Technical note

Delegated Regulation on temporary FRTB relief and adjustments

Temporary measures to address international implementation divergences

Issued

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Issuing agencies

European Commission

Primary applicability

EU credit institutions with trading book exposures subject to FRTB requirements

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The EC proposes temporary FRTB amendments to mitigate impacts on EU institutions and preserve a level playing field

Context

- Following the global financial crisis, the BCBS developed the FRTB to address shortcomings in the previous framework (**Basel 2.5**) and strengthen the risk sensitivity of capital requirements. Incorporated into the **CRR**, it introduces **more complex methodologies** and, in many cases, **higher capital requirements**, particularly in trading activities.
- However, its **international implementation** has **not been uniform**, creating **uncertainty** and potential **competitive disadvantages** for **European institutions**, particularly due to **delays** in the **IMA** in the **United Kingdom**, scheduled for **2028**, the relaxation of the standard in that jurisdiction, and the **absence** of a **clear implementation date** in the **United States**, which remains in the consultation phase.
- In this context, **Article 461a of CRR III** empowers the EC to adopt temporary delays or targeted adjustments to the framework where international implementation diverges. Building on this legal basis, and following **two prior postponements** of its application, the EC proposes **temporary amendments** to the FRTB framework for a three-year period (**January 1, 2027, to December 31, 2029**), aimed at preserving a level international playing field by mitigating the impact of uneven implementation across jurisdictions.

Next steps

- **May 19, 2026**. Consultation period closure.
- **2026**. EC competitiveness report assessing the measures and their potential continuation, adjustment, or withdrawal.
- **January 1, 2027 – December 31, 2029**. Application period of the Delegated Regulation.

Main content: proposed measures

FRTB Overall Multiplier

- An **optional**, **institution-specific multiplier** is **introduced** to **limit increases** in **capital requirements** under **FRTB** by aligning them with Basel 2.5 levels; it is recalibrated quarterly, based on existing portfolio boundaries, and requires continued reporting and disclosure under both frameworks.

IMA

- A range of **targeted adjustments** is introduced to **facilitate** the **practical use of internal models** without changing their prudential logic, including the **use of PLAT** as a monitoring tool, a **more flexible treatment of NMRFs** and newly **issued instruments**, a reduced calculation frequency, and a simplified and partial look-through approach for CIUs.

ASA

- Several measures aim to reduce the **capital impact** and **better align requirements** with actual **risk management practices**, including the **application of a 0.9 multiplier in the SBM**, the removal of certain **RRAO charges**, improved **recognition** of **economic hedges**, and more **flexible treatments for CIUs**, **correlations**, and specific **portfolios**.

Other operational and proportionality measures

- Additional measures are introduced to reduce **operational complexity** and **enhance proportionality**, particularly by allowing institutions with limited trading activity to apply simplified approaches to certain exposures and by streamlining the treatment of more complex positions.

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The overall multiplier allows institutions to scale down FRTB capital requirements by anchoring them to Basel 2.5 levels during the transition period

What is it?

- An overall multiplier is introduced as a temporary measure to **limit** the **increase in own funds requirements** for **market risk** resulting from the implementation of the **FRTB framework**. It is an **optional**, institution-specific mechanism that may be applied when FRTB requirements exceed those under the **previous Basel 2.5 regime**, linking capital levels to the former framework.

How does it work?

- Institutions may apply the multiplier where their **own funds requirements for market risk** under **FRTB exceed** those **calculated** under the **previous framework**, allowing them to **limit** the **resulting capital increase**.
- The mechanism operates by **linking** the **new FRTB requirements** to the **capital levels** calculated under **Basel 2.5**, ensuring **continuity** between **both frameworks** during the transition period. In practice, the multiplier is calibrated as the **ratio** between **own funds requirements under Basel 2.5** and those under **FRTB** and is used to scale down the latter to a comparable level.
- It scales down **FRTB own funds requirements** to a level comparable to **Basel 2.5**.

$$\text{Multiplier} = \frac{\text{Basel 2.5 capital}}{\text{FRTB capital}}$$

Scope and application

- The multiplier applies to total own funds requirements for market risk calculated under the FRTB framework and may be used where these **exceed** those under the previous **Basel 2.5 regime**.
- Its application is based on the **trading and banking book boundary** in force as of **8 July 2024 under Basel 2.5**, ensuring consistency in the comparison.
- It is a **temporary** measure available during the transition period and is **not applicable** to **institutions** using only the **standardised approach** without internal model components.

Key features

- The overall multiplier acts as a **key tool** to **offset international implementation asymmetries**, helping preserve a level playing field across jurisdictions during the transition period.
- The multiplier is **calibrated** at **institution level**, reflecting the **specific impact** of the **FRTB framework** on **each bank's portfolio** and **business model**, and is recalibrated on a **quarterly basis** to adjust dynamically to changes in market conditions and portfolio composition.
- **Institutions applying** the **multiplier** are required to **continue reporting** and **disclosing** their capital requirements under both **Basel 2.5 and FRTB**. **Once discontinued**, the **multiplier cannot be reapplied**, ensuring consistency over time.

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The proposal improves internal model usability and reduces capital and complexity under the standardised approach

IMA	Operational relief	• The **PLAT** is used only as a **monitoring tool** during the **transitional period**, removing its direct impact on own funds requirements and facilitating the use of internal models. • Institutions are allowed to **reduce** the **calculation frequency** of key risk metrics from **daily to weekly**, alleviating operational and computational burden.
	Model adjustments	• The **NMRF framework** is significantly **relaxed**, including a reduction in the number of **verifiable price observations** (e.g. minimum thresholds) and adjustments to **liquidity horizons**, enabling a broader set of risk factors to be considered modellable. • **Data requirements** for **newly issued** instruments are **prorated**, allowing recently created risk factors to be included in internal models before completing a full observation period, with proportional RFET requirements based on time since issuance. • The **treatment of default risk** is **aligned** with the **standardised approach** by applying a **multiplier of 0** to the probability of default for exposures with a **0% risk weight**.
ASA	Capital relief	• A **multiplier of 0.9** is applied to the **sensitivities-based method** and the **simplified standardised approach**, directly reducing the resulting capital requirements. • The **residual risk add-on** is neutralised (**multiplier = 0**) for specific instruments, including volatility-based products, Bermudan options and CMS spread options. • Adjustments to **key parameters**, such as **correlation factors for specific exposures** (e.g. EU ETS carbon trading), are introduced to better reflect market behaviour and reduce capital requirements.
	Simplifications	• The recognition of **hedging** in the **default risk charge** is improved, including better alignment of **equity derivatives** and **cash instruments** and more flexible treatment of maturity mismatches. • The treatment of **CIU exposures** is simplified through partial (**≥50%**) and **less frequent look-through**, with **conservative treatment** for **non-observed components** and **simplified treatment of vega risk** (e.g. 100% RW proxy). • The **treatment of positions** in the **ACTP** is aligned with **risk management practices**, allowing decomposition of index positions and netting with constituent exposure. • Proportionality measures allow institutions with **limited trading activity** to use the **simplified standardised approach** in **specific cases**, reducing implementation complexity.
Other operational and proportionality measures		• Measures are introduced to reduce **operational complexity** and enhance **proportionality**, adapting the framework to different institutional profiles. • Institutions with low trading activity are allowed to apply the simplified standardised approach to certain **non-trading book exposures** (e.g. FX or commodities). • Simplifications are introduced in the treatment of **complex positions** and in the application of **certain methodologies**.

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POSSIBLE TYPES OF COLLABORATION

PMO SUPPORT

- **Stakeholder** coordination
- Development and monitoring of the OSI **work plan**
- Preparation of **meetings with the supervisor**

AREAS SUPPORT

- Support in the preparation of **documentation** associated with each area
- Support for necessary **qualitative and quantitative analyses**

DOCUMENTATION IMPROVEMENT

- **QA** support for **updating and** improving existing **documentation**
- Collecting and challenging **evidence**

SUPPORT FOR REMEDIATION PLANS

- Support in the **identification and execution** of remediation plans
- **PMO support for plan execution tracking**

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A. Annex II. Abbreviations

Abbreviation	Meaning
ACTP	Alternative Correlation Trading Portfolio
ASA	Alternative Standardised Approach
BCBS	Basel Committee on Banking Supervision
CIU	Collective Investment Undertaking
CRR	Capital Requirements Regulation
D-SIB	Domestic Systemically Important Bank
EC	European Commission
EU	European Union
ETS	Emissions Trading System
FRTB	Fundamental Review of the Trading Book
G-SIB	Global Systemically Important Bank

Abbreviation	Meaning
IMA	Internal Model Approach
NMRF	Non-Modellable Risk Factor
OSI	Other Significant Institution
PLAT	Profit and Loss Attribution Test
PMO	Project Management Office
RFET	Risk Factor Eligibility Test
RRAO	Residual Risk Add-On
SBM	Sensitivities-Based Method

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