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To: ["baselcommittee@bis.org"](mailto:baselcommittee@bis.org)@web-prod-fe1.bis.000.ch
Subject: Comments submitted for "Stress testing principles - consultative document"
Date: 27 February 2018 15:25:17

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Consultative document: Stress testing principles - consultative document(/bcbs/publ/d428.pdf)
Classification: Public

Comments:

COMMENTS TO THE BASEL COMMITTEE CONSULTATIVE DOCUMENT ON STRESS TESTING PRINCIPLES

One of the main goal of enterprise-wide stress testing should consist in assessing the bank's overall degree of fragility/resiliency; in order to do that banks and supervisors should consider all the relevant risks and all the adverse scenarios that may potentially occur. i.e. scenarios characterized by different combinations of risk factors and degree of severity; since the risk of default for banks is not a single risk phenomenon that can be scaled just by increasing the severity of a single dimension factor, but a complex phenomenon generated by multiple risk factors that can occur with a very large number of different possible combinations (there is not a single reverse stress test scenario, but many scenarios that may lead a bank to fail, and we should consider the likelihood of occurrence of all of them in order to assess its overall fragility).

In this regard the best measure to size the bank's risk and degree of vulnerability in enterprise-wide stress testing exercise and to synthesize the results of many different scenarios, is given by the probability of regulatory breach and/or default. This kind of measure would be very helpful also in performing an effective challenging and assessment of the plausibility of assumptions and results of the stress tests, as envisaged by principle 8.

Therefore it would be very important to explicitly consider within the stress testing principles, for both banks and authorities, the assessment of the forward looking probability of regulatory breach and/or default among the objectives of the stress testing (principle 1) and/or within the stress testing framework (principle 4).

Moreover it would also help to mention the possibility to recur to risk analysis methodologies, such as stochastic simulation, in order to generate multiple scenarios analysis and assess results in terms of probability distributions.