# Negotiating from the Margins: The Santa Clara Pueblo Seeks Key Ancestral Lands

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# Overview

- Introduction
- Impact of fluctuations in interest rates on industries
- Impact of credit risk on industries
- Market Risk and Westpac Bank
- Conclusion

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# Market Risk Definition

- Market risk is the potential volatility in a firm's income due to changes in market condition.
- Caused by extreme market conditions such as interest rates, liquidity, economic growth, etc.
- Typically measured for a time period of one year or less and can be measured over periods as short as one day.
- Usually measured in terms of dollar exposure amount or as a relative amount against some benchmark.
- 4 main categories of risk: interest rate risk, credit risk, liquidity risk and FX risk.

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# Value at risk (VaR) limits

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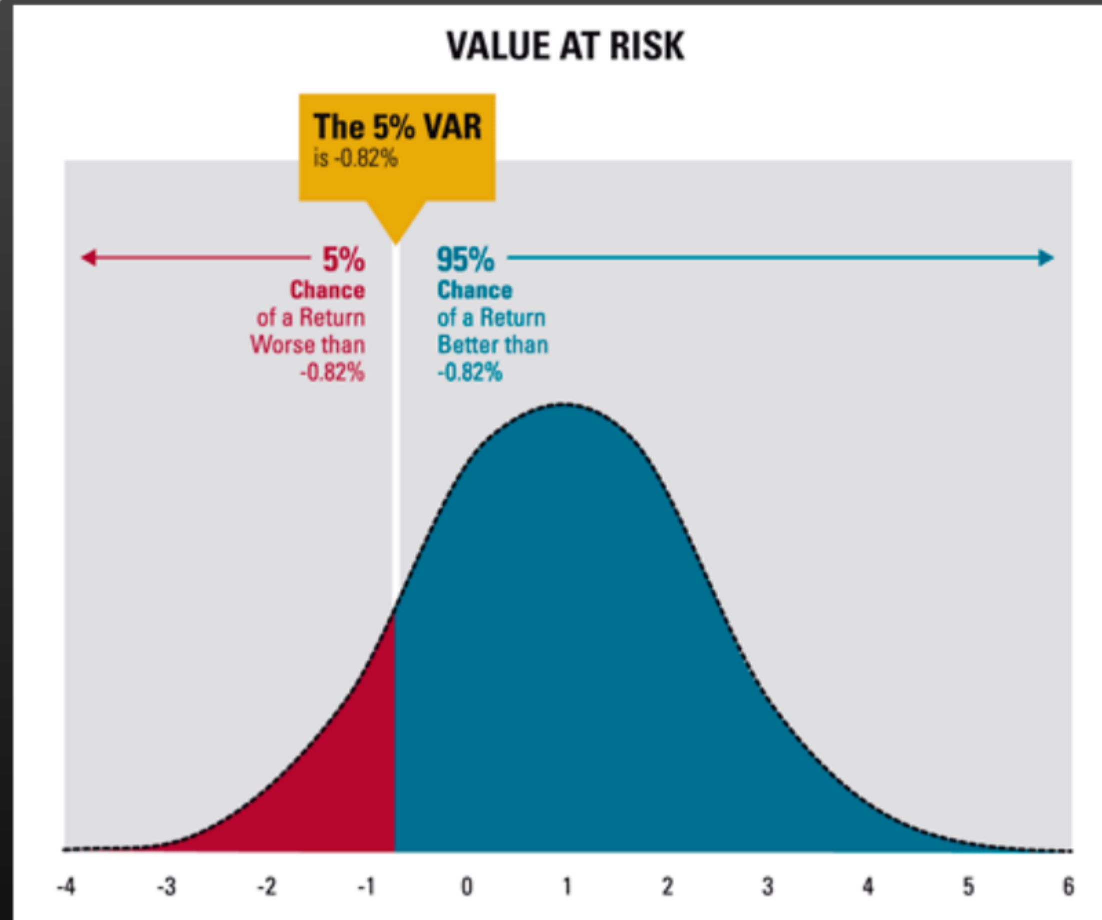
- Value at risk (VaR) is a statistical technique used to measure and quantify the level of financial risk within a firm or investment portfolio over a specific time frame.
- Focus on the downside risk and potential losses.
- 3 keys elements: a specified level of loss in value, a fixed time period over which risk is assessed and a confidence interval.
- 3 methods to calculate VaR: historical simulation method, variance – covariance method and Monte Carlo simulation method.

# For example

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# Impact of fluctuations in interest rates on industries

**Borrowers: are concerned about rising rates**
**Increased cost of funds =**

- Decreased profitability = decrease in market value
- Decreased ability to undertake capital expenditure
- Decreased ability to pay dividends
- Increased chance of a breach of borrowing covenants
- Increased borrowing margins due to deterioration in financial ratios

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**Investors – in general are concerned with falling rates**

- Reduced cost of funds
- Decreased profitability = decrease in market value
- Decreased ability to pay returns to stakeholders
- Decreased competitive returns = decreased ability to attract investors
- Decreased ability to meet future outgoings

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