SOME EVIDENCE OF THE IMPORTANCE OF MEASURING DEFAULT RISK FOR EQUITIES

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Since the crises of 2008, the regulation proposed by the Basel Committee increased the capital amounts that banks need to allocate to their businesses. In this past decade, we saw this regulation change, going from something mild to a more punitive setting.

In this work, we analyze how this regulation change affect the equities trading business for banks. In particular, the Basel Committee proposed a series of new measures to capture the default effect associated to a certain company when trading its shares.

We go through some different measures proposed by the regulation. We also demonstrate that allocating capital due to the risk of default for the equities trading business is necessary. Moreover, we compare some ways to do that and the impact of using a standardized method instead of a internal model approach.

References

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