Monday, June 14, 2010

Via FedEx
Professor Anil Kashyap
Booth School of Business
University of Chicago
5807 S Woodlawn Ave
Chicago, IL 60637-1610
anil.kashyap@chicagobooth.edu

Re: Follow-up to the Financial Crisis Inquiry Commission Forum

Dear Dr. Kashyap:

The Financial Crisis Inquiry Commission thanks you once again for your participation in the “Forum to Explore the Causes of the Financial Crisis” on February 26 and 27, 2010.

Enclosed are follow-up questions which were posed by the Commissioners during the forum, as well as additional questions which have arisen over the course of our investigation which we would like your assistance in answering.

Please respond to the questions by Friday, July 2, 2010. If you have any questions, or would like more information, please contact Scott Ganz at sganz@fcic.gov.

1. Following your discussion of the need to study best and worst risk management practices, (1) Which firms in your opinion had best or worst practices? (2) What lessons do you derive from practices you know about at these firms? (3) Can you provide us with any documents that shed light on these practices at particular firms? (4) Can you provide us with any analyses that shed light on these issues?

Sincerely,

Wendy Edelberg
Wendy,

I got a letter asking me some follow up questions. Here are my answers

Which firms had the best or worst risk management practices?

I am not sure who is best, but worst should start with the major firms that failed or needed assistance to survive. So Lehman, Bear Stearns and AIG are obvious candidates for case studies. I think it would be interesting to explore Goldman and Credit Suisse as counter examples.

What lessons do I derive from these cases?

Certainly something failed Lehman, Bear and AIG and it would be useful to know why skeptics inside these firms were overruled. It would useful to find out which structural arrangements about risk management worked and why.

Can I provide any documents to shed light on these cases?

The Lehman examiners report by Anthony Valukas includes lots of color on how the risk managers at Lehman were overruled and reassigned. You should look at his report.

Can I provide any analyses that shed light on these issues?

In my testimony I provided a template that could be used to collect data more systematically. Here is a link to the updated version of the paper that I cited in my testimony. http://www.nber.org/~confer/2010/Risks10/Ellul_Yerramilli.pdf I strongly encourage you to contact Ellul and Yerramilli since they are willing to work with you on processing any data that you collect and/or to help you collect more data.
I hope this information is helpful. Please confirm the receipt of these answers. Best regards,

Anil

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Anil Kashyap
Edward Eagle Brown Professor of Economics and Finance
University of Chicago
Booth School of Business
5807 S. Woodlawn Ave.
Chicago, IL 60637

web: http://chicagobooth.edu/fac/anil.kashyap

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