Liability Concentration and Losses in Financial Networks: Comparisons via Majorization

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IPAM Workshop: Systemic Risk and Financial Networks
March 25, 2015

joint work with Peng-Chu Chen
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Systemic Risk in Financial Networks

- Risk that distress or failures of critical financial institutions destabilizes the overall financial system
- The intricate structure of linkages can be naturally captured via a network representation of the financial system
- Foundational work by Eisenberg and Noe (2001) develops a framework for determining payments in a cleared network
- Systemic risk is measured as the length of the domino chain triggered by failure of an entity
Related Literature

- Impact of bankruptcy costs: Rogers and Veraart (2012), Glasserman and Young (2014)
Overview of Main Contributions

- Develop a new framework to compare systemic losses under different network topologies
  - Identify balancing and unbalancing systems to bring out the implications of liability concentration on the system’s loss profile
  - Relate them to perfectly and imperfectly tiered networks identified by empirical research
  - Validate our framework using data from the European banking network.
- Informing policy making
  - Support regulatory policies of the Basel Committee limiting the size of gross exposures to individual counterparties.
Systemic Losses

- The clearing payment vector $p^*$ is a solution to the fixed point equation (Eisenberg and Noe (2001)):
  \[ p^* = \ell \land (p^* \Pi + c) \]
  \( \ell \): vector of total liabilities, \( \Pi \): relative liability matrix, \( c \): vector of outside assets.
- Loss vector under the network topology \((\Pi, \ell, c)\):
  \[ s(\Pi, \ell, c) := \ell - p^*(\Pi, \ell, c) \]
- We can handle bankruptcy costs as in Glasserman and Young (2014), where
  \[ p^* = \left( \left[ \ell \land (p^* \Pi + c) \right] - \gamma \left[ \ell - (p^* \Pi + c) \right]^+ \right)^+ , \]
  but assume $\gamma = 0$ for simplicity.
Objective of the Study
The node with the smallest equity value generates the largest loss in the system.

The network with the smallest net exposure to this node is always the most preferred in terms of losses.

**Distinguishing Feature:**
- In the top panels, the undesired system is the network whose liabilities are less concentrated.
- In the bottom panels, the undesired system is the network with higher concentration of liabilities.

**Our goal:**
- Capture this behavior quantitatively through the concepts of balancing and unbalancing systems
A key insight

**Definition**

A 3-tuple \((\Pi_\alpha, \ell, c_\alpha)\), \(\alpha \in [0, 1)\), is called the \(\alpha\)-relaxed equivalent version of a financial system \((\Pi, \ell, c)\), if \(\Pi_\alpha = (1 - \alpha)\Pi + \alpha I\) and \(c_\alpha = (1 - \alpha)c\).

**Lemma**

Let \((\Pi, \ell, c)\) be a financial system, then it holds that \(p^*(\Pi, \ell, c) = p^*(\Pi_\alpha, \ell, c_\alpha)\) for \(\alpha \in [0, 1)\).

Equilibrium corresponding to a network is also the equilibrium to a whole family of networks
Let $x, y$ be two vectors. $x$ is *majorized* by $y$, denoted by $x < y$, if

$$\sum_{i=1}^{k} x[i] \leq \sum_{i=1}^{k} y[i] \quad \text{for } k = 1, \ldots, n-1,$$

and

$$\sum_{i=1}^{n} x[i] = \sum_{i=1}^{n} y[i],$$

or equivalently,

$$\sum_{i=1}^{k} x(i) \geq \sum_{i=1}^{k} y(i) \quad \text{for } k = 1, \ldots, n-1,$$

and

$$\sum_{i=1}^{n} x(i) = \sum_{i=1}^{n} y(i).$$
Vector Majorization II

- $x$ is **weakly submajorized** by $y$, denoted by $x <_{w} y$, if
  \[
  \sum_{i=1}^{k} x_{i} \leq \sum_{i=1}^{k} y_{i} \text{ for } k = 1, \ldots, n.
  \]

- $x$ is **weakly supermajorized** by $y$, denoted by $x <^{w} y$, if
  \[
  \sum_{i=1}^{k} x_{(i)} \geq \sum_{i=1}^{k} y_{(i)} \text{ for } k = 1, \ldots, n.
  \]
Loss Preferences

Let \( x := s(\Pi^a, \ell, c) \) and \( y := s(\Pi^b, \ell, c) \) be the loss vectors associated with two network systems.

- \( x \) is preferred to \( y \) if \( x <_w y \), i.e.

  \[
  \sum_{i=1}^{k} x[i] \leq \sum_{i=1}^{k} y[i] \quad \text{for } k = 1, \ldots, n.
  \]

- \( k = 1 \): maximum loss in \( a \) smaller than in \( b \).
- \( 1 < k < n \): sum of the \( k \) largest losses in \( a \) smaller than in \( b \).
- \( k = n \): total loss in \( a \) smaller than in \( b \).
Use **matrix majorization** to compare financial systems in terms of liability concentration.

Let $X$ and $Y$ be two matrices. $X$ is *majorized* by $Y$, $X \prec Y$, if there exists a doubly stochastic matrix $S$ such that $X = YS$. 

**Definition**

Given two financial systems $(\Pi^a, \ell, c)$ and $(\Pi^b, \ell, c)$, we say that $b$ has higher liability concentration than $a$ if there exists $\alpha \in [0, 1)$ such that $\Pi^a_\alpha < \Pi^b_\alpha$. 
Concentration of Liabilities: Example I

\[
\begin{array}{c|c|c}
\text{Core node defaults} & \text{Peripheral node defaults} & \text{Preferred} \\
\hline
\text{Loss} = 210 & \text{Loss} = 10 & \text{Loss} = 20 \\
\hline
\end{array}
\]

\[
\begin{pmatrix}
0.2 & 0.2 & 0.2 & 0.2 \\
0.2 & 0.2 & 0.2 & 0.2 \\
0.2 & 0.2 & 0.2 & 0.2 \\
0.2 & 0.2 & 0.2 & 0.2 \\
\end{pmatrix}
\begin{pmatrix}
0.2 \\
0.2 \\
0.2 \\
0.2 \\
\end{pmatrix}
= 
\begin{pmatrix}
0.2 & 0 & 0 & 0.6 \\
0 & 0.2 & 0 & 0.6 \\
0 & 0 & 0.2 & 0.6 \\
0.1 & 0.2 & 0.3 & 0.2 \\
\end{pmatrix}
\begin{pmatrix}
0.25 \\
0.25 \\
0.25 \\
0.25 \\
\end{pmatrix}
\]
Concentration of Liabilities: Example II

\[
\begin{align*}
\left( \begin{array}{cccc}
0.14 & 0.14 & 0.14 & 0.14 \\
0.14 & 0.14 & 0.14 & 0.14 \\
0.14 & 0.14 & 0.14 & 0.14 \\
0.14 & 0.14 & 0.14 & 0.14 \\
\end{array} \right)
& = 
\left( \begin{array}{cccc}
0.14 & 0.42 & 0 & 0 \\
0 & 0.14 & 0 & 0.42 \\
0 & 0 & 0.14 & 0.42 \\
0 & 0 & 0.42 & 0.14 \\
\end{array} \right) \\
& \times 
\left( \begin{array}{cccc}
0.25 & 0.25 & 0.25 & 0.25 \\
0.25 & 0.25 & 0.25 & 0.25 \\
0.25 & 0.25 & 0.25 & 0.25 \\
0.25 & 0.25 & 0.25 & 0.25 \\
\end{array} \right)
\end{align*}
\]

\[
\mathbf{p}_0^{a} = \mathbf{p}_0^{b} = \mathbf{s}
\]
Network Setup

- Nodes are labeled so that $l_1 \leq l_2 \leq \cdots \leq l_n$.
- We assume that the outside asset vector $c$ is similarly ordered to the liability vector $l$. (empirically verified)

**Definition**

Two vectors $x$ and $y$ are similarly ordered if

$$(x_i - x_j)(y_i - y_j) \geq 0 \text{ for all } i, j.$$
Balancing and Unbalancing financial systems I

**Definition**

(I) \((\Pi, \ell, c)\) is balancing if, for \(j = 1, \ldots, n - 1,\)

\[
\left[ \sum_{i=1}^{n} \ell_i \pi_{i,j+1} + c_{j+1} \right] - \ell_{j+1} \leq \left[ \sum_{i=1}^{n} \ell_i \pi_{i,j} + c_j \right] - \ell_j .
\]

equity of node \(j + 1 \leq\) equity of node \(j\) under the best-case scenario

(II) \((\Pi, \ell, c)\) is unbalancing if, for \(j = 1, \ldots, n - 1,\)

\[
\left[ \sum_{i=1}^{n} p_i \pi_{i,j+1} + c_{j+1} \right] - p_{j+1} \geq \left[ \sum_{i=1}^{n} p_i \pi_{i,j} + c_j \right] - p_j ,
\]

equity of node \(j + 1 \geq\) equity of node \(j\) under the worst-case scenario

where \(p\) is a lower bound on the clearing payment vector in a class of unbalancing systems.
Balancing and Unbalancing financial systems II

\[ \ell \Pi^a + c \]  (Balancing)

\[ \ell \Pi^b + c \]  (Unbalancing)
When every node repays its liabilities in full, a node with a larger liability ($\ell_{j+1}$) will have a smaller equity after clearing.
Unbalancing system

\[
\left[ \sum_{i=1}^{n} p_i \pi_{i,j+1} + c_{j+1} \right] - p_{j+1} \geq \left[ \sum_{i=1}^{n} p_i \pi_{i,j} + c_j \right] - p_j.
\]

equity of node \(j + 1 \geq\) equity of node \(j\) under the worst-case scenario

- If a node makes a larger payment \((p_{j+1})\), in the worst-case bankruptcy scenario, then it also has a larger equity after clearing.
Order and majorization preserving relations

- **D** is order preserving w.r.t. \( \mathcal{P} \) if \( xD \) is similarly ordered to \( x \) for any \( x \in \mathcal{P} \).
- **D** is weak submajorization preserving w.r.t \( \mathcal{P} \) if for \( x, y \in \mathcal{P} \), \( x<_w y \) implies \( xD<_w yD \).
- **D** is weak supermajorization preserving w.r.t \( \mathcal{P} \) if for \( x, y \in \mathcal{P} \), \( x<_w y \) implies \( xD<_w yD \).

Define

\[
\mathcal{P} = \{ p \mid p \text{ is similarly ordered to } \ell, 0 \leq p \leq \ell \},
\]

which identifies a large class of payment vectors, where absolutely priority and limited liability can be violated.
Relaxation and order preserving

- The presence of zero elements on the diagonal of relative liability matrices **drastically** reduces the set of order-preserving matrices.

- But, ... the relaxed equivalent version enlarges the set.

\[
\begin{pmatrix}
1 & 2 & 3
\end{pmatrix}
\begin{pmatrix}
0 & 0.5 & 0.5 \\
0.5 & 0 & 0.5 \\
0.5 & 0.5 & 0
\end{pmatrix}
\begin{pmatrix}
0.5 & 0.25 & 0.25 \\
0.25 & 0.5 & 0.25 \\
0.25 & 0.25 & 0.5
\end{pmatrix}
= \begin{pmatrix}
2.5 & 2 & 1.5 \\
1.75 & 2 & 2.25
\end{pmatrix}.
\]
Equivalent Characterizations

**Lemma**

The following statements hold:

- \( D \in \mathbb{R}^{n \times n} \) is weak submajorization preserving w.r.t. \( \mathcal{P} \) iff
  \[
  \sum_{j=k}^{n} d_{i,j}^{\mu(p)} \leq \sum_{j=k}^{n} d_{i+1,j}^{\mu(p)} \quad k = 1, \ldots, n, \; i = 1, \ldots, n-1, \text{ for all } p \in \mathcal{P}
  \]

- \( D \in \mathbb{R}^{n \times n} \) is weak supermajorization preserving w.r.t. \( \mathcal{P} \) iff
  \[
  \sum_{j=1}^{k} d_{i,j}^{\mu(p)} \geq \sum_{j=1}^{k} d_{i+1,j}^{\mu(p)} \quad k = 1, \ldots, n, \; i = 1, \ldots, n-1, \text{ for all } p \in \mathcal{P}
  \]

\( \mu(p) \) is defined as \( \mu_k(p) = p_{(k)} \), and \( d_{i,j}^{\mu(p)} := d_{\mu_i(p),\mu_j(p)} \). Set \( D := \Pi_\alpha \) and \( p = \ell \)

- \( D := \Pi_\alpha \) weak submajorization preserving: nodes with high liabilities are more liable to nodes with higher liabilities
- \( D := \Pi_\alpha \) weak supermajorization preserving: nodes with high liabilities are less liable to nodes with smaller liabilities
Proposition

Suppose $\Pi_\alpha$ is order preserving w.r.t. to $P$ for some $\alpha \in [0, 1)$. Then,

(I) $p^*$ is similarly ordered to $\ell$.

(II) If $(\Pi, \ell, c, \gamma)$ is balancing, then $\ell_n - p_n^* \geq \ell_{n-1} - p_{n-1}^* \geq \cdots \geq \ell_1 - p_1^*$.

(III) If $(\Pi, \ell, c, \gamma)$ is unbalancing, then $\ell_1 - p_1^* \geq \ell_2 - p_2^* \geq \cdots \geq \ell_n - p_n^*$.

- Nodes with larger liabilities make larger payments.
- Balancing: larger losses by nodes with higher liabilities.
- Unbalancing: larger losses by nodes with smaller liabilities.
Theorem

Let $(\Pi^a, \ell, c, \gamma), (\Pi^b, \ell, c, \gamma)$ be unbalancing. Suppose there exists $\alpha \in [0, 1)$ such that both $\Pi^a_\alpha$ and $\Pi^b_\alpha$ are order preserving w.r.t. $\mathcal{P}$ and

(I) $\Pi^a_\alpha$ or $\Pi^b_\alpha$ is weak supermajorization preserving w.r.t. $\mathcal{P}$,

(II) $\Pi^a_\alpha < \Pi^b_\alpha$.

Then

$p^{a\ast}(\Pi^a, \ell, c) <^w p^{b\ast}(\Pi^b, \ell, c)$

and

$s(\Pi^a, \ell, c) <_w s(\Pi^b, \ell, c)$. 
Unbalancing Systems: Liability Concentration and Losses II

- From the proposition, the largest losses occur at nodes with small liabilities in an unbalancing system.
- Such losses are larger in the system $b$ with higher liability concentration:

System $a$

- Small Liabilities
- Large Liabilities
- Small Liabilities

System $b$

- Small Liabilities
- Large Liabilities
- Small Liabilities

$\Pi^a_\alpha \prec \Pi^b_\alpha$ weak supermajorization preserving w.r.t. $P$
Theorem

Let \((\Pi^a, \ell, c)\) and \((\Pi^b, \ell, c)\) be balancing. Suppose there exists \(\alpha \in [0, 1]\) such that both \(\Pi^a_{\alpha}\) and \(\Pi^b_{\alpha}\) are order preserving w.r.t. \(\mathcal{P}\) and

\[(I)\] \(\Pi^a_{\alpha} \text{ or } \Pi^b_{\alpha}\) is \textit{weak submajorization preserving} w.r.t. \(\mathcal{P}\),

\[(II)\] \(\Pi^a_{\alpha} < \Pi^b_{\alpha}\).

Then,

\[p^a*(\Pi^a, \ell, c, \gamma) <_w p^b*(\Pi^b, \ell, c, \gamma)\]

and

\[s(\Pi^a, \ell, c, \gamma) >_w s(\Pi^b, \ell, c, \gamma).\]
Balancing Systems: Liability Concentration and Losses II

From the proposition, the largest losses occur at nodes with large liabilities in a balancing system.

Such losses are larger in the system $a$ with lower liability concentration:

$$\Pi_a^a \preceq \Pi_b^b$$
Liability Concentration and Losses

Balancing Financial System

Unbalancing Financial System
Consider *core-periphery financial systems*: core nodes significantly larger than peripheral nodes. (Craig and Von Peter (2014))

\[
\Pi^a = \begin{pmatrix}
0 & \pi^a_{12} & \pi^a_{13} & \pi^a_{14} \\
\pi^a_{21} & 0 & \pi^a_{23} & \pi^a_{24} \\
\pi^a_{31} & \pi^a_{32} & 0 & \pi^a_{34} \\
\pi^a_{41} & \pi^a_{42} & \pi^a_{43} & 0
\end{pmatrix} \quad \Pi^b = \begin{pmatrix}
0 & 0 & 0 & \pi^b_{14} \\
0 & 0 & 0 & \pi^b_{24} \\
0 & 0 & 0 & \pi^b_{34} \\
\pi^b_{41} & \pi^b_{42} & \pi^b_{43} & 0
\end{pmatrix}
\]

- Perfectly tiered tend to have higher liability concentration than imperfectly tiered systems.
Perfect Tiered v.s. Imperfectly Tiered

- When both are unbalancing, the imperfectly tiered is preferred
  - Losses occur at peripheral nodes.
  - Imperfectly tiered: both periphery and core pay to periphery.
  - Perfectly tiered: periphery only receives payments from core.
  - Larger losses in perfectly tiered networks.
- When both are balancing, perfectly tiered is preferred
  - Losses occur at core nodes.
  - Imperfectly tiered: periphery makes payments both to core and periphery.
  - Perfectly tiered: periphery only makes payments to core.
  - Larger losses in imperfectly tiered network.
Data Sources

- Consider financial system induced by the banking sectors of eight representative European countries
- These countries account for 80% of the total liabilities of the European banking sector
- Consolidated banking data released from the European Central Bank and foreign claims data from the BIS to estimate parameters of the financial system.
### Banks’ consolidated foreign claims (BIS)

<table>
<thead>
<tr>
<th>December 2009</th>
<th>(UK)</th>
<th>(Germany)</th>
<th>(France)</th>
<th>(Spain)</th>
<th>(Netherlands)</th>
<th>(Ireland)</th>
<th>(Belgium)</th>
<th>(Portugal)</th>
</tr>
</thead>
<tbody>
<tr>
<td>(UK)</td>
<td>0.00</td>
<td>500.62</td>
<td>341.62</td>
<td>409.36</td>
<td>189.95</td>
<td>231.97</td>
<td>36.22</td>
<td>10.43</td>
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<tr>
<td>(Germany)</td>
<td>172.97</td>
<td>0.00</td>
<td>292.94</td>
<td>51.02</td>
<td>176.58</td>
<td>36.35</td>
<td>20.52</td>
<td>4.62</td>
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<tr>
<td>(France)</td>
<td>239.17</td>
<td>195.64</td>
<td>0.00</td>
<td>50.42</td>
<td>92.73</td>
<td>20.60</td>
<td>32.57</td>
<td>8.08</td>
</tr>
<tr>
<td>(Spain)</td>
<td>114.14</td>
<td>237.98</td>
<td>219.64</td>
<td>0.00</td>
<td>119.73</td>
<td>30.23</td>
<td>26.56</td>
<td>28.08</td>
</tr>
<tr>
<td>(Netherlands)</td>
<td>96.69</td>
<td>155.65</td>
<td>150.57</td>
<td>22.82</td>
<td>0.00</td>
<td>15.47</td>
<td>28.11</td>
<td>11.39</td>
</tr>
<tr>
<td>(Ireland)</td>
<td>187.51</td>
<td>183.76</td>
<td>60.33</td>
<td>15.66</td>
<td>30.82</td>
<td>0.00</td>
<td>64.50</td>
<td>21.52</td>
</tr>
<tr>
<td>(Belgium)</td>
<td>30.72</td>
<td>40.68</td>
<td>301.37</td>
<td>9.42</td>
<td>131.55</td>
<td>6.11</td>
<td>0.00</td>
<td>1.17</td>
</tr>
<tr>
<td>(Portugal)</td>
<td>24.26</td>
<td>47.38</td>
<td>44.74</td>
<td>86.08</td>
<td>12.41</td>
<td>5.43</td>
<td>3.14</td>
<td>0.00</td>
</tr>
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<table>
<thead>
<tr>
<th>June 2010</th>
<th>(UK)</th>
<th>(Germany)</th>
<th>(France)</th>
<th>(Spain)</th>
<th>(Netherlands)</th>
<th>(Ireland)</th>
<th>(Belgium)</th>
<th>(Portugal)</th>
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</thead>
<tbody>
<tr>
<td>(UK)</td>
<td>0.00</td>
<td>462.07</td>
<td>327.72</td>
<td>386.37</td>
<td>135.37</td>
<td>208.97</td>
<td>43.14</td>
<td>7.72</td>
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<td>(Germany)</td>
<td>172.18</td>
<td>0.00</td>
<td>255.00</td>
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<td>149.82</td>
<td>32.11</td>
<td>20.93</td>
<td>3.93</td>
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<td>(France)</td>
<td>257.11</td>
<td>196.84</td>
<td>0.00</td>
<td>26.26</td>
<td>80.84</td>
<td>18.11</td>
<td>29.70</td>
<td>8.21</td>
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<tr>
<td>(Spain)</td>
<td>110.85</td>
<td>181.65</td>
<td>162.44</td>
<td>0.00</td>
<td>72.67</td>
<td>25.34</td>
<td>18.75</td>
<td>23.09</td>
</tr>
<tr>
<td>(Netherlands)</td>
<td>141.39</td>
<td>148.62</td>
<td>126.38</td>
<td>20.66</td>
<td>0.00</td>
<td>12.45</td>
<td>23.14</td>
<td>11.11</td>
</tr>
<tr>
<td>(Ireland)</td>
<td>148.51</td>
<td>138.57</td>
<td>50.08</td>
<td>13.98</td>
<td>21.20</td>
<td>0.00</td>
<td>53.99</td>
<td>19.38</td>
</tr>
<tr>
<td>(Belgium)</td>
<td>29.15</td>
<td>35.14</td>
<td>253.13</td>
<td>5.67</td>
<td>108.68</td>
<td>5.32</td>
<td>0.00</td>
<td>0.39</td>
</tr>
<tr>
<td>(Portugal)</td>
<td>22.39</td>
<td>37.24</td>
<td>41.90</td>
<td>78.29</td>
<td>5.13</td>
<td>5.15</td>
<td>2.57</td>
<td>0.00</td>
</tr>
</tbody>
</table>

*Table*: All values are in USD billion.
## Consolidated banking sector data (ECB)

<table>
<thead>
<tr>
<th>Country</th>
<th>December 2009 (in USD billion)</th>
<th>June 2010 (in USD billion)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Assets</td>
<td>Liabilities</td>
</tr>
<tr>
<td>UK</td>
<td>13,833</td>
<td>13,204</td>
</tr>
<tr>
<td>Germany</td>
<td>12,366</td>
<td>11,901</td>
</tr>
<tr>
<td>France</td>
<td>9,053</td>
<td>8,616</td>
</tr>
<tr>
<td>Spain</td>
<td>5,350</td>
<td>5,024</td>
</tr>
<tr>
<td>Netherlands</td>
<td>3,795</td>
<td>3,632</td>
</tr>
<tr>
<td>Ireland</td>
<td>1,919</td>
<td>1,828</td>
</tr>
<tr>
<td>Belgium</td>
<td>1,706</td>
<td>1,629</td>
</tr>
<tr>
<td>Portugal</td>
<td>732</td>
<td>686</td>
</tr>
</tbody>
</table>

\(\dagger\) The equity under the worst case payment scenario
Unbalancing states are persistent

- $(\Pi, \ell, c)$ is unbalancing if, for $j = 1, \ldots, n - 1$,

$$\left(\sum_{i=1}^{n} p_{i} \pi_{i,j+1} + c_{j+1}\right) - p_{j+1} \geq \left(\sum_{i=1}^{n} p_{i} \pi_{i,j} + c_{j}\right) - p_{j},$$

equity of node $j + 1 \geq$ equity of node $j$ under the worst-case scenario

<table>
<thead>
<tr>
<th>Date</th>
<th>Degree of unbalance</th>
</tr>
</thead>
<tbody>
<tr>
<td>Dec-2008</td>
<td>71%</td>
</tr>
<tr>
<td>Dec-2009</td>
<td>100%</td>
</tr>
<tr>
<td>Jun-2010</td>
<td>100%</td>
</tr>
<tr>
<td>Dec-2010</td>
<td>86%</td>
</tr>
<tr>
<td>Jun-2011</td>
<td>86%</td>
</tr>
<tr>
<td>Dec-2011</td>
<td>86%</td>
</tr>
<tr>
<td>Jun-2012</td>
<td>71%</td>
</tr>
<tr>
<td>Dec-2012</td>
<td>71%</td>
</tr>
<tr>
<td>Jun-2013</td>
<td>86%</td>
</tr>
<tr>
<td>Jun-2014</td>
<td>86%</td>
</tr>
</tbody>
</table>
Policy Implications

- Empirical evidence suggest that real-world networks are most likely to be in an unbalancing state.
- Higher concentration of liabilities induce larger systemic losses in unbalancing systems.
- Desirable for regulatory purposes to prevent high concentration of liabilities in the network.
- Support the supervisory framework put forward by the Basel Committee aiming at limiting the size of gross exposures to individual counterparties.
Conclusion

- New framework to quantify the impact of liability concentration on systemic losses.
- Loss preferences expressed via vector majorization. Liability concentration captured by matrix majorization.
- Balancing and unbalancing systems bring out the qualitatively different implication of liability concentration on systems’s loss profile
- Empirical analysis suggests that real-world networks are unbalancing or close to it, persistently over time.
- Support regulatory policies of Basel Committee aiming at reducing gross exposures to individual counterparties.