

CEBS – Consultation Paper 35
Management of Operational Risks in Market-related Activities
April 7, 2010

ING Financial Markets have reviewed the above consultation paper. Following the rogue trading event at SOCGEN in January 2008 we initiated our own review of Operational Risk In A Trading Environment (ORiate) and it is pleasing to see that there is much overlap with our own conclusions and the paper. However, ING Financial Markets would like to make the following points;

Point 13, Page 4

Control functions organised along business lines are not per se a bad idea, provided there is strong functional management in place to deter questionable practices. In fact, it is equally valid to argue that business alignment aids the integration of processes and cross-unit cooperation as well as improving the understanding of the business (thereby making the likelihood of detecting unusual activity more likely).

Point 21, Page 5

The point suggests that traders should be set limits on maximum acceptable levels of operational exposure. Measurement of operational exposure becomes a critical shortcoming in such a suggestion; for example operational risk capital is established from historic operational risk incidents in the industry over which trading management and traders have no control. As such accountability for one's own organisations operational risk incidents is a more direct and quantifiable approach and will lead trading room management to ensure that processes are strengthened to ensure that such incidents do not re occur. This concept can be incorporated in objective setting and where appropriate in variable remuneration.

Point 24, Page 5

Fraud prevention and detection is a very difficult discipline to address and therefore some of the suggestions given are difficult to implement in an effective manner. One process that is not mentioned is the requirement to have a thorough "Lessons Learnt" process so that operational risk incidents are reviewed and addressed so that they will not re occur.

Point 39, Page 8

Directing 'commercial issues' to a control function is unlikely to be realistic. In practice these issues are more likely to be dealt with by the front office Relationship Managers who are outside the dealing room and independent of

the trading function. Perhaps the type of commercial issue needs better definition e.g. price differences.

Point 40, Page 8

Resolution of confirmation and settlement issues without the involvement of the front office is unlikely to be possible, particularly when the query revolves around the economics of the trade. However, reporting and escalation processes should be put in place to prevent the trader concerned from overly influencing the situation.

Point 41, Page 8

Counterparty confirmations should be matched “at the latest by the end of the day”. Although much energy is being spent to improve the timeliness of the confirmation process with automated same day affirmation processes in the front office and same day telephone affirmation in the back office, the ability to achieve 100% confirmation matching on the trade date across the whole spectrum of OTC derivative trading with clients is not a realistic goal. (Point 49, item 5, page 10 would suggest that confirming all deals by the end of the trading day is not a realistic objective).

Point 44, Page 9

Reconciliation between front office deal capture/position keeping systems, settlement systems and credit risk systems is a critical part of the control process. However, we see no reason why a control department given responsibility to perform such reconciliations can not report into Operations, where Operations is suitably segregated from the front office.

Point 48, Page 9

We would draw a distinction between intercompany trades and internal trades. The latter are often trades between books where internal mirroring and reconciliation processes negate the need for confirmations. We fully support the confirmation of intercompany trades.

Point 50, Page 10

Although the objective of attributing large collateral requirements to traders/books is well understood, when considering long term derivatives the attachment of a large collateral requirement on a 30 year swap when it is 15 years through it's life does not suggest any inappropriate positioning. Therefore such analysis should be skewed to recently traded positions with material market risk; futures being the prime instrument.

Reconciling a collateral call back to a trade level may not always be realistic when thresholds and minimum transfer amounts are in operation. However, the more fundamental point is to understand and assess the reasonableness of the collateral movement (as mentioned in point 53).

Point 56, Page 11

The words “treasury activities” are used where the words “trading activities” might be more appropriate. Further, this recommendation mixes several different functions (sensitive accounts, collateral management and incident capture). These points would be better made in the sections that deal more with those topics.