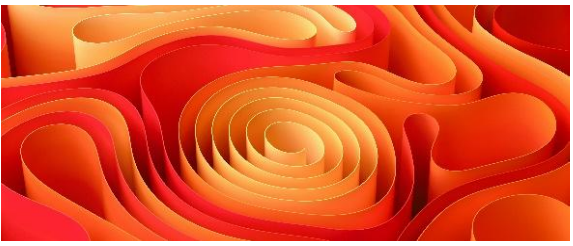
Pills

Regulatory/Supervisory Pills | N.12 January 2026



TOPICS:

Market Risk

SOURCE:

European Central Bank

ECB Staff Contribution to the European Commission's Targeted Consultation on the Application of the Market Risk Prudential Framework

- ECB elaborated a document in response to the European Commission's targeted consultation on the application of the market risk prudential framework, with particular emphasis on the implementation of the **Fundamental Review of the Trading Book** (FRTB). The ECB situates its response against a backdrop of recent **episodes of heightened market volatility**, which have revealed weaknesses in correlation assumptions, basis risk management and the growing interconnectedness between banks and non-bank financial intermediaries.
- The ECB strongly supports **proceeding with FRTB implementation** in the EU from 1 January 2027, including the use of temporary amendments via a delegated act. It argues that further delays would impose operational and risk management costs, perpetuate uncertainty for banks and supervisors and discourage investment in market risk frameworks at a time of elevated systemic risk. While acknowledging the importance of maintaining a global level playing field, the ECB notes that the capital impact of full FRTB implementation would be concentrated in a limited number of mostly global systemically important banks.
- Regarding the proposed **temporary measures**, the ECB considers that **some amendments risk unduly diluting the regulatory intent** of the FRTB. It supports the temporary use of the Profit and Loss Attribution Test as a monitoring tool, provided banks continue remediation efforts where deficiencies are identified. However, it expresses concerns that proposed relief for the Risk Factor Eligibility Test and collective investment undertaking look-through requirements may be overly broad and insufficiently risk-sensitive, potentially weakening risk capture and incentivising window dressing.
- Finally, the ECB assesses the proposed multiplier mechanism intended to cap increases in market risk capital during the transitional period. It favours **a bank-specific, static multiplier calibrated in a simple and transparent manner**, ideally after FRTB entry into force, to reflect portfolio adjustments and avoid unnecessary complexity.