

PROMETEIA RISK ACADEMY

# FTP Masterclass

*A deep dive into the best practices of **Funds Transfer Pricing**:  
the missing link between Risk Management, Performance  
Measurement and Balance Sheet Optimisation*

# FTP Masterclass

**Measuring accurately the cost of funding through Funds Transfer Pricing (FTP)** is not only crucial to understand the **sources of profitability** in a financial institution, but it has also become a fundamental need for **managing effectively market and liquidity risk**. Over the past few years, FTP has been increasingly subject to scrutiny and debate across banking organisations, and **regulators have stressed its importance** for sound liquidity risk management. **Furthermore, the characteristics of the local market** in which a Bank operates and the peculiarities of its business model **generate further challenges** when defining the FTP methodology and framework.

## YOUR EXPERT TRAINERS

**Prometeia has a unique track record in the field of ALM & Funds Transfer Pricing:**

- **Over 70 ALM and FTP projects successfully delivered in the last 3 years** in EMEA supporting business processes and regulatory compliance of Risk, Finance and Treasury
- **Over 500 implementation consultants and IT engineers fully dedicated to Risk projects** (ERM and Buy-side), of which 300 specialised in ALM, Market and Liquidity Risk management
- **Over 25 years of experience in developing ALM solutions**, covering IRRBB, Managerial and Regulatory Liquidity, FTP, Hedge Accounting and other related fields

## THE COURSE

**This two-day course addresses Funds Transfer Pricing from its foundations. It will show how FTP plays a key role in steering multiple strategic processes of the bank such as performance measurement, risk allocation and external pricing.**

Participants will be taken through the **breakdown of FTP into its elementary components**, reflecting the interest rate and liquidity risk embedded in each transaction originated by the bank. **The first day will initiate the discussion about the methodologies** commonly used to calculate each FTP “building block”. It will explore the different approaches for building the FTP curves necessary to price the FTP Base Rate and Funding Spread components. **The second day will deep-**

**en the FTP analysis for the main asset and liability classes** of a typical commercial bank, considering the impact of **behavioural assumptions and unexpected events** (prepayments, impairments, renegotiations, etc.) on the FTP calculation. Practical case studies will be used as support during the workshop to show how to apply the key principles. **The course will also cover the analysis of Treasury P&L**, reflecting the risk allocation model adopted by the Bank when implementing the FTP framework. **The course will conclude with the challenges** that are common in FTP implementation, both in terms of governance and technological architecture. **Participants will be actively encouraged to discuss issues relating to their own bank and local market.**

## THE TRAINING PACKAGE INCLUDES:

- **Live interactive workshop** with no limit to the number of participants from the Bank
- **Combination of industry best practices and concrete experience** acquired in both advanced and emerging markets
- **Practical case studies** allowing participants to put theory into practice
- **Comprehensive take-away course documentation**
- **Post-course contact with trainers** to address individual and business concerns

## HOW WILL YOU BENEFIT?

**This 2-day course will be highly interactive with practical examples** to explain concepts and group discussion will be encouraged throughout. Attendees will take away an understanding of:

- **The role of FTP** from both Risk and Performance perspectives
- **How FTP can be split in several pricing components** reflecting the underlying risks
- **What the impact of behavioural modelling** is in terms of FTP computation
- **How to define the centralising risk books** (pools) and analyse their P&L

Plus

- **The industry's best practices** for FTP, both in advanced and emerging markets
- **The challenges the Bank will have to face** when designing the FTP methodologies and implementing the calculation process

## WHO SHOULD ATTEND?

**The course is suitable for:**

- **Risk, ALM, Treasury, and Finance** departments
- **Commercial Units** (Retail, Corporate, SME)
- **Other governance functions** such as Planning, IT, Internal Audit or Regulatory Reporting who seek an overview of the subject

## PROGRAMME

## DAY 1

### Fundamentals of FTP

- **Role of FTP** in modern banking organisations
- **FTP golden rules** and basic principles
- **Cornerstones** of the FTP model and organisational framework
- **The building blocks approach** to Funds Transfer Pricing

### Interest Transfer Price (ITP)

- Building the **Base Rate** curve
- Quantification of the hedging cost for **Basis Risk**
- Quantification of the hedging cost for **Optionality Risk**
- Treatment of **early termination options** and incurred prepayments

### Liquidity Transfer Price (LTP)

- Building the **Funding Spread** curve
- The extrapolation of funding spreads: wholesale, retail and “**blended**” **cost of funding**
- Quantification and allocation of the cost of maintaining a **Mandatory Cash Reserve**
- Quantification and allocation of the cost of holding a **Liquid Assets Buffer**

## DAY 2

### FTP Rates Calculation by Product Cluster

- Definition of **FTP products segmentation**
- Design of **FTP methodology** for each product segment
- Incorporating **behavioural assumptions** into product modelling
- Modelling of provisions, NPLs and **credit events**
- Modelling of equity and other **non-maturing assets and liabilities**

### Practical Case Study

- **Case study:** calculation of FTP rates for typical commercial products

### Allocation of FTP Charges and Revenues

- Definition of FTP **organisational framework**
- **The role of the ALM centre** as a virtual pool of FTP flows
- **Allocation rules** for FTP credits and debits

### FTP Implementation Challenges

- **Governance** of the FTP Model and possible derogations
- **The first time adoption**
- Definition of an **effective IT architecture** to support FTP and the integration of Risk and Performance Management analyses

# About Prometeia

Prometeia is a global provider of consulting services and business solutions focused on Risk & Performance Management. Since 1974, we supply highly specialised advisory, analytical tools and research programs, integrating quantitative models, market and customer data, financial and economic scenarios. With over 700 industry experts, we serve over 200 financial institutions in 20 different countries, through a consolidated network of foreign branches and subsidiaries located in Europe, Africa and Middle East. Prometeia's client base includes primary financial institutions, central banks and multilateral organisations, as well as local banks and credit unions.

## OUR UNIQUE BUSINESS MODEL COMBINES



Prometeia's business model sets it apart from traditional professional training providers: its teaching relies heavily on real world practical experience, since Prometeia's matter-experts are constantly involved in the delivery of Risk Management projects in a multitude of banks and financial institutions. Prometeia's training mission is to add value to customers by building a bridge between economic theory, econometrics, finance and day-to-day banking challenges.