

# Abstract of the articles

## **INITIATIVES TO MITIGATE PROCYCLICAL LEGAL CAPITAL REQUIREMENT**

CSABA SOCZÓ

The recent financial crisis has put the focus again on the procyclical nature of bank's risk management systems and reserve requirements. During the preparation process, the Basel II proposal was already criticized regarding procyclicality, however the final treatment of this problem can be expected just now. In this study I scrutinize the theoretical background of procyclical capital requirement, and I explain that for a certain degree this problem has been already handled in the current requirement. Recently many further proposals have emerged to solve the problem, furthermore actions have been already initiated. The Basel Committee will produce a detailed proposal about what kind of changes are necessary to smooth the volatile reserve requirement to be more through the cycle. In this document probably former ideas could be recognized. It can be concluded that it is really challenging for regulators to produce specific and practical guidelines which are efficient to mitigate the procyclical capital requirement.

## **EFFECTS OF FINANCIAL CRISIS ON THE HUNGARIAN BANKING SECTOR'S OPERATIONAL RISKS**

ORSOLYA SZABOLCSNÉ NIKHÁZY

Will the financial crisis have an impact on the Hungarian banks' operational risk profile? The article's goal to answer this question. I analyze the features of operational risks and examine the influence of financial crisis on the capital requirement. To forecast the crisis's potential effects, the conventional Loss Distribution Approach (LDA) based on purely historical data is not appropriate, we also need to take into consideration forward looking expert opinions, so called scenarios. Therefore the study based on the Hungarian Operational Risk Database (HunOR) and on assessments of 22 experts from the Hungarian banking sector. During modelling, the main problem was to combine data from different sources, which is one of the biggest challenge in the application of Advanced Measurement Approach (AMA). Credibility theory based on Bayesian inference is an adaptable, practical solution for the problem. The main findings of the study is that the level of operational risk of the Hungarian banking sector is likely to increase by the financial crisis, the experts gave detailed estimations about the effect of financial crisis on the different event types of operational risk. On the other hand I suggest a practical method for aggregating operational risk data from different sources, which can be applied by individual banks in the AMA modelling process.

## SHORT SELLING AND THE FINANCIAL CRISIS

ANDREA ÉVA KISS-ÁGNES LUBLÓY

The role of short selling was many times debated in the past. The unambiguous role of short selling was also stressed in the current subprime crisis starting from the U.S. In the article we emphasize through real life examples that short selling might result in enormous gains or losses. We show that short selling might also lead to bank defaults or currency crisis. In contrast to the potential crisis eventuating role of short selling we stress the advantages of short selling. Short selling is an important tool for hedgers and risk managers, it promotes the efficient asset allocation and diversification and it might even stabilize the financial markets. In the article we also highlight the stricter regulation following the subprime crisis. By means of simulations we prove that one way to put back short selling is the introduction of the uptick rule. The uptick rule requires that every short sale transaction is entered at a price that is higher than the price of the previous trade. We show that investors speculating on the decreasing prices are impeded as they realize less profit. It is argued that even the temporary implementation of the uptick rule prevents short sellers from adding to the downward momentum when the price of an asset is already experiencing sharp declines. Finally by means of calculations we demonstrate that the stop loss limit also decreases the gain of the short sellers. Although the stop loss limit falls within the cognizance of the brokerage firms its worth implementing it as its loss minimizing function might dominate over its profit lowering role.

## MONEY AND INFLATION IN OUR CRISIS

LÁSZLÓ ASZTALOS

The author explains the interrelations among digitalisation of 80's, the revolution of financial technology („The Wall Street's Golden Rush") and the global money-creation. He shows the inter-linkages between the strictly regulated and supervised micro-creation of money and the unregulated, non-supervised macro- and global creation of „money-subsidies" (quasi-money) as securitised assets, derivatives, structured products, unit linked, etc. With the double nature of the international „parallel banking system" (Dr. Jekyll and Mr. Hyde) underlines the switch of between eligible (by central bank) and non-eligible, only „subprime-backed" assets and their „effect of wealth" on public. He tries to fix the internal global criteria of the sustainable macro (global) money-and money-subsidiary-creation, the limits of the acceptable imbalances caused by entities with key-currencies and the basic rules of any „spontaneous" or „natural" money-supply.

In the second part the author analyses the double nature of our worldwide price-evolution. It will be explained the collision on one side of the brutal deflationary depressive effect from the outsourcing of mass-products of goods and services to 2 billion new employees and savers and on the other side the inflationary push of exploding money-supply. His solution will be the recognition of the 4 main provisional „inflationary geysers": all kinds of project-financed star-employees – and not only at the bankers –, the widening of scale of antiquities and rarities, the more important real-estate boom and the tragically fixing estimations for a

„never-ending hausse” on each asset-market. His conclusion is the strongly differentiating restructure of income and wealth among social groups an economic powers by both processes as well as the previous inflationary and the present deflationary.

## **FINANCIAL SUPERVISION IN THE EUROPEAN UNION**

*ALÍZ ZSOLNAI*

Supervision of financial institutions undergoes a revolution that is induced by the spontaneous development in the financial sector and clustering of financial institutions into financial groups. The aim of the European Union is the single market based on the EU legislation implemented by the Member States as well and this process results the conception of integrated European supervisory culture, system and institution. The financial crisis deepened this process, presented and focused to the imperfection. The establishment of the single European supervisory authority has more possibilities in the form of body and more steps. Necessity of new structure of European financial supervisory authorities is recognized; even so the development strikes a snag.