

**ABI response  
to four EBA consultations  
on the technical standards  
relating to market risk**

**(EBA/CP/2013/15;  
EBA/CP/2013/16;  
EBA/CP/2013/21;  
EBA/CP/2013/22)**

**September 2013**

## Introduction

The Italian Banking Association (ABI) welcomes the opportunity to comment on the EBA draft Technical Standards relating to the calculation of capital requirements in the standardized market risk approach.

Reference is made to the four consultation papers on:

- A. the definition of market - *EBA/CP/2013/15 Draft Regulatory Technical Standards on the definition of market under Article 330(3) of the draft Capital Requirements Regulation (CRR)*;
- B. non-delta risk of options - *EBA/CP/2013/16 Draft Regulatory Technical Standards on non-delta risk of options in the standardised market risk approach under Articles 318(3), 341(6) and 374(4) of the draft Capital Requirements Regulation (CRR)*;
- C. closely correlated currencies - *EBA/CP/2013/22 Draft Implementing Technical Standards on closely correlated currencies under Article 354(3) of the draft Capital Requirements Regulation (CRR)*;
- D. appropriately diversified indices - *EBA/CP/2013/22 Draft Implementing Technical Standards on appropriately diversified indices under Article 344(1) of the draft Capital Requirements Regulation (CRR)*.

ABI appreciates the thorough analysis conducted by the EBA and broadly agrees with the solutions proposed in the consultation documents. Nevertheless, in ABI's opinion some remarks on specific aspects could be useful.

ABI's observations with reference to each consultation paper are presented below.

## Specific comments

### A. Consultation paper on the definition of market

The EBA proposes a new criterion, as an alternative to the present "nationality criterion", for the determining the overall net position in equity instruments when calculating the standardised general equity risk charge. Under the "currency criterion", the Euro-zone is identified as a market for the purposes of the allowed netting.

In ABI's opinion, the Euro-zone can definitely be considered a single market, where the integration of the financial markets and of economic trends goes well beyond the mere elimination of foreign exchange risk. Therefore, the acknowledgement of the Euro-zone as a market keeps

capital requirements aligned with the actual exposure to risk of the banks' portfolios. This fully justifies adoption of the "currency criterion".

Implementation costs, related to adoption of the "currency criterion", appear negligible.

## **B. Non-delta risk**

As a general matter, ABI agrees with the basic choice of referring to the Basel Framework for the definition of the capital requirements for non-delta risk.

With reference to the specific rules, the proposed treatment of non-standard options, not present in the Basel Framework, appears excessively onerous. For example, in the case of equity barrier options, the proposed rules would often lead to a total capital requirement that is higher than the market value of the option (summing the general risk, the specific risk, the non-delta risk, the interest rate component and, where applicable, the foreign exchange component).

The proposed rules, whose costs and benefits have not been specifically addressed, would lead to inconsistent results. In fact, a barrier option can be less risky than the corresponding plain vanilla option<sup>1</sup>, but, even so, under the proposed regime the latter's capital requirements would be significantly lower than those for the barrier option.

Therefore, in ABI's opinion different solutions should be considered for the treatment of the non-delta risk of non-standard options.

A possibility could be to apply a greater VU multiplier in the calculation of the gamma impact.

## **C. Closely correlated currencies**

ABI has no observations with reference to the draft Implementing Technical Standards on closely correlated currencies.

## **D. Appropriately diversified indices**

As to the criteria for identifying appropriately diversified indices, ABI agrees with the set of criteria defined in the consultation paper.

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<sup>1</sup> See, for example, the cases of a sold put down-and-out barrier option or a sold call up-and-out barrier option in comparison to, respectively, a sold plain vanilla put or call option.

The document, however, presents the proposed regulation in the form of a list of eligible indices, so this list must be considered prescriptive. ABI has identified three additional relevant indices that meet the proposed criteria, as shown in the table below, and should therefore be included in the list.

The three indices are:  
 S&P/TSX 60 - Canada  
 Nikkei 300 - Japan  
 CNX NIFTY – India

**The three indices and the proposed criteria**

Criteria		S&P/TSX 60 <sup>(1)</sup>	Nikkei 300 <sup>(2)</sup>	NIFTY <sup>(3)</sup>
<b>Number of equities</b>	≥ 20 equities	60	300	50
<b>Concentration by equity</b>	Weight of a single equity < 25%	8,3%	6,4%	9,5%
<b>Concentration by group of equities</b>	Weight of the largest 10% equities < 60%	< 50%	49,1%	37,4%
<b>Diversification by geography</b>	At least national markets, no regional indices	Canada	Japan	India
<b>Diversification by industry</b>	Equities from at least 4 industries amongst:			
	<i>Oil &amp; Gas</i>	√	√	√
	<i>Basic Materials</i>	√	√	√
	<i>Industrials</i>	√	√	√
	<i>Consumer Goods</i>	√	√	√
	<i>Health Care</i>	√	√	√
	<i>Consumer Services</i>	√	√	
	<i>Telecommunications</i>	√	√	√
	<i>Utilities</i>	√	√	√
	<i>Financials</i>	√	√	√
<i>Technology</i>	√	√	√	

(1) Source: Toronto Stock Exchange website ([http://web.tmxmoney.com/tmx\\_indices.php?section=tsx&index=^TX60#indexInfo](http://web.tmxmoney.com/tmx_indices.php?section=tsx&index=^TX60#indexInfo)) - July 30, 2013

(2) Source: Nikkei website ([http://indexes.nikkei.co.jp/nkave/archives/file/nikkei\\_stock\\_index\\_300\\_factsheet\\_en.pdf](http://indexes.nikkei.co.jp/nkave/archives/file/nikkei_stock_index_300_factsheet_en.pdf)) - July 30, 2013 (data as of December 28, 2012); for the concentration by group of equity, Bloomberg (data as of July 22, 2013)

(3) Source: National Stock Exchange website ([http://www.nseindia.com/content/indices/ind\\_cnx\\_nifty.pdf](http://www.nseindia.com/content/indices/ind_cnx_nifty.pdf)) - July 30, 2013 (data as of June 28, 2013)