Michael B. Gordy

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Announcement

JFI Best Paper Prize for 2003

The *JFI* editors are pleased to announce that the *JFI* Best Paper Prize for the most significant paper published in the 2003 *Journal of Financial Intermediation* has gone to Michael B. Gordy for the paper "A risk-factor model foundation for ratings-based bank capital rules," published in Volume 12, Issue 3. The prize carries with it a $2500 check for the winner.

A risk-factor model foundation for ratings-based bank capital rules

Abstract

I demonstrate that ratings-based capital rules, including both the current Basel Accord and its proposed revision, can be reconciled with the general class of credit value-at-risk models. Each exposure's contribution to VaR is *portfolio-invariant* only if (a) dependence across exposures is driven by a single systematic risk factor, and (b) no exposure accounts for more than an arbitrarily small share of total portfolio exposure. Analysis of rates of convergence to asymptotic VaR leads to a simple and accurate portfolio-level add-on charge for undiversified idiosyncratic risk. There is no similarly simple way to address violation of the single factor assumption.

JEL classification: G31; G38

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