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Association for Financial Markets in Europe

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European Commission

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5 December 2024

Dear Almorò,

I would like first of all to thank you again for joining AFME's Prudential Regulation Board (PRB) in September, and trust that you have been keeping well in the meantime. In the PRB we discussed the potential ways forward in respect to the FRTB Delegated Act. In particular, we deliberated the question of which targeted adjustments would be necessary to allow for reducing regulatory divergence in market risk regulation compared to other major jurisdictions, and we also discussed which adjustments might be helpful to reduce the overall burden and potentially increase the uptake by banks of to internal models for market risk under the FRTB in general.

The revised Market Risk framework (FRTB) introduced via CRR III is challenging in particular for banks consolidating in the EU and banks operating globally in general. Besides the designated changes to the FRTB risk coverage and capitalisation, FRTB has a number of, in parts unintended, consequences which the UK and U.S. are addressing in their implementation[1]. Cross-regional uncertainty and misalignment also prevents crucial data development that is relevant for banks under FRTB IMA to gain required information for instance for Non-Modellable Risk Factors (NMRF).

As a result, banks operating in the EU might see capital disadvantages that will, and partially already have, transpire into undesirable business adjustments that lead to the reduction of both product and service offering to the European industry. This also hinders firms adequately supporting their export-oriented customers in their global business

[1] Multiyear PLAT implementation period in the US, better alignment between IMA DRC and SA DRC (UK and US), as well as less stringent requirements for RFET, TB/BB boundary and RRAO product scope in the US

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models, for instance in manufacturing and energy sectors. Loss of product and service lines will lower diversification benefits within banks as well as the market and inevitably impact profitability.

The delay by one year of the implementation of the EU's FRTB through the Delegated Act offers a short-term solution that gives time to consider adjustments to improve the framework. In addition, targeted operational relief measures could improve the framework to provide a level-playing field[2]. Aside from the changes, we believe that in case further delays and/or significant modifications of the Basel package are observed in other jurisdictions, the EC should contemplate actions under Article 461a CRR3 including adjustments to the CRR where our proposed measures warrant a persistent application, or additional delay. In particular any additional delay would require a decision with sufficient lead time to reduce uncertainty and provide early assurance that standards across key global jurisdictions remain aligned. Where firms are operationally ready to implement the new market risk framework, they should not be prevented from doing so[3].

Below we highlight main possible targeted relief measures and their associated proposed changes for your consideration under the remit of the Delegated Act (Art. 461a CRR3 – see also Annex 1 and 2).

[2] Following the US elections, the content of the final US text, and its application timeline are unpredictable.

[3] Notwithstanding the need for technical changes, the EC should allow banks that are operationally ready to employ the new FRTB approach as of 1st January 2026. Any potential inconsistency in RWA would be mitigated by the consistent FRTB reporting already provided by all banks.

Table 1: Overview of targeted relief measures

Alternative standardised approach & simplified standardised approach	Internal Model Approach	Standardised and internal model approaches
• Diversification between asset classes • Residual Risk Add-On • FX & IR Vega risk weights	• Profit and loss attribution test • Non-modellable risk factors • Inconsistencies in default risk charge	• Collective investment undertakings • Reporting

1. Measures in the alternative standardised approach (Articles 325c to 325ay) simplified standardised approach (Articles 326 to 361)

Issue 1: Diversification between asset classes

[Improvement][4]

Due to the stricter requirements for IMA use, banks have more desks under SA. As a result, they lose the risk diversification benefit provided by the higher uptake of IMA under CRR 2. That is because FRTB SA does not offer any risk diversification between asset classes, requiring banks to stress desks for simultaneous directional market moves, failing to recognise that under stress certain markets are more likely to move in opposite directions. For example, a typical macro hedging strategy of a long credit risk exposure from holding a portfolio of bonds and loans is to short equities (e.g. via buying put options on an index). This is because typically, equity markets sell off when credit deteriorates. However, the current Sensitivities-based Method (SBM) approach for such a strategy would assume that equity markets rally and credit deteriorates, which is unrealistic, resulting in RWA outcomes that discourages banks from entering in these economically sound hedging strategies. Larger diversification benefits in SA would address this. This can be done by introducing an inter risk-class correlation parameter, which can be calibrated conservatively, therefore allowing for less diversification than a VaR-based framework.

Suggestion:

Article 325h: Introduce another aggregation formula for the sensitivities-based method (SBM), whereby the total SBM capital requirement would be based on:

[4] Please note that there is a likelihood for this item to be amended under the US NPR reproposal.

$$\sqrt{\sum_b SBM_b^2 + \sum_b \sum_{c \neq b} \rho_{bc} SBM_b SBM_c}$$

Under this formulation, SBM_b would represent the risk class-level capital requirement for each of the risk classes under SBM; ρ_{bc} would represent a new inter-asset class correlation parameter. We recommend setting that parameter at a level of 0.5 to allow for sufficient cross risk driver diversification. Note that the value of this parameter is a lot more conservative than an effective average correlation observed by comparing the sum of Asset-Specific VaR components and the Total VaR. This average correlation tends to be a negative number, resulting in a far higher diversification benefit than would result from the 0.5 value proposed here.

Issue 2: Residual Risk Add-On treatment is EU more conservative than US proposal

[Level playing field]

The residual risk add-on (RRAO) in the US proposal excludes CMS spread options from the list of RRAO which represents an unlevel playing field especially against the background that an exclusion doesn't reduce the relevant risk coverage. Moreover, YCSOs should be excluded as positions with two or fewer underlyings do not present the types of risks that the residual risk add-on was intended to address.

Conditions for exemption from RRAO charges are too restrictive. Exemption should be allowed for all positions that reduce a bank's exposure to non-SbM risk factors, in particular for all options without path dependent payoffs or with two or fewer underlyings (e.g. exemption of Bermudan option hedges).

Suggestion: Exclude all positions that reduce a bank's exposure to non-SbM risk factors from the consideration of RRAO from the residual risk add-on.

Issue 3: FX & IR Vega risk weights

[Improvement]

The SA sets RW to capture illiquidity for vega risk (sensitivity to change in the underlying volatility) in Foreign Exchange (FX) and Interest Rate (IR) instruments. In the CRR 3, the RW is set to 100%, leading to material RWA increase under SA. The 100% RW is not commensurate with shocks observed during stress periods. 100% RW for a long vega position is equivalent to the volatility reducing to zero, which is unrealistic. This penalises long-dated vega exposure, which is typically hedged with more liquid, shorter-dated vega exposure. This economic hedge is not recognised, as the net position appears "open" under the SBM rules. Net position appears open as long-dated volatility is less volatile than short-dated one and, hence, a lower quantity of short-dated vega risk is required to hedge the long-dated vega risk.

Suggestion:

Make the RWs for vega a function of tenor to reflect the lower variability of the level of long dated vols. In particular reduced the longest dated RW for FX Vega RW to 60% and for IR Vega to 50% with a linear scaling between those levels and RW for the shortest tenor which would remain at 100%.

2. Measures in the alternative internal model approach (in line with Articles 325az to 325bp)

Issue 1: Profit and loss attribution test (PLAT)

[Improvement and level playing field]

The Profit and Loss Attribution Test (PLAT) is overly complex and can lead to counterintuitive and binary outcomes, i.e. desks that fail PLAT are forced to capitalise under SA.

Suggestion 1: Article 325bg and relevant RTS: Remove binary outcomes from failing the PLAT. Utilise PLAT as a monitoring tool, complimentary to the ES backtesting.

Suggestion 2: Exclude failure of the test that are due to "well hedged" strategy of the desk (desks that are hedged tightly may frequently fail the PLAT because of the sensitivity to small differences in P&L calculations, even though the desk is effectively managing risk and the risk P&L are close to front office P&L).

Beyond the technical adjustments**,** a multi-year implementation period for PLAT should be introduced, during which the test is used as a monitoring tool only or the red and amber Spearman correlation thresholds are significantly lowered / KS thresholds increased to a point where most desks would be passing the test during the first three years.

Issue 2: Non-Modellable Risk Factors

[Operational relief]

a) Limited diversification

Non-Modellable Risk Factors (NMRF) allow very limited diversification between different asset classes, which economically exists, leading to RWA outcomes that do not incentivise adoption of IMA. Moreover, due to the way risk factor charges are aggregated, the NMRF framework penalizes hedging activity, in particular hedging long dated exposures with shorter dated exposure to the same curve or surface.

Suggestion: EBA RTS referencing Article 325bk(3)(d): Reduce the rho parameter to 0.25.

b) Use of vendor data

Modellability without the use of vendor data leads to disproportionate NMRF charges. It will take time for the industry to get used to the NMRF framework, pool liquidity information, and for vendor solutions to be developed and adopted.

Suggestion: Article 325bk: Introduce a ratchetting multiplier as a phase in approach for NMRF charges for the first 5 years (0, 0.25, 0.5, 0.75, 1).

c) Charges on G7 sovereign bonds

Rules require among other things >100 observations at International Securities Identification Number (ISIN) level over 12 months. As a result, new (especially government) bond issuances cannot be considered modellable for the first ca. 6 months. This means the bank trading them will attract an NMRF capital charge, disincentivising participation in new issuances of government bonds under IMA.

Suggestion: EBA RTS referencing Article 325be (3): provide exemption for NMRF charges for bonds that attract 0% RW under SA DRC. Alternatively, this can be done via a new provision in Article 325be directly.

d) Inconsistent stress period for expected shortfall and non-modellable risk factors

NMRF stress period selection is calculated based on the worst outcome of each risk factor in isolation and may differ to the stress period used for expected shortfall (ES), leading to inconsistencies and complexity. Banks might be required to manage their ES on their entire portfolio under one stress period (e.g. Covid), while they simultaneously manage the NMRF charge for a risk factor (e.g. IR) under a different stress period (e.g. Lehman's).

Suggestion: EBA RTS referencing Article 325bk (3) (d): Allow aligning ES and NMRF stress period selection across risk classes.

Issue 3: Inconsistency across IMA and SA in default risk charge

[Improvement]

IMA Default Risk Charge (DRC) is stricter than SA, penalising mainly sovereign bonds.

Suggestion 1: Article 325bl – Article 325bp: remove requirement for an internal model for DRC purposes and adopt the SA DRC equivalent for IMA desks.

Suggestion 2: Exclude sovereign bond from DRC calculation in line with A-SA treatment

3. Measures concerning standardised and internal model approaches

Issue: Collective investment undertakings (CIUs)

[Level playing field and operational relief]

a) CIUs under FRTB SA

The mandate approach is not practically feasible given the generality of most CIU mandates. There is currently no diversification of CIU vega since it is allocated to the "Other" bucket. This results in significant overcapitalisation for portfolios of CIU options

These issues are well known however the high impact due to resultant widespread application of the 70% risk weight approach is made less visible due to the ad-hoc adjustment of 20% applied in the BCBS and EBA Basel III monitoring reports.[1]

Suggestions[5]:

1) In line with the recommendation from the ISDA white paper on "Capitalization of Funds" published on November 2024, the Mandate-Based Approach should be enhanced with new CIU Buckets. Namely, remove practical difficulties of using fund mandates to derive risk weights by implementing an enhanced and transparent approach that prescribes a limited number of fund buckets, each with corresponding risk weights, specifically for CIUs. Additionally, the SSRI rating of the CIU should be allowed to determine the risk weight and bucketing for UCITS CIUs. Such an approach would facilitate simpler and more consistent implementation across banking organisations.

2) Diversification of CIU vega should be incorporated in the aggregation formulae which could be achieved by allocating CIU vega to an Index bucket (modification of 325j (1)(a) CRR3.

b) Quarterly look through and look-through requirements

The US NPR has introduced flexibility for internal modelling based on quarterly look-through and using any other alternative modelling upon supervisory approval. Hereby, the US text authorizes the funds with a quarterly transparency to be in IMA, whereas a daily transparency is required in Basel and EU texts.

Suggestions: The European text to refer using quarterly publications in both SA and IMA and flexibility to use bespoke approaches for IMA.

Concerning the details of the composition of CIU, not all information could be available for data vendors.

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[1] BCBS Basel III monitoring Oct 2024 p.21, EBA Basel III monitoring Oct 2024 p. 14

5 Technicality: The fallback "Equity Other" approach (which formally in CRR is a subcomponent of the Mandate approach), should not require standalone capitalisation; modify Art. 325 (1a) (b) CRR3 as follows: for all positions in the same CIU, use the same approach among the approaches set out in paragraph 1, point (b) of this Article; when using the approach referred to in paragraph 1, point (b) (ii), of this Article to calculate the own funds requirements on a stand-alone basis as a separate portfolio.

We encourage, for the unknown part of the net asset value (NAV) of a CIU, using a partial look through approach, where this this part is treated as a single equity position allocated to the bucket 'other sector', in accordance with art 325j 1 b (i).

It is suggested to adopt an enhanced mandate-based approach, that would result in funds assigned to either a newly introduced fund buckets or to equity/credit index buckets. This is supported by the fact that the current version of the mandate-based approach is not usable (not adopted by any bank in practice). Furthermore, this approach (as well as the partial look-through approach) can leverage the existing UCITS regulation, which covers the majority of fund-linked products traded in the EU and which introduces a number of controls that guarantee well diversified and transparent nature of qualifying funds.

c) Allocation to banking book

CIUs which contain even small proportions of mandatory banking book items (e.g. real estate or unlisted equity) must be assigned to the banking book. This results in a large proportion of CIU positions being assigned to the banking book despite these CIUs having only small investments in such items and the CIU itself being highly liquid. Moreover, Article 325j(5) places further complex and unnecessary requirements on CIUs for such positions to remain in the trading book. These requirements also frequently result in CIU derivatives receiving banking book treatment, which an inappropriate method of capitalisation for such positions.

Suggestions:

1) Add a materiality threshold allows for CIUs to be kept in the trading book if they have an immaterial amount of BB holdings. For the materiality threshold UCITS rules (10% of Net Asset Value – NAV) can be used. Further specify that the requirement on mandatory banking book items in CIUs only apply to direct holdings.
2) Delete paragraph (5) of Article 325j – this will remove the restriction on third country managed CIUs and related unnecessary TB CIU restrictions. These requirements are a material level playing field issue since there is no equivalent requirement in the US or UK regulations.
3) Specify that CIU derivatives and their hedges are mandatory trading book items since this is the only appropriate capitalisation method for non-linear positions.

Issue 2: Detailed reporting

[Operational relief]

We would like to refer to the ITS of Reporting of FRTB SA (EBA/ITS/2024/002), that have been delayed to 2026 by the Commission's Delegated Act. These ITS require entities to report the positions by offsetting group (entities within the group for which the authority has granted permission to offset positions) and risk factors (Interest Rate, Equity, Credit, FX, Commodities, Securitizations). The level of detail is very burdensome, particularly in the case of large banking groups with a large number of subsidiaries, which may have some type of exposure which is not material for the purpose of the group's solvency and at the same time requires an excessive effort which is not offset by the benefit.

Suggestion: A materiality threshold should be set in relation to the size of the net position or own funds requirements, so that net exposures or own funds requirements below a certain threshold at the level of the off-setting group would be aggregated linearly in a simpler template. The 5% threshold applying offsetting groups with one legal entity should also be applied to offsetting groups with more than one legal entity.

We hope you will find the abovementioned suggestions helpful in defining targeted adjustments in the FRTB framework. We remain at your disposal should you have questions as to the content of this letter or should you wish to engage directly in an in-person meeting.

Yours Sincerely,

Caroline Liesegang

Head of Capital & Risk Management, Sustainable Finance and Research

CC: Lars Overby, EBA
Florian Weidenholzer, SSM

Annex 1: Possible FRTB adjustments covered under the delegated act

1	CIU SA calculation approaches	Weaknesses in the permitted approaches to capitalisation of CIUs under FRTB SA result in material misrepresentation of the risk of CIU positions: 1) The look through approach is not practically feasible due to the immense challenges in pricing the underlying fund assets. In particular: a. Fund constituent data is often not fully specific, particularly for derivative constituents, which are typically present, albeit as a very small fraction of the fund's NAV (e.g. FX hedges) b. Fund constituent data is typically published with a low frequency and with a material latency to protect t the proprietary nature of the fund's positioning c. An institution will typically not have pricing for all of the CIU constituent positions since they do not directly hold positions in the same assets d. An institution may not have pricing	The following fixes to the CIU capitalisation approaches are proposed. 3) The look through approach should explicitly permit partial decomposition and the usage of the most recently published decomposition data. Decomposition should be permitted in cases where the institution can treat a portion of the CIU as if it held the constituents directly with the remainder of the CIU constituents treated conservatively using the "Equity Other" (70% RW) approach. 4) The mandate approach should be enhanced to allow for the SSRI rating of the CIU to determine the risk weight and bucketing for UCITS CIUs 5) The fallback "Equity Other" approach (which formally in CRR is a subcomponent of the Mandate approach), should not require standalone capitalisation Modify Art. 325 (1a) (b) CRR3 as follows: *for all positions in the same CIU, use the same approach among the approaches set out in paragraph 1, point (b) of this Article;* ***when using the approach referred to in paragraph 1, point (b) (ii), of this Article*** *to calculate the own funds requirements on a stand-alone basis as a separate portfolio.* 6) The Risk Factor definition for non-decomposed CIU should be amended to refer to the CIU legal entity and not to the CIU price to allow for netting between different classes of the same CIU (e.g. income vs accumulation units) Modify Art. 325o (2) CRR3: *The equity delta risk factors to be applied by institutions shall be all the equity spot prices and all equity repo rates* ***with the exception of CIU risk factors where the risk factor shall be the CIU legal entity.***	Technical improvement

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		models for all the CIU constituent positions since they do not directly hold positions in the same assets 2) In line with the recommendation from the ISDA white pater on "Capitalization of Funds" published on November 2024, the Mandate-Based Approach should be enhanced with new CIU Buckets. Namely, remove practical difficulties of using fund mandates to derive risk weights by implementing an enhanced and transparent approach that prescribes a limited number of fund buckets, each with corresponding risk weights, specifically for CIUs. Additionally, the SSRI rating of the CIU should be allowed to determine the risk weight and bucketing for UCITS CIUs. Such an approach would facilitate simpler and more consistent implementation across banking organisations 3) The fallback "Equity Other" approach applies an extremely punitive 70% risk weight and furthermore under CRR3, CIUs to which this approach is applied must be capitalised on a stand alone basis which is inconsistent with Basel. The definition of the equity asset class risk factor means that economically equivalent funds (e.g. income and accumulation units) are treated as separate, non-nettable risk factors since they have different prices. 4) There is currently no diversification of CIU vega since it is allocated to the "Other" bucket. This results in significant	7) Diversification of CIU vega should be incorporated in the aggregation formulae which could be achieved by allocating CIU vega to an Index bucket Modify 325j (1) (a) CRR3: *An institution shall calculate the own funds requirements for market risk of a position in a CIU using one of the following approaches:* *(a)An institution that meets the condition set out in Article 104 (8), point (a), shall calculate the own funds requirements for market risk of that position by looking through the underlying positions of the CIU, on a monthly basis, as if those positions were directly held by the institution;* ***for the purpose of the calculation referred to in Article 325e (1) (b) for instruments with optionality on a CIU, the institution may apply Article 325i (1) (c).***	

		overcapitalisation for portfolios of CIU options These issues are well known issue however the high impact due to resultant widespread application of the 70% risk weight approach is made less visible due to the ad-hoc adjustment of 20% applied in the BCBS and EBA Basel III monitoring reports.[1]		
2	SBM diversification	Due to the stricter requirements for IMA use, banks have more desks under SA. As a result, they lose the risk diversification benefit provided by the higher uptake of IMA under CRR II. That is because FRTB SA does not offer any risk diversification between asset classes, requiring banks to stress desks for simultaneous directional market moves, failing to recognise that under stress certain markets are more likely to move in opposite directions. For example, a typical macro hedging strategy of a long credit risk exposure from holding a portfolio of bonds and loans is to short equities (e.g. via buying put options on an index). This is because typically, equity markets sell off when credit deteriorates. However, the current Sensitivities-based Method (SBM) approach for such a strategy would assume that equity markets rally and credit deteriorates, which is unrealistic, resulting in RWA outcomes that discourages banks from entering in these economically sound hedging strategies. Larger diversification benefits in SA would address this. This can be done in the form of an inter risk-class correlation parameter.	Article 325h: Introduce another aggregation formula for the sensitivities-based method (SBM), whereby the total SBM capital requirement would be based on: $\sqrt{\sum_b SBM_b^2 + \sum_b \sum_{c \neq b} \rho_{bc} SBM_b SBM_c}$ Under this formulation, SBM_b would represent the risk class-level capital requirement for each of the risk classes under SBM; ρ_{bc} would represent a new inter-asset class correlation parameter. We recommend setting that parameter at a level of 0.5 to allow for sufficient cross risk driver diversification.	Technical improvement and level playing field
3	FRTB SA: Correlation trading[1]	The industry has long argued rules on CTP are ambiguous. Given the nature of that market, it is important that there are clear rules and a level playing field on correlation trading portfolio, to avoid inconsistent implementation. 1. Clarify that full decomposition into single name exposures, with identical treatment as in non-SEC is allowed within current text 2. Align risk weights with non-sec since liquidity horizon and market risks are not related to traded instruments but rather the underlying risk factors Align CTP sec SBM with US NPR, recognize economic hedges, and	1. For CTP sec DRC confirm that decomposed single name exposures can be: a. Assigned the non-SEC supervisory LGD b. Assigned same risk weights as single name non-SEC exposures c. Netted against other exposures in the same underlying name d. Used without rescaling of JTDs to gross JTD for undecomposed portfolio 2. Align risk weights in Article 325ak Table 6 with those in Article 325ah Table 4 Remove from Article 325i(1)(a)(b) the following: *"except for a position in an index included in the ACTP [for which they shall calculate a single sensitivity to the index];"*	Technical improvement and level playing field

[1] BCBS Basel III monitoring Oct 2024 p.21, EBA Basel III monitoring Oct 2024 p. 14

[1] Ideally EU final position should await NPR re-proposal to ensure consistency in regulatory framework for CTP

		create consistency with CTP sec DRC, i.e. look-through/decomposition should confirmed to be allowed		
4	Curvature	Complicated aggregation factor penalises banks leading to high Own Fund requirements even if the bank is long curvature overall. This is counterintuitive, as long curvature leads to profits with market moves, not losses.	Article 325g: Introduce cap of zero curvature charge if only non-linear trades in scope and overall bank long curvature, i.e. through simple sum across underlyings	Technical improvement and adjustment to Basel
5	Linear trade curvature scope	Current rules either exclude all linear trades or require all linear trades to come in scope. There is no provision for the partial application of linear trade curvature (e.g. linear trades in non-linear desks) to be included. Non-linear desks use linear trades to hedge their risks, including curvature, as standard practice. Not including these trades in scope would artificially inflate the Own Fund requirement for curvature for non-linear desks. Linear desks on the other hand do not exhibit material curvature.	Article 325e (3): Allow partial inclusion of linear trades in the Curvature component with up to FRTB Desk and Asset Class granularity.	Technical improvement and adjustment to Basel
6	FX & IR Vega risk weight	The SA sets RW to capture illiquidity for vega risk (sensitivity to change in the underlying volatility) in Foreign Exchange (FX) and Interest Rate (IR) instruments. In the CRR III, the RW is set to 100%, leading to material RWA increase under SA. The 100% RW is not commensurate with shocks observed during stress periods. 100% RW for a long vega position is equivalent to the volatility reducing to zero, which is unrealistic. This penalises long-dated vega exposure, which is typically hedged with more liquid, shorter-dated vega exposure. This economic hedge is not recognised, as the net position appears "open" under the SBM rules. Net position appears open as long-dated volatility is less volatile than short-dated one and, hence, a lower quantity of short-dated vega risk is required to hedge the long-dated vega risk.	Make the RWs for vega a function of tenor to reflect the lower variability of the level of long dated vols. In particular reduced the longest dated RW for FX Vega RW to 60% and for IR Vega to 50% with a linear scaling between those levels and RW for the shortest tenor which would remain at 100%.	Technical improvement and adjustment to Basel
7	Supervisory formula for vega	As compared to CRRII, CRRIII has amended the supervisory formula for the calculation of vega sensitivities in Article 325s (1) by moving from an additive shock of 0.01 to a multiplicative shock of 1%. The use of a multiplicative shock deviates from traditional risk management practice where vega is calculated based on additive shocks. The change requires implementation of a new formula across systems and gives rise to cross-jurisdictional inconsistencies (notably the UK has implemented an additive shift of 0.01). We therefore think that institutions	It is proposed to add an additional formula as an option for calculating the vega sensitivity in Article 325s (1) as follows: $s_k = \frac{V_i(0.01 + vol_k, x, y) - V_i(vol_k, x, y)}{0.01} \cdot vol_k$	Technical improvement and adjustment to Basel

		should be given the flexibility to choose one of these formulations and apply it consistently.		
8	Pegged cross currency risk weight	Currencies pegged to another currency attract a different RW to the currency they are pegged to (typically EUR or USD) and do not have a higher correlation with their peg	Article 325av (4): Currencies which are "pegged" should receive the same risk weight as the currency to which they are pegged. The EBA to be mandated to maintain the list of pegged currency pairs.	Technical improvement and adjustment to Basel
9	DRC	CRR III does not have 3-month floor to the Default Risk Charge (DRC), whilst 325x(3) has 3-month floor, which creates an inconsistency.	Article 325x(2)(b): *Offsetting shall be [...] JTD amount of each exposure with a maturity of less than one year shall be multiplied by the ratio of the exposure's maturity relative to one year, with a floor of three months.*	Technical improvement and adjustment to Basel
10	IMA DRC	IMA Default Risk Charge (DRC) is stricter than SA, penalising mainly sovereign bonds IMA DRC has a general 0.03% Probability of Default (PD) floor and 0.01% for issuers with 0% Risk Weight for Credit Risk SA (sovereigns) while SA DRC RW is 0% for the same 0% RW CR SA issuers The requirement to use an internal model for DRC introduces unnecessary operational burden and limits the scope of IMA adoption.	Article 325bl – Article 325bp: remove requirement for an internal model for DRC purposes and adopt the SA DRC equivalent for IMA desks. Alternatively, in IMA, set a 0% DRC for sovereign issuers with 0% RW under CR SA, to align with SA DRC	Technical improvement, adjustment to Basel, level playing field (U.S. NPR (p. 64131)
11	Equity Hedge Recognition in DRC	Enhance the risk sensitivity of equity hedge recognition in DRC for derivatives. Maturity scaling should be allowed for physical equities to match with those of derivatives, and should be extended to "Optional Early Termination" clauses in derivative contracts as well.	Amend wording of Article 325x (4) as follows: For the purposes of paragraphs 2 and 3, the maturities of the derivative contracts shall be considered, rather than those of their underlyings. Cash equity exposures shall be assigned a maturity of either one year or three months, at the institution's discretion. An institution may assign a maturity of three months to equity derivative exposures, in each case at the institution's discretion.	Technical improvement and adjustment to Basel, level playing field (UK Basel 3.1 rules)
12	NMRF aggregation	Non-Modellable Risk Factors (NMRF) allow very limited diversification between different asset classes, which economically exists, leading to RWA outcomes that do not incentivise adoption of IMA.	EBA RTS referencing Article 325bk(3)(d): Reduce the rho parameter to 0.25	Operational relief
13	NMRF data availability	Modellability without the use of vendor data leads to disproportionate NMRF charges. It will take time for the industry to get used to the NMRF framework, pool liquidity information, and for vendor solutions to be developed and adopted.	Article 325bk: Introduce a ratchetting multiplier as a phase in approach for NMRF charges for the first 4 years (0.25, 0.5, 0.75, 1)	Operational relief
14	NMRF charges on G7 sovereign bonds	Rules require among other things >100 observations at International Securities Identification Number (ISIN) level over 12 months. As a result, new (especially government) bond issuances cannot be considered modellable for the first ca. 6 months. This means the bank trading them will attract an NMRF capital charge, disincentivising participation in new issuances of government bonds under IMA	EBA RTS referencing Article 325be (3): provide exemption for NMRF charges for bonds that attract 0% RW under SA DRC Alternatively, this can be done via a new provision in Article 325be, directly.	Operational relief and adjustment to Basel, level playing field (U.S. NPR (p. 64133-4))

15	Consistent stress period for ES & NMRF	NMRF stress period selection is calculated based on the worst outcome of each risk factor in isolation and may differ to the stress period used for ES, leading to inconsistencies & complexity. Banks might be required to manage their Expected Shortfall (ES) on their entire portfolio under one stress period (e.g. Covid), while they simultaneously manage the NMRF charge for a risk factor (e.g. IR) under a different stress period (e.g. Lehman's)	EBA RTS referencing Article 325bk (3) (d): Align ES and NMRF stress period selection across risk classes Alternatively, this can be done via a new provision in Article 325bk, directly.	Operational relief, technical improvement and adjustment to Basel
16	PLAT	Profit and Loss Attribution Test (PLAT) is overly complex and can lead to counterintuitive and binary outcomes, i.e. desks that fail PLAT are forced to capitalise under SA	Article 325bg and relevant RTS: Remove binary outcomes from failing the PLAT. Utilise PLAT as a monitoring tool, complimentary to the ES backtesting. Alternatively, different thresholds for desk Red-Amber-Green (RAG) zones can be proposed with wider Green and Amber zones and an updated calibration of the surcharge add-on for Amber desks.	Technical improvement (IMA uptake) and adjustment to Basel, level playing field (US)
17	10% minimum threshold for IMA	Banks are required to calculate at least 10% of their RWA using IMA models if they are to be allowed to use IMA. This can lead to a binary cut-off point whereby banks have to revert to using SA across all portfolios, should a material desk fail PLAT. This issue is exacerbated by the low uptake of IMA, given other concerns sited.	Article 325az and relevant RTS: Remove 10% minimum threshold	Technical improvement (IMA uptake)
18	Expected Shortfall aggregation formula	Due to the fact that banks have to split their portfolio into IMA and SA, they lose the diversification benefit provided by the higher uptake of IMA (CRR II). Larger diversification benefits in SA and IMA would address this. For IMA, this can be done in the form of a higher rho parameter between the constrained and unconstrained expected shortfall measures. The proposed calibration of the rho factor at 0.5 does not sufficiently take into account the benefits of diversification, leading to RWA outcomes that do not incentivise adoption of IMA.	Article 325bb: We recommend setting the rho parameter at a level of 0.75.	Technical improvement and adjustment to Basel
19	CIUs IMA approach	Unlevel playing field issue with the US	Introduce flexibility for internal modelling / already in the US NPR – Based on quarterly look-through – Using any other alternative modelling upon supervisory approval The US text authorizes the funds with a quarterly transparency to be in IMA, whereas a daily transparency is required in Basel and EU texts The European text should give more flexibility to use the approaches proposed by US NPR draft to capitalize CIUs: use of quarterly publications in both SA and IMA and flexibility to use bespoke approaches for IMA.	Level playing field (US NPR) and operational relief

20	RRAO		Exemption from the RRAO on own funds requirements for certain types of hedges ○ A zero RRAO charge should apply across the client and hedge instrument (and not only the hedge instrument as stated in the draft RTS on the topic) ○ Conditions for exemption from RRAO charges are too restrictive. Exemption should be allowed for all positions that reduce a bank's exposure to non-SbM risk factors Exclusion of CMS spread option from the list of RRAO "options without path dependent pay-offs or with two or fewer underlyings" (in line with US).	Level playing field
21	RRAO on YCSOs	Positions two or fewer underlyings do not present the types of risks that the residual risk add-on was intended to address.	It is proposed to exclude such instruments, such as YCSOs from the consideration of RRAO.	Level playing field
22	RRAO exotic underlying	RTS specifying what is an exotic underlying includes 'future realised volatility', which is already well capitalised through SbM and DRC. Moreover, the US NPR proposes volatility and variance swaps to be captured under RRAO as other residual risk (0.1%) rather than exotic underlying (1%).	Article 1 Specification of exotic underlyings Longevity risk, weather, and natural disasters shall be considered as exotic underlyings for the purposes of point (a) of Article 325u(2) of Regulation (EU) No 575/2013.	Technical improvement, level playing field (US NPR)
23	RRAO for CMS & Berm hedges	Temporary adjustment of Residual Risk Add On (RRAO) exemption to avoid punitive capital treatment of hedging positions. The draft EBA RTS that was put in consultation was restrictive to hedges that are non-path dependent, (effectively restrictive to only Constant Maturity Swap CMS Spread Option hedges). This is misaligned with the CRR III mandate that was aiming for a wider exemption for hedges that have the same risk type.	Align the RRAO exemption with the CRR III mandate by expanding the RTS exemption to other products that offer hedging solutions and contain a non-SBM risk factor, such as Bermudan Swaptions	Technical improvement and level playing field (US NPR p.64129)
24	Reporting SA and IMA	Reporting requirements that are excessive and overly burdensome	We would like to refer to the ITS of Reporting of FRTB SA (EBA/ITS/2024/002), released by EBA following the mandate in 430b CRRII, that have been delayed to 2026 by the Commission's Delegated Act. These ITS require entities to report the positions by offsetting group (entities within the group for which the authority has granted permission to offset positions) and risk factors (Interest Rate, Equity, Credit, FX, Commodities, Securitizations). These level of detail is very burdensome, particularly in the case of large banking groups with a large number of subsidiaries, which may have some type of exposure which is not material for the purpose of the group's solvency and at the same time requires an excessive effort which is not offset by the benefit. It would be necessary to introduce some type of materiality threshold.	Operational relief
25	Issue Level Rating	The reference to title II Chapter 2 in articles 325ah(1), 325ak and 325y(6) is too broad and we seek to clarify the articles that should be	It is proposed to amend 325ah(1), 325ak and 325y(6) as follows: 325ah(1):	Level playing field (US NPR and UK Basel)

		applicable in the market risk framework. Article 139 in Title II Chapter 2 specifies the use of issue-level rating and creates cross-jurisdictional inconsistencies.	(ii) For the purposes of this Article, an exposure shall be assigned the credit quality category consistent with the Standardised Approach for credit risk set out in Title II, Chapter 2, Article 135, 136 and Article138. 325ak: For the purposes of this Article, an exposure shall be assigned the credit quality category consistent with the Standardised Approach for credit risk set out in Title II, Chapter 2, Article 135, 136 and Article138. 325y(6): For the purposes of this Article, the Net JTD shall be assigned the credit quality category consistent with the standardised approach for credit risk set out in Title II, Chapter 2, Article 135, 136 and Article138.	
26	Bucket category for CSR non-Sec delta (table 4 Article 325ah) – Explicit Government Guarantee	While specifying the risk weights for CSR non-sec under the A-SA, Article 325ah does not provide guidance on how to treat instruments which are subject to a guarantee from a party different to their issuer. Where such a guarantee meets the conditions for recognition as unfunded credit risk mitigation for credit risk purposes, it would seem inconsistent that it could not be recognised for market risk purposes. Example of entities include Bank Gospodarstwa Krajowego (Poland), Dexia (Belgium and France), or Japan Bank for International Cooperation which would otherwise be capitalized like much riskier commercial banks.	Add the following paragraph 4 to Article 325ah: "(4) Where an exposure is subject to a guarantee which meets the conditions for recognition as unfunded credit risk mitigation under Part Three, Title 2, Chapter 4, the institution shall treat this exposure as an that exposure to the guarantor." This addition would specifically allow for the recognition of government guarantees for issuers that would otherwise be assigned a risk weight disproportionate to their economic risk. It would also facilitate market-making for the corresponding bonds, thereby enhancing liquidity for financing such entities.	Other
27	Bucket category for CSR non-Sec delta (table 4 Article 325ah) – EU government sponsored banks	For CSR non-sec under the A-SA, Article 325ah assigns European "credit institutions incorporated or established by a central government, a regional government or a local authority" to bucket 4 with a 5% risk weight, like any commercial banks. However, even when there is no blanket or explicit government guarantee, such banks remain significantly less risky as they serve clear public purposes in the European Union. Examples of such EU entities include Nederlandse Waterschapsbank NV (Dutch water council bank), BNG Bank NV (Dutch bank for public organizations) or Cassa Depositi e Prestiti SpA (Italian development bank).	Reduce the risk weight for such EU-sponsored banks. A reasonable risk weight could be 1.5% or 2%, in line with the least risky non-government companies but higher than non-financial Public Sector Entities (1% risk weight). This should remain lower than commercial banks. In comparison, article § __.209 of the US FRTB rules carve out "GSE debt" from other financials, allowing such entities, sponsored by the US government and serving a clear US public purpose (i.e. home ownership of individual Americans), to benefit from a lower risk weight. A risk weight more in line with economic risk would facilitate market-making of the bonds of such lower-risk entities, thereby enhancing liquidity for their financing.	Other

Annex 2: Possible FRTB adjustments under Art. 461a(3) CCR3

1	CIU Banking Book/Trading book classification	The FRTB banking book / trading book classification rules for CIUs have a number of weaknesses: 1. CIUs which contain even small proportions of mandatory banking book items (e.g. real estate of unlisted equity) must be assigned to the banking book. This results in a large proportion of CIU positions being assigned to the banking book despite these CIUs having only small investments in such items and the CIU itself being highly liquid. 2. Article 325j(5) places further complex and unnecessary requirements on CIUs for such positions to remain in the trading book including: a. Effective requirement for a CIU to be a UCITS fund – preventing funds managed by third country managers to fall into the TB b. Requirements on the CIU prospectus despite these playing no part in the TB capital requirement calculation c. Requirements on CIU information reporting to the institution which cannot strictly be met in practice These requirements also frequently result in CIU derivatives receiving banking book treatment, which an inappropriate method of capitalisation for such positions.	The following fixes to the banking book/trading book rules for CIUs are proposed: 1. Add a materiality threshold allows for CIUs to be kept in the trading book if they have an immaterial amount of BB holdings. For the materiality threshold UCITS rules (10% of Net Asset Value – NAV) can be used. Further specify that the requirement on mandatory banking book items in CIUs only apply to direct holdings. 2. Delete paragraph (5) of Article 325j – this will remove the restriction on third country managed CIUs and related unnecessary TB CIU restrictions. These requirements are a material level playing field issue since there is no equivalent requirement in the US or UK regulations. 3. Specify that CIU derivatives and their hedges are mandatory trading book items since this is the only appropriate capitalisation method for non-linear positions.	Technical improvement
2	Alternative Sensitivity	CRR3 articles 325t(5) and (6) require prior permission from the competent authorities to use alternative delta and vega risk sensitivities, however application requirements are not proportionate or considerate of materiality with regards to incremental changes when new alternative sensitivities are required, after initial approval is granted.	Once initial approval for use of alternative sensitivities is granted, requirements for submission of a new application should adopt clear materiality thresholds based on % of the total SBM number for the relevant risk class. For guidance, a sensitivity accounting for less than x% of the total RWA on the risk class pertaining to this sensitivity over the previous y months can be considered as immaterial and can be excluded from the scope of the application.	Other
3	DRC		Alignment with Basel on the possibility to use internal ratings where no external ratings are available: "Where there are no external ratings or where external ratings are not	Technical improvement and adjustment to Basel

			recognized within a jurisdiction, institution should be able, subject to supervisory approval, to use internal rating to assign the exposure (consistent with the FAQ1 of MAR22.24)".	
4	Treasury purchases / sales	To ensure financial stability external sales/ purchases by the bank`s treasury that are operationalised via the investment bank are not considered as reclassifications, which would only be possible with Board and ECB approval. To confirm this view, it should be reflected in CRR. Such transfers might be linked to Statutory Liquidity Ratio (SLR) bond sales during a stress or liquidity event, as the IB can achieve better and quicker liquidation, allowing for better liquidity risk management at a time of stress. Getting ECB approvals for such events on short notice is unlikely. This can result in negatively impacting the bank's liquidity. Furthermore, publicly disclosing such request could lead to unintended signalling to the market further exacerbating the liquidity risk.	Exclude TSY sales from reclassification rule. Introduce following wording in Art. 104a (8): *By way of derogation from paragraph 1 purchases and sales of securities between Treasury and an internal market making desk shall not be considered as re-classification provided:* *a) the transfer is done at arm's length,* *b) the scope of the securities transferred is limited to liquidity buffers assets and* *c) securities shall not have been held by market making desk for a duration that exceed the usual holding period as defined under article 103*	Technical improvement and adjustment to Basel
5	IRT for Interest Rate Risk (IRR)	Requires separate IRT portfolio and allocation of internal hedges employed for IRRBB hedging to this portfolio. Given that almost all products show IRR the scope of the IRT portfolio could be much larger than intended and exceed standard interest rate derivative products employed for banking book interest rate risk management purposes. That affects for example funding transactions, XCCY swaps as well as repo transactions. To avoid this, specific guidance on the scope of covered transactions is requested.	Proposed wording in Art. 106 (5): *"Where an institution hedges non-trading book interest rate risk exposures using an interest rate derivative which meets the criteria in 5 (d) booked in its trading book..."* Add Art. 106 (5) (d): *"paragraph 5 apply to interest rate derivatives which are either intended to hedge general interest rate risk or would be mapped to the "interest rate risk" risk category in accordance with Article 277."*	Technical improvement and adjustment to Basel, level playing field (UK PRA & US NPR)
6	Deviation from TB allocation	Any deviations from TB allocation must be approved ex ante by supervisor (ECB), leading to operational burden and delays	Art. 104(4): Introduce block exemption from approval for deviations in BB Derivatives and instruments changing characteristics outside the bank's control	Technical improvement and adjustment to Basel, level playing field (US NPR)
7	Net short credit/equity position in BB	Article 104 (2) (b) remains silent on any simplification – Ongoing assessment and TB transfer, with potential need for reclassification after ECB approval, disclosure, capital add-on leading to operational burden, complexity and removing hedging strategy flexibility, even if the exposure is negligible	Proposed wording in Art. 104 (2) (b): *"instruments that would give rise to a non-negligible net short credit or equity position in the non-trading book, with the exception of the own liabilities of the institution, unless such positions meet the criteria referred to in paragraph 2, point (e)."*	Technical improvement and adjustment to Basel, level playing field (UK PRA & US NPR)
8	Hedge funds	While in the CRR3 text (cf. art.104), hedge Funds are included in the list of instruments that shall not be assigned in the Trading Book, the US proposal (cf III.H.3) does not list Hedge Funds in the list of exclusion from "market risk covered positions." This is a significant level playing field issue with the US that shall be addressed.	Remove provision in the CRR3 Regulation	Technical improvement

9	Reclassification	Reclassification permitted only in exceptional circumstances (BCBS RBC 25.14, CRR III EBA Guideline mandate) Subject to ECB approval, public disclosure and capital add-on Operational burden and limitation of flexibility to hedging and bank funding strategies, due to ex ante supervisory approval	Remove ex ante approval and capital add-on if reclassification is due to circumstances outside of the bank's control Proposed wording Art. 104a: *Introduce newly Art. 104a (7): By way of derogation from paragraph 1, an institution reclassifies a position that is not assigned as required by Article 104 following a change in the characteristics of the position without seeking permission from its competent authority. In such case, the requirements laid down in paragraphs 3 and 4 do not apply to the institution. The institution shall immediately notify its competent authority where such reclassification has occurred.* Modify Art. 104a (2): *The decision referred to in the first subparagraph shall be approved by senior management.*	Technical improvement and adjustment to Basel, level playing field (US NPR)
10	IRT general	Hedging of equity BB positions only by IRT desk is a deviation from the Basel standard Art.106(4): For RWA relief in BB, IRT needs perfect offset with external TB position The prohibition of external hedges transacted by the banking book directly with the street limits hedging options for EU banks and contradicts Art. 104 (3) (g) CRR3 explicitly requesting a banking book allocation for hedges on unlisted equities.	Proposed wording in Art. 204a (1): "*Institutions may use equity derivatives which are total return swaps or economically effectively similar, as eligible credit protection ~~only for the purpose of conducting internal hedges. […].~~*"	Technical improvement and adjustment to Basel, level playing field (UK PRA & US NPR)
11	IMM	ECB guide creates a level playing field issue by asking the capitalization of cash flow spikes with effectivization and leads to instability in the RWA calculation. The steps chronology that led to this decision are : ECB proposed to amend CRR for incorporate cash flow spikes without effectivization into a specific add on in the calculation of the IMM for counterparty credit risk. This proposal was rejected by the EU Parliament and all the legislators. In its latest review of the ECB guide on internal models, institutions are currently in the obligation to incorporate the cash flow spikes in the calculation when the addon version exceeds a 10% threshold. The incorporation of the cash flow spikes leads to a wrong and overestimated representation of the risk.	Clarify in CRR that this risk should not be included in pillar 1 requirement and only considered in appropriate way in pillar 2.	Other