Estimate of Capital Requirements According to Market Risk

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Entities and regulators alike are becoming more interested in measuring and the market risk (MR) associated with the trading book1 , given the growing share of investments comprising the financial system's assets. The Office of the Superintendencia Bancaria (Banking Superintendency)2 in Colombia took an initial step in this direction in January 2002 when it set capital requirements based on MR. Nevertheless, this Law has come under fire lately, particularly concerning the suitability of the method used to measure and hedge exposure properly.

In this respect, the objective of the present article is to present the results of MR estimates based on alternative methods for comparing and evaluating the usefulness of current requirements. The calculations presented herein refer to the standard model proposed by the Basel Committee and to the value-at-risk (VaR) models included in both the historic simulation method and the variance and covariance-based technique (EWMA approach) proposed by RiskMetrics.

Fuente: https://www.banrep.gov.co/en/estabilidad-tema-14