

Stress Testing the European Banks

As Europe's banks undergo so-called stress tests, an old adage comes to mind. Every failed trade becomes an investment. Every failed investment becomes a strategic holding.

Apart from specifying the nature of the stress, what is being assumed in each stress scenario, what probabilities have been assigned to sovereign default, etc etc, the valuation of assets and the assessment of the variability of the valuation of those assets is key in a stress test. Who is providing that valuation? Who is providing the assessment of variability and reliability?

Or is this a take home test?