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'SMART SYSTEMIC-RISK SCORES'

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ABSTRACT

This paper proposes a new systemic-risk score to identify and regulate global systemically important banks (G-SIBs) by using an alternative weighting scheme based on volatility to aggregate all systemic-risk facets. Following a portfolio management approach, I equalize the risk contribution of each systemic-risk component to the cross-sectional volatility of the smart systemic-risk scores. The equally-weighted risk contribution (ERC) method appears to be a relevant alternative to the cap on the substitutability category. To discriminate between several systemic-risk scores, I modify and apply the axiomatic framework of Chen, Iyengar and Moallemi (2013) to express supervisor preferences among systemic-risk scores. Such preferences are based on the expected value of the cross-sectional dispersion of systemic-risk scores over the years.

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