CRÉDIT AGRICOLE
CORPORATE & INVESTMENT BANK

RPC – Direction des Risques de Marché

From: Bernard Crutz January 11th, 2012

To: EBA

Subject: Comments on CP49

Page 11 : § 4. 3.

"*Positions in defaulted debt held in the trading book shall in principle be included. […] The risk of price changes of defaulted debt, as driven by uncertain recovery marks or an expectation about ultimate recovery shall be capitalised in all cases, ideally using the IRC model.*"

Except for institutions that actively trade defaulted bonds, this risk is of secondary order as defaulted bonds represent only a very small fraction of the overall portfolio. We would suggest adding to this paragraph that this guideline only applies if material.

Page 18 : § 18. 2.

"*Alternatively to what is described in paragraph 1 above, institutions are allowed to choose to consistently use a one-year constant position assumption, which implies not adopting liquidity horizons, but applying to all IRC positions an instantaneous shock over the one-year capital horizon (referred to as "one-year constant position assumption").*"

We'd like to make a general comment and a particular comment:

General comment: the EBA guideline "*requires that institutions shall rebalance or roll-over positions at the end of each liquidity horizon to new positions such as to ensure the same initial level of risk as at the start of the liquidity horizon*" (cf § 18. 1.). It would be logical to apply this rule to the conservative assumption of a one year liquidity period. One should note that nothing in this text prevents an institution from applying the rule for a Liquidity horizon just below 12 months (for example 11 months) which de facto allows for the ageing of the portfolio.

Particular comment: the hypothesis that an institution will periodically roll-over its positions may only be valid if the activity is on-going. Due to the 2008 crisis, several institutions have stopped some of their activities, in particular in credit derivatives. In such cases, the hypothesis that the institution will periodically roll-over its positions is not valid and the portfolio will age naturally (sometimes even more quickly as the institutions are managing the book towards extinction). In the cases where portfolios are run into extinction, national regulators should allow the institution to assume the ageing of the book (therefore applying rule (18. 1.) with a 1 year Liquidity horizon). This remark is even truer for the Comprehensive Risk Measurement since many institutions have stopped commercial activities in their Correlation books, managing them in run-off mode.

Page 19 : § 19. 3.

"*In order to reflect basis risk appropriately, valuation for the purposes of the IRC for related positions (like, for example, bonds and CDSs on the same obligor) must be differentiated. Thus, net long and net short positions that reference similar - but not identical - underlying assets should not result in an IRC measure equal to zero.*"

Except for institutions that have very large basis positions, this risk is of secondary order as bonds and CDSs move largely together. We would suggest adding to this paragraph that this guideline only applies if material.

Page 26 : § 29. 2.

"*The institution shall be able to prove that, on the day of the week chosen for IRC calculation, its portfolio is representative of the portfolio held during the week and that the chosen portfolio does not lead to a systematic underestimation of the IRC numbers when computed weekly.*"

We'd like to clarify that this requirement should not be construed as a de facto requirement for a daily computation of the IRC. This requirement should be satisfied by other means or indicators.

Bernard CRUTZ
Global Head of Market Risks
Crédit Agricole CIB