

Contents

List of Contributors vii

Introduction xiii

Ashish Dev

KeyCorp

SECTION 1: ECONOMIC CAPITAL: CONCEPTS AND APPLICATIONS

1 Background on Economic Capital 3

John S. Walter

Bank of America

2 Volatility and Capital: Measures of Risk 15

Gary Wilhite

Wachovia

3 Conceptual Framework for Economic Capital Models
and Required Inputs 27

Michel Araten

JPMorgan Chase

4 Recovery Risk and Economic Capital 49

Jon Frye

Federal Reserve Bank of Chicago

5 The Significance of Economic Capital to Financial Institutions 69

Vandana Rao

Indiana University East

SECTION 2: ECONOMIC CAPITAL FOR SPECIFIC RISKS

6 Economic Capital for Retail Credit Card Portfolios 89

Geoffrey Rubin

Capital One Financial Corp

7 Economic Capital for Counterparty Credit Risk 109

Evan Picoult; David Lamb

Citigroup; Morgan Stanley

8	Economic Capital for Securitisations	141
	<i>Michael Pykhtin</i>	
	KeyCorp	
9	Economic Capital for Market Risk	167
	<i>David R. Koenig</i>	
	PRMLA	
10	Measuring and Calculating Economic Operational Risk Capital	183
	<i>Anthony Peccia</i>	
	RCM Risk Management Ltd	
 SECTION 3: ECONOMIC CAPITAL METHODOLOGIES: MATHEMATICAL TREATMENT		
11	A Fundamental Look at Economic Capital and Risk-Based Profitability Measures	211
	<i>Sebastian Fritz, Michael Kalkbrener, Wilfried Paus</i>	
	Deutsche Bank AG	
12	A Risk-Factor Model Foundation for Ratings-Based Bank Capital Rules	231
	<i>Michael B. Gordy</i>	
	Board of Governors of the Division of Research and Statistics and Federal Reserve System	
13	Allocating Portfolio Economic Capital to Sub-Portfolios	275
	<i>Dirk Tasche</i>	
	Deutsche Bundesbank	
14	Spectral Capital Allocation	303
	<i>Ludger Overbeck</i>	
	University of Giessen	
15	Evaluating Design Choices in Economic Capital Modelling: A Loss Function Approach	315
	<i>Nicholas M. Kiefer, C. Erik Larson</i>	
	Cornell University, OCC	
	Index	329