A sensitivities based CoVaR approach to assets commonality and its application to SSM banks

Author:Leonardo Del VecchioCarla GiglioFrances ShawGuido SpanòGiuseppe Cappelletti

Date:2022-09-21

Keyword:NA

Attachment:[Link](https://www.ecb.europa.eu//pub/pdf/scpwps/ecb.wp2725~8ecb5a7ea3.en.pdf?637062ca64dfa0bea562c684e7c0090b)

From:[ECB-working\_paper](https://www.ecb.europa.eu/pub/research/working-papers/html/papers-2022.include.en.html)

AbstractOne important source of systemic risk can arise from asset commonality among ﬁnancial institutions. This indirect interconnection may occur when ﬁnancial institutions invest in similar or correlated assets and is also described as overlapping portfolios. In this work, we propose a methodology to quantify systemic risk derived from asset commonality and we apply it to assess the degree of indirect interconnection of banks due to their ﬁnancial holdings. Based on granular information of asset holdings of European signiﬁcant banks, we compute the sensitivity based ∆ CoVaR which captures the potential sources of systemic risk originating from asset commonality. The novel indicator proves to be consistent with other indicators of systemic importance, yet it has a more transparent foundation in terms of the source of systemic risk, which can contribute to eﬀective macroprudential supervision.JEL CodeC58 : Mathematical and Quantitative Methods→Econometric Modeling→Financial EconometricsE32 : Macroeconomics and Monetary Economics→Prices, Business Fluctuations, and Cycles→Business Fluctuations, CyclesG01 : Financial Economics→General→Financial CrisesG12 : Financial Economics→General Financial Markets→Asset Pricing, Trading Volume, Bond Interest RatesG18 : Financial Economics→General Financial Markets→Government Policy and RegulationG20 : Financial Economics→Financial Institutions and Services→GeneralG32 : Financial Economics→Corporate Finance and Governance→Financing Policy, Financial Risk and Risk Management, Capital and Ownership Structure, Value of Firms, Goodwill