

Position Paper

AFME considerations on further steps in the FRTB implementation in the EU

6 October 2025

The Commission's decision to delay the implementation of the market risk (FRTB) framework has been welcomed, given the need for further clarity on substance and timing across jurisdictions which is especially important for internationally active banks. We also appreciate the flexibility for EU supervisory authorities in their assessment of current internal models to ease operational complexities and costs that come with the maintenance of the current internal models.

Following the end of the scrutiny period the industry is looking ahead with the view to discuss available options for FRTB implementation. This position paper aims at analysing different options.

Background

The industry is faced with two main concerns: the level playing field and the operational adequacy of the market risk framework.

Maintaining a level playing field is essential for international competitiveness for banks operating in the EU. The three major Western jurisdictions have all competitiveness and growth agendas in place, where the US and the UK have put their financial services at the centre of those strategies. There, banks are considered the key to unlock growth, and regulation is reviewed critically to ensure a supportive environment for financing, appropriate risk taking and unlocking revenues. While the Basel 3 delays in the US and UK are concerning for the overall implementation of the Basel reforms, pausing also allows for reflection especially under the more recent competitive and growth agendas. In an ever-changing geopolitical environment, creating space for policy makers to adjust is a logical and vital choice.

For a level playing field, regulatory capital comparability is essential. This can only be achieved by a similar rule book (ex-ante comparability), or alternatively, by a rule book that leads to a similar outcome (ex-post comparability). The first line of defence is a consistent implementation date across jurisdictions. Achieving this has taken extraordinary efforts by policy makers and lead to excessive uncertainty: the US are unlikely to implement Basel 3, incl. FRTB, before 2028, and the UK has proposed further delaying FRTB IMA to 1 January 2028¹ (the whole Basel 3 package had already been postponed to 1 January 2027). Anticipating those delays, the EU took precautions and laid out relevant measures to delay FRTB application till January 2027, but by now has exhausted the powers to delay further through Art. 461a CRR3. Therefore, it is essential considering possible ways to address a situation where misalignment between EU's and US / UK's Basel 3 agendas persists.

Comparable rules or rules that allow for a similar capital allocation (provided similar business models and positioning) are the second corner stone for a level playing field. As the final rules are still under discussion in major non-EU jurisdictions, the EU is at an information disadvantage. The disadvantage will only be resolved when final rules are published and committed to. At this point in time, the extent of deviations from the Basel FRTB rule book as well as the timeline in those jurisdictions remains uncertain. Therefore, it is essential creating a capital neutral (compared to Basel 2.5) FRTB framework in the EU until further notice.

In terms of operational adequacy, by now it is well known that FRTB as designed in the Basel 3 reforms is not always fit for purpose. Issues that have long been concerns for the industry haven't been addressed yet. The issues are in parts independent from the level playing field discussion as they concern the well-functioning of the framework itself. The Commission initiated its thinking on these issues in its recent

¹ Furthermore, banks currently using (Basel 2.5) internal models would be allowed to do so under existing permissions until 2028 instead of moving to FRTB-SA. See CP17/25 - Basel 3.1: Adjustments to the market risk framework (15 July 2025)

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targeted consultation². The UK has proposed changes for a number of those flaws in its recent consultation which shows that the likelihood that non-EU jurisdictions address the issues is high. It is therefore important taking the concerns seriously and address them in the EU to avoid likely comparative disadvantages.

The remainder of this note discussed possible policy option based on Art. 461a CRR3 to address the aforementioned issues. The discussion is structured in the option's order as stated in Art. 461a CRR3.

Policy options to address level playing field and operational adequacy

1. Changes to market risk requirements under the current Art. 461a CRR3

Art. 461a CRR3 in its current form provides the European Commission with far-reaching powers, namely changes to aid a level playing field and operational relief.

In order to achieve the level playing field, the article allows for rule changes (ex-ante comparability) and / or multipliers (ex-post comparability). The industry to this point focussed their efforts on rule changes because it appears most effective and efficient to improve requirements that are seen inadequate in the first place. EU policy makers focussed on changes for international comparability. Though persistently unfinished rules and moving timelines in non-EU jurisdictions make it difficult to identify and calibrate adjustments and render the EU virtually immobile. While EU policy makers could take proposals from non-EU authorities as a guideline, the inherent uncertainty proves challenging for decision making.

Targeted changes under another delegated act are still a possibility though. The EU had initiated its thought process with respect to changes in its recent targeted consultation³ (footnote 3). The industry welcomed the suggestions. However, the proposed amendments would have fallen far short of the required changes to make the framework operationally fit for purpose. In addition, the unknowns regarding the level playing field remained and the proposal would not have provided capital neutrality and hence not safeguarded banks in the EU against comparably higher capital charges. The European Commission therefore opted for the most straight forward option of delaying FRTB for another year. In view of persistent uncertainty, the majority of the industry welcomed the decision to delay. Changes to the framework remain essential though to achieve long-term stability of the FRTB. The industry has communicated its proposal for amendments in AFME's response to the EC's targeted consultation⁴. The proposal remains valid, and the industry is seeking to help amending the FRTB framework accordingly under this mechanism; this is however without prejudice of the policy developments still to come in the US and potentially the UK.

2. Individualised multipliers to achieve capital neutrality under the current Art. 461a CRR3

As it stands, policy makers and the industry will face a gap between the legally required implementation date (at the moment 1st January 2027) and adjustments to the framework (demanded by the level playing field and otherwise). This gap means that banks operating in the EU will face higher capital requirements of the new (unchanged) FRTB framework, while some non-EU jurisdictions will still operate under Basel 2.5 and hence no capital impact. This gap could be addressed via multipliers. Given that a "one size fits all", system-wide multiplier is unattainable, the only solution are individual multipliers aiming to preserve full capital neutrality.

Individual multipliers can achieve – at least to a certain extent – ex-post regulatory comparability. Thereby, FRTB capital requirements would enter into force at the prescribed time without or with limited initial adjustments of the rules. A multiplier or multipliers would then be applied to the FRTB capital requirements to scale them to the desired, capital neutral level.

Multipliers are a highly complex to calibrate though. Among other issues, following considerations are necessary

- Static vs dynamic multipliers
- Level of application (aggregation level)
- Operational costs
- Update frequency or conditions for updating

² https://finance.ec.europa.eu/regulation-and-supervision/consultations-0/targeted-consultation-application-market-risk-prudential-framework-2025_en

³ https://finance.ec.europa.eu/regulation-and-supervision/consultations-0/targeted-consultation-application-market-risk-prudential-framework-2025_en

⁴ https://www.afme.eu/Portals/0/DispatchFeaturedImages/AFME%20Response%20to%20EC%20Targeted%20Consultation%20on%20the%20application%20of%20Market%20Risk%20Prudential%20Treatment_Final_2204252-1.pdf

The advantage of this option is that it provides time to policy makers and firms to observe the developments in non-EU jurisdictions and introduce permanent changes at a later stage.

3. Changes to the CRR3 (Level 1 text) to allow for further delay

This option can be considered a new, complementary approach to achieve the required room for manoeuvre. The option would aim at directly amending CRR3 and keeping the FRTB implementation timeline flexible. Given the lengthy process inherent in this approach, the CRR3 changes should be implemented directly regardless of any other imminently available options that might be pursued.

Article 461a CRR3 was drafted in anticipation of delays and rule amendments during the implementation process of FRTB in non-EU jurisdictions. It allows, broadly speaking, the extension of the implementation timeline for a maximum of two years, among other things. With the most recent Delegated Act proposing an additional (2nd year) delay of FRTB in the EU, the article is now void of any further delay optionality. Given the importance of consistent implementation timelines, it is worth considering amending CRR3 (Level 1). An amendment would have a positive impact on European competitiveness by creating appropriate flexibility for further delays of the FRTB framework in the EU. It would also signal the willingness of the EU to take the need for simplification of the EU legislative system seriously. To note, this flexibility does exist in the UK where the BoE/PRA is enabled to change the Basel implementation timeline instantly if required. The PRA makes use of this flexibility with the delay of the overall package, and the currently consulted delay of FRTB IMA where the option of a split start date, allowing FRTB-SA to be used from 1 Jan 2027, is available.

To create this flexibility, Article 461a of the Level 1 text could be amended with minimal changes⁵. The suspension will remain in effect until the level playing field among major benchmarking jurisdictions (US, UK) is assured. This approach would effectively revert the current mechanism that makes the Commission issuing an annual Delegated Act (in the case of acceptance of Option 3), preventing the automatic yearly activation of FRTB provisions. Instead, a suspension would allow sufficient time to focus on necessary technical adjustments to the market risk framework and implement them on a permanent basis as part of the FRTB implementation by the Commission.

Conclusion

Against the challenge of persistent uncertainty and the need to put the EU on equal footing with the UK and the US, the industry recommends that policy makers remain flexible in their response. All options: the directly available options, i.e. individualised multipliers, or changes to the framework under Art. 461a CRR3 in the interest of level playing field and operational relief, but also the indirectly available options, i.e. a further delay, should certainly be entertained in the next phase weighing up the pros and cons.

In the longer term, once more clarity has been provided, changes to the framework need to be identified and calibrated for a permanent improvement of FRTB.

⁵ Proposal for paragraph 2(b) Art. 461a: *Suspending the own funds requirements for market risk set out in Part Three, Title IV, or any of the approaches to calculate the own funds requirements for market risk referred to in Article 325(1) as long as the differences between the implementation of international standards on own funds requirements for market risk in the Union and in third countries (as regards the impact of the rules in terms of own funds requirements and as regards their date of application) persist.*