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## Consultation Response – PRA CP 17/25

### Basel 3.1: Adjustments to the market risk framework

12 September 2025

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#### Introduction and General Comments

The Association for Financial Markets in Europe (AFME) welcomes the opportunity to comment on the PRA's consultation on proposed amendments to the market risk framework, as part of the implementation of the Fundamental Review of the Trading Book (FRTB) in the UK.

AFME's members comprise internationally active banks for whom divergent approaches between jurisdictions pose key operational and level playing field challenges. We appreciate the PRA's continued acknowledgment of the difficulties posed by the uncertainty about the timing of Basel 3.1 implementation in other jurisdictions and the further flexibility demonstrated following the initial delay announced in January 2025. While we broadly welcome the proposed delay to FRTB-IMA, it raises a number of questions and creates complex operational difficulties which we set out below and which we recommend be addressed by the PRA. In particular, we recommend that the PRA introduce an opt-out, whereby firms using IMA (including firms using IMA partially) may remain on the Basel 2.5 standardised approach framework for the non-modelled portfolios and the existing trading book boundary until FRTB-IMA is implemented. This would achieve the PRA's objective of proceeding with FRTB-SA implementation to the 1 January 2027 timeline for firms exclusively using the standardised approach and for firms who choose not to opt-out.

We welcome the PRA's openness to targeted amendments to facilitate the smooth implementation and operation of the FRTB's standardised approaches, and to address certain excessively conservative capital requirements which are disproportionate to the corresponding levels of risk. That said, we consider that more appropriate options are available than the proposal for a threshold for the use of the market-risk look-through approach (LTA) and for a permissions regime for the advanced standardised approach (ASA) residual risk add-on (RRAO).

In addition, we note that while industry has raised concerns with both FRTB-IMA and FRTB-SA on a number of occasions<sup>1</sup>, the PRA's proposals address only a small number of these. We have kept our response focused on the proposals at hand, but we continue to encourage the PRA to consider a wider set of changes to further support implementation and the objectives of the Basel standards. Such proposals and the justification for them were set out in our letter dated 22 July 2025<sup>2</sup>, and we support the proposals further set out in ISDA and the IIF's response to CP17/25.

More widely, our discussions with industry, and indeed the approaches taken by different jurisdictions, have highlighted the importance of ensuring international standards are kept under review to reflect emerging evidence and evolving contexts. We welcome the PRA's commitment to complying with the Basel standards, but it is clear that the standards themselves require review. Beyond implementation, we encourage the PRA to engage with international counterparts and the Basel Committee on Banking Standards to review the findings emerging from implementation and to propose the recalibration of standards where this is justified.

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<sup>1</sup> For example, joint AFME-ISDA [response](#) to PRA CP16/22; AFME [response](#) to European Commission targeted consultation on the application of the market risk prudential framework; AFME letter to David Bailey on targeted amendments to near-final rules on market risk, 22 July 2025

<sup>2</sup> Letter from AFME to David Bailey on targeted amendments to near-final rules on market risk, 22 July 2025

## **Proposal 1: Delay FRTB-IMA implementation to 1 January 2028**

### **Benefits of proposal to delay FRTB-IMA implementation**

Overall, AFME's members support in principle the PRA's proposal to delay FRTB-IMA implementation to 1 January 2028. As the PRA notes in the consultation, this will support international alignment with jurisdictions such as the US.

In addition, we note that a delay would provide the PRA with additional time to make targeted amendments to the near-final rules on IMA. A number of proposals in this respect were set out in our letter dated 22 July 2025 and we encourage the PRA to remain open to such changes, particularly in light of further developments expected in both the United States and in the EU. AFME and its members would welcome further engagement with the PRA in the coming months on this topic to ensure the benefits of a delay to FRTB-IMA can be fully achieved.

### **Challenges posed by delay to FRTB-IMA**

The above points notwithstanding, we think it is important to highlight the operational complexities that will arise from different implementation timelines for FRTB-IMA and FRTB-SA. We support the assessment in ISDA and the IIF's response to the consultation in this respect and the identification of challenges that stem from the different boundary definitions between internal models and the standardised approach. Under Basel 2.5, IMA permissions are granted along dimensions such as general/specific risk, risk type, product category, and trading location, with the remainder capitalised under the Basel 2.5 standardised approach. In contrast, FRTB defines the split at the trading-desk level. This misalignment means that infrastructure developed to support one framework cannot easily be adapted to the other, leading to complex reconciliation processes, the running of dual processes which entails increased costs, risks and operational inefficiencies, higher risk of double-counting capital where permissions overlap, and reduced ability to offset capital due to the increased complexity. In addition, the delineation of risk types as per Basel 2.5 IMA permissions under FRTB-SA, as well as the consequences of using the Basel 3.1 Trading Book/Banking Book (TBBB) boundary alongside Basel 2.5 IMA remains unclear, potentially leading to inappropriate capitalisation or omissions in risk capture.

These challenges significantly impact firms' implementation plans and risk undermining competitiveness. While CP17/25 acknowledges competitiveness considerations and the implications of ongoing uncertainty with regards to implementation of FRTB-IMA in other jurisdictions, it is important to recognise that FRTB-SA timelines and requirements also remain uncertain in the United States. In addition, the EU may introduce further changes to their FRTB-SA rules following the European Commission's consultation<sup>3</sup> in spring 2025.

### **Industry proposal**

To manage the operational complexities and risks to competitiveness identified, while reflecting the balance the PRA is seeking to strike, we propose that the PRA introduce additional optionality to its approach. In particular, we recommend that the PRA's proposal be amended to introduce an opt-out whereby firms using IMA (including firms using IMA partially) are given the option of remaining on the Basel 2.5 standardised approach framework for the non-modelled portfolios and the existing trading book boundary until FRTB-

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<sup>3</sup> European Commission, Consultation on EU approach on market risk rules for banks (March 2025). Available at: [https://finance.ec.europa.eu/news/commission-launches-consultation-eu-approach-market-risk-rules-banks-2025-03-24\\_en](https://finance.ec.europa.eu/news/commission-launches-consultation-eu-approach-market-risk-rules-banks-2025-03-24_en)

IMA is implemented. This would achieve the PRA's objective of proceeding with FRTB-SA implementation to the 1 January 2027 timeline for firms exclusively using the standardised approach and for firms who choose not to opt-out. We would welcome further engagement with the PRA to discuss the practical details of implementing such an approach.

The opt-out could be accompanied by a requirement to use FRTB-SA for output floor purposes, as well as quarterly FRTB-SA reporting for the portfolio currently under Basel 2.5 standardised approach under existing boundary rules. This would be similar to the reporting and output floor requirements currently in force in the EU for Basel 3.1. These proposals would reduce operational, technical, and level playing field concerns, while aligning with the spirit of Basel 3.1 implementation in the UK.

We note that operational complexity will not be fully resolved under this proposal and therefore urge the PRA to work flexibly with industry to address remaining implementation challenges and new operational difficulties posed by the delay to FRTB-IMA. However, introducing an opt-out will address some of the most significant challenges identified by firms, notably the difficulties associated with applying a new boundary to legacy systems, which would require short-lived builds that undermine the efficiency and integrity of the strategic infrastructure uplift that had been planned to replace legacy systems. The opt-out is a pragmatic solution which avoids delaying the benefits of FRTB, but reflects that FRTB will be applied by a wide range of firms and therefore flexibility is required.

If any case, and considering the operational challenges introduced by operating Basel 2.5 IMA alongside FRTB-SA, we propose that the PRA adopt a flexible approach to Basel 2.5 scope adjustments during the transition period, particularly for the scope involving split permissions (general and specific risks). Any approval process on Basel 2.5 IMA scope changes for scope with split permissions should remain light touch, enabling firms to manage these challenges efficiently without being burdened by extensive application procedures.

In addition, proceeding with FRTB-SA implementation to a 1 January 2027 timeline should not prevent further review of the near-final rules to ensure they support implementation and a level playing field. We encourage the PRA to consider targeted improvements in this respect as set out in our letter dated 22 July 2025 and in other industry responses to this consultation (such as by ISDA and the IIF).

Continued review is also important to ensure that the rules support the PRA and other UK authorities' other objectives. We note in particular that FRTB will increase market risk-weights for securitisation significantly<sup>4</sup>, at a time when authorities are reviewing securitisation capital rules with a view to support securitisation. We would welcome clarification regarding the PRA's intentions to ensure the objective of developing the securitisation market is not undermined by the introduction of the rules.

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<sup>4</sup> Industry analysis indicates that the change to RWA for a trading book for AAA securitisations could be as much as five times higher than under the current framework, particularly for the largest asset classes in securitisation. This would apply to trading books, not banking books, and therefore risks creating a bifurcated market as banking books would buy under one RWA framework but dealing desks would bid to a different RWA requirement. Ultimately this risks leading to reduced liquidity in the AAA market and increased underlying asset spreads which would logically feed through to increased costs for the consumer.

## **Proposal 2: Implement operational simplifications to the treatment of CIUs under the ASA**

### Proposed threshold for allocating CIU positions to trading book

AFME and its members support the PRA's proposal to introduce a de minimis threshold for allocating CIU positions to the trading book. This would address certain concerns previously raised by industry.

In particular, the proposal helps to address the risk of RWA volatility due to the movement of CIUs between the trading and banking books, as well as significant operational burden for firms in having to reclassify CIUs. The proposal reflects that funds may include a small percentage of alternative assets, such as real estate, which are not eligible for inclusion in the trading book, and that funds may temporarily hold small amounts of unlisted equities due to corporate actions, which are outside the control of a bank holding the instruments in its trading book.

### Proposed threshold for use of market risk LTA

Industry has a number of concerns in relation to the PRA's proposal to introduce a de minimis threshold for the use of the market-risk look-through approach (LTA). We welcome the PRA's recognition that it is not always possible for underlying components to be risk-weighted as if held directly by the bank as the required data may not be available in all cases. Nonetheless, the proposed 90% threshold is restrictive. Banks face operational challenges while applying LTA for capitalisation. This includes issues due to missing reference data from fund management companies, challenges pricing underlying holdings due to price limitations, or, in some cases, fund management may not fully disclose underlying constituents due to confidentiality concerns.

A more suitable approach would be to permit banks to calculate their own funds requirements on CIU exposures using a partial look through if they are able to look through some of their CIU exposures and can demonstrate that the residual part of the fund is adequately capitalised (i.e. no introduction of a threshold), such as when the residual part is subject to the conservative treatment under the equity fallback bucket. If the proposal to remove the threshold is not accepted, industry proposes that it be lowered to 50% to allow banks to use the partial LTA on a broader scope.

We also recommend extending this approach to FRTB-IMA given the same issue arises for internal models.

### Other considerations

As part of the PRA's consideration of these issues, we would like to request clarification on the requirement in Article 325j(3) and its application to options on CIUs. As referenced in our letter dated 22 July 2025, look through of CIU vega is not practical or consistent with the risk management of such positions. If an institution is required to apply look through treatment to CIU vega whenever the delta/curvature/DRC is looked through, it will mean in practice that institutions are not able to utilise the look through approach at all, neither partially nor fully. This will result in the single equity treatment being applied across the board for such CIU positions and consequently extremely high, uneconomic RWA requirements.

Treating vega as a single sensitivity, when performing look-through delta and curvature, would be consistent with Article 325i, which describes the treatment of sensitivities under the look-through approach for multiunderlying instruments, which would also include CIU options, in addition to index options. This would

allow look through treatment of only the delta/curvature/DRC components for CIU options and therefore more economically reasonable capital treatment.

### **Proposal 3: Introduce a permissions regime for the ASA residual risk add-on**

We welcome the PRA's recognition that the residual risk add-on (RRAO) component of the Advanced Standardised Approach (ASA) captures certain products and business lines whose low levels of risk mean that the RRAO capital requirement is disproportionate.

Industry's preference is that such products and business lines, including dividend derivatives and spread options, are excluded from the scope of the RRAO, and that instruments with future realised volatility underlyings, such as volatility swaps, are excluded from the definition of exotic underlyings, to more comprehensively and directly address the underlying issue (the PRA's proposal may be perceived as addressing the symptom rather than the cause). We note that in the PRA's view, excluding risks from the RRAO would not be consistent with the PRA's primary objective. However, a permissions regime risks leading to inconsistent treatment between banks of the same or similar exposures (for example, if one bank seeks permission to exclude an exposure while another bank does not). This would undermine the objective of the standardised approach which is to enable a cross-sector view and comparisons. We are also concerned about the proportionality of the proposal, which suggests permission should be sought even where a bank is only impacted by the 0.1% multiplier for instruments with other residual risks and with a low material impact. We would welcome clarification from the PRA on whether the intention is indeed that banks should request permission even in these cases, noting the impact both on firms and the PRA as a result of having to review applications (and on an ongoing basis as referenced below). In addition, clarity on the expected content of applications would be helpful, as would engagement with industry in this respect.

If the PRA is minded to pursue a permissions regime, we propose that it be focused on firm specific issues and that it operate alongside a revised scope of the RRAO, such that products and business lines with low levels of risk are excluded.

In any event, we request clarification that applications to use the RRAO permission regime, if it is introduced, can be made on an ongoing basis, i.e. as and when banks trade new products or increase exposure to existing products, rather than making all applications before the proposed go-live date. This approach will enable banks to evaluate the RRAO on an ongoing basis and apply for products only when they are material to the bank's own funds requirements. Allowing solely for a one-off approval pre go-live may result in banks only applying for products that are material to their own funds requirement at that time and not account for future changes in the product composition. This may exacerbate effective rule divergences across banks over time as portfolios change, which is not in the spirit of the overall FRTB rules.

### **Proposal 4: Update reporting and disclosure requirements to align with the above proposals**

We note that the PRA's proposal to delay FRTB-IMA entails amendments to a number of reporting and disclosure requirements and welcome the changes the PRA set out in this respect in the consultation.

However, the reporting instructions do not clarify how to include the IRT Desk, which needs to be capitalised on a standalone basis, separate from the rest of the Trading Desk. This suggests that banks would need to submit two sets of reports i.e. one for the IRT Desk and one for the Trading Book, which does not appear to be the correct approach. We would welcome clarification from the PRA on its expectations.

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## About AFME

AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.<sup>5</sup>

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<sup>5</sup> AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia. AFME is registered on the EU Transparency Register, registration number 65110063986-76.