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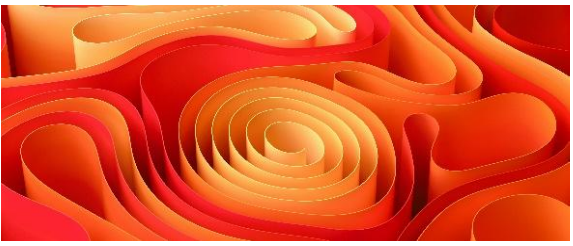

TOPICS:

Market risk

SOURCE:

Bank of England & Prudential Regulation Authority

BOE-PRA: Basel 3.1 - Adjustments to the Internal Model Approach (IMA) for Market Risk

- The Prudential Regulation Authority (PRA) **consultation paper** (responses are requested by 18 September 2026) proposes **targeted amendments** to the Basel 3.1 **Internal Model Approach (IMA) for market risk** ahead of its implementation on 1 January 2028. The proposals are intended to improve proportionality, operational effectiveness and international consistency while preserving prudent market risk capital standards.
- Seven **principal proposals** are outlined: 1) **Profit and Loss Attribution Test (PLAT)** - Extend the non-binding monitoring period from one year to three years, allowing additional evidence to be gathered before test failures automatically disqualify trading desks from IMA treatment; 2) **Risk Factor Eligibility Test (RFET)** - Reduce verifiable price requirements for less liquid risk factors, introduce proportional treatment for new issuances, and simplify certain modelling and audit requirements; 3) **Non-Modellable Risk Factors (NMRFs)** - Create a new "Type 1" NMRF category for risk factors that fail quantitative but pass qualitative tests, allowing them to remain within expected shortfall models while attracting a capital add-on. Additional simplifications include aligned stress periods and reduced calculation frequency for certain NMRFs; 4) **Gradual IMA Adoption** - Recognise diversification benefits between Advanced Standardised Approach (ASA) and IMA portfolios and replace existing capital caps with a permission-based mechanism, reducing disincentives to phased adoption; 5) **Collective Investment Undertakings (CIUs)** - Introduce a 90% look-through threshold and permit index-tracking funds to receive more practical IMA treatment; 6) **Operational Clarifications** - Clarify treatment of internal hedging desks, alternative risk-factor coverage tests, and certain investment funds; 7) **Reporting and Disclosure** - Update reporting requirements to reflect the proposed framework changes.