

Basel Committee on Banking Supervision

MAR

Calculation of RWA for
market risk

MAR12

Definition of trading desk

**Version effective as of
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First version in the format of the consolidated
framework.



BANK FOR INTERNATIONAL SETTLEMENTS

- 12.1** For the purposes of market risk capital calculations, a trading desk is a group of traders or trading accounts that implements a well defined business strategy operating within a clear risk management structure.
- 12.2** Trading desks are defined by the bank but subject to the regulatory approval of the supervisor for capital purposes.
- (1) A bank should be allowed to propose the trading desk structure per their organisational structure, consistent with the requirements set out in [MAR12.4](#).
 - (2) A bank must prepare a policy document for each trading desk it defines, documenting how the bank satisfies the key elements in [MAR12.4](#).
 - (3) Supervisors will treat the definition of the trading desk as part of the initial model approval for the trading desk, as well as ongoing approval:
 - (a) Supervisors may determine, based on the size of the bank's overall trading operations, whether the proposed trading desk definitions are sufficiently granular.
 - (b) Supervisors should check that the bank's proposed definition of trading desk meets the criteria listed in key elements set out in [MAR12.4](#).
- 12.3** Within this supervisory approved trading desk structure, banks may further define operational subdesks without the need for supervisory approval. These subdesks would be for internal operational purposes only and would not be used in the market risk capital framework.
- 12.4** The key attributes of a trading desk are as follows:

- (1) A trading desk for the purposes of the regulatory capital charge is an unambiguously defined group of traders or trading accounts.
 - (a) A trading account is an indisputable and unambiguous unit of observation in accounting for trading activity.
 - (b) The trading desk must have one head trader and can have up to two head traders provided their roles, responsibilities and authorities are either clearly separated or one has ultimate oversight over the other.
 - (i) The head trader must have direct oversight of the group of traders or trading accounts.
 - (ii) Each trader or each trading account in the trading desk must have a clearly defined specialty (or specialities).
 - (c) Each trading account must only be assigned to a single trading desk. The desk must have a clearly defined risk scope consistent with its pre-established objectives. The scope should include specification of the desk's overall risk class and permitted risk factors.
 - (d) There is a presumption that traders (as well as head traders) are allocated to one trading desk. A bank can deviate from this presumption and may assign an individual trader to work across several trading desks provided it can be justified to the supervisor on the basis of sound management, business and/or resource allocation reasons. Such assignments must not be made for the only purpose of avoiding other trading desk requirements (eg to optimise the likelihood of success in the backtesting and profit and loss attribution tests).
 - (e) The trading desk must have a clear reporting line to bank senior management, and should have a clear and formal compensation policy clearly linked to the pre-established objectives of the trading desk.

- (2) A trading desk must have a well defined and documented business strategy, including an annual budget and regular management information reports (including revenue, costs and risk-weighted assets).
- (a) There must be a clear description of the economics of the business strategy for the trading desk, its primary activities and trading/hedging strategies.
 - (i) Economics: what is the economics behind the strategy (eg trading on the shape of the yield curve)? How much of the activities are customer driven? Does it entail trade origination and structuring, or execution services, or both?
 - (ii) Primary activities: what is the list of permissible instruments and, out of this list, which are the instruments most frequently traded?
 - (iii) Trading/hedging strategies: how would these instruments be hedged, what are the expected slippages and mismatches of hedges, and what is the expected holding period for positions?
 - (b) The management team at the trading desk (starting from the head trader) must have a clear annual plan for the budgeting and staffing of the trading desk.
 - (c) A trading desk's documented business strategy must include regular Management Information reports, covering revenue, costs and risk-weighted assets for the trading desk.

- (3) A trading desk must have a clear risk management structure.
- (a) Risk management responsibilities: the bank must identify key groups and personnel responsible for overseeing the risk-taking activities at the trading desk.
 - (b) A trading desk must clearly define trading limits based on the business strategy of the trading desk and these limits must be reviewed at least annually by senior management at the bank. In setting limits, the trading desk must have:
 - (i) well defined trading limits or directional exposures at the trading desk level that are based on the appropriate market risk metric (eg sensitivity of credit spread risk and/or jump-to-default for a credit trading desk), or just overall notional limits; and
 - (ii) well defined trader mandates.
 - (c) A trading desk must produce, at least weekly, appropriate risk management reports. This would include, at a minimum:

profit and loss reports, which would be periodically reviewed, validated and modified (if necessary) by Product Control; and

internal and regulatory risk measure reports, including trading desk value-at-risk (VaR) / expected shortfall (ES), trading desk VaR/ES sensitivities to risk factors, backtesting and p-value.

12.5 The bank must prepare, evaluate, and have available for supervisors the following for all trading desks:

- (1) inventory ageing reports;
- (2) daily limit reports including exposures, limit breaches, and follow-up action;
- (3) reports on intraday limits and respective utilisation and breaches for banks with active intraday trading; and
- (4) reports on the assessment of market liquidity.

12.6 Any foreign exchange or commodity positions held in the banking book must be included in the market risk capital requirement as set out in [MAR11.1]. For regulatory capital calculation purposes, these positions will be treated as if they were held on notional trading desks within the trading book.