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EBA - Consultation on Draft RTS on the definition of market under Article 330(3) of the Draft Capital Requirements Regulation (CRR) - EBA/CP/2013/15

The Division Bank and Insurance of the Austrian Federal Economic Chamber, as representative of the entire Austrian banking industry, appreciates the possibility to comment on the EBA Consultation on Draft RTS on the definition of market under Article 330(3) of the Draft Capital Requirements Regulation (CRR) - EBA/CP/2013/15 and would like to submit the following position:

Q1: Do you consider that the degree of integration in the European Union is sufficient to support a currency based definition of equity market?

Although the introduction of the single currency has led to elimination of the currency exchange risk and thus to reduction in barriers to capital mobility in the Euro-market as well as to an improved transparency due to a higher degree of integration and better standardized market rules among the Euro countries, we find that for the purpose of overall net position calculation, used for the capital requirements computation for equity general market risk, the degree of integration in the Euro area is not sufficient to support a currency based definition of equity market.

The main argument against a currency based definition of equity market is the considerable difference in the size and liquidity of stock markets across the Euro area. The term liquidity refers to the ability to buy and sell an asset without significant price movement, taking in account time costs and uncertainty of finding a counterpart.

In the paper "Has the Euro boosted equity markets in the Euro area?" Maher Asal (Journal of Business Administration Research, Vol.1, No.2, 2012) evaluate various indicators of the equity markets: size, liquidity and concentrations across the eleven Euro area countries, United States, UK and Japan for the years 1990 - 2010. One of the main findings is that the impact of the Euro on the equity market's size and liquidity in each country within the Euro area varies considerably. In Table 2 and 3, the difference in value of share traded ratio as percentage of GDP and turnover ratio across Euro area countries can be observed. Considering these facts a currency based definition of equity market for the sum of the net long and the net short positions across different countries would lead to an underestimation of the risks.

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

Currency criterion for the definition of equity market wouldn't lead to significant implementation costs increase.

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

Impact on market risk capital requirements depends on the actual equity portfolio. In response to this consultation we calculated the general equity risk capital requirement for our actual portfolio, taking into account market definition based on currency criterion. We came to the result that applied to our actual portfolio impact would be less than 1%.

Kindly give our remarks due consideration.

Yours sincerely,

Dr. Franz Rudorfer
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