Remarks on Market Risk: Trading and Counterparty Risk

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Points For Discussion

• Transparency
  - consistency of stress tests with empirical facts
  - realism
  - predictability of results

• Implementation
  - resource burden
  - spurious accuracy
  - tradeoff between reduced accuracy of single stress versus increased accuracy from broader stress tests

• Relevance
  - are wrong risks being measured across firms, albeit consistently?
  - more advanced and targeted stress tests idiosyncratic to each firm’s circumstances may be more useful

• Incentives
  - inconsistency between banking book and trading book treatment
  - importance of CCAR for capital planning
  - allocation of stress testing and risk management resources

• Steady State
  - Should we emphasize a top down, monolithic stress test regime run consistently across counterparties?
  - Or should we emphasize a bottom up development of more advanced firm-specific stress testing capability?

• What should industry be moving to?
  - algorithmic stress tests
  - automatic scenario generation
  - reverse stress tests
  - stress tests against dynamic strategies
  - forward stress tests