

THE ADEQUACY OF CAPITAL: PERFORMANCE MEASURES AND SYSTEMIC RISK

Prakash K. Pai, University of Texas of the Permian Basin, Odessa, Texas, USA

[dx.doi.org/10.18374/JIFS-14-2.5](https://doi.org/10.18374/JIFS-14-2.5)

ABSTRACT

The evaluation of capital adequacy should be considered, not just in terms of easily observable on-balance sheet items, but also in terms of important and related off-balance sheet items and other proxies for risks. It is also critical to factor in the impact of popular market-based measures of liquidity and volatility. While the current move is to ensure that all systemically important financial institutions, especially Bank Holding Companies (BHCs), are adequately capitalized, based on the financial statement information, one should also consider how BHCs ensure the safety of their institutions with the use of derivatives. One-size regulatory guidelines for capital adequacy may not fit all BHCs, effectively. More research is needed as to the real effectiveness and necessity of capital for various BHCs.

Keywords: *Bank Capital, Bank Holding Companies, Derivatives, Systemic Risk, Financial Stability*