COURSE OVERVIEW

Understanding your organization’s investment strategy, including the use of derivatives is essential in the analysis of risk. Are you prepared to understand and analyze the risks associated with your organization’s investments? This course is designed to educate auditors on risks and controls of investment and derivative activities. It is designed for experienced capital markets auditors. Attendees will learn and reinforce fundamental concepts in investments and derivatives, understand investment risks and risk management practices, and develop a foundation to perform meaningful, effective audits of their organization’s investment and derivative activities.

ATTENDEES WILL (NASBA Learning Objectives)

Obtain an understanding of investments and derivatives

Understand how to assess your organization’s derivative strategy

Identify and assess investment and derivative risks in relation to your organization’s usage and strategy

Explore front office, middle office, and back office activities and internal controls

Develop audit programs to effectively audit derivative instruments

Learn about accounting for investments and derivatives, including fraud and red flags

WHO SHOULD ATTEND

Experienced auditors performing audits of investment activities, including derivatives

Audit supervisors and managers responsible for completing risk assessments for investment audits

Experienced capital markets and finance professionals preparing audit programs

Auditors and risk managers responsible for benchmarking your organization’s investment activities

COURSE OUTLINE (16 CPE)

*Day 1:*

Introduction and learning objectives (.5 hour)

Refresher of investment & derivative terminology, concepts, and activities (.5 hour)

* Past, Present & Future
* Formal vs. informal markets
* Primary & secondary markets
* Over-the-Counter (OTC) & Exchange markets
* Making money & earning spreads
* Market players (investors, traders, dealers, brokers)
* Economic & market factors (interest rates, yields, exchange rates, spreads)

Investment risks & controls (2 hours)

* Market
* Inflation
* Interest rate
* Credit
* Legal & Regulatory
* Operating
* Counterparty
* Collateral
* Basis
* Translation & currency
* Trader
* Management
* Liquidity
* Volatility
* Currency

Refresher of investment products (2 hours)

* Equity investments
* Corporate securities
* Fixed maturity investments
	+ Bonds
	+ Redeemable preferred stock
* Participation loans
* Money market & other short term / liquidity / treasury investments
* Asset backed investments
	+ Structured securities
		- RMBS 40% with 50/50 agency to non-agency
		- CMBS 45%
	+ RGA remaining 15% =
		- Credit card receivables
		- Home equity loans
		- Manufactured housing bonds
		- Automobile receivables
		- Sub-prime mortgage-backed securities
		- Collateralized debt obligations
* Real estate & mortgage loan investments (prime & Alt-A)
* Policy loans (definition)
* Debt investments
* Derivative instruments
	+ Futures
	+ Forwards
	+ Options (including equity options)
	+ Caps
	+ Floors
	+ Swaps
		- Total return swaps (definition)
		- Credit Default Swaps (CDS)
		- Interest rate swaps (fixed vs. floating; IRS duration matching)
		- Foreign currency swaps (USD/AUD & USD/CAD swaps)
		- Consumer price index (CPI) swaps (linked to Aussie CPI)
		- Inflation swaps
		- Prices swaps
		- Volatility swaps
		- Insurance swaps (mortality, longevity, mortidity)
	+ Swaptions
	+ Currency derivatives (hedge FX forward USD/Yen)
	+ Embedded derivatives
	+ Alternative investments (Limited partnership & co-investments)
	+ Hybrids
* Foreign securities
* Illiquid investments
* Mortgage loan origination & serviing
* Security transfers (internal transfers and system limitations)

Analysis of derivative headlines (1 hour)

Auditing Investment & Derivative accounting (1 hour)

* Current US GAAP (FAS 115, FAS 133, FAS 138, FAS 155
* Current IFRS (implications in CANADA, UK, AUSTRALIA, IRELAND, SOUTH AFRICA)
* Accounting fraud
* Accounting red flags

*Day 2:*

Planning Investment & Derivative Audits, product by product (4 hours)

* Investment & Derivative risk assessments
* Determining audit objectives
* Setting audit scope
* Identifying controls for investment & derivative risks
* Designing audit test steps (testing impairments)
* CAATs considerations
* Continuous auditing opportunities

Auditing the middle office (2 hours)

* Risk management
* “Quants”
* Compliance
* Pricing & valuation (best practices for infrequently traded structured securities & illiquid securities)
* Information Technology
* Data analytics

Auditing the back office (2 hour)

* Treasury activities, including investment & derivative payments
* Confirmations
* Contracting
* Settlements
* Cancels, Fails & “Corrects”
* Other Back Office activities