

# AMERICAN BANKER

## Grading Risk, and Risk Regulation

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Worry over another systemic shock rose slightly among executives participating in the Global Association of Risk Professionals' third quarterly survey, as assessments of the threats posed by the banking system and leverage reversed downward ticks registered three months ago (see charts below).

Respondents also rated the prospective effect of an array of components within the new Basel framework and the Dodd-Frank Act, judging that requirements for derivatives clearing and capital protection against counterparties were among those that would be the most stabilizing and that rules on liquidity risk would have a weaker impact.

An index of the risk posed by the health of the banking system edged up 4 points from July, to 114 according to the survey of 913 risk managers fielded in late October and early November, undoing a 4-point drop from February to July. (A higher score corresponds to higher estimations of risk. In the most recent survey, which was published this month, about 48% identified the health of the banking system as "risky" or "very risky," 35% said it was "somewhat risky" and 17% said it carried "little" or "very little" risk.) That kept banking health in the top half of the eight primary factors weighed.

An index of worry over commodity prices jumped 8 points from July, to 113, perhaps reflecting concern over the potential for a bubble, or that the recent surge could fuel broader inflation, GARP said. Worry over volatility fell sharply, mirroring the drop in the Chicago Board Options Exchange Market Volatility Index.

The overall GARP risk index, a composite of the eight factors, increased 2 points, to 111.

As in the first two surveys, respondents registered a slightly higher level of alarm when asked to rate overall systemic risk directly than was indicated by the composite score. An index of direct estimations of overall systemic risk increased 1 point from July, to 115.

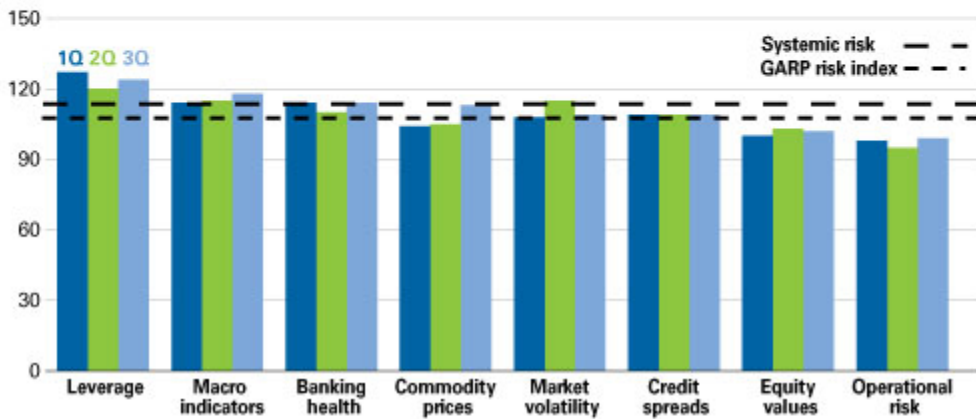
No fewer than 39% of respondents said that any particular element of Dodd-Frank or Basel III would have a "very strong influence" on mitigating risk, but assessments of the merits of individual elements still varied greatly. For example, 59% said stiffer capital rules for counterparty credit risk would have a "very strong influence," while 41% said the same about the "[net stable funding](#)" liquidity standard.

Respondents in Asia and Europe generally had a more favorable view of the stabilizing impact of the regulatory measures than respondents in the United States.

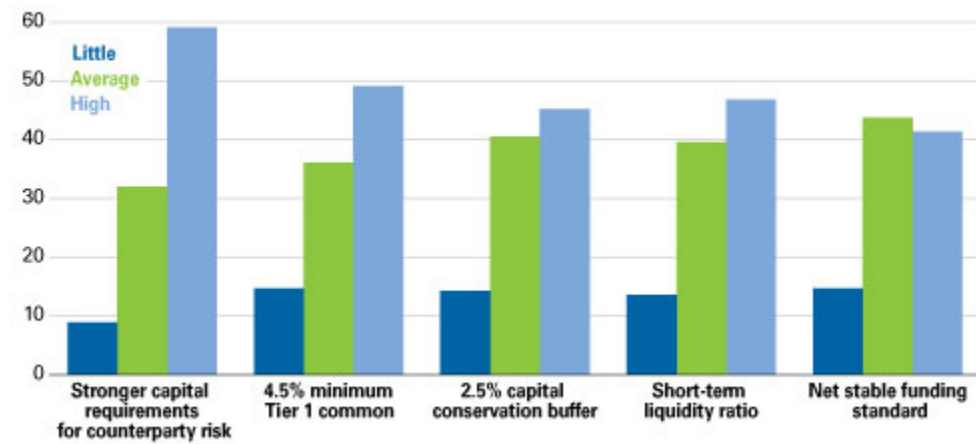
# Risk Marks

Risk executives registered modest shifts in appraisals of systemic threats, and rated the prospective effectiveness of different elements of the Basel III effort to contain them

Index values by factor



Impact of elements of Basel III in stabilizing banking health



Source: Global Association of Risk Professionals