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Targeted consultation on the application of the market risk prudential framework

Fields marked with * are mandatory.

Introduction

Background for this consultation

There is still high uncertainty as regards the US and UK^[1] implementation of the final Basel III standards, both in terms of timeline and content. This raises major level playing field concerns among internationally active banks, particularly in the area of market risk.

Following the [postponement by one year of the new market risk own funds requirements](#) in 2024, the European Commission aims, with this targeted consultation, to gather views from stakeholders on policy options in relation to the application of the [EU's prudential framework for market risk](#) in view of potentially using the empowerment in Article 461a of the [Capital Requirements Regulation \(CRR\)](#) to adopt a Delegated Regulation by the end of June 2025.

The Commission is interested in evidence and substantiated views from relevant stakeholders. Contributions are particularly sought from EU national regulators and supervisors, banks and other financial institutions, and organisations representing end-users of financial services, think tanks and academics.

¹ Other jurisdictions with a smaller number of internationally active banks are at different stages of the implementation of the Basel III requirements on market risk: Canada was the first jurisdiction to implement FRTB in November 2023 (it has announced this year that it would stop the phase-in of the output floor until other jurisdictions catch up on implementation); Japan implemented the market risk requirements for its banks in March 2024, with securities houses such as Nomura to follow in March 2025; Singapore and Hong Kong implemented the FRTB requirements from the beginning of 2025, while Australia announced that it would not carry out an initial consultation on the FRTB measures until 2026.

Context and scope

The Basel III standards for market risk – also known as the [fundamental review of the trading book \(FRTB\)](#) – were designed as a response to the weaknesses in the market risk prudential framework revealed by the global financial crisis. The objective of the FRTB was to establish a new, more robust framework for determining capital requirements for banks' financial instruments held for trading activities (e.g. shares, bonds, derivatives).

The FRTB revises all the key elements of the market risk framework:

- it introduces more prescriptive trading book / banking book boundary conditions, with a precise list of instruments to be assigned to either the trading or banking book, and is more restrictive and prudent on criteria for possible deviations
- it introduces a more risk sensitive and developed methodology for the standardised approach ('alternative standardised approach' in CRR)
- and it overhauls the internal model approach ('alternative internal model approach' in CRR), capturing better the tail risk and market illiquidity in stress scenarios, with a model approval process that is more granular and demanding

For banks with smaller trading exposures, the FRTB introduces the simplified standardised approach built on the standardised approach of the pre-FRTB framework.

As the [Basel Committee on Banking Supervision \(BCBS\)](#) carried out a review of the FRTB that was finalised only in 2019, the European Union decided on a two-step approach to implement the new market risk framework in its legislation. As a first step, in May 2019, the EU introduced a reporting requirement based on FRTB via the adoption of [Regulation \(EU\) 2019/876](#). The second step was completed in 2024 with the entry into force of [Regulation \(EU\) 2024/1623 \(CRR3\)](#) that, in addition to introducing into the framework the changes from the FRTB review, transformed the existing market risk reporting requirements into binding capital requirements, due to start applying on 1 January 2025.

Due to uncertainty on implementation timelines across other jurisdictions with internationally active banks, the CRR3 included the possibility for the Commission to delay or amend the market risk section of the CRR, in order to preserve the level playing field for EU banks in case of delays or deviations in implementation in other jurisdictions (Article 461a of CRR3). An international level playing field is particularly important for these activities. Competition between internationally active banks is very intense in this area, due to the ease with which market activities can be conducted across jurisdictions (including between Member States and third countries or through branches). In July 2024, the Commission proposed to use the CRR3 empowerment to delay the start of application of the market risk requirements by one year, to avoid significant competitive disadvantages for EU banks' trading activities both in the internal market and in third countries, in response to anticipated delays in implementation from US / UK. The European Parliament and the Council did not raise objections to the Delegated Act ([Commission Delegated Regulation \(EU\) 2024/2795](#)), which entered into force on 4 November 2024.

Recent developments in the US and UK indicate further delays in the implementation of the Basel standards in these jurisdictions, raising questions regarding the international level playing field and the impact on EU players, and the possible EU response to address hereto related concerns.

Hence, the Commission is launching this targeted consultation to gather feedback on the implementation of the new market risk prudential requirements in the EU in the context of the announced implementation delays in other jurisdictions. The consultation is focused on potential actions by the Commission through delegated acts and therefore is framed by the empowerment to the Commission under Article 461a CRR, which allows to delay the entry into application by up to two years, or to introduce changes to the standards for up to three years. The scope of the empowerment concerns only Part Three (Capital requirements), Title IV (Own funds requirements for market risk) of the CRR – it does not cover for instance the boundary conditions or the output floor (set out in Part Three, Title I on General requirements, reporting and valuation). As it happened in 2024, in the short term, implementation issues can be handled through supervisory tools (such as the no action letter issued by the EBA in relation to the application of the provisions on the trading book / banking book boundary - [See the no action letter on boundary in light of the FRTB postponement EBA-OP-2024-05](#)).

Stakeholders are invited to submit their preferences and comments on the policy options outlined below and to enrich their replies, wherever possible, with quantitative analysis which could be used to underpin a decision by the Commission to act under the empowerment in Article 461a CRR.

Please note: In order to ensure a fair and transparent consultation process **only responses received through our online questionnaire will be taken into account** and included in the report summarising the responses. Should you have a problem completing this questionnaire or if you require particular assistance, please contact fisma-market-risk-prudential-requirements@ec.europa.eu.

More information on

- [this consultation](#)
- [the consultation document](#)
- [the annex to the consultation document](#)
- [prudential requirements](#)
- [the protection of personal data regime for this consultation](#)

About you

* Language of my contribution

- Bulgarian
- Croatian
- Czech
- Danish
- Dutch
- English
- Estonian
- Finnish
- French
- German
- Greek
- Hungarian
- Irish
- Italian
- Latvian
- Lithuanian
- Maltese
- Polish
- Portuguese
-

- Romanian
- Slovak
- Slovenian
- Spanish
- Swedish

* I am giving my contribution as

- Academic/research institution
- Business association
- Company/business
- Consumer organisation
- EU citizen
- Environmental organisation
- Non-EU citizen
- Non-governmental organisation (NGO)
- Public authority
- Trade union
- Other

* First name

Niels

* Surname

Skaerbaek

* Email (this won't be published)

nisk@ftnet.dk

* Scope

- International
- Local
- National
- Regional

* Level of governance

- Parliament

- Authority
- Agency

* Organisation name

255 character(s) maximum

The Danish Government

* Organisation size

- Micro (1 to 9 employees)
- Small (10 to 49 employees)
- Medium (50 to 249 employees)
- Large (250 or more)

Transparency register number

255 character(s) maximum

Check if your organisation is on the [transparency register](#). It's a voluntary database for organisations seeking to influence EU decision-making.

* Country of origin

Please add your country of origin, or that of your organisation.

- | | | | |
|---|--|-------------------------------------|--|
| <input type="radio"/> Afghanistan | <input type="radio"/> Djibouti | <input type="radio"/> Libya | <input type="radio"/> Saint Martin |
| <input type="radio"/> Åland Islands | <input type="radio"/> Dominica | <input type="radio"/> Liechtenstein | <input type="radio"/> Saint Pierre and Miquelon |
| <input type="radio"/> Albania | <input type="radio"/> Dominican Republic | <input type="radio"/> Lithuania | <input type="radio"/> Saint Vincent and the Grenadines |
| <input type="radio"/> Algeria | <input type="radio"/> Ecuador | <input type="radio"/> Luxembourg | <input type="radio"/> Samoa |
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| <input type="radio"/> Andorra | <input type="radio"/> El Salvador | <input type="radio"/> Madagascar | <input type="radio"/> São Tomé and Príncipe |
| <input type="radio"/> Angola | <input type="radio"/> Equatorial Guinea | <input type="radio"/> Malawi | <input type="radio"/> Saudi Arabia |
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| <input type="radio"/> Antigua and Barbuda | <input type="radio"/> Eswatini | <input type="radio"/> Mali | <input type="radio"/> Seychelles |
| <input type="radio"/> Argentina | <input type="radio"/> Ethiopia | <input type="radio"/> Malta | <input type="radio"/> Sierra Leone |

Democratic
Republic of the
Congo

Lesotho

Saint Kitts and
Nevis

Zimbabwe

Denmark

Liberia

Saint Lucia

* Field of activity or sector (if applicable)

Accounting

Auditing

Banking

Credit rating agencies

Insurance

Pension provision

Investment management (e.g. hedge funds, private equity funds, venture capital funds, money market funds, securities)

Market infrastructure operation (e.g. CCPs, CSDs, Stock exchanges)

Social entrepreneurship

Other

Not applicable

* Please specify your activity field(s) or sector(s)

Government

The Commission will publish all contributions to this targeted consultation. You can choose whether you would prefer to have your details published or to remain anonymous when your contribution is published. **For the purpose of transparency, the type of respondent (for example, 'business association, 'consumer association', 'EU citizen') is always published. Your e-mail address will never be published.** Opt in to select the privacy option that best suits you. Privacy options default based on the type of respondent selected

* **Contribution publication privacy settings**

The Commission will publish the responses to this public consultation. You can choose whether you would like your details to be made public or to remain anonymous.

Anonymous

Only the organisation type is published: The type of respondent that you responded to this consultation as, your field of activity and your contribution will be published as received. The name of the organisation on whose behalf

you reply as well as its transparency number, its size, its country of origin and your name will not be published. Please do not include any personal data in the contribution itself if you want to remain anonymous.

Public

Organisation details and respondent details are published: The type of respondent that you responded to this consultation as, the name of the organisation on whose behalf you reply as well as its transparency number, its size, its country of origin and your contribution will be published. Your name will also be published.

I agree with the [personal data protection provisions](#)

Policy options

Option 1

The first option is not to use the empowerment in Article 461a CRR to adopt a second delegated act on the application of the new market risk own funds requirements. This would imply that the market risk own funds requirements would start applying from 1 January 2026, in accordance with the provisions in the CRR3, and in the relevant regulatory and implementing technical standards.

Option 2

The second option is to use the empowerment in Article 461a CRR to adopt a delegated act postponing for a further year (i.e. to 1 January 2027) the start date for the application of the new market risk own funds requirements. This would entail a prolongation of the status quo, with the requirements currently in force extended for an additional year, including those already laid down in EBA communications at the time of the adoption of the 2024 Delegated Act and supervisory expectations. This option would not pre-empt the possibility for the Commission to further use the empowerment under Article 461a to introduce targeted amendments for up to three years to the market risk framework next year, if deemed necessary in light of level playing field concerns and in accordance with the conditions of the empowerment.

Option 3

The third option is to use the empowerment in Article 461a CRR to introduce temporary and targeted amendments to the market risk framework that would address aspects of the framework on which other jurisdictions have already deviated or indicated that they would plan to deviate in their final FRTB implementation. These possible amendments are presented in more detail in the annex. They are based on the changes already outlined in UK and US communications and draft rules. They also derive from the banks' and regulators' experience in implementing the FRTB, for instance for reporting purposes. They are in scope of the CRR empowerment and target elements where it is deemed that the FRTB calibration could be enhanced or revisited, while keeping its primary objective to provide a more robust prudential framework for the capitalisation of market risk by banks. The empowerment allows to put forward changes for a duration of up to three years. These potential changes could broadly cover:

- Maintaining the profit and loss attribution test as a monitoring tool under the internal model approach

- Phasing in the own funds requirements for market risks of non-modellable risk factors
- Providing additional operational relief to onboard risk factors from new issuances under the alternative internal model approach
- Aligning the own funds treatment for default risk for sovereign issuers under the alternative standardised approach and the alternative internal model approach
- Simplification / operationalisation of the framework for the calculation of own funds requirements for CIU positions under both the alternative standardised approach and the alternative internal model approach
- Phasing in the own funds requirements for specific instruments under the residual risk add-on calculation under the alternative standardised approach
- Recognising economic hedging for equity instruments under the default risk charge under the alternative standardised approach
- Recognising for a limited period of time additional diversification in the calculation of the own funds requirements for instruments exposed to EU ETS scheme under the alternative standardised approach
- Introducing a phase-in factor for the alternative standardised approach

You will find here the [list of possible temporary amendments under option 3](#).

Stakeholders might suggest other additional or combined options, within the scope and the conditions under the empowerment in Article 461a CRR. Policy options would have to be by definition consistent with the level playing field objective of the empowerment and its legal framing. For instance, a combination of the options described, such as delaying the date of application of one of the approaches used to calculate the own funds requirements for market risk (the alternative internal model approach), while introducing targeted amendments to the other (the alternative standardised approach), would be consistent with the empowerment.

A realignment of the simplified standardised approach to the alternative standardised approach via a global multiplier applied to the own funds requirements under the simplified standardised approach could also be considered for the same temporary period of time, where the temporary modifications brought to the alternative standardised approach are such that the simplified standardised approach would yield an outcome, in relative terms, more conservative than intended in the design of the framework.

Questions

Question 1. Among the options outlined above, what would be your / your institution's preferred option?

- Option 1
- Option 2
- Option 3
- Other
- Don't know / no opinion / not applicable

Question 1.1 Please explain why this would be your favourite option:

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

Question 2. What would be the impact of your preferred option for your institution?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

It will provide us with more time to monitor the implementation of FRTB in other major jurisdictions, offering an opportunity to analyse the regulation and identify areas where adjustments may be needed to ensure a continued robust and competitive financial market in the EU.

Question 3. What are your / your institution's views on the temporary measures proposed under option 3?

See the [list of possible temporary amendments under option 3](#) here.

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

The temporary measures represent a comprehensive list of potential adjustments to the legislation. It is crucial to assess their impact before implementation. The goal should be to ensure the financial markets in EU remain strong, efficient and competitive.

Question 4. What are your views about other additional or combined options?

5000 character(s) maximum

including spaces and line breaks, i.e. stricter than the MS Word characters counting method.

We would prefer a combination of Option 2 and Option 3, as it would allow us time to identify the most suitable adjustments and pave the way for level playing field between the EU and other major jurisdictions while maintaining financial stability.

Additional information

Should you wish to provide additional information (e.g. a position paper, report) or raise specific points not covered by the questionnaire, you can upload your additional document(s) below. **Please make sure you do not include any personal data in the file you upload if you want to remain anonymous.**

The maximum file size is 1 MB.

You can upload several files.

Only files of the type pdf,txt,doc,docx,odt,rtf are allowed

Useful links

[More on this consultation \(https://finance.ec.europa.eu/regulation-and-supervision/consultations-0/targeted-consultation-application-market-risk-prudential-framework-2025_en\)](https://finance.ec.europa.eu/regulation-and-supervision/consultations-0/targeted-consultation-application-market-risk-prudential-framework-2025_en)

[Consultation document \(https://finance.ec.europa.eu/document/download/548e7ca4-32e9-4bec-9dd2-f51c450f81e5_en?filename=2025-market-risk-prudential-requirements-consultation-document_en.pdf\)](https://finance.ec.europa.eu/document/download/548e7ca4-32e9-4bec-9dd2-f51c450f81e5_en?filename=2025-market-risk-prudential-requirements-consultation-document_en.pdf)

[List of possible temporary amendments under option3 \(https://finance.ec.europa.eu/document/download/548e7ca4-32e9-4bec-9dd2-f51c450f81e5_en?filename=2025-market-risk-prudential-requirements-consultation-document_en.pdf#page=8\)](https://finance.ec.europa.eu/document/download/548e7ca4-32e9-4bec-9dd2-f51c450f81e5_en?filename=2025-market-risk-prudential-requirements-consultation-document_en.pdf#page=8)

[More on prudential requirements \(https://finance.ec.europa.eu/banking/banking-regulation/prudential-requirements_en\)](https://finance.ec.europa.eu/banking/banking-regulation/prudential-requirements_en)

[Specific privacy statement \(https://finance.ec.europa.eu/document/download/54a4354f-e685-4762-b111-3389dead3761_en?filename=2025-market-risk-prudential-requirements-specific-privacy-statement_en.pdf\)](https://finance.ec.europa.eu/document/download/54a4354f-e685-4762-b111-3389dead3761_en?filename=2025-market-risk-prudential-requirements-specific-privacy-statement_en.pdf)

Contact

fisma-market-risk-prudential-requirements@ec.europa.eu

