

HOW TRADING DESK HEADS SHOULD PREPARE FOR FRTB

The Fundamental Review of the Trading Book (FRTB) will significantly impact the current roles and responsibilities of Heads of Trading Desks, now referred to under FRTB as Trading Desk Heads.

Trading Deck Heads will now be responsible for preparing, updating, and submitting a comprehensive Strategy Document. The required details are extensive and below are some of the key attributes and reporting requirements to consider:

ATTRIBUTES



Trader or Trading Account (TTA)

- Desk must have a Head Trader with direct oversight over all TTA's
- Each desk must have a clear reporting line to senior management
- · Clear and formal compensation policy linked to pre-established objectives



Each Regulatory Desk is Proposed by the Bank, but Approved by the Supervisor:

 Banks propose how to address elements 1-3 above; supervisors adjudicate based on relative size of desk to trading operations as well as elements 1-3 above



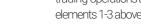
Desks Must Articulate a Well-Defined Business Strategy Including:

- Economics
- · List of Permissible Instruments
- · Clear annual staff budget
- · Regular MIS covering revenue, costs and RWA



Clear Risk Management Structure

- · Clearly identified risk personnel
- Well-defined risk limits reviewed annually by senior management
- Appropriate, weekly risk reporting





Inventory aging reports

REPORTING REQUIREMENTS

- Daily limit reports including:
 - Exposures
 - Limit breaches
 - Follow-up action
- · Intraday reports including:
 - Utilization vs limits - Breaches vs limits
- · Market liquidity assessments
- · Reports required under elements 2-3 to the left
- · FX and commodity risks held in the banking book must be included in the market risk charges, and treated as if held on notional trading desks within the trading book for regulatory capital calculation
- Robust exception reporting for all of the above complete with appropriate escalation.

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