



TOPICS:

Market Risk

SOURCE:

European Commission

EC Adopts Temporary Adjustments to Basel III Market Risk Rules to Safeguard EU Banks' Competitiveness

- The European Commission (EC) has proposed a **delegated act introducing temporary amendments** to the EU market risk framework under the Fundamental Review of the Trading Book (FRTB). The objective is to preserve an international **level playing field for EU banks** while major non-EU jurisdictions continue to delay or modify their own implementation of Basel III market risk standards.
- The revised Capital Requirements Regulation (CRR) implemented most Basel III reforms from 1 January 2025, but the FRTB requirements were postponed until 1 January 2027 due to concerns that differing implementation timelines across jurisdictions could disadvantage EU banks. The EC has already exhausted its authority to defer implementation further and therefore proposes targeted temporary **amendments lasting until the end of 2029**.
- The amendments provide **regulatory and operational relief in several areas**. They temporarily relax elements of the FRTB **internal model approach**, including the profit-and-loss attribution test and risk factor eligibility test. They also introduce

more flexible treatment for **Collective Investment Undertaking (CIU) exposures**, sovereign default risk under internal models and certain hedged equity exposures under the **standardized approach**.

- A key feature is **the introduction of a “multiplier” mechanism**. Banks adversely affected by FRTB implementation may use this multiplier to reduce their market risk capital requirements so that, after applying the new framework and the output floor, capital requirements remain broadly equivalent to pre-FRTB levels. This is intended to ensure capital neutrality during the transition period.
- The delegated act also clarifies implementation issues relating to **market risk reporting, disclosures**, the Basel **output floor**, and **trading book/non-trading book boundary** requirements. Banks using the multiplier must continue enhanced reporting and disclosure obligations. For boundary requirements, the act permits affected banks to continue using the pre-FRTB (“CRR2”) boundary framework through 2029 to reduce operational complexity and maintain consistency across the EU.

