

Fin-tech HO2020 RESEARCH SEMINARS

3rd of December 2020 @ 11:00-12:00
ONLINE

Portfolio Compression in Financial Networks: Incentives and Systemic Risk

We study portfolio compression, a procedure that removes cycles of liabilities in a financial network. Compression is employed in today's financial practice to simplify institutions' investment portfolios. Since compression reduces financial interconnectedness, intuition may suggest that it will always make the financial system more stable.

In this paper, we show that, surprisingly, this need not be the case: compression may be detrimental with regards to social welfare and banks' incentives to perform compression may be misaligned with social welfare. At the same time, compression may also be detrimental to the banks involved in it. We analyze which network structures give rise to these effects and we derive sufficient conditions under which they do not manifest. Our results contribute to a better understanding of the implications of recent regulatory policy.

Zürcher Hochschule
für Angewandte Wissenschaften



**This project has received funding from the European Union's Horizon 2020 research and innovation programme under grant agreement No 825215. All material presented here reflects only the authors' view. The European Commission is not responsible for any use that may be made of the information it contains.

Speaker



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Steffen Schuldenzucker is currently a PostDoc in the Algorithms and Complexity Research Group at the Goethe University Frankfurt. His research is concerned with the analysis of financial markets from a perspective of algorithmic game theory and computational mechanism design. Steffen received his PhD (2019) from the University of Zurich for a study of complexity and systemic risk in financial networks with financial derivative contracts. In ongoing work, he studies mechanism design for financial exchanges in the presence of high-frequency traders.

**How to join the meeting:
ZOOM link:**

<https://zhaw.zoom.us/j/99151535666>

Meeting ID: 991 5153 5666