>
<td>Introduction to financial risk management</td>
<td>Apply your knowledge, Discuss this, Required reading</td>
<td>8 hours</td>
</tr>
<tr>
<td>5</td>
<td>Topic 5</td>
<td>Market risk</td>
<td>Apply your knowledge, Discuss this, Required reading</td>
<td>9 hours</td>
</tr>
<tr>
<td>6</td>
<td>Assessment 1 — Exam (Topics 1–4)</td>
<td></td>
<td></td>
<td>20 hours</td>
</tr>
<tr>
<td>6</td>
<td>Topic 6</td>
<td>Credit risk</td>
<td>Apply your knowledge, Discuss this, Required reading</td>
<td>9 hours</td>
</tr>
<tr>
<td>7</td>
<td>Topic 7</td>
<td>Operational risk</td>
<td>Apply your knowledge, Discuss this, Required reading</td>
<td>8 hours</td>
</tr>
<tr>
<td>8</td>
<td>Topic 8</td>
<td>Legal/regulatory and reputation risk</td>
<td>Apply your knowledge, Discuss this, Required reading</td>
<td>8 hours</td>
</tr>
<tr>
<td>9</td>
<td>Topic 9</td>
<td>Basel II and risk management</td>
<td>Apply your knowledge, Discuss this, Required reading</td>
<td>8 hours</td>
</tr>
<tr>
<td>12</td>
<td>Assessment 2 — Assignment</td>
<td></td>
<td></td>
<td>20 hours</td>
</tr>
</tbody>
</table>

Total 120 hours
Subject notes

Subject notes provide a structured learning pathway that integrates theory and real-world practice. A range of learning features ensures there is a breadth and depth to the content and as well as an opportunity for students to actively engage with the subject materials. Key learning features are described below.

Required readings

Required readings form an integral part of the subject and are essential in order to achieve the subject learning outcomes. Required readings are assessable content and may be journal papers, newspaper articles, chapters from textbooks or other material to assist your learning. They are identified in each topic.

There is no prescribed textbook for this subject. Required readings for this subject are included in the subject notes at the end of each topic or are accessible through designated areas such as the Subject Room, library or direct web links.

Further resources

Further resources provide students with an opportunity to gain a deeper understanding of a topic area. Students may access these resources out of personal interest, to assist in understanding a topic area, or to assist in preparation for an assessment item. Further resources may be textbooks, journal or newspaper articles, websites or other relevant material. These items are not assessable and are generally available in the Subject Room.

Examples and case studies

Examples and case studies demonstrate key applications. Examples may provide a worked calculation or illustrate a concept. Case studies provide a more detailed example that shows the complexities and ambiguities of applying theoretical concepts in real-life situations.

Applications and reviewing progress

The ‘apply your knowledge’ and ‘review your progress’ learning features provide students with the opportunity to actively engage with the subject materials. These activities can be completed independently. Answers to the activities are provided in the subject notes or Subject Room (unless otherwise stated) so that students can assess their level of knowledge.
Discussion Forum topics

Discussion Forum topics are referred to in the subject notes and can be accessed through the Subject Room. The discussion topics offer students the opportunity to participate in structured or unstructured discussions with other students, facilitated by an industry practitioner who is an expert in the field. By participating in these discussions, students can build their knowledge and understanding as well as contribute to the learning of others. Students are also encouraged to initiate their own discussions that may relate to subject content, assessment or general administrative queries.

Subject Room

The Subject Room is the primary communication point for this subject and provides access to a range of resources and services. Students can access the Subject Room with their personal ID and password via the Kaplan Professional website at <www.kaplanprofessional.edu.au> by selecting ‘My Kaplan login’ then ‘My Studies’ and following the prompts. If students have any difficulties logging in or have forgotten their password, they should contact their Student Adviser.

The Subject Room contains:
- announcements about the subject
- information about joining a study group for the subject
- access to the Discussion Forum
- further resources and other self-assessment tools and learning activities
- lecture recordings on individual topics
- access to Kaplan Library and its databases, catalogue and collections
- assignments and other assessment-related material
- information about subscribing to RSS feeds
- a Study Guide to provide strategies for studying and preparing for assessments.

Resource requirements

Details of resource requirements are available on the Kaplan Professional website at <www.kaplanprofessional.edu.au> under ‘Study information’. As a minimum, students will need access to a computer with at least Microsoft® Word, Excel and PowerPoint (or their equivalent) installed. Access to the internet and a current active email account is also required.
Assessment

Detailed information about due dates, assessment content, assignment submission, and exam locations and times is posted in the Subject Room. Weightings and due dates for each assessment item are outlined in the table below.

<table>
<thead>
<tr>
<th>Assessment Item</th>
<th>Weighting</th>
<th>Week due</th>
</tr>
</thead>
<tbody>
<tr>
<td>1. Exam (Topics 1–4)</td>
<td>40%</td>
<td>Week 6</td>
</tr>
<tr>
<td>2. Assignment</td>
<td>60%</td>
<td>Week 12</td>
</tr>
</tbody>
</table>

Submission of assignments

Assignments must be received by the due date specified in the Subject Room. Details of how to submit assignments can be found in the Subject Room under ‘Your assignment’. Kaplan will only accept late submission of assignments under exceptional circumstances. Refer to the Assessment Policy for more information.

Pass requirements

To pass this subject, students must achieve a combined result from all assessment items of at least 50%. Students who receive less than 50% in any assessment item may continue in the subject and still pass the subject, provided they meet the overall 50% criteria. Students should read the Assessment Policy for further details.

Sample assessments

Practice questions and/or sample assessments may be included in the Subject Room. These provide students with an opportunity to review the structure, style and types of questions they can expect in an exam or assignment. While these sample assessments reflect the general style and level of assessments, they do not include material which is presented in the actual assessments for this subject.
Notes