TW3421x - An Introduction to Credit Risk Management

Default Probabilities

CreditMetrics, F-IRB computations and CR+

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Summary

CreditMetrics

- Merton-like model introduced by JP Morgan.
- Thresholds are obtained from credit ratings and not from liabilities.
- It takes into account credit deterioration.
- Combines the strengths of credit ratings and equity-based models.

C-VaR, F-IRB and Capital requirements

- Under the F-IRB approach, once we have the PD of a counterparty we can compute a lot of useful quantities, just using the formulas provided by the regulator.

- This implies relying on some assumptions that are not always realistic.

- CR+ can be seen as an A-IRB approach.
- It is not a Merton-like (structural) model, but a mixture model.
- We can derive not only the PD, but also all the other quantities we are interested in for the computation of RWA and capital requirements.

Thank You