EUROPEAN
BANKING
AUTHORITY

BANKING STAKEHOLDER GROUP

EBA DP 2017 04

DISCUSSION PAPER

IMPLEMENTATION IN THE EUROPEAN UNION OF THE REVISED MARKET RISK AND COUNTERPARTY CREDIT RISK FRAMEWORKS

COMMENTS

BY THE EBA BANKING STAKEHOLDER GROUP

[EBA Deadline: 15 March 2018]

London, 15th March 2018

Comments to the Consultation Paper

General comments

The BSG welcomes the opportunity to comment on the EBA Discussion Paper on RTS Proposals on Market Risk & Counterparty Credit Risk framework. We consider very positive the information and proposals included in the document. We also wish to use this opportunity to point out some relevant issues.

Non-TB positions subject to FX risk have been covered by the EBA/DP/2017/01 on the treatment of structural FX under Article 352(2) of the Regulation (EU) N°575/2017. We would ask for a transversal assessment of FX structural positions, since they can clearly be relevant for entities holding a capital structure where there is a significant number of subsidiaries in a third country whose reporting currency is different to the parent's one. Positions in such subsidiaries accounted at historic cost in the parent company's financial statements (with no FX risk) can have a relevant impact on capital ratios due to gains and losses as a consequence of FX moves coming from the translation of capital balances into the parent´s reporting currency.

This is even more relevant when an entity opts for a multiple point of entry resolution strategy and is not allowed to calculate its consolidated risk weighted assets as a single portfolio, but as the sum of risk weighted assets at individual level. Therefore, the equity of the subsidiaries hold at the parent company is accounted at historic cost while FX positions taken to hedge the impact of those position at consolidated level are valued marked to market.

Finally a recalibrated version of the current standardised approach is necessary. Such calibration would be aligned with the conclusions of the Basel Committee consultative document BCBS 408. The simplified standardised approach (Reduced Sensitivities-based Method) should apply both to banks with small trading books and to subsidiaries of larger banks, including subsidiaries of G-SIB and D-SIB, as long as they meet the criteria on a standalone basis for the calculation of market risk own funds requirements.

With respect to the calculation of the supervisory delta, it is valuable the objective to address the issue of how to deal with negative rates. Specifically, in relation to Question 12[1], a possible issue that could be raised by the options under consideration refers to the possibility that the λ parameters used for the calculation of the supervisory deltas – especially if the same λ parameter is used for all interest rate options in the same currency – would not be consistent with actual market conditions (i.e., market prices). In this respect, it would be helpful to clarify the meaning of "market convention for the λ parameter" mentioned as second option in §91.

[1] Question 12 reads as follows: "Which one of the two options do you think is more appropriate from an EU perspective (i.e. maximum harmonisation)? Are you aware of any issue these two options could raise?"