

# The case for market-based stress tests

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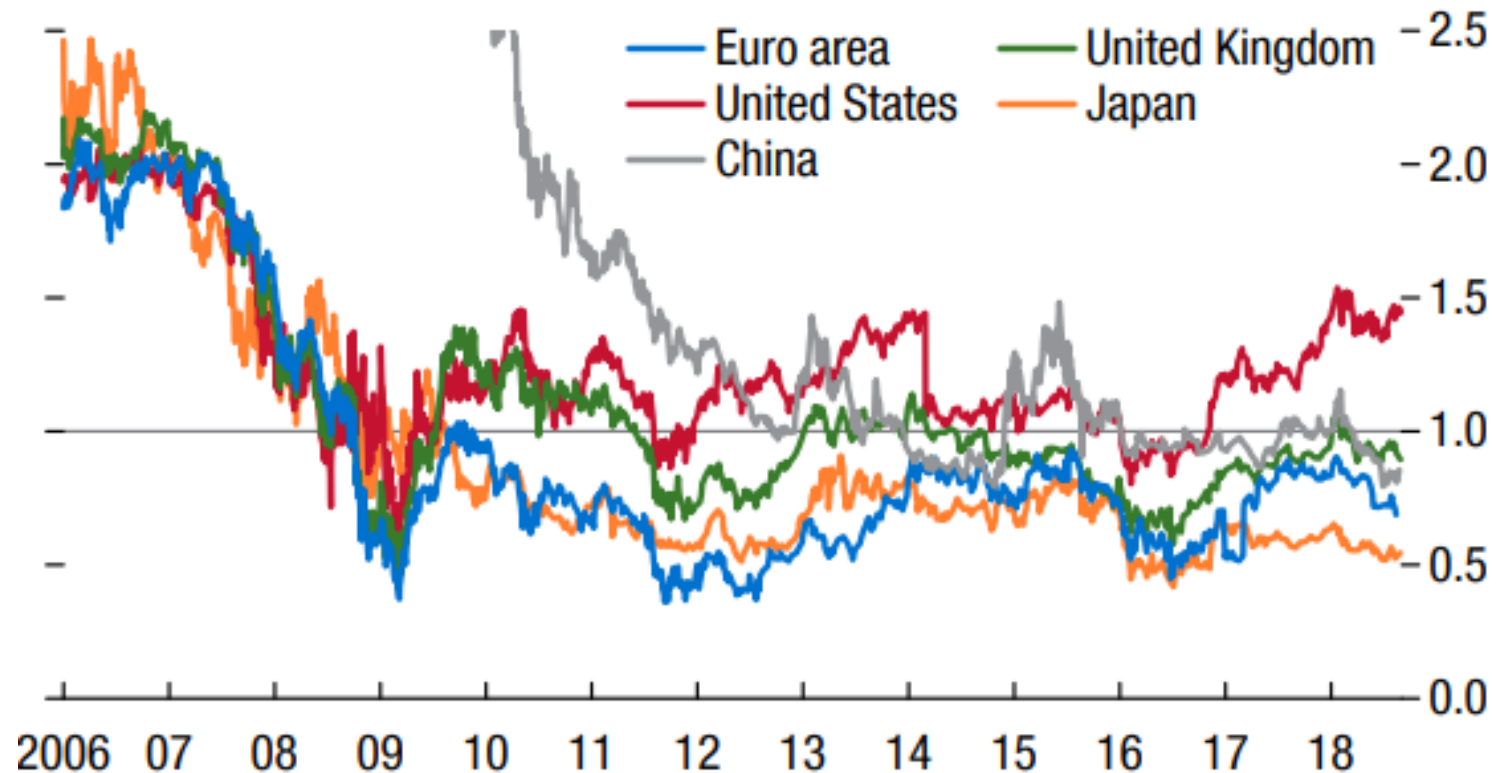
Keynote address at the 19<sup>th</sup> Annual International Conference on Policy Challenges for the Financial Sector, IMF, Washington DC, 6 June 2019

# Proposal for supplementary market-based stress tests

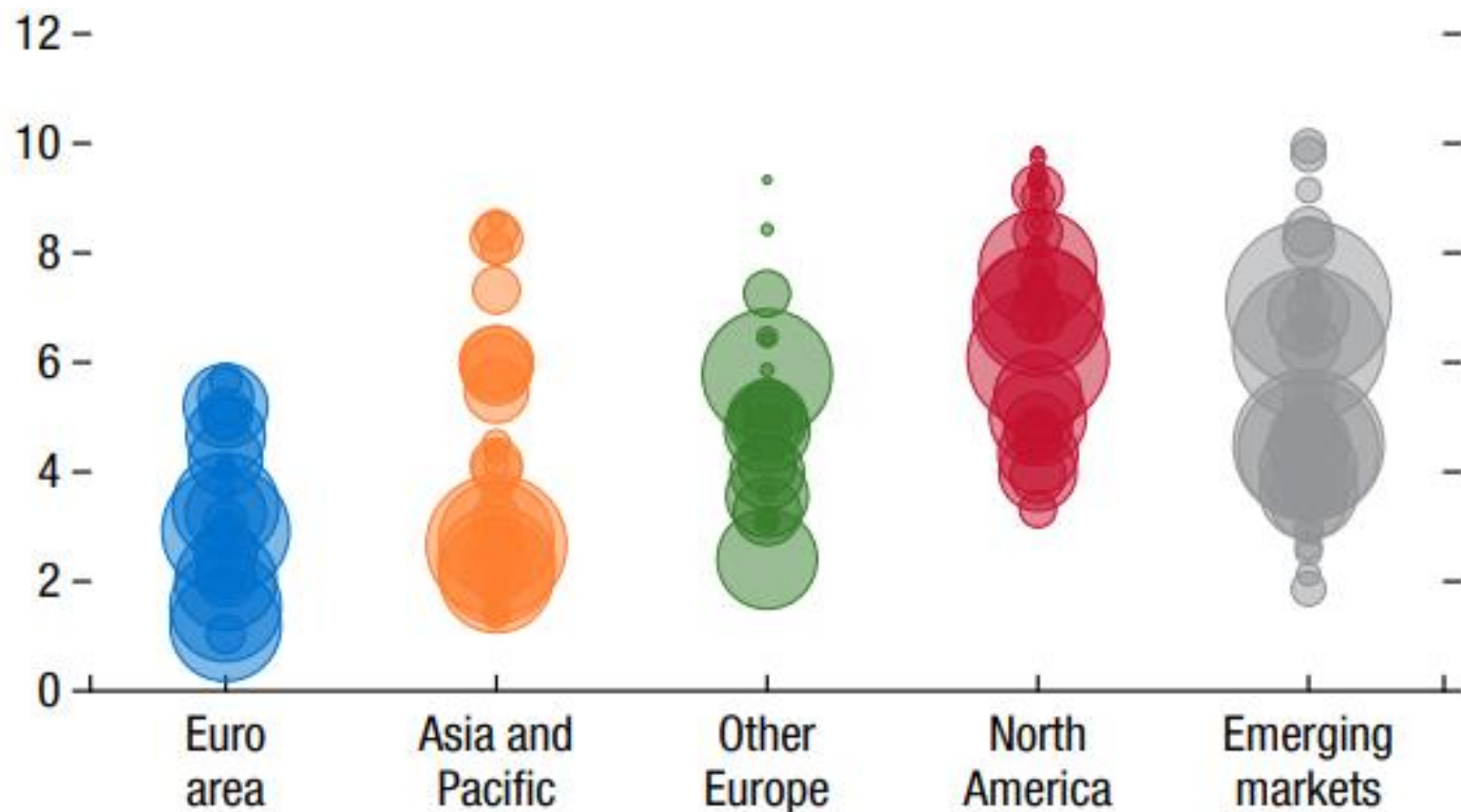
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***For major banks with price-to-book ratios less than one, stress tests based on market values should be run and published by regulators alongside existing stress test results***

# Bank price-to-book ratios since 2006

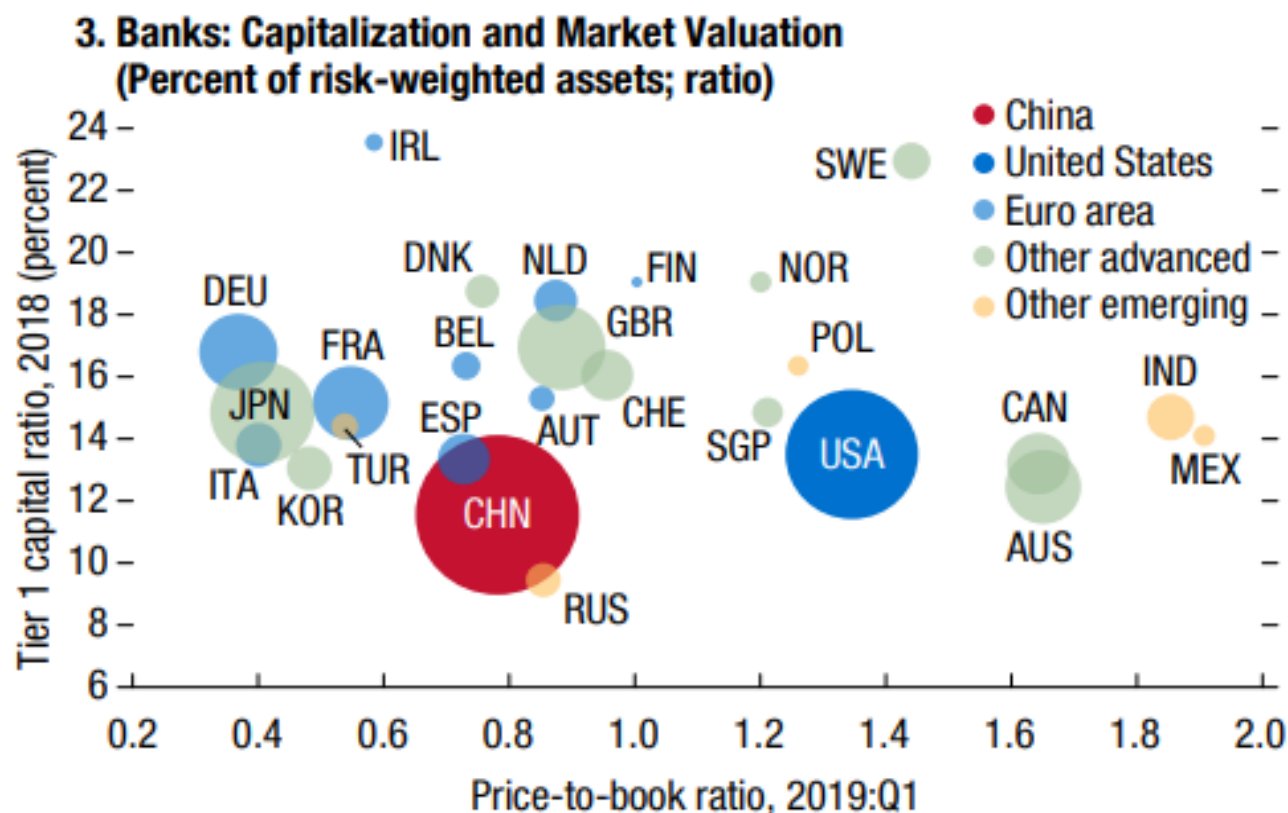


# Bank market-adjusted capitalization



# Bank price-to-book ratios 2019 Q1

Some banking systems need to continue strengthening their balance sheets.



# Price-to-book ratio $> 1$ if market values are in line with accounting measures

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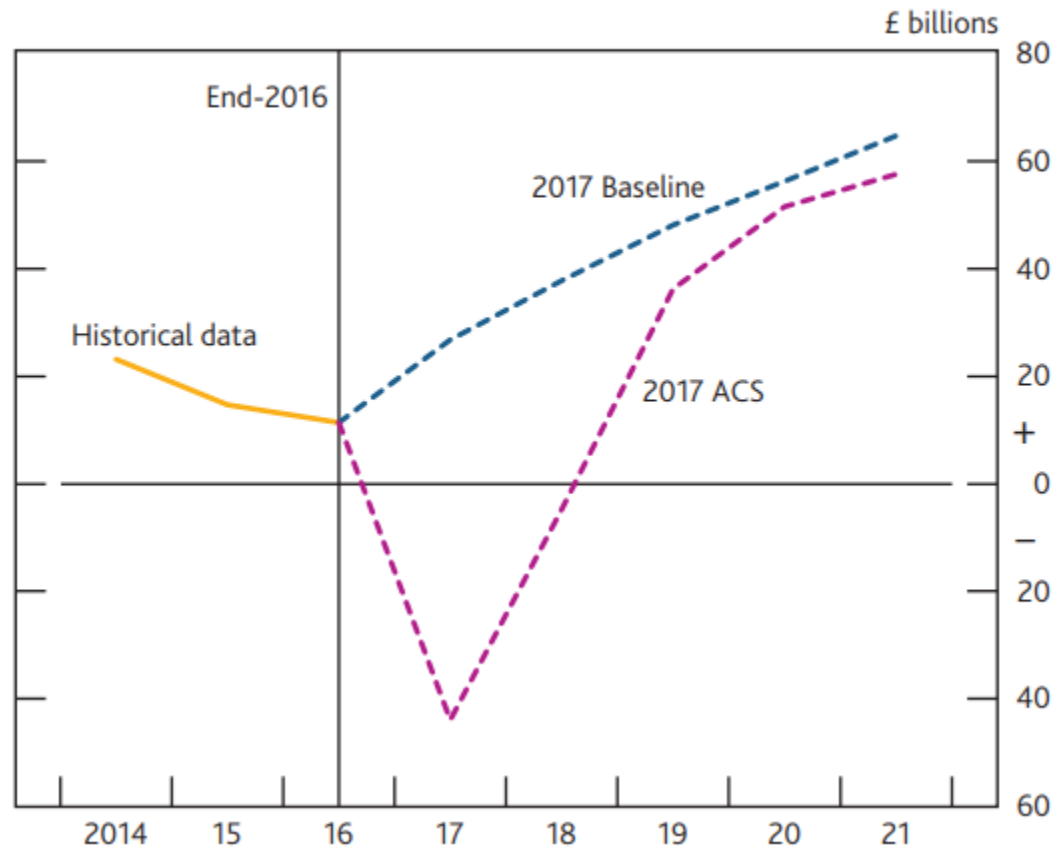
Market capitalisation reflects a view of:

- the value of current assets less liabilities
- +  
• the franchise value of future profits ( $> 0$  given managerial competence)
- +  
• Implicit TBTF subsidy (reduced but still  $> 0$ )

So PTB ratio  $< 1$  raises serious questions – for stress tests and more generally

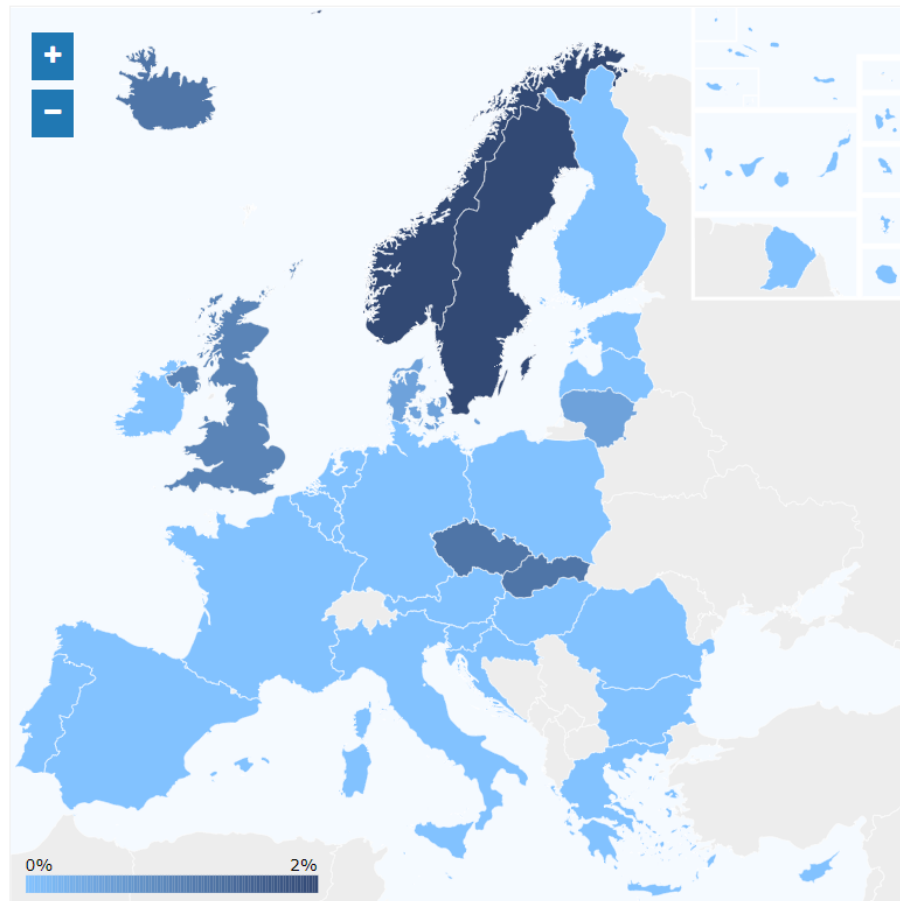
# UK bank profits under stress

Chart A1.2 Projections for aggregate profits before tax<sup>1</sup>



# Current CCyB rates – mostly zero

The following map shows current CCyB rates set in Europe:





# Proposal for supplementary market-based stress tests

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