ABSTRACT

In modern financial markets, value at risk (VaR) has been a universally accepted risk measurement mainly due to its easy interpretability. While the underestimation of risk and incoherence has drawn increasing critics for VaR, especially after the 2007-2008 financial crisis. Among various candidates, we focus on a newly proposed measure called mark to market value at risk (MMVaR) considering multiple account settlements. We show the superiority of MMVaR through simulation examples and real-world data. It turns out that MMVaR, as a direct generalization of VaR, not only maintains its easily interpretable feature, but also has better estimation performance. Particularly, it provides evidence for Basel III’s 23% increase in the minimum capital adequacy ratio.