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Ihr Zeichen
GZ: Operational risk –Revisions to the simpler approaches
DOK: Consultative Document

Ihre Nachricht vom
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Operational risk – Revisions to the simpler approaches

Dear Sir or Madam,

The *Bundesverband der Wertpapierfirmen e.V. (bwf)* is a trade association representing the common professional interests of securities trading firms and market specialists at the securities exchanges throughout Germany on a national and European level. In this capacity, the bwf expressly welcomes the opportunity to comment on Banking Supervison's consultative document on the *"Operational risk – Revisions to the Simpler Approaches"* as published in October 2014.

In the light of our members' everyday business operational risks are not the core risk for the firms that provide market making activities in securities at the German exchange markets or "OTC".

Only very few cases of loss that might arise can be classified as operational risk events coming from primary business activities. This is because the securities transactions made by securities trading firms are largely standardized and also secured by the central counterparty or indeed by collaterals that the securities trading firms in Germany have to deposit at exchanges in Germany.

The current requirements for operational risks under BASEL II (Solvency Regulation) have already led to operational risk being overweighted. With the changes now put forward this effect would be further reinforced for the group of securities trading firms in Germany. We have illustrated this in the example below, which is taken from a bwf member firm and stands for the whole group of securities trading firms in Germany. The operational risk "old" is calculated by the Basis

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Indicator Approach (BIA). This approach is taken by nearly all the securities trading firms in Germany. The operational risk “new” is calculated by the Business Indicator (BI).

Risk	30.11.2014 old BIA (TEUR)	30.11.2014 new BI (TEUR)	Change
Credit, counterparty credit and dilution risk (SA)	5%	4%	
Settlement / delivery risk	0%	0%	
Position, foreign exchange and commodities risk (SA)	41%	33%	
Operational risk (old BIA / new BI)	53%	63%	+10%
Credit valuation adjustment	0%	0%	

As you can see, the operational risk alone already represents more than 50% of the whole requirement for risks under regulation (EU) 575/2013. When determining the risk parameters BASEL II originally estimated this value to be about 12%. Again we would like to point out that this example stands for nearly all securities trading firms in Germany.

Using the new calculation for operational risk based on the "Business Indicator" the necessary allocation to risk exposure is set to rise by 10% to an incredible 63%.

This increase is due to the fact that the securities trading firms earn commission income between 0.04% and 0.08% from their brokerage business. From the commission income the securities trading firms have to pay commission of up to 85%to the market participants. Out of a commission income of EUR 100 only EUR 15 therefore remains with the securities trading firms. For the calculation of operational risk based on the "business indicator" EUR 185 (100 + EUR 85 EUR) are taken instead of the real income (EUR 15), despite the fact that the income is fully guaranteed.

Attention must be paid to the specific business case of the securities trading firms when calculating the operational risk based on the new “Business Indicator”. The commissions from the brokerage business should be calculated as a net value (+commission income – commission expenses) instead of an absolute value (absolute commission income + absolute commission expenses) as currently foreseen.

Yours Sincerely,

Dr. Hans Mewes

Legal Advisor