NOMURA

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EBA
One Canada Square (Floor 46)
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Submitted via website

Subject: Nomura's response to Consultation Paper on Draft Regulatory Standards on the specification of the assessment methodology for competent authorities regarding compliance for an institution with the requirements to use internal models for market risk and the assessment of significant share under Article 363(4)(b) and (c) of Regulation (EU) NO 575/2013

Dear Madam/Sir,

Nomura is a leading financial services group and Asia-based investment bank with worldwide reach, providing a broad range of solutions tailored to the specific requirements of individual, institutional, corporate and government clients through an international network in over 30 countries. We are based in Tokyo with regional headquarters in Hong Kong, London, and New York. In the EU we are a significant inward investor and have a presence in 11 EU Member States, employing over 3,500 permanent employees.

Nomura International plc is registered on the EU Transparency Register – identification number 373563717179-76.

We are grateful for the opportunity to respond to the EBA's Consultation Document and have been actively engaged with the EBA's consultation process including attendance at the Open Hearing.

We have also actively participated in the wider industry response on this topic, including participation in relevant ISDA working groups. We endorse ISDA's response to this consultation but would like to highlight a number of issues of particular relevance to Nomura. We have confined our response to those areas in relation to which we have views that we would like to share, rather than deal with each specific question.

We are happy for our response to be published.

Nomura supports the policy objectives of the EBA RTS to introduce consistency in the determination of the methodology to assess an institution's compliance with the requirements to use an IMA for market risk. However, we strongly believe that a number of amendments are needed in order to achieve appropriate proportionality and flexibility of implementation during a period of significant change to the overall market risk framework.

In summary, we would like to highlight the following points:

- Potential conflicts with the long term requirements of the Fundamental Review of the Trading Book (FRTB)
- Impact on model approvals
- Impact on hypothetical P&L
- Resource implications

In the following we will elaborate our points in more detail.

There are rules in the RTS that we believe are in direct contradiction with what we believe is required to reach compliance with the FRTB. In particular, we are concerned about the rules regarding the aggregation of VaR from different regions. This is a particularly pertinent issue for Nomura, as positions are managed in multiple regions and daily P&L can therefore be materially impacted by how we chose to calculate P&L. The RTS specifies that products booked in different regions (but sensitive to the same risk factors) will have to be mapped to a single time series only. P&L is assumed to be taken at a particular time across all regions (i.e. for the EMEA close P&L, we would require a Present Value calculation of the books in Japan at 2am). We believe this is not feasible and that it will be extremely difficult to calculate and sign off P&L taken at a time which is different from the regional close. There is also the possibility of unintended consequences where this requirement could potentially have a negative impact on overall risk management practices given that individual traders would feel less responsibility for their P&L, whereas maintaining different time zones would potentially increase governance. Given the overall minimal impact on capital, we would query the need to provide any prescriptive rules.

In order to meet the FRTB P&L attribution test, Nomura is working on exactly the opposite solution, i.e. we want to use different time series for the different regions to be able to match hypothetical P&L (calculated using regional close).

We are also concerned about the new requirement that a certain (high) proportion of the portfolio needs to be treated on an internal model basis to be allowed to use an internal model at all. Nomura's model approval is on a product basis, and we have a daily process to make sure that only approved products are included in the model. Based on the proposed rules, we would have to set up a separate framework to compare in scope and out of scope positions within the overall portfolio and start calculating standard rules capital requirements for the in-scope portfolio on a daily basis. We understand EBA's requirement that firms should not be able to selectively use the model application once obtained, but since our approval is given on a product basis, it is difficult to see how the new test will help achieving this aim.

We do not support the new proposals for hypothetical P&L where risk factor P&L contribution should be taken out if not included in the VaR model. The RTS requirement would front-run the (possible) FRTB requirement by several years, and require significant re-prioritisation of resources.

There is also implementation work regarding certain of the RTS rules that will need to be discarded when FRTB goes live. This includes SVaR and CRM rules, as well as the proposed rule to have a certain amount of total portfolio on internal model in order to be allowed to use an internal model at all.

As an overall comment, we would like to highlight the amount of work the RTS will require from firms at a time where most firms have all skilled resources committed to FRTB. Nomura has over the last six months set up a major project across Risk, Finance, and Front Office to reach FRTB compliance by 2019 and to obtain resources for a major new project to be completed by the end of this year will be extremely challenging and will pose significant implementation risk to our FRTB project.

We hope our comments are helpful and would welcome the opportunity to discuss our views in more detail should you find this useful.

Yours faithfully,

Jeremy Arnold

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