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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.