The Working Group on Risk - CREAR, with the support of the IDS dpt & CoE Capital Markets - Regulation, Institut des Actuaires, Labex MME-DII and the group BFA (SFdS), has the pleasure to invite you to the Seminar by:

Prof. Jean-Paul LAURENT

Univ. Paris 1 Panthéon – Sorbonne, PRISM & Labex Refi

March 23, 2017, 12:45pm – 1:45pm

EEE - ESSEC La Défense (CNIT) – Room 103

Market Risk Modelling after Basel III: New Challenges for Banks and Supervisors

Regulatory capital requirements for market risk, also known as the Fundamental Review of the Trading Book (FRTB), were disclosed by the Basel Committee on January 2016. This major overhaul of the Basel 2.5 framework challenges risk model specification and backtesting. Given the prevalence of historical simulation within large financial institutions, we focus on the (Volatility Weighted) Historical Simulation (VWHS) approach introduced by Boudoukh et al. (1998) associated with a EWMA volatility filter. Volatility dynamics is then directed by a single parameter. We discuss how this decay parameter, chosen within a reasonable range, impacts capital metrics, backtesting statistics and fouls the regulatory benchmarking of internal risk models exercises. Our study aims at shedding light within the black box of risk models. We discuss practical implications in order to enhance risk modelling techniques within the new set of rules issued by the Basel Committee, both from regulated banks and supervisor's points of view.

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Jean-Paul Laurent is a Professor of finance at University Paris 1 Panthéon – Sorbonne and member of the Labex "Régulation Financière". Prior to this, he was Professor at ISFA – Université Lyon 1, and member of CREST, a leading academic institution in Paris. He has also been a long time scientific consultant to BNP Paribas research teams. Jean-Paul has extensively published in academic and professional journals. He is known for contributions in the modelling and management of financial risks. He currently investigates the changes induced in this field by new banking and markets regulations.

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