



**Comptroller of the Currency
Administrator of National Banks**

Systemic risk Analytical challenges

Nancy Wentzler, Chief Economist
Comptroller of the Currency

Risk was visible – but transmission mechanisms not as clear

- Historically low credit spreads
- Low interest rates
- High volume of liquidity
- Imbalances internationally
- Loosening underwriting
- Expectations built on expectations
- Extraordinary growth in balance sheets and leverage

Many sources of potential risk recognition

- Internal company risk management
- Corporate board oversight
- Corporate auditors
- CEO oversight
- Market analysts
- Credit rating agencies
- Outside investors - potential, actual
- Regulatory bodies
- International groups – IMF, IIF, ...

Systemic surprises - certain links and feedback effects more emphatic

Uncertainty about exposures
Risk diversification failures
Length and depth of liquidity problems

+

“Rapid” structural adjustments
Thin market pricing problems
Transparency problems
Very weak underwriting
Policy shifts

National housing
collapse

Broad economic
decline

Credit availability
issues

Globalization
wave

Systemic risk assessment challenges

- Data – dynamic market/portfolio analysis
- Relationships - assess dynamic links across markets, correlations, covariances, causations
- Institutions - Incorporation of potential failures of market mechanisms to correct?
- Communication – How to focus resources on low probability risks in good times?
- Tradeoffs – Evaluated by whom?
- Actions - Taken by?
- Evaluation: Success determined by?