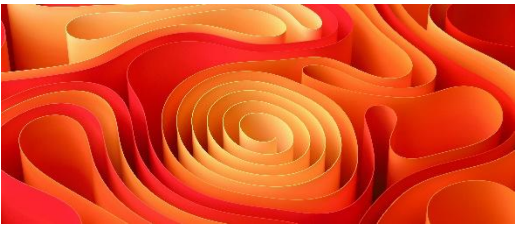
Pills

Regulatory/Supervisory Pills | N.168 November 2025



TOPICS:

Market risk

SOURCE

European Commission

EC: Targeted Consultation on the Application of the Market Risk Prudential Framework

- The European Commission (EC) has launched **a targeted consultation** (until the 6th of January 2026) **regarding the application of the market risk prudential framework** under the Capital Requirements Regulation (CRR), specifically Article 461a. This follows ongoing global uncertainty surrounding the implementation timelines of the Basel III market risk standards - also known as the Fundamental Review of the Trading Book (FRTB) - which aim to enhance the robustness and risk sensitivity of capital requirements for banks' trading book exposures.
- While the EU has already legislated FRTB implementation through Regulation (EU) 2024/1623 (CRR3), with a start date of January 2025, delays in other major jurisdictions prompted **the Commission to postpone application** until January 2026, and later **until January 2027**. These deferrals aim to mitigate competitive disadvantages for EU banks, particularly in cross-border trading activities.
- The consultation seeks stakeholder **feedback on two primary policy components**:

1) **Targeted Amendments** - The Commission proposes temporary, three-year adjustments to specific FRTB elements where international divergence or operational challenges have been observed. These include using the Profit and Loss Attribution Test (PLAT) solely as a monitoring tool, phased implementation of requirements for non-modellable risk factors, operational relief for new risk factors, alignment of default risk treatment for sovereigns, and simplifications for collective investment undertakings (CIUs). Further adjustments concern residual risk add-ons, economic hedge recognition, and exposures under the EU Emissions Trading System; 2) **Temporary Multiplier** - A capital multiplier mechanism is proposed to limit short-term increases in market risk capital requirements for impacted banks. Several calibration options are outlined, ranging from bank-specific, periodically recalibrated multipliers to simpler industry-wide approaches. The goal is to ensure proportionality and avoid excessive capital strain during the transitional period.