

1. Record Nr.	UNINA9910957403203321
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Titolo	Counterparty Risk in the Over-The-Counter Derivatives Market // Manmohan Singh, Miguel Segoviano
Pubbl/distr/stampa	Washington, D.C. : , : International Monetary Fund, , 2008
ISBN	9786612842092 9781462348725 1462348726 9781451871166 1451871163 9781452730912 1452730911 9781282842090 1282842099
Edizione	[1st ed.]
Descrizione fisica	1 online resource (21 pages) : illustrations (some color), tables
Collana	IMF Working Papers IMF working paper ; ; WP/08/258
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Disciplina	332.645
Soggetti	Derivative securities - Econometric models Over-the-counter markets - Econometric models Risk - Econometric models Banking Banks and Banking Banks and banking Banks Credit default swap Credit Depository Institutions Derivative markets Derivative securities Finance Finance: General Financial instruments General Financial Markets: General (includes Measurement and Data) Micro Finance Institutions Monetary economics Monetary Policy, Central Banking, and the Supply of Money and Credit: General Money and Monetary Policy

Mortgages
Over-the-counter markets
United States

Lingua di pubblicazione	Inglese
Formato	Materiale a stampa
Livello bibliografico	Monografia
Note generali	Bibliographic Level Mode of Issuance: Monograph
Nota di bibliografia	Includes bibliographical references.
Nota di contenuto	Intro -- Contents -- I. Introduction -- II. Definitions and Methodology -- A. Counterparty Risk -- B. Exposure of the Financial System to Counterparty Risk -- C. Distress Dependence in the Financial System and Conditional Probability of Distress of Specific Financial Institutions -- D. Loss Scenarios -- III. Counterparty Risk: Empirical Estimation -- A. Counterparty Risk Exposure -- B. Conditional Probability of Distress of Financial Institutions -- IV. Conclusion and Policy Implications -- References -- Tables -- 1. Default Dependence Matrix -- 2. Distress Dependence Matrix -- 3. Losses Under Alternative Scenarios -- 4. Extrapolated Total Losses Under Alternative Scenarios -- Figures -- 1. Global OTC Derivatives as of December 2007 -- 2. Global OTC Derivatives Market as of December 2007 -- 3. The FinancialSystem's Multivariate Density -- 4. Probability that at Least one Financial Institution Fails to Deliver -- 5. Probability that Exactly one Financial Institution Fails to Deliver -- 6. OTC Derivatives: Notional Amounts as of end of March 2008 -- 7. OTC Derivatives: Counterparty Liabilities as of end of March 2008 -- 8. Probabilities of Distress of Financial Institutions Included in this Study -- 9. Fed's Balance Sheet as of April 23, 2008 -- Box -- 1. Distress Dependence.
Sommario/riassunto	The financial market turmoil of recent months has highlighted the importance of counterparty risk. Here, we discuss counterparty risk that may stem from the OTC derivatives markets and attempt to assess the scope of potential cascade effects. This risk is measured by losses to the financial system that may result via the OTC derivative contracts from the default of one or more banks or primary broker-dealers. We then stress the importance of "netting" within the OTC derivative contracts. Our methodology shows that, even using data from before the worsening of the crisis in late Summer 2008, the potential cascade effects could be very substantial. We summarize our results in the context of the stability of the banking system and provide some policy measures that could be usefully considered by the regulators in their discussions of current issues.