

French Banking Federation comments on EBA consultation on Market definition (EBA/CP/2013/15)

- As per articles 341(3) of regulation 575/2013, EBA shall develop and submit draft regulatory technical standards to the Commission, in order to define the notion of market, used for the calculation of the overall net equity position for equity general risk requirement as well as for equity option risk requirement.
- Please find hereby our responses to your questions. We do not have additional comments. As a summary French banks favour option 2.

Q1. Do you consider that the degree of integration in the European Union is sufficient to support a currency based definition of equity market? If possible please provide quantitative evidence to support your answer

Indeed the European Union has seen the introduction of euro-denominated indices (Euro STOXX 50, STOXX Europe 600 Health Care...) that are commonly used by banks and delta hedged with their components.

Therefore we concur with EBA that such strategy should be reflected in the regulation by recognizing the euro-zone as a single market.

In order to support this proposal, we want to demonstrate that different equities from Euro zone are subject to the same general risk. We studied the daily returns of the most traded national indices of the Euro zone over a period of 3 years, and compared the daily variations to the main European equity index Eurostoxx50 (SX5E) using a model of linear regression (method of least squares):

$$\text{Return (National index)} = \text{Return (SX5E)} * \text{Beta} + u$$

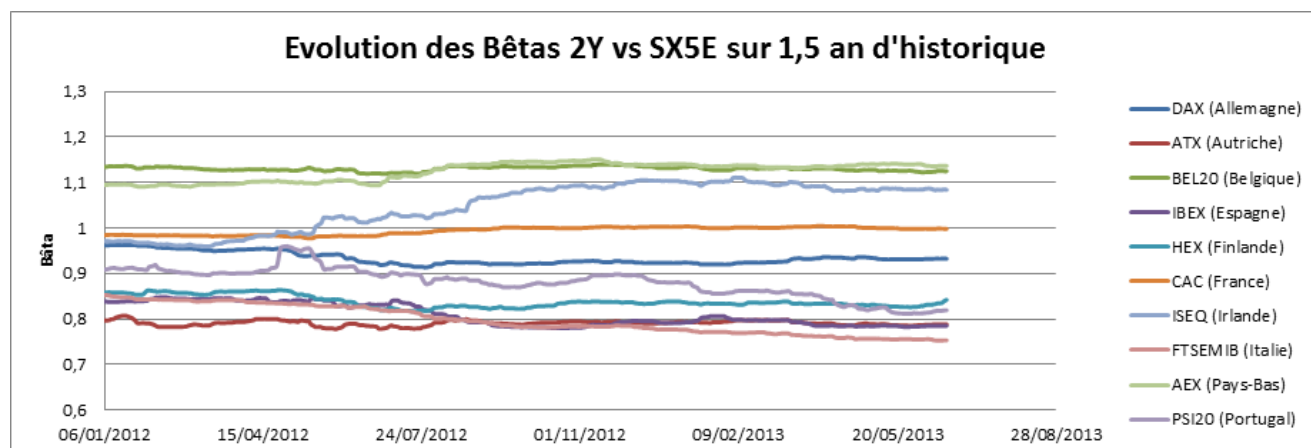
In this model, the closest the Betas is to 1, the closest the national index behaves like the European index → therefore the 2 markets can be considered as similar as far as general risk is concerned.

In our study, we calculated the 2-year Betas using daily returns for 380 Betas over the last 1,5 year.

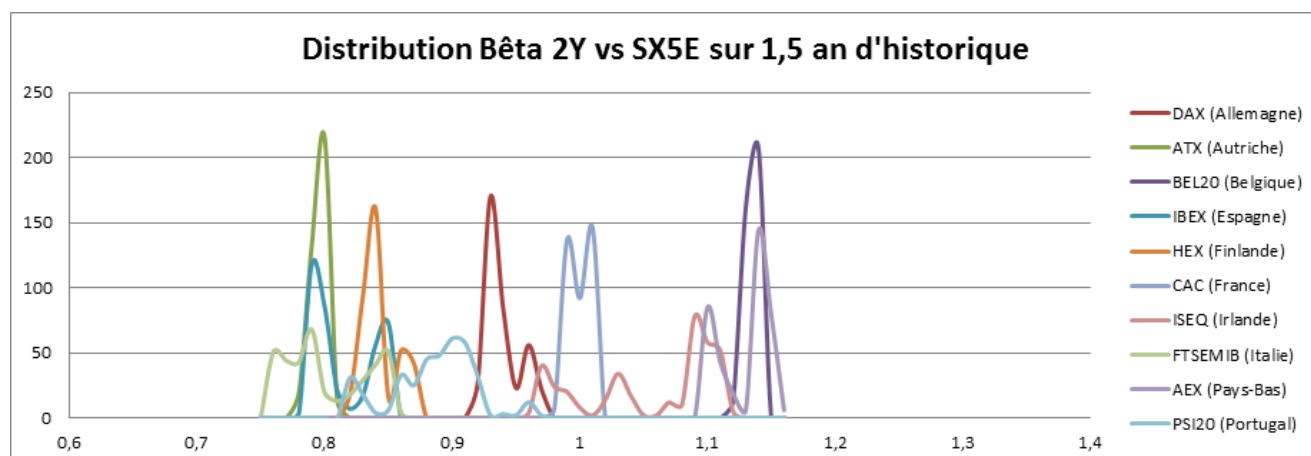
We observe that the average Betas for the main national indices vary between 79.7% (Italy) and 104.9% (Ireland).

vs SX5E	DAX (Allemagne)	ATX (Autriche)	BEL20 (Belgique)	IBEX (Espagne)	HEX (Finlande)	CAC (France)	ISEQ (Irlande)	FTSEMIB (Italie)	AEX (Pays-Bas)	PSI20 (Portugal)
Bêta mean	93,3%	79,1%	113,0%	80,9%	83,8%	99,4%	104,9%	79,7%	112,4%	88,1%
Bêta min	91,3%	77,8%	111,9%	78,0%	81,7%	97,7%	96,0%	75,3%	109,1%	81,2%
Bêta max	96,3%	80,7%	114,0%	84,8%	86,4%	100,4%	111,1%	85,3%	115,1%	96,0%

The graph below presents the evolution of the 2Y Beta over a period of 1.5 year. It shows that the range of Betas is stable over time and the different national indices are close one to another.



Similarly, the graph below presents the distribution of the 2Y Beta over a period of 1.5 year. It shows that for each national index the Betas vary within a thin range and close to 1.



We conclude that national indices and European index are closely related and show similar general risk.

In our view, this supports the compensation of equity positions within the euro-zone for the general risk capital requirement.

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

It appears that the implementation relies on updating mapping table and running usual implementation tests (a few man/days): nothing burdensome nor costly.

Q3. What would be the impact on market risk capital requirement of the implementation of option 2, measure both in relative and absolute terms?

The estimated impact of the implementation of option 2 is a reduction of 5/10% of the capital requirements regarding the equity market risk, and globally a reduction of 0,2/0,3% regarding capital requirements on standard market risk.