Our Ref: CP15 Market Definition Response May 2013
Your Ref: EBA/CP/2013/15

19 September 2013~~29 August 2013~~

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

Dear Sir

Draft RTS On the definition of market under article 330(3) of the draft capital requirements regulation

I am writing to you from the financial risk management and regulatory reporting arm of Wolters Kluwer Financial Services. Our solutions enable over 1,500 customers around the world to calculate, monitor, and submit risk and regulatory reports, both internally to senior management and externally to regulatory authorities. Our regulatory solutions cover over 40 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 includes 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 urge the EBA to publish a comprehensive summary of the quantitative and qualitative research that they have undertaken while preparing for this paper. Releasing such information will increase transparency and is likely to have a positive impact on industry participation in any consulting exercise.

When considering the two options, will the EBA please consider the reaction of other regulatory authorities outside of the Europe? Many of the market participants have been known to run global equity positions that follow the trading activity around the world. At present there is a large degree of similarity on the capital treatment across the globe. However if option 2 is adopted only in the EU this may introduce a degree of regulatory arbitrage between jurisdictions. We feel the best outcome would be if option 2 were to be adopted then it is not just adopted within the EU but also in all the major trading jurisdictions outside the EU as well.

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We further note that Article 341 of the CRR states that the EBA shall submit draft regulatory standards by 31 January 2014. However it has been previously announce that CRR will be in force from the 1 January 2014. It would helpful if clarity on which option will be implemented could be achieved in time to include any changes in the as part of the overall CRR implementation effort.

Regarding the specific questions in the consultation paper

Q1. Do you consider that the degree of integration in the European Union is sufficient to support currency based definition of equity market? If possible please provide quantitative evidence to support your answer.

As a solution provider we do not have the quantitative evidence to demonstrate that the degree of integration is sufficient. However we have not come across any other body that claims to have enough evidence to categorically support this change in definition. It is our opinion that this change should be implemented only if strong evidence is in place to demonstrate the risk profiles warrant such a change. Without such evidence we are in danger of having a prudential risk frame work that mistreats equity general market risk.

Q2. Are there implementation costs that should be taken into consideration when defining the criterion?

For firms with a solution such as ours, there will be an extra complication if option 2 is implemented. For all non-euro zone jurisdictions calculations will be based on national jurisdiction, but for Euro zone states currency will be used. For a solution such as ours this change will not be costly, but this may not be the case for others. Some firms may also need to amend aspects of data and process to include currency in order to ensure this process can be properly applied.

Q3. What would be the impact on market risk capital requirements impact of the implementation of option 2 measured in both relative and absolute terms?

Option 2 will allow more opportunities for netting positions and so will result in the lowering of the capital requirement. The extent of the reduction is dependent on the make-up of the equity portfolio under consideration.

We hope you find our comments useful.

Yours Faithfully

Selwyn Blair-Ford
Global Head of Regulatory Policy