Abstract of the articles

FROM CRISIS MANAGEMENT TO DAY-TO-DAY PRACTICE

Zoltán Kállai–Tamás Kőszeghy

From the middle of the 90's the VaR became the one and only tool of the market risk managers, whereas most of the cases the trading exposures duly measurable through the VaR took only a small stake in the risk profile of commercial banking institutions. Risk in the banking book that constitutes the majority of market risks in commercial banks was given a low profile from a methodological and regulatory aspect. In this respect, the Basel2 regulatory rules could stimulate progress provided that the supervisors and the banking sector combine efforts to elaborate on the ICAAP framework in the years to come. The recent financial turmoil underpins the importance of such changes.

In our paper we exhibit the supervisory background and some banking internal regulatory perimeters and live practice, while underlying a number of conclusions drawn from the liquidity crisis. The complex lessons to learn foster the reconsideration of widely applied risk measurement techniques, trigger levels, methods of estimation of liquidity parameters, as well as the governance model of crisis management, internal banking processes and the regulatory approach.

EFFICIENCY OF MARKET RISK MANAGEMENT TOOLS IN EXTREME MARKET ENVIRONMENT

László Dávid

The world-wide recession evolved in the last year has disordered the time series of market data. Sharp growth of volatility in every risk segment and increasing correlation between different kinds of products resulted that the distribution of the yields deviated essentially from the normal Gaussian model. Considering that market risk management tools were calibrated to normal market movements, the reliability of such tools reduced significantly due to sudden and rapid economic changes. As unpredictable movements occurred quickly, investors, traders and risk managers did not have enough time to react efficiently to the challenges of markets.

In my article I analyze the main features of market data's time series in order to prove, that market data changes caused by the recession should be regarded as unique in the last couple of decades. I will suggest how to improve the models and management tools by means of increasing their reliability. For this reason we should reconsider the main assumptions of models so that these tools could be efficiently applied in extreme and unusual market environment.

FACING A STORM IN A RAINCOAT – OR THE DOMESTIC BANKING SECTOR'S FUNDING LIQUIDITY RISKS AND THE RISK MITIGATION FACTORS IN THE SECOND HALF OF 2008

Éva Fischer–Dániel Homolya

In our analysis, we assess the change in the Hungarian banking sector's liquidity risks during the second half of 2008 based on the data available until March 2009. The domestic banking sector, which relies on external funding due to a high loan-to-deposit ratio, has not remained unaffected by the global financial market turmoil. The conditions for raising FX funds became more stringent than earlier, for both direct, on balance-sheet external funding and currency swap deals. Domestic participants were faced with increasingly shorter maturities and rising costs. However, the active role of the MNB and the parent banks improved the liquidity situation significantly. In response to money market turbulences, the MNB introduced new currency swap and HUF money market instruments, supporting banks' liquidity management in stressed markets. The firm commitment of parent banks is reflected in their increased activity during periods of turmoil, ensuring FX funding for their local subsidiaries.

LIQUIDITY RISK IN THE REVISED EUROPEAN CAPITAL REQUIREMENT DIRECTIVE PROPOSAL

Márton Radnai–Dzsamila Vonnák

Current turmoil highlighted the liquidity risk and the importance of its management. CRD was also revised from this aspect which resulted in expanding the rules concerning liquidity risk in Pillar 2 and Pillar 3. We have been interested in whether the revised CRD proposal covers sufficiently these issues. We have found that additional capital requirement is not an adequate liquidity management tool, i.e. funding liquidity risk should only be monitored but capital should not be tied to it. On the other hand, we propose stricter eligibility rules for trading book instruments from asset liquidity point of view and a liquidity add-on based on the bid-ask spread.