

MFE 237I: Financial Risk Management

Problem set 5

Valentin Haddad

due 5/15 before midnight

You should work with your assigned group but should write up your answer individually. Give the name of your group members in your writeup and post it on CCLE before Monday May 15 at midnight.

1 Risk management and regulation during the 2008 Financial Crisis

Each study group is assigned to a bank as follows and responsible for summarizing the VaR used by these banks during the 2008 financial crisis. Your group number can be found in the attached list.

Group	Bank
1	Goldman Sachs
2	UBS
3	JP Morgan Chase
4	Citigroup
5	Barclays Capital
6	Morgan Stanley
7	Deutsche Bank
8	Bank of America
9	BNP Paribas
10	Credit Suisse

Download their 2008 annual reports (10-K for US firms and 20-F or 6-K for foreign firms) from SEC's website (<https://www.sec.gov/edgar/searchedgar/companysearch.html>). Write an essay describing the approach of the bank is following for risk management. In particular, describe how it computes the various risk measures to respect the Basel regulations.

2 Regulatory Arbitrage

Assume you are the CEO of a bank and feel that the risk regulations are too constraining. What are ways you could use to take more risk while still respecting the regulation:

1. Under Basel I
2. Under Basel II

3 Interview questions

1. “If you use the Delta approach for a positive Gamma option, you will overestimate the VaR”. Is it true or false? Explain.
2. Why is Basel II blamed for precipitating the financial crisis?
3. What is the Dodd-Frank Act? What is going on with it these days?