bankenverband

Themenbeitrag
Positionspapier BdB zu "Retaining model-based capital charges" (Juli 2014)

15. Juli 2014

The position paper begins by analysing why stakeholders came to lose confidence in internal model results. It confines itself to the most important internal models, namely market risk models (VaR models) and IRB models. It is nevertheless likely that its analysis could also be applied to other types of model.

Banks and supervisors learned many lessons from the sometimes unsatisfactory performance of market risk models in the crisis. This led, at bank level, to a range of improvements in methodology, and also to the realisation that not all products and portfolios are suitable for internal modelling. At supervisory level, Basel 2.5 swiftly ushered in an initial reform with rules that were much better at capturing extreme risks (tail risks) and that increased capital requirements at least threefold. Work on a fundamental trading book review (frequently referred to as Basel 3.5) is also underway and will bring further methodological improvements to regulatory requirements.

Criticism of the performance of IRB models was more muted. True, some critics argued that the models were too slow in making adjustments both in economic downturns and in upswings. But there were understandable reasons for this. Nor did the claim that the models exacerbate procyclicality ultimately prove tenable. So when regulatory requirements were revised in the wake of the financial crisis (especially under Basel III), changes to the IRB approach were limited to a few tweaks. It should not be forgotten, moreover, that the introduction of IRB models in the course of implementing Basel II brought significant progress in terms of the quality of banks' quantitative credit risk measurement and credit risk management. […]