

CONFIDENTIAL

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EBF comments on the EC public consultation on a draft delegated act on the prudential framework for banks' market risk – the fundamental review of the trading book (FRTB)

The EBF welcomes the European Commission's proposed delegated act and appreciates the efforts made to address the industry feedback received throughout the FRTB consultation process. In the current environment, preserving the competitiveness of EU banks while ensuring financial stability and international consistency remains a key policy objective.

Overall, we support the proposed approach and consider it important that the delegated act is adopted swiftly in order to provide legal certainty and allow for a smooth entry into force by the end of 2026. At the same time, we would like to highlight a limited number of important issues where additional clarification or targeted adjustments would help avoid unintended operational complexity and level-playing-field concerns.

Our primary concern relates to the timing and application of the trading/banking book boundary rules under CRR3. Given the remaining uncertainty surrounding the final implementation timeline, institutions are unlikely to obtain sufficient legal certainty before September at the earliest, leaving only a limited implementation window before the intended application date. This does not provide adequate time for operational adjustments, asset transfers, or supervisory review processes. In addition, the current drafting of Article 495v(8) appears to imply that institutions applying the multiplier approach would continue to use the CRR2 boundary, while others would move to the CRR3 boundary. The coexistence of two different prudential boundary definitions during the transitional period would create unnecessary operational complexity and potential competitive distortions within the Single Market. In this context, we believe that a postponement of the CRR3 boundary rules, applied consistently across institutions, should be considered.

Relatedly, the discontinuation of the EBA no-action letter on the prudential boundary, combined with the current proposal, may create legal uncertainty and operational burden. To ensure consistency and avoid unintended consequences, the postponement period should apply not only to the multiplier calculation itself, but also to related prudential elements, including classification requirements, reclassification rules, internal risk transfers, reporting and disclosure obligations, and the operational risk prudential boundary approach. In this regard, maintaining the validity of the EBA no-action letter during the transitional period would support a more harmonised and operationally feasible implementation.

We also consider that further clarification is needed regarding the application of the global multiplier and its interaction with the output floor framework. In particular, uncertainty remains as to whether institutions using the multiplier approach may apply the CRR2 boundary solely for the multiplier calculation or also for the underlying FRTB calculation. Clarifying this point is important to avoid divergent implementation outcomes and preserve a level playing field. In this context, postponing the application of the output floor treatment related to the FRTB during the transition period could also be considered,

including by applying the same multiplier used for U-TREA to the calculation of the S-TREA.

Regarding the Alternative Correlation Trading Portfolio (ACTP), we welcome the proposed treatment allowing the Sensitivity-Based Method to be calculated at instrument level. However, we encourage the Commission to also consider a corresponding adjustment for the Default Risk Charge treatment of ACTP positions, in line with the industry proposal, in order to avoid residual level-playing-field concerns.

Beyond the immediate implementation issues discussed above, we have also included in annex a number of broader reflections on the longer-term calibration and competitiveness of the EU market risk framework, in light of recent international developments and ongoing discussions regarding the future evolution of the FRTB framework. We would welcome the opportunity to engage further with the Commission on these issues.

We appreciate the European Commission's engagement on this consultation and encourage continued cooperation with stakeholders to support a balanced, coherent and operationally workable implementation of the FRTB framework throughout the transitional period.

We remain available to discuss these points further and to contribute constructively to the next steps of the process.

ANNEX

While the proposed Delegated Act represents an important and constructive step in providing transitional relief and addressing a number of immediate implementation challenges related to the FRTB framework, we believe the current discussion also offers an important opportunity to reflect more broadly on the long-term calibration, usability and competitiveness of the EU market risk framework.

In particular, recent international developments, including ongoing discussions in other major jurisdictions such as the United States, highlight the importance of ensuring that the EU framework remains both risk-sensitive and internationally competitive, while continuing to support sound prudential outcomes.

In this context, targeted refinements in the areas outlined below would help preserve the role of risk-sensitive internal models, improve consistency across approaches, and support a level playing field for EU institutions.

1. Credit Valuation Adjustment market hedges

Finally, we would also like to highlight the importance of the treatment of Credit Valuation Adjustment (CVA) market hedges, which remains a significant prudential and operational concern.

Under the current CRR3 framework, certain market hedges associated with accounting CVA or exposures subject to BA-CVA may be captured under the FRTB framework without corresponding recognition of the underlying CVA exposure being hedged. This may create asymmetric and excessively conservative capital outcomes that do not appropriately reflect the economics of the underlying risk management strategy and may unintentionally discourage prudent hedging activity. Additionally, the derogation mentioned in Article 382 (4a) conceptually works only for credit protections and not for hedges of CVA exposure.

In this context, consideration could be given to transitional relief measures, including an appropriate multiplier treatment, as well as longer-term adjustments to ensure more consistent treatment between CVA hedges and the related exposures they mitigate. More broadly, further reflection on the interaction between the CVA and market risk frameworks would be welcome in order to preserve both sound prudential outcomes and international competitiveness.

2. Standardised Approach calibration and usability

Given the central role of the Standardised Approach (SA) within the broader Basel III framework, including through its interaction with the output floor, it is important that the framework remains sufficiently risk-sensitive and operationally workable.

Further improvements could therefore be considered in areas such as:

- better recognition of diversification and hedging effects within the Sensitivity-Based Method;
- calibration of certain risk weights, including for long-dated FX and interest rate Vega risks;
- treatment of collective investment undertakings (CIUs); and
- hedge recognition within the Default Risk Charge framework.

More broadly, consideration should also be given to the cumulative impact of structural

constraints, including aggregation mechanisms and the output floor, on the effective use of internal models within the EU prudential framework.

3. Preserving the role and economic relevance of internal models

Market feedback suggests that the current framework provides limited incentives for institutions to expand or maintain use of the Internal Model Approach (IMA). This reflects both the operational complexity associated with the framework and concerns regarding the calibration of certain model-based requirements.

In particular, the interaction between IMA and the SA, together with the impact of the output floor, may significantly limit the effective capital benefit associated with internal models, even where these are formally permitted and prudentially sound. In addition, the current aggregation framework between IMA and SA may create structural disincentives to progressive IMA adoption across trading desks, including in cases where the application of internal models may result in capital requirements exceeding those under the overall Standardised Approach. In practice, this may discourage progressive rollout of IMA across trading desks and increase reliance on the Standardised Approach for large parts of institutions' trading activities.

Over the longer term, excessive reliance on the SA risks reducing overall risk sensitivity, weakening incentives for diversification and hedging, and limiting the usefulness of internal models as a supervisory risk-management tool.

Against this background, further reflection could usefully focus on:

- revisiting the interaction and aggregation framework between IMA and the SA in order to avoid unintended disincentives to partial IMA adoption;
- ensuring that internal model capital requirements remain appropriately bounded and economically meaningful;
- strengthening the recognition of diversification and hedging effects; and
- simplifying operational requirements that may currently discourage IMA adoption without materially improving prudential outcomes.

4. Non-Modellable Risk Factors

The operational relief proposed in the Delegated Act regarding modellability is welcome. Nevertheless, the Non-Modellable Risk Factors (NMRFs) framework remains one of the most operationally burdensome and conservatively calibrated elements of the market risk regime.

In particular, the current treatment of NMRFs as a largely separate and highly conservative add-on may lead to disproportionate capital outcomes and weaken the coherence of the broader IMA framework. Concerns also remain regarding the complexity and prescriptiveness of modellability requirements, including the Risk Factor Eligibility Test (RFET).

Further refinements could therefore be considered in areas such as:

- greater recognition of diversification effects within the NMRF framework;
- closer alignment of stress calibration methodologies across modellable and non-modellable risk factors;
- simplification of operational and data requirements; and
- better integration of non-modellable risk factors within the broader IMA framework.

5. Default Risk Charge

The proposed exclusion of sovereign exposures from Default Risk Charge (DRC) under IMA represents a positive and important step. However, broader questions remain regarding the calibration and role of the DRC framework under the Internal Model Approach.

In practice, the current framework may generate materially more conservative outcomes than the SA, notably due to the treatment of correlated default scenarios and limited recognition of hedging effects. This may reduce the attractiveness and economic relevance of internal models for credit and equity trading activities.

Further reassessment of the calibration and design of DRC under IMA, including the treatment of correlations, hedges and diversification effects, would therefore merit consideration in order to ensure consistency across approaches and avoid undue penalisation of model-based methodologies.
