

Stress tests

Survey in the Argentine Financial System

System Analysis, Supervision Coordination and Regulatory Planning and
Research Departments ¹

Central Bank of Argentina

September, 2008

Abstract

Banks have a relatively large toolkit for assessing the different risks arising from financial transactions. Nevertheless, as a result of their underlying assumptions in general they can only be used in ordinary market circumstances. To avoid this limitation, a set of techniques and methods has been developed, called *stress tests*. Their aim is to evaluate the effect in the financial institutions of extreme but plausible situations that could imply negative consequences on their financial-economic condition. This document revises the methodologies used by a sample of financial institutions, analyzing the organization and the governance environment in which these tests are made, the development of stress tests for each risk (credit, liquidity, interest rate and price risks) and the way the results are used. It was found that stress testing exercises for the different risks are made individually, without global or macro stress tests considering the joint behavior of the different risks. Correlations between the risk factors are not included. In addition, there was found heterogeneity in aspects such as the formalization of policies for conducting the stress tests, the development of a corporate governance culture that includes these tests as instruments for risk management and the severity of the scenarios used. Generally, and maybe with the exception of market risk in the trading book, formal models are not used to make stress tests.

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