Wolters Kluwer
Financial Services

Our Ref: CP16 Non Delta risk options May 2013
Your Ref: EBA/CP/2013/16

19 September 2013~~31 August 2013~~

European Banking Authority
Tower 42 (level 18)
25 Old Broad Street
London EC2N 1HQ
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Dear Sir

Draft RTS on non-delta risk of options in the standardised market risk approach under articles 318(3), 341(6) and 347(4) of the CRR

I am writing on behalf of Wolters Kluwer Financial Services, a global finance, risk and compliance solutions provider.. Our solutions enables over 15,000 customers around the world to calculate, monitor, and submit risk and regulatory reports, both internally including senior management and externally to regulatory authorities. Our regulatory solutions cover 50 jurisdictions around the world, including 17 EU member countries and include a wide range of prudential and statistical reporting. A key aspect of our software and services includes the calculation of market risk related capital requirements and as such we have read this paper with interest.

Underpinning all of our solutions is a centralised data mart that collates, validates and reconciles data from multiple sources and back office systems and makes it accessible across the bank as a single auditable normalised data set. This approach allows firms to integrate their entire risk management, regional and global regulatory reporting (prudential and statistical) activity with centralised, reliable and clean data.

Before addressing the questions raised in this paper may we take this opportunity to raise some general comments regarding this consultation paper.

At present many firms are able to trade OTC options acquiring both long and short option positions as part of their portfolio. It has also been the case that when the appropriate authorities assess a financial firm's application for option model approval, it is often accompanied with some restriction. This may result in not every option held having a delta value assigned. There is no guidance however for firms who will find themselves in this situation once this technical standard is accepted. Clearly with no delta available, this approach cannot be used. However there is no accommodation in the level 1 text for any other methods to be used.

Another observation we would like to make is that even for exchange traded options, quoted delta values are not always available. Under such circumstances it would be useful to have some guidance as to how firms are expected to complete their own funds calculations.

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Regarding the specific questions raised in the consultation paper:

Q1. Do you agree with the choice to refer to the Basel Framework? Are there other approaches that can effectively be used for the purposes of this RTS? Which ones? Explain your reasoning.

We believe that, for the reasons mentioned in the text, the use of the Basel Framework is wholly appropriate.

Q2.Do you prefer the first option (exclusion of a combination of methods within a single institution) or the second option (exact definition of the scope of the scenario approach)? If you would prefer the second option, what additional conditions and controls should be established?

We prefer the second option as this will allow model approval where a firm has the appropriate experience and infrastructure, while allowing for the delta method to be used for other option trades, within the same institution.

Q3. Do you believe that it is useful to implement the simplified approach established in the Basel text?

We believe simplified approach would be useful for many of our less complex customers who have not and do not intend to have a significant amount of option trading activity.

Q4. Do you agree with this prudential treatment, not contemplated in Basel Framework, for non-standard options?
We believe this approach to be prudent.

Q5. Do you agree that the RTS should require that the conditions of Articles 318(1), 341(1) and 347(3) of the CRR are met for the calculation of gamma and vega?

We feel articles 318(2), 341(5) and 347(3) of the CRR are met for the calculation of gamma and vega.

Q6. Do you think that the unified treatment of interest rate risk is sound? Could there be difficulties in implementing in practice?

We believe that the unified treatment of interest rate risk is sound and should, given the inclusion of a specific risk charge when calculating own funds, not weaken the prudential framework. In practice we do not foresee any insurmountable difficulties implementing this in practice.

Q7. How many hybrid options does your portfolio account for in terms of number of options and notional amounts (i.e. options which can be assigned to more than one underlying type as defined above)? Should the BTS specify treatment of these hybrid options?

Not applicable as we are not a financial institution

Q8. Do you agree with the rationale behind the exclusion of this provision contemplated in the Basel accord in the RTS? If not, please provide arguments in favour of its implementation.
We agree with the EBAs rationale.

We hope you find our comments useful.

Yours Faithfully

Selwyn Blair-Ford
Global Head of Regulatory Policy – Wolters Kluwer Financial Services