



# Just in Time



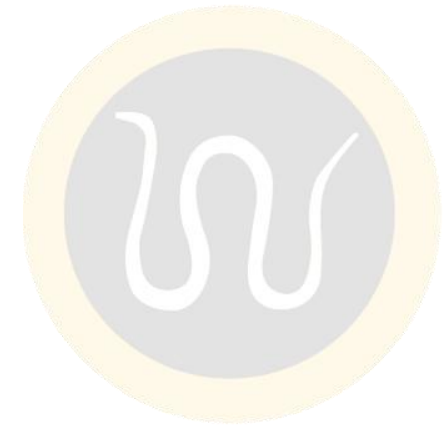
## European Commission: Draft Delegated Regulation on Market Risk Prudential Requirements (FRTB)

April 2026

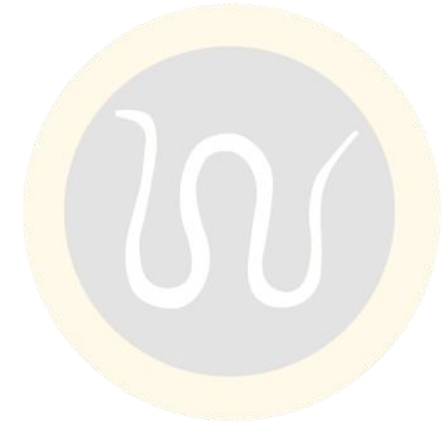


# Executive Summary

- This [draft Commission Delegated Regulation](#) introduces **temporary, targeted amendments** to Regulation (EU) No 575/2013 (CRR) to address implementation challenges associated with the **Fundamental Review of the Trading Book (FRTB)**. The **measures are explicitly transitional**, applying **from 1 January 2027 until 31 December 2029**.
- The regulation is driven by **delays and divergences in FRTB implementation across major jurisdictions**, notably the United States, which risk placing EU institutions at a competitive disadvantage. To mitigate this, the Commission leverages its mandate under Article 461a CRR to introduce temporary relief and recalibration measures while maintaining alignment with Basel standards where feasible.



# At a Glance



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**Keywords:** Market risk, FRTB, CRR3

# 01

## Context and Rationale of the Delegated Act

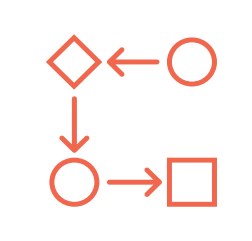


# Context and Rationale of the Delegated Act 1/3



The delegated act is to read within the broader evolution of prudential regulation for market risk, particularly following the deficiencies revealed during the **2008 Global Financial Crisis**. These deficiencies exposed insufficient capitalization of banks against market risk exposures, prompting the Basel Committee on Banking Supervision (BCBS) to introduce the **Fundamental Review of the Trading Book (FRTB)** framework.

FRTB represents a fundamental overhaul of market risk capital requirements, aiming to improve risk sensitivity, address model weaknesses, and enhance comparability across institutions. Initially finalized in 2016 and revised in 2019, the framework has experienced multiple implementation delays globally, notably due to the COVID-19 pandemic and subsequent technical recalibrations.



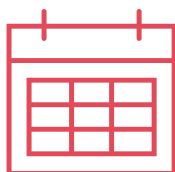
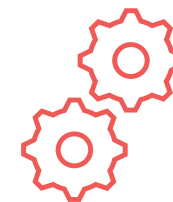
Within the European Union, implementation has followed a **two-phase approach**:

- **Phase 1 (CRR II)**: Introduction of FRTB as a *reporting requirement*, enabling supervisory monitoring.
- **Phase 2 (CRR III)**: Full integration as *binding capital requirements*, with application initially set for 1 January 2025.

# Context and Rationale of the Delegated Act 2/3

However, Article 461a CRR introduced a **flexibility mechanism**, allowing the European Commission to:

- Postpone application of FRTB requirements (up to two years),
- Introduce temporary amendments to preserve an **international level playing field**.

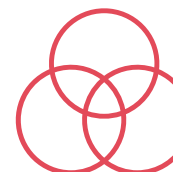


This mechanism has already been exercised twice:

- First postponement to **1 January 2026**,
- Second postponement to **1 January 2027**.

The rationale for the present delegated act is rooted in **persistent global divergence in FRTB implementation**, particularly in key jurisdictions such as:

- The **United States**, where implementation remains uncertain and deviates from Basel standards,
- The **United Kingdom**, where staggered implementation is expected (standardized approach in 2027, internal models in 2028).



# Context and Rationale of the Delegated Act 3/3

These discrepancies create **competitive distortions**, as EU banks would otherwise face stricter capital requirements earlier than international peers.

Consequently, the Commission proposes measures to mitigate adverse impacts and preserve competitiveness while maintaining prudential integrity, through:

## Temporary targeted amendments

## An overall capital multiplier mechanism

Additionally, the draft highlights that the delegated act affects **ancillary regulatory components**, including:

- Trading book boundary definitions
- Reporting and disclosure requirements
- Output floor interactions
- Supervisory benchmarking exercises

Extensive **stakeholder consultation** has been conducted, involving:

- Member States,
- Industry participants,
- European Central Bank (ECB),
- European Banking Authority (EBA),
- Expert Group on Banking, Payments and Insurance (EGBPI).

The measures are explicitly framed as **temporary (three-year horizon)** pending further reassessment in the 2026 competitiveness review.

# 02

## Legal Provisions and Technical Amendments



# Legal Provisions and Technical Amendments 1/4

This section outlines the **substantive regulatory changes**, focusing on operational relief and alignment with international practices.

## Internal Model Approach Adjustments

### PLAT

#### Profit and Loss Attribution Test

The PLAT, a key eligibility criterion for internal models, has proven to be operationally challenging. Failures are often unrelated to model deficiencies. Therefore:

- PLAT is downgraded to a **monitoring tool only**,
- It no longer directly impacts capital requirements during the transitional period.

### NMRFs

#### Non-Modellable Risk Factors

The NMRF framework is identified as a **major constraint** to internal model adoption. The act introduces:

- Reduced data requirements (minimum two verifiable prices),
- Adjusted liquidity horizons,
- Greater flexibility in classifying risk factors as modellable.

### RFET

#### Risk Factor Eligibility Test

For newly issued instruments:

- Data requirements are **pro-rated** to 1 year,
- Observation periods start from issuance/trading date.

# Legal Provisions and Technical Amendments 2/4

## Internal Model Approach Adjustments

### Sovereign Exposures under Default Risk

To ensure consistency:

- Probability of default (**PD**) for sovereign exposures is multiplied by **zero**,
- Aligns treatment with standardized approach and international practices.

### Operational Relief

Institutions may:

- Shift **from daily to weekly calculations** of risk metrics.

## Collective Investment Undertakings (CIUs)

The treatment of fund exposures is simplified:

- **Partial look-through allowed** (minimum 50% visibility),
- Frequency reduced:
  - Weekly → Quarterly (IMA),
  - Monthly → Quarterly (SA),
- Alternative modelling techniques permitted (subject to approval),
- Vega risk treated independently (no decomposition required even when applied for delta).

These changes address **data availability constraints** and align with risk management practices.

# Legal Provisions and Technical Amendments 3/4

## Residual Risk Add-On (RRAO)

The RRAO is identified as potentially **overly conservative**. The act introduces:

- **Neutralization (multiplier = 0)** for specific instruments:
  - Volatility-based instruments,
  - Bermudan options,
  - Constant maturity swap spread options.

This ensures better alignment with actual risk and international approaches.

## Default Risk Charge (Standardized Approach)

Enhancements include:

- Recognition of **economic hedging relationships** (e.g., equity derivative and cash position on the same underlying),
- Flexibility in addressing **maturity mismatches**,
- Alignment with common market practices.

## EU ETS Exposures

For carbon trading exposures:

- **Higher correlation parameter** applied when aggregating exposures,
- Leads to **lower capital requirements**,
- Reflects empirical evidence of market stability.

# Legal Provisions and Technical Amendments 4/4

## Multipliers and Phase-in Mechanisms

### General Multiplier (0.9)

Applies to:

- **Simplified standardized approach,**
- **Sensitivities-based method.**

**Purpose:**

- Smooth transition,
- Mitigate capital increases.

### Bank-Specific Multiplier

A key innovation:

- Optional,
- Applies only where **capital increases** occur,
- Recalibrated **quarterly,**
- Benchmarked against **Basel 2.5 framework.**

## Alternative Correlation Trading Portfolio (ACTP)

- Allows **decomposition of index positions,**
- Aligns regulatory treatment with risk management practices.

## Proportionality for Small Banks

Institutions with limited trading activity:

- May use **simplified standardized approach,**
- Even if thresholds exceeded due to FX or commodity exposures.

# 03

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## Recitals and Regulatory Justification



# Recitals and Regulatory Justification

The recitals provide the **legal and policy justification** for the amendments. Key themes include:

## Level Playing Field

Repeated emphasis on:

- Global inconsistencies,
- Risk of competitive disadvantage,
- Need for temporary alignment measures.

## Operational Feasibility

Recognition that:

- Certain FRTB requirements are **overly complex**,
- Data constraints hinder implementation,
- Adjustments are necessary for practical application.

## International Consistency

Measures mirror:

- Adjustments already adopted in other jurisdictions,
- Emerging regulatory trends globally.

## Temporary Nature

All measures:

- Limited to **three years (until 31 December 2029)**,
- Intended as transitional tools.

## Supervisory Oversight

Despite relief measures:

- Core obligations on risk management and data aggregation remain unchanged,
- Supervisory scrutiny continues.

# 04

## Conclusions & Takeaways



# Conclusions & Takeaways

## Key Regulatory Objectives

- **Preserve international competitiveness** of EU banks,
- **Mitigate implementation asymmetries** across jurisdictions,
- Ensure **operational feasibility** of FRTB,
- Maintain **prudential robustness**.

## Strategic Implications

- **Bridges gap between Basel standards and real-world implementation**,
- Supports **gradual transition to full FRTB compliance**,
- Avoids **premature competitive disadvantage** for EU institutions.

## Core Measures Introduced

- **Temporary relief measures** across internal models and standardised approaches,
- **Simplification of NMRF and CIU frameworks**,
- **Recognition of hedging and market practices**,
- **Neutralisation of overly conservative capital components**,
- **Introduction of multipliers (general and bank-specific)**.

## Supervisory and Regulatory Considerations

- Continued **reporting and disclosure obligations**,
- Ongoing **monitoring by Commission and EBA**,
- Potential for **future recalibration** post-2026 review.

## Temporal Scope

- Application **begins 1 January 2027**,
- Measures **valid until 31 December 2029**.

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## Strategy

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## Methodology & Governance

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## Solution

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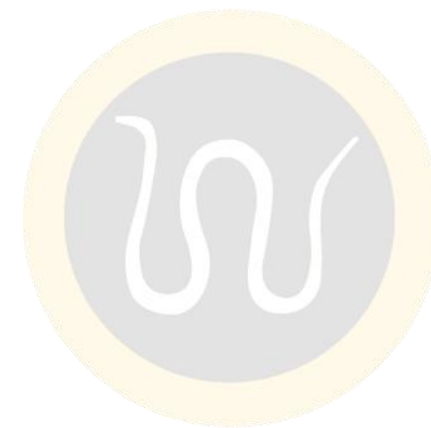
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