

# Capital Allocation

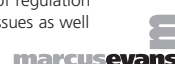
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New York City, USA

May 18 & 19, 2006

## “Discover how to effectively link economic capital allocation to business strategy”

This key industry conference will examine the direct impacts of regulation on capital management practices, focusing on key strategic issues as well as specific risk considerations.



### Gain insights into vital issues:

- Optimization of economic capital allocation under the new regulatory constraints: Basel IA and Basel II
- Accounting standards and their impact on capital allocation
- Effective enterprise-wide stress testing approaches and applications
- Strategy and business decisions: The link to effective capital allocation
- Bank shareholder value and competitiveness: Basel IA and Basel II
- Capital allocation for specific risk types

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### In the Chair:

**Jonathan Greenman**  
Director, Capital Allocation  
**Citigroup Corporate & Investment Bank**

**Michael Carhill**  
Director, Risk Analysis  
**Office of the Comptroller of the Currency, US Treasury Department**

### Your expert speaker panel:

**Michel Araten**  
Managing Director  
**JPMorgan Chase**

**Atoosa Guity**  
Vice President, Basel II Project  
**Bank of New York**

**Alejandro Latorre**  
Risk Management Officer,  
Market and Liquidity Risk  
**Federal Reserve Bank of New York**

**Michael Carhill**  
Director, Risk Analysis  
**Office of the Comptroller of the Currency, US Treasury Department**

**Jonathan Greenman**  
Director, Capital Allocation  
**Citigroup Corporate & Investment Bank**

**Samir Nangea**  
Principal, Global Financial Services  
**Ernst & Young**

**Keith Heyen**  
Vice President, Treasury  
**Wachovia Corporation**

**Guoquiang Li**  
Principal Quantitative Analyst  
**American International Group Inc.**

**Dr. Joseph L. Breeden**  
President and Chief Operating Officer  
**Strategic Analytics Inc.**

**Geoffrey Rubin**  
Director, Economic Capital Group  
**Capital One**

**Peter Hirsch**  
Chief, Large Bank Supervision  
**FDIC**

**John Stewart**  
First Vice President, Manager Economic Capital Group  
**Washington Mutual**

**Peter Miu**  
Assistant Professor of Finance, DeGroote School of Business  
**McMaster University**

**Bogie Ozdemir**  
Director, Risk Assessment and Modeling Group  
**Standard & Poor's**

**Mary Frances Monroe**  
Manager, Supervisory and Risk Policy  
**US Federal Reserve Board of Governors**

**Matthew Foss**  
Senior Technical Team Leader, Quantification and Modeling Group, Supervision and Regulation  
**Federal Reserve Bank of Chicago**

**Hans Helbekkmo**  
Managing Director, ERisk  
**SunGard BancWare**



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8:30 Registration and Coffee

9:00 Opening Address from the Chair

**Jonathan Greenman**

Director, Capital Allocation

**Citigroup Corporate & Investment Bank****REGULATORY DEVELOPMENTS**9:15 **Capital Allocation and Basel II – The Regulatory Horizon**

- Understanding the current state and anticipating policy plans for implementation from the regional US regulatory agencies
- Determining the critical steps for effective implementation of Basel IA
- How to integrate regulatory compliance, risk management and business strategy into coherent bank governance structure
- Maximizing the transformation potential – The interaction between the regulatory framework and industry practices
- Implementing the appropriate practices for linking risks to capital allocation

**Peter Hirsch**

Chief, Large Bank Supervision

**FDIC**10:00 **Internal Capital Adequacy and the Risk Profile**

- Differences in risk perception and objectives among stakeholders
- What is an internal capital adequacy assessment program?
- Supervisory expectations of "ICAAP"
- "Distribution wide risk management" and how it can help

**Matthew Foss**

Senior Technical Team Leader, Quantification and Modeling Group, Supervision and Regulation

**Federal Reserve Bank of Chicago**

10:45 Networking Break

11:15 **Case Study****Optimization of Economic Capital Allocation and Comparison to the New Regulatory Constraints – Basel IA and Basel II**

- Understanding how the new regulations will impact your company's capital management approach
- Selecting the appropriate methods for assessing regulatory capital for credit, market and operational risks
- Complementing your risk assessments by developing internal economic capital models
- Considering how to determine an optimal capital level and structure for your bank
- Developing risk-adjusted performance measures, capital allocation and risk management schemes to improve performance

**John Stewart**

First Vice President, Manager Economic Capital Group

**Washington Mutual**12:00 **Case Study****Developing the Internal Ratings Based Approach**

- Examining the internal ratings based approach
- Anticipating the regulators examination of the internal risk rating procedures
- Developing a comprehensive, coordinated, independent review process to ensure that ratings are accurate and that the rating system is performing as intended
- The essential control and management oversight mechanisms for a reliable internal ratings system

**Atoosa Guity**

Vice President, Basel II Project

**Bank of New York**

12:45 Lunch

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**THE RATING AGENCY PERSPECTIVE**2:00 **The Impact of Basel II on Capital Management Practices**

- A look at the inputs to Basel capital: PDs, LGDs, correlations
- The role of correlations: Correlations are specific to the risk rating philosophy
- PD and LGD correlations: Downturn correlations, how much do we need to increase the expected LGD to account for the correlation effect?
- The philosophical differences: Basel capital is likely to be a-cyclical, whereas economic capital is more cyclical
- How are we going to manage the difference: Gap allocation, performance management – Sending the right incentive
- The role of stress testing and validation

**Bogie Ozdemir**

Director, Risk Assessment and Modeling Group

**Standard & Poor's****CAPITAL ALLOCATION AND BUSINESS STRATEGY**2:45 **Case Study****Strategy and Business Decisions – The Link to Effective Capital Allocation**

- Questioning the management – The limits of statistical analysis in risk management and strategic decision making
- Qualifying the promises and the potential of quantitative analysis for effective risk management across the enterprise
- Basel and strategic decision making – Implications for economic capital
- Organizational approach – Embedding an economic capital culture into firm strategy

**Jonathan Greenman**

Director, Capital Allocation

**Citigroup Corporate & Investment Bank**

3:30 Networking Break

3:45 **Bank Shareholder Value and Competitiveness Basel IA and Basel II**

- Effect of Basel IA on the current risk modeling and measurement structure
- Anticipated effect on shareholder value and stock markets response to Basel IA adoption
- Ensuring that capital is effectively allocated among different activities in a bank to maximize shareholder value
- Regulatory valuation of transparency and risk architecture of these banks

**Geoffrey Rubin**

Director, Economic Capital Group

**Capital One**4:30 **Driving Economic Value: The Link Between Capital Allocation and Returns**

- Observing the link between accounting and capital allocation measurements and risk architecture
- Basel II and IAS – the new world order for capital allocation
- Impact of emerging and more stringent standards and possible issues in implementation of transparent risk architectures
- Determining the conflicts of IAS with Basel and creating a flexible risk structure for the future

**Samir Nangea**

Principal, Global Financial Services

**Ernst & Young**

5:15 Closing Remarks from the Chair

5:20 End of Day One

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8:30 Re-Registration and Coffee

9:00 Opening Address from the Chair

**Michael Carhill**

Director, Risk Analysis

**Office of the Comptroller of the Currency,  
US Treasury Department****SPECIFIC RISK CONSIDERATIONS AND CAPITAL ALLOCATION**9:10 **Estimating Key Credit Risk Parameters**

- Ratings and PDs
- Validation strategies for PDs
- LGD measurement issues
- Economic vs regulatory considerations

**Michel Araten**

Managing Director

**JPMorgan Chase**9:50 **Unique Aspects of Economic Capital for Retail Lending**

- Challenges in measuring PD, LGD, and EAD on actively managed portfolios
- Simulation-based approaches to computing capital for retail portfolios
- Scaling relationships learned from industry portfolios regarding:
  - Loss rate versus volatility
  - Lifetime capital calculation
  - Computing incremental capital

**Dr. Joseph L. Breeden**

President and Chief Operating Officer

**Strategic Analytics Inc.**

10:30 Networking Break

10:50 **Issues in the Allocation of Operational Risk Capital**

- Allocation at the group level
- Allocation below the group level
- Regulatory constraints
- Insurance and EL considerations

**Keith Heyen**

Vice President, Treasury

**Wachovia Corporation**11:30 **Effective Strategies and Modeling for Market Risk: Integration Across Business Lines**

- Applying the appropriate models for market risk and strategies for integration through business lines and across geographic regions
- Identification of market risk drivers and approaches to related economic capital allocation
- Examining the efficient calculation and allocation of diversification benefits to overcome the practical implementation
- Aggregation and correlations of risk drivers in relation to regulatory capital

**Alejandro Latorre**

Risk Management Officer, Market and Liquidity Risk

**Federal Reserve Bank of New York**12:10 **Case Study****Correlation, Aggregation and Capital Allocation at a Global Financial Conglomerate**

- Motivations for economic capital model and capital allocation
- Multi facets of risks: Credit risk, market risk, insurance risk, operational risk
- Firm-wide capital versus business unit stand-alone capital:
  - The role of diversification
- Correlation and diversification within risk categories
- Correlation and diversification across risk categories
- Correlation and diversification between different business units
- Case studies

**Guoqiang Li**

Principal Quantitative Analyst

**American International Group Inc.**

12:50 Lunch

2:00 **Economic Capital Allocation and Trading Book Capital Valuation**

- Understanding the eligibility for trading book capital treatment, financial instruments free of any restrictive covenants
- The importance of prudent valuation and guidance for positions in the trading book especially for less liquid positions
- Valuation estimates confidence – Systems and controls to avoid supervisory concerns about internal prudent valuations
- Possible treatment of incremental default risk in the trading book

**Mary Frances Monroe**

Manager, Supervisory and Risk Policy

**US Federal Reserve Board of Governors**2:40 **How to Allocate Capital to Business Units – Tackling the Problems of Diversification Benefits and Excess Capital**

- Incorporation of diversification in economic capital models
- Common problems with capital allocation to business units
- Aligning business unit incentives with firm-wide objectives
- Dealing with excess capital
- Moving to advanced portfolio management

**Hans Helbekkmo**

Managing Director, ERisk

**SunGard BancWare**

3:20 Networking Break

**STRESS TESTING AND DEFAULT ESTIMATION**3:40 **Distinguishing Between Stress Testing for Risk Management Purposes and Stress Testing for Capital Allocation Purposes**

- Distinguishing capital allocation from risk management
- The priority of plausibility over probability in stress testing
- Describing best practices as to how stress tests are used for risk management across differing lines of business
- Ensuring new regulation does not compromise the risk management uses of stress testing

**Michael Carhill**

Director, Risk Analysis

**Office of the Comptroller of the Currency,  
US Treasury Department**4:20 **Estimating and Modeling of PD and LGD Correlations With Respect to Basel's Downturn LGD Requirement**

- What is LGD philosophy?
- Does Basel call for an a-cyclical LGD philosophy? The motivation behind the down-turn LGD requirement
- What are the different types of correlations in play? Estimating and modeling different types of correlations
- Estimating long run PDs from default rate time series
- In economic capital terms, how much does the mean LGD need to be increased to account for the omission of correlations?
- Some empirical results

**Peter Miu**

Assistant Professor of Finance, DeGroote School of Business

**McMaster University**

5:00 Closing Remarks from the Chair

5:10 Close of Conference

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# Capital Allocation

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The impact of Basel II is largely dependent on the environment where the bank is regulated, as it is different for each region. In the US, regulatory pressures have raised the status of the risk group and these pressures can distract from strategic business projects. It is true that regulatory compliance is a significant driver, but most banks' capital allocation management aspirations span beyond this. Key players also seek to gain competitive advantage through an effective enterprise-wide capital allocation management structure.

This timely **marcus evans** conference creates an interactive forum to improve the capital allocation knowledge needed to stay ahead of the curve of current and future banking regulations and optimize the capital allocation architecture with the ultimate goal of creating solid corporate governance and optimal returns on capital.

For special discounts on multiple bookings, please contact:

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### Who should attend?

#### From the Banking Industry / From Financial Services Providers:

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