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## New research shows regulatory tools in financial sector not fit for purpose

The tools currently used by regulators to assess risk in the financial sector are not fit for purpose, according to new research from HEC Paris business school.

Professors of finance Christophe Pérignon and Jean-Edouard Colliard, have examined whether financial regulators could predict and prevent another catastrophe like the financial crisis of 2008. They found that although there may already be a strong focus on regulating individual banks, no methodology is yet available to capture risk within the system overall.

Pérignon comments that: “Although academic research shows it is not the safety of individual banks that matters but the resilience of the system as a whole, new regulations still try to control specific sources of risk and measure the risk of individual banks.”

The report ‘[Does danger still lurk in the banking system?](#)’ also highlights some of the gaps and flaws in current regulatory instruments such as an incorrect formula for identifying systemically important financial institutions (SIFIs). This SIFI scoring methodology was originally developed by the Basel Committee on Banking Supervision and is currently standard practice.

The researchers have proposed the correction to the relevant regulatory authority and insist that in order to rid the banking system of similar dangers, academics and regulators must collaborate.

Pérignon explains: “On the one hand, regulators have access to a wealth of confidential data, but we show their tools are relatively simple. On the other hand, academics have developed much more sophisticated tools and measures using the limited market and public data they have available. It’s time to bring these two sets together through research collaboration.”

More details about the research can be found here on the [Knowledge@HEC platform](#).

### About HEC

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Paris was ranked as the number 2 business school in the general classification of European business schools published by the Financial Times in December 2015.

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