



Co-funded by the
Erasmus+ Programme
of the European Union



Course Package “Regulation of banking activities”

Work Package	WP3: Development of Course Materials for the Reformed MA Programmes, Deliverable 3.1
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Document History

Version	Date	Author(s)	Description
1.	15.12.2018	Gurgen MURADYAN	1 st Draft of Development of Course Materials
2.	21.01.2019	Olivier BRUNO Srdjan REDZEPAGIC Eric NASICA	Revised version of 1 st Draft of Development of Course Materials
3.	28.01.2019	Gurgen MURADYAN	2 nd Draft Review-Updating of Course Materials
4.	30.01.2019	Olivier BRUNO Srdjan REDZEPAGIC Eric NASICA	Revised version of 2 nd Draft of Development of Course Materials
5.	02.02.2019	Gurgen MURADYAN	Final version of Course Materials

Disclaimer:

This project has been funded with support from the European Commission. This publication [communication] reflects the views only of the author, and the Commission cannot be held responsible for any use which may be made of the information contained therein.

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1. General information about the course

Title of the course (as specified in the reformed curriculum)	Regulation of banking activities
Name of the teacher	Gurgen Muradyan
Novelty of the course (please select as appropriate)	This course is an updated and revised version of a course which already existed in the curriculum - V (Adaptation for Master Programs of Finance)
Year of the course in the curriculum	1 st year
Semester of the course in the curriculum	2 nd semester
Language of instruction of the course	Armenian
Number of ECTS credits	3 credits

2. Learning outcomes of the course

The aim of the module is to develop and deepen the students' knowledge of the banking system regulation. The newest trends in the banking system regulation and the changes in their organization are discussed during practical lessons. The curriculum provides knowledge about the essence of regulation of the banking system, its basic approaches, Basel principles and normative regulation in the Republic of Armenia. The current state of regulation of the banking system in Armenia and in developed countries is clarified.

The specific goal of the course:

After the module the student will be able to describe the peculiarities of the banking system regulation, to describe and classify the main approaches to the banking system regulation, calculate the main indicators provided by Basel 2 and Basel 3, calculate the main economic standards provided by prudential norms of regulation of the Armenian banking system /by the Central Bank Regulation 2/.

3. Syllabus of the course

The course has following structure:

Subject title	Total classroom hours	1-st year, 1-st semester - 14 weeks			
		Weekly hours	Amount of credits	Lecture	Assessment
Regulation of banking activities	28	2	3	28	Exam

Week	Theme	Hour per week
1	The concept, purpose, modes and basic approaches of the banking system regulation	2
2	Basel principles of banking system regulation	2
3	Basel principles of banking system regulation	2
4	The basic principles of the banking system regulation provided by	2
5	The basic principles of the banking system regulation provided by Basel 2	2
6	The basic principles of the banking system regulation provided by	2
7	The basic principles of the banking system regulation provided by Basel 3	2
8	The basic principles of the banking system regulation provided by Basel 3	2
9	The main issues of prudential regulation and control of banking system	2
10	The main issues of prudential regulation and control of banking system	2
11	The main issues of prudential regulation and control of banking system	2
12	The implementation of banking regulation in national and international context	2
13	The implementation of banking regulation in national and international context	2
14	The implementation of banking regulation in national and international context	2
Total		28

4. Teaching methodology of the course

Teaching Methods

Lectures, Discussions, Group /Team/ works, Individual assignments

- Lectures - to explain the scope of each topic. It is the general information about the themes and concepts related to a course of study. Will be used the instruments of discussions during the lessons for better understanding of the course of study. The conversation or debate about each topic will help to reach a decision or to exchange ideas and have synergy of ideas.
- Study of relevant literature, articles, scholarly articles, and any other sources relevant to the area of research, and by so doing, provides a description, summary and evaluation.
- Study of examples of projects implemented by international and local companies. During the group work the students will be divided into the groups and each of them will have a tusk to study the provided financial reports or a case.
- Study Data Collection & Analysis. Various methods of data collection and analysis are used but this typically includes observation and interviews and may involve consulting other lecturers, students, people and personal or public records.
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5. Labor market relevance of the course

The employer's survey was conducted by Gavar State University among leading companies operating in the financial sector of Armenia. The employer's list covered the financial institutions, such as retail and commercial banks, credit unions, savings and loans associations. The results of survey show that the skill of "Regulation of banking activities" is very important for employers. This is important for the financial sector because the employees of the banking system must have skills and knowledge that will give them chance to calculate the main indicators provided by Basel 2 and Basel 3, calculate the main economic standards provided by prudential norms of regulation of the Armenian banking system. This is important for the financial sector, because the employees of banking sector, who know "Regulation of banking activities", will be able to ensure for these organizations safe and smooth operation.

6. Assessment and grading

Form of assessment for course is the following:

- Max 10 points for attendance,
- Max 50 points for current activity in class. This point include
 - ❖ **Group work** - student must analysis financial reports and economic norms)
 - ❖ **Individual work** – students must read and study of regulations and application of the methodological system Basel 2, Basel 3 and RA CB regulations.

In the result of the group and individual works, they develop a presentation to show the results of their works and they will answer the multiple questions.

- Max 40 points for final exam (40% of which or minimum 16 points required to pass).

Details on assessment are presented in the table below.

Range of Ratings Points	Appointment	Grade	Point
Excellent /81-100/	A+	4,0	95 - 100
	A	4,0	87 - 94
	A-	3,7	81 - 86
Good /61-80/	B+	3,3	75 – 80
	B	3,0	67 – 74
	B-	2,7	61 - 66
Satisfactory /40-60/	C+	2,3	55 – 60
	C	2,0	46 – 54
	C-	1,7	40 - 45
Unsatisfactory /up to 40/	D	1,0	<40

7. References

Books

1. Risk Management and Financial Institutions, John C. Hull; Willey; 5th edition, 2017
2. Bank Asset and Liability Management, Wiley; 1 edition (February 21, 2018)
3. An Introduction to Banking: Liquidity Risk and Asset-Liability Management, Moorad Choudhry, Wiley; 1 edition (April 4, 2011)
4. Basel III: international regulatory framework for banks (Summarised Basel III Basel III transitional arrangements , 2017-2027 Basel III summary table Finalising)
5. Basel III: A global regulatory framework for more resilient banks and banking systems - revised vers (III framework is a central element of the Basel Committee's response to the global financial crisis.)
6. Risk based approach to supervision of banks, June 1998, FSA
7. Core Principles for Effective Banking Supervision, 2011
8. International Convergence of Capital Measurement and Capital Standards (July 1988, UPDATED TO April 1998)

9. International Convergence of Capital Measurement and Capital Standards (Basel Committee on Banking Supervision 2004)
10. International Framework for Liquidity Risk Measurement, Standards and Monitoring, 2010
11. Strengthening the resilience of the banking sector, 2010
12. Countercyclical Capital Buffer Proposal, 2010
13. Framework for internal control systems in banking organizations (BCBS)
14. The Internal Control System: Reference framework
15. OECD Principles of Corporate Governance
16. Principles for the supervision of financial conglomerates (BCBS), December 2011
17. The Supervision of Financial Conglomerates (A report by the tripartite group of bank, securities and insurance regulators), July 1995
18. Consolidated Supervision of Banks, Ronald MacDonald, 1998
19. Basel 3, background information Central Bank, 2012
20. "On banks and banking activities" RA law,
21. "Central Bank of RA, RA law" on
22. "For banks, credit institutions, investment companies, investment Fund managers and insurance companies, bankruptcy law of RA" on
23. Council of the Central Bank of ARMENIA 2004, October 26, № 255-N", approved by the decision of the banks in the Republic of Armenia, the current indicators of the consolidated assessment (CAMELS) calculation, approval and publication of the order»
24. Council of the Central Bank of ARMENIA 1999, April 23, № 63", approved by the decision of the banks operating in the territory of the Republic of Armenia on loans and receivables classification and formation of reserves for possible losses»
25. February 9- № 39-N", approved by the decision of the Council Of the Central Bank of ARMENIA, regulation of banking activities, basic economic standards", regulation 2
26. Chairman of the Central Bank, 2006-July 27-in № 1/637L", approved by the decision of the Banks performance implementation management»,
27. Chairman of the Central Bank of ARMENIA for 2004, September 15, № 1 / 541L, approved by the decision of the banks in absentia control management
28. Council of the Central Bank of ARMENIA, 2008, dated March 11, № 71-N" approved by the decision of Banks internal control minimum conditions for the implementation»

Useful Web Pages

1. www.cba.am
2. www.arlis.am
3. www.bis.org
4. <https://www.bis.org/bcbs/basel3.htm>
5. <https://www.bis.org/publ/bcbs189.htm>
6. <https://www.bis.org/publ/work758.htm>
7. <https://www.bis.org/publ/work756.htm>

8. Course assignments

8.1 Assignment 1

Homework: Individual work, Basel 2, Basel 3, Application of the methodological system in the Central Bank of the RA regulations. The students must calculate prudential standards of banking, by using bank balance sheet and other reports.

In particular:

1. Calculation of the total capital standard;
2. Calculation of capital adequacy standards of the bank;
 - a. the marginal ratio between the total capital and the sum of risk-weighted assets;
 - b. the marginal ratio between total capital and risk-weighted assets;
3. Calculation of liquidity standards of the bank;
 - a. the marginal ratio between the bank's highly liquid assets and total assets (total liquidity);
 - b. the marginal correlation between high liquid assets and demand liabilities of the bank (current liquidity);
4. Calculation of the maximum size (size) norm for one borrower, large borrowers;
 - a. maximum risk per borrower;
 - b. Maximum exposure to major borrowers,
5. Calculating the maximum size (size) standards of one person, all persons related to the bank;
 - a. maximum risk per person related to the bank,
 - b. maximum risk pertaining to all persons related to the Bank;
6. Calculation of the minimum amount of mandatory reserves deposited with the Central Bank;
 - a. For the funds attracted in the Republic of Armenia,
 - b. against foreign currency funds.
7. Foreign currency management standard.
 - a. according to the foreign exchange position of the foreign currencies,
 - b. Gross foreign currency position.

8.2 Assignment 2

Individual and research work: Analysis of the financial and economic regulations reports by the example of any bank.

After Individual and research works students have to answer questions devoted to selected topics. They must be able to determine the violation of probability of the economic standards or to be able to describe the financial risks.

The results will be presented to other students and discussion will help a deeper understanding of themes.

In particular:

1. Credit risk calculation:
2. Market risk calculation:
3. Operational risk calculation:

Annex: Presentation slides

Attachment 1: The slides of "Regulation of banking activities" course.