EBA/CP/2013/15

Draft RTS
On the definition of market under Article 330(3) of the draft Capital Requirements Regulation (CRR)

Deadline 31-08-2013

<u>Questions:</u>

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

As stated in EBA/CP/2013/15: *"the introduction of a single currency has eliminated some important elements of segmentation between equity markets, such as the elimination of foreign exchange currency risk, the presence of a unique currency in which company results are reported or the existence of an integrated market with common rules".*

Despite the difficulties experienced by the Euro Zone as a whole throughout recent years, the measures taken were in the direction of a greater integration and economic convergence in terms of:

- Reinforcement of the pillars of the Euro Zone project;
- The adoption of common economic and fiscal policies between different national jurisdictions;
- Alignment of the prudential rules with the European target of a greater integration of the markets;
- Normalization of financial markets;
- Tax harmonization;

Amongst other measures.

Although the integration/convergence process is not yet completed, the recent steps taken in the EMU (European Monetary Union), macro prudential supervision, monetary policy measures, enhanced fiscal and budgetary discipline both at the level of the operating rules of the ECB (European Central Bank), or at the level of a Banking Union, are good signs towards the harmonization of the guiding rules of the banking and financial systems.

Indeed, the establishment of a single framework for banking supervision and regulation with common rules for the whole euro area, and which is now in an advanced stage of completion with concrete metrics and schedules of implementation already set, will allow a greater harmonization of the measures of the risks incurred by different national banking systems in the very short term.

Although we do not have any study to allow us to evaluate this subject matter, given that:

- the great majority of the segmentation elements have been eliminated;
- there is existence of a strong link between markets;
- and countries share the same general risk;

We are inclined to say that, inside the Euro Zone, option 2 seems to be acceptable, or at least that the conditions that support a currency based definition for the equity market seem to be created and have been reinforced during the recent crisis period.

As for Members of the European Union that are outside the Euro Zone, this relationship is not clear, and therefore we are not sure if Option 2 would be adequate.

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

In every technical decision a cost-benefit analysis must be performed in an adequate manner balancing the benefits or the kindness of the decision to implement. However, it is of a general opinion that the costs of implementing such a change would be immaterial to institutions.

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

Generally speaking, we believe the important criteria should not be the capital requirements but the economic fundamentals behind it and those seem to support the notion of a currency based definition of equity market.

Moreover, these changes would only impact the Standard Method (which is usually used by institutions of a smaller size), and given that from these institutions only the ones that hold capital instruments in their trading portfolio would be impacted, it is not foreseen that such a change would have a relevant impact to the market as a whole.

On an individual/institution basis, the impacts could vary a bit further, depending on its dimension and the exposures to equity holdings in trading portfolios.