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ABSTRACT

We propose a measure for systemic risk: CoVaR, the value at risk (VaR) of the financial system conditional on institutions being under distress. We define an institution's contribution to systemic risk as the difference between CoVaR conditional on the institution being under distress and the CoVaR in the median state of the institution. From our estimates of CoVaR for the universe of publicly traded financial institutions, we quantify the extent to which characteristics such as leverage, size, and maturity mismatch predict systemic risk contribution. We also provide out of sample forecasts of a countercyclical, forward looking measure of systemic risk and show that the 2006Q4 value of this measure would have predicted more than half of realized covariances during the financial crisis.

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