



**Asia-Pacific  
Economic Cooperation**

**2008 AFDC Workshop on Risk Management in  
Commercial Bank:  
Enhancing Risk Management and Governance in the  
Region's Banking System to Implement Basel II and  
to Meet Contemporary Risks and Challenges Arising  
from the Global Banking System**

**APEC Finance Ministers' Process**

**December 2008**

Reproduced electronically in May 2009

FIN 01/2008A

Produced by  
Melbourne APEC Finance Centre (MAFC)  
Asia-Pacific Finance and Development Center (AFDC)

For  
APEC Secretariat  
35 Heng Mui Keng Terrace Singapore 119616  
Tel: (65) 6891 9600 Fax: (65) 6891 9690  
Email: [info@apec.org](mailto:info@apec.org) Website: [www.apec.org](http://www.apec.org)

© 2009 APEC Secretariat

APEC#209-SO-04.1



---

## **Enhancing Risk Management and Governance in the Region's Banking System to Implement Basel II and to Meet Contemporary Risks and Challenges Arising from the Global Banking System**

**~ Training Program ~**

**8 – 12 December 2008**

**Shanghai, China**

**With video links to Sri Lanka and Mongolia**

### **Background:**

This training program is funded by the APEC Secretariat through the APEC Support Fund and by the Melbourne APEC Finance Centre (MAFC) and is being jointly implemented by the Asia-Pacific Finance and Development Center (AFDC) in Shanghai and MAFC.

Policy makers and regulators from APEC developing economies banking supervisory systems will be exposed to current thinking and practices regarding the implementation of Basel II from both a regulatory and an industry practitioners' perspective. The course will focus on key aspects of risk; credit, market, and operational risks and the techniques to measure and manage risk. Liquidity risk and the pressures arising from the global financial crisis, tightening global credit and liquidity conditions and measures to deal with them in the region's banking systems will be analysed. How banking regulators might approach banking risks arising under current liquidity conditions will be considered. The pressures for reforms to governance arrangements in banking supervisory agencies and in commercial banks to implement Basel II and to manage emerging financial pressures will be considered.

### **Structure:**

The program will consist of a four day training program – from 8 to 11 December 2008 – followed by one day of site visits to financial institutions in Shanghai.

### **Economies involved:**

The training program will involve senior regulatory policy makers and APEC banking regulators from China, Indonesia, Malaysia, the Philippines, Thailand, Vietnam, Mexico, Peru and Russia. Non-APEC representatives from Bangladesh, Cambodia, Sri Lanka and Mongolia will also participate.

## COURSE PROGRAM

<b>DAY ONE ~ Monday 8 December 2008</b>		
	<b>8:30 – 8:45</b>	Registration and administration matters – Centres Staff
<i>Morning Coordinator: Dr Li Kouqing, AFDC</i>		
<b>Session 1</b>	<b>8:45 – 9:00</b>	Orientation: Introduction to the Training Program
	<i>Presenter</i>	<b>Dr Li Kouqing, AFDC</b>
<b>Session 2: The Contemporary Banking Environment</b>		
<b>Session 2.1</b>	<b>9:00 – 9:50</b>	<b>Recent Developments in Banking Supervision and in the Implementation of Basel II</b> – The objectives of Basel II, the underpinning philosophy of the regulatory approach and the main regulatory features involved and an outline of the major outstanding challenges in implementation.
	<i>Presenter</i>	<b>Mr Luo Ping, CBRC</b>
<b>Session 2.2</b>	<b>9:50 – 10:30</b>	<b>Lessons from the sub-prime crisis and implications for bank supervisors and Basel II</b> – Systemic stability and Central Bank liquidity management techniques, deposit insurances and “bail outs”, internal models and rating failures as well as governance issues
	<i>Presenters</i>	<b>Prof Kevin Davis, Melbourne Centre for Financial Studies</b> <b>Mr Luo Ping, CBRC</b>
	<b>10:30 – 10:50</b>	Morning tea / coffee break
<b>Session 2.3</b>	<b>10:50 – 12:30</b>	<b>APEC Economy Issues</b> – Course participants will make presentations on key issues facing bank regulators in their home economy
	<i>Coordinators</i>	<b>Prof Kevin Davis, Melbourne Centre for Financial Studies</b> <b>Mr Paul McCarthy, PWMC Consulting</b>
	<b>12:30 – 13:30</b>	Lunch
<i>Afternoon Coordinator: Prof Kevin Davis, Melbourne Centre for Financial Studies</i>		
<b>Session 3: Issues in Contemporary Risk Management</b>		
<b>Session 3.1</b>	<b>13:30 – 15:00</b>	<b>Introduction to Value at Risk</b> – An interactive session demonstrating concepts, strengths and weaknesses of VAR and its role in determining capital requirements under the Basel Framework
	<i>Presenter</i>	<b>Dr Christine Brown, University of Melbourne</b>
	<b>15:00 – 15:20</b>	Afternoon tea / coffee break
<b>Session 3.2</b>	<b>15:20 – 16:00</b>	<b>Major Risk Types in Banking</b> – Bank management structures for identifying risks and risk-based pricing
	<i>Presenter</i>	<b>Prof Kevin Davis, Melbourne Centre for Financial Studies</b>
<b>Session 3.3</b>	<b>16:00 – 17:30</b>	<b>Group Case Studies</b> – Participants will examine a number of high profile failures in bank risk management practices and report on reasons for governance and supervisory failures
	<i>Coordinators</i>	<b>Prof Kevin Davis, Melbourne Centre for Financial Studies</b> <b>Dr Christine Brown, University of Melbourne</b> <b>Mr Paul McCarthy, PWMC Consulting</b>
<b>Reception</b>	<b>18:15</b>	An opening night reception hosted by AFDC featuring dinner

## DAY TWO ~ Tuesday 9 December 2008

	<b>8:45 – 9:00</b>	Welcome and administration matters – Centre Staff
<i>Day Coordinator: Dr Christine Brown, University of Melbourne</i>		
<b>Session 4: Capital Measurement and Adequacy</b>		
<b>Session 4.1</b>	<b>9:00 – 9:50</b>	<b>Capital Adequacy Standards and the Role of Bank Capital</b> – Discusses the role of bank capital, measurement of capital, economic capital, regulatory capital requirements
	<i>Presenter</i>	<b>Prof Kevin Davis</b> , Melbourne Centre for Financial Studies
<b>Session 4.2</b>	<b>9:50 – 10:30</b>	<b>Asset Liability and Management</b> – Discusses interest rate risk in the banking book, Basel II approach, the tools for ALM and bank practices and the regulatory template
	<i>Presenter</i>	<b>Dr Christine Brown</b> , University of Melbourne
	<b>10:30 – 10:50</b>	Morning tea / coffee break
<b>Session 4.3</b>	<b>10:50 – 11:40</b>	<b>Asset Liability Management Workshop</b> – Participants will work through an example of assessing a hypothetical bank’s interest rate risk using a regulatory template from one of the region’s supervisory authorities
	<i>Coordinator</i>	<b>Dr Christine Brown</b> , University of Melbourne
<b>Session 4.4</b>	<b>11:40 – 12:10</b>	<b>Bank Capital Management Practices</b> – Discusses capital planning, bank capital instruments and the cost of capital
	<i>Presenter</i>	<b>Prof Kevin Davis</b> , Melbourne Centre for Financial Studies
	<b>12:10 – 13:10</b>	Lunch
<b>Session 5: Managing Liquidity</b>		
<b>Session 5.1</b>	<b>13:10 – 13:50</b>	<b>Definition Issues and Managing in Times of Market Disruption</b> – Difficulties in defining concepts and measuring liquidity, problems arising from market disruption and inability to realise assets in sub-prime crisis, the role of Central Banks in ensuring adequate aggregate liquidity (using non-government paper as collateral in reposessions/ securities loans etc)
	<i>Coordinator</i>	<b>Prof Kevin Davis</b> , Melbourne Centre for Financial Studies
<b>Session 5.2</b>	<b>13:50 – 14:30</b>	<p><b>Workshop Comprising Small Groups to Respond to the Following Question</b> – “You are a regulator in an economy currently experiencing a significant degree of financial market turbulence and are concerned about the liquidity positions and liquidity management and planning by the banks your supervise. What are the five most important pieces of information (which could be particular numbers/statistics, descriptions of policies and procedures, commercial arrangements, simulations, etc.) you would demand from your banks to assess their liquidity exposure and their ability to manage this?”</p> <p>You should also note other pieces of information you would like. Appoint a group representative to report back to facilitated discussion where similarities and differences between the lists developed by each group will be discussed.</p>
<b>Session 5.3</b>	<b>14:30 – 15:00</b>	<b>Facilitated Discussion on Liquidity Management Workshops</b>
	<i>Coordinator</i>	<b>Prof Kevin Davis</b> , Melbourne Centre for Financial Studies

	<b>15:00 – 15:20</b>	Afternoon tea / coffee break
<b>Session 5.4</b>	<b>15:20 – 16:15</b>	<b>Commercial Bankers' Perspectives on Handling Liquidity Pressures</b> – Australian banking perspective
	<i>Presenter</i>	<b>Mr Bruce Le Bransky, NAB</b>
<b>Session 5.5</b>	<b>16:15 – 17:00</b>	<b>Group Discussion between Presenters and Participants</b>
	<i>Coordinator</i>	<b>Mr Paul McCarthy, PWMC Consulting</b>

### **DAY THREE ~ Wednesday 10 December 2008**

	<b>8:45 – 9:00</b>	Welcome and administration matters – Centre Staff
<i>Morning Coordinator: Dr Peng Runzhong, AFDC</i>		
<b>Session 6: Strategies for Handling Operational Risk</b>		
<b>Session 6.1</b>	<b>9:00 – 09:40</b>	<b>Regulators' Perspectives on Handling Operational Risk in the Region's Banking Systems</b>
	<i>Presenter</i>	<b>Mr Luo Ping, CBRC</b>
<b>Session 6.2</b>	<b>09:40 – 10:20</b>	<b>Group Discussion</b> coordinated by <b>Mr Luo Ping, CBRC</b>
	<b>10:20 – 10:40</b>	Morning tea / coffee break
<b>Session 6.3</b>	<b>10:40 – 11:10</b>	<b>Basel II Approach to Operational Risk</b> – Discusses how separate capital charge for operational risk ought to be calculated and applied
	<i>Presenter</i>	<b>Dr Zhao Xian Xin, Shanghai Pudong Development Bank, TBC</b>
<b>Session 6.4</b>		<b>Commercial Bankers' Perspectives on Managing Operational Risk</b> – Discusses how to measure operational risk, the limits and constraints of models and techniques and how to manage operational risk in practice
	<b>11:10 – 11:40</b>	Australian banking perspective
	<i>Presenter</i>	<b>Mr Bruce Lebransky, NAB</b>
	<b>11:40 – 12:10</b>	Chinese banking perspective
	<i>Presenter</i>	<b>Dr Zhao Xian Xin, Shanghai Pudong Development Bank</b>
	<b>12:10 – 13:30</b>	Lunch
<i>Afternoon Coordinator: Mr Paul McCarthy, PWMC Consulting</i>		
<b>Session 7: Strategies to Enhance Governance in Regional Banking Regulatory Agencies and Commercial Banks</b>		
<b>Session 7.1</b>	<b>13:30 – 14:00</b>	<b>Developments in Governance Reforms in China's Banking Systems</b> – Discusses benefits and challenges and benchmarking
	<i>Presenter</i>	<b>Mr Qian Yi, ICBC</b>
<b>Session 7.2</b>	<b>14:00 – 14:30</b>	<b>Australian Banking Responses</b> – Challenges to Governance Structures Caused by International Financial System Turbulence
	<i>Presenter</i>	<b>Mr Bruce Le Bransky, NAB</b>
<b>Session 7.3</b>	<b>14:30 – 15:00</b>	<b>Responses to Challenges</b> – Exposed in Current Climate of Weaknesses in Internationally Operating Banks and Governance Arrangements
	<i>Presenter</i>	<b>Mr Paul McCarthy, PWMC Consulting</b>

	<b>15:00 – 15:20</b>	Afternoon tea/coffee break
<b>Session 7.4</b>	<b>15:20 – 16:30</b>	<b>Group Discussion on Effectiveness of Governance Standards in Regional and International Banking</b>
	<i>Coordinator</i>	<b>Mr Paul McCarthy, PWMC Consulting</b>

### **DAY FOUR ~ Thursday 11 December 2008**

	<b>8:45 – 9:00</b>	Registration and administration matters – Centres Staff
--	--------------------	---

*Morning Coordinator: Mr Ken Waller, MAFC*

#### **Session 8: Market discipline in Bank Risk Management Practices and Impact of Pillar 3 of Basel II**

<b>Session 8.1</b>	<b>9:00 – 10:00</b>	<b>Pillar 3 Basel II</b> – Discusses how this pillar impacts on risk management provides insights into its effectiveness or otherwise and banks’ perceptions of Pillar 3 and its Operation
	<i>Presenter</i>	<b>Mr Bruce Le Bransky, NAB</b>
<b>Session 8.2</b>	<b>10:00 – 10:30</b>	<b>Group Discussions between Presenter and Participants</b>
	<i>Coordinator</i>	<b>Mr Ken Waller, Melbourne APEC Finance Centre</b>
	<b>10:30 – 10:50</b>	Morning tea / coffee break

#### **Session 9: Challenges in Managing National Foreign Exchange Reserves**

<b>Session 9.1</b>	<b>10:50 – 11:30</b>	<b>China’s Approaches to Reserve Management</b>
	<i>Presenter</i>	<b>Mr Wei Benhua, People’s Bank of China</b>
<b>Session 9.2</b>	<b>11:30 – 12:30</b>	<b>Group Discussions between Presenter and Participants</b>
	<i>Coordinator</i>	<b>Mr Ken Waller, Melbourne APEC Finance Centre</b>
	<b>12:30 – 13:30</b>	Lunch

*Afternoon Coordinator: Mr Bruce Le Bransky, NAB*

#### **Session 10: Review of Contemporary Challenges in Risk Management in the Region’s Banking Systems**

<b>Session 10.1</b>	<b>13:30 – 14:30</b>	<b>Workshop Comprising Small Groups to Respond to the Following Question</b> – “You are a regulator supervising domestic banks, some with operations in other jurisdictions, and internationally operating banks in your jurisdiction, and you are concerned at the spread of risk arising from market turbulence. Analyse what you think are the most effective governance structures in your agency to handle risk impacting on your responsibilities; what are the key measures you need to have place with the various groups of banks you supervise and what do you consider are the critical aspects of your agency’s relationships with foreign supervisors and with other groups”.  Groups must appoint a group representative to report back to a facilitated discussion where responses by each group will be discussed
	<i>Coordinators</i>	<b>Mr Ken Waller, Melbourne APEC Finance Centre</b> <b>Mr Paul McCarthy, PWMC Consulting</b> <b>Mr Bruce Le Bransky, NAB</b>

<b>Session 10.2</b>	<b>14:30 – 15:00</b>	<b>Facilitated Discussion on Contemporary Challenges in Risk Management in the Region's Banking System Workshops</b>
	<i>Coordinator</i>	<b>Mr Ken Waller</b> , Melbourne APEC Finance Centre
	<b>15:00 – 15:20</b>	Afternoon tea / coffee break
<b>Session 11</b>	<b>15:20 – 16:15</b>	<b>Panel Discussion on Review of Program and Key Outcomes</b>
	<i>Coordinator</i>	<b>Mr Ken Waller</b> , Melbourne APEC Finance Centre
<b>Session 12</b>	<b>16:15 – 16:45</b>	<b>Review of APEC's Capacity Building Programs, Further Initiatives and Concluding Remarks</b>
	<i>Coordinator</i>	<b>Dr Li Kouqing</b> , AFDC

<b>DAY FIVE ~ Friday 12 December 2008</b>	
<b>Site Visits Program</b>	
<b>9:20 – 10:10</b>	Visit to Shanghai Stock Exchange Centre
<b>10:30 – 11:30</b>	Visit to Pudong Development Bank
<b>11:30 – 13:00</b>	Lunch at Lv Bo Lang Restaurant (Yu Garden)
<b>13:30 – 14:30</b>	Tour of the Yu Garden area
<b>15:00 – 16:00</b>	Cruise on Huangpu River