

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