BNP PARIBAS

The bank for a changing world

EU Commission draft delegated act on the prudential framework for banks' market risk

BNP Paribas feedback

We welcome the proposed new Delegated Act (DA) which addresses the uneven level playing field that would have arisen otherwise with key jurisdictions. We are supportive of the two axes approach:

i) temporary targeted amendments to address specific issues to offset differences observed in other jurisdictions and

ii) ii) an overall bank-specific multiplier to offset negative capital impacts when compared to jurisdictions which have postponed the implementation of FRTB.

We very much appreciate the 3-year validity period providing banks with needed regulatory stability and time to prepare for a legislative proposal to preserve the level playing field in the longer run.

However, we would like to bring to your attention remaining elements of uncertainty in relation to 1) the trading book / banking book (TB/BB) boundary, 2) output floor, 3) the reporting and disclosure requirements, and 4) the recognition of hedging relationship between derivatives and cash positions. We believe the 3 first elements could be clarified within the package accompanying the DA, while the last one could be specified in the DA itself.

(1) Boundary: Article 495v(5) clarifies that the multiplier shall be calculated as the ratio of the market risk own funds requirements (OFR) under the current regime over the OFR under FRTB as of 2024 when the EBA no-action letter was applicable, and therefore that the TB/BB boundary was the one prevailing before FRTB. It is extremely important to clarify that:

(a) The applicable boundary should remain the one applicable in 2024 which is, owing to the EBA no-action letter, the boundary before FRTB. Failing to extend the no-action letter would result in applying the FRTB re-classification and internal risk transfer (IRT) provisions which would lead to a material increase of OFR and additional operational burden.

(b) The same boundary should apply for all purposes: the overall multiplier, the FRTB OFR before output floor (U-TREA) and in the full standardised approach (S-TREA). It would be operationally unfeasible to calculate market risk metrics under two different boundaries.

(2) Output floor: The impacts of the FRTB rules on a bank overall OFR may also arise from the output floor. This potential negative impact should be neutralised to preserve the level playing field, for instance by applying the overall multiplier to the full-SA FRTB OFR that enters the calculation of S-TREA.

(3) Reporting & disclosure: For institutions applying the overall multiplier, the DA requires to report and disclose under both the current applicable framework and the FRTB. This would add some operational burden with limited benefit. We invite the Commission to limit unnecessary overheads; for instance, reporting and disclosing could carry on with the current templates.

(4) Recognition of hedging relationships: The preamble's intention to recognise equity and credit derivatives hedging of cash instrument positions (in the default risk charge) is not well reflected in recital 12 and article 495q which only refer to equity positions. The DA should be amended to consistently allow the recognition of hedging relationship between derivatives and cash positions for both equity and credit instruments.

We thank you again for your kind attention on this important issue and we stand ready to engage in future discussions toward the finalisation of the EU market risk framework in view of the 1st January 2030 milestone.