dutch banking association

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FRTB Consultation response

Introduction

The Dutch Banking Association (Nederlandse Vereniging van Banken, NVB) welcomes the opportunity to comment on the European Commission's Targeted Consultation on the Application of the Market Risk Prudential Framework published on 6th November 2025.

Key Messages

We would like to highlight the following points.

- **We welcome the Consultation,** especially with the indication that the Fundamental Review of the Trading Book (FRTB) will go live in 2027. This is important news for the vast majority of firms, both the ones that currently use the standardised approach (SA) and the ones using CRR2-Internals Model Approach (IMA) that are planning to adopt FRTB-SA; all but three of the roughly 3500 banks active in the EU[1]. Firms currently using the standardised approach will be able to enjoy the benefits of better recognition of economic hedges in their market risk regulatory capital requirements[2], and firms planning to decommission their CRR2-IMA implementations will no longer face the detrimental effect on the quality of bank's existing market risk management due to deteriorating models[3]. The costs of delay, both in terms of quality of market risk management, heightened uncertainty and higher operational costs are borne by all EU firms, with limited discernible benefit to all but an exceedingly small number of European investment banks.

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[1] Please refer to "Why FRTB models are on the edge of extinction - Risk.net"

[2] A quote from Phil Evans: "*The FRTB greatly improves the standardised approach.*" Source: Basel 3.1: Market Risk − speech by Phil Evans | Bank of England

[3] Reference is made to the statement from the ECB: "*Moreover, current internal market risk models are less maintained and supervised because of the upcoming new regulation, resulting in increased risk the longer these models are kept in use.*" Source: ECB staff contribution to the European Commission's targeted consultation on the application of the market risk prudential framework

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- **We are concerned that calls for delay continue.** Amending the Commission's CRR mandate (e.g. via a 'quick fix') would neither be quick but, nor can they be expected to address the regulatory uncertainty across the globe. Postponing the FRTB start date would needlessly distract attention from much-needed reforms relating to the Commission's Simplification Agenda. We are equally concerned by proposals for delay by the back door, such as option A in the "second component" section of the consultation paper: adjusting capital requirements through complex scalars which superficially convert old risk metrics into new would increase opacity in EU banking systems and represent a de-facto delay to FRTB, with all the unwanted costs, risks, and uncertainties described above. We therefore clearly oppose option A.
- **FRTB-SA is sound but FRTB-IMA needs reform:** The foundational FRTB-SA framework is conceptually sound, albeit with unresolved issues such as the Trading Book / Banking Book Boundary. FRTB-SA will therefore improve the quality of risk management overall. The FRTB-IMA framework is by contrast excessively complex and has therefore not been taken up broadly by the industry: additional work is required at Basel Committee level if adaptation is to reach critical mass. Should the Basel Committee decide to take another look at FRTB-IMA, the NVB would be supportive of such efforts. From these two statements it follows that FRTB-SA implementation should begin promptly, but FRTB-IMA implementation could be deferred. Such a bifurcated approach would be broadly consistent with the approach proposed by various official sector stakeholders in recent consultations, such as the UK PRA.
- **Policy recommendation:** Our primary goals are twofold. First, we want institutions to reap the benefits of the improved risk sensitivity of FRTB-SA. Second, we want to end to the costs of delays and the impact of deteriorating model quality for CRR2-IMA banks that intend to adopt FRTB-SA. It thus follows that of all the different capital calibration options proposed, most are acceptable except for Option A, which is a delay in all but name. This option would be unacceptable for us. Modified versions of Option A would however be acceptable, provided they do not prevent banks from going live with FRTB-SA. Of the other available calibration options, Option C is preferred, since this combines simplicity, transparency, and pragmatism.

Consultation Responses

In the remainder of this paper, we respond to the specific questions raised by the Commission in the Consultation Paper (CP).

1. ***What are your/your institution's views on pursuing the implementation of the FRTB with temporary modifications introduced by means of a delegated act, as outlined in this consultation paper?***

We are supportive of the Commission's proposal to go ahead with FRTB implementation on 1st Jan 2027. Previous delays have increased operational expense and decreased the quality of model maintenance without any discernible benefit, and so further delays are not desirable.

It is worth recalling that FRTB was first proposed by the Basel Committee as a response to the Global Financial Crisis of 2008, when many internal models failed. The proposed package established a common foundation, the FRTB Standardised Approach (FRTB-SA), a risk sensitive measure which will be mandatory for all banks[4]. Whilst larger banks may elect to apply for permission to use the FRTB Internal Model Approach (FRTB-IMA), most banks consider this approach to be excessively complex and will instead determine market risk capital using the FRTB-SA method.

NVB welcomes the introduction of the new FRTB-SA approach. This completes the trading risk SA approach and has a good integrated link with related measures such as the (already live) FRTB-CVA-SA. European banks have already implemented these approaches, and these are ready to be deployed. We therefore oppose any further delay to FRTB, be it direct (via mandate modification outside the scope of this CP) or indirect (via complex scalars, i.e. Option A). A long-standing NVB view is that delay does not remove uncertainty on how FRTB will finally be implemented across jurisdictions, but penalises banks who are well prepared and ready to move to the new, more risk-sensitive approach. Additional concerns include dual-reporting cost and model degradation during the extensive (and open ended) delay period.

We are concerned that the last point has not received appropriate attention in previous consultations. Under existing rules, enhancements to a bank's market risk models and infrastructure require prior supervisory approval. Banks are required to submit detailed application packages to the competent authority for review prior to a detailed onsite inspection, followed by the issuance of supervisory findings and decision. It is a lengthy process which can easily take 2 to 3 years from initiation to conclusion. Supervisors and banks alike are therefore reluctant to invest in market risk infrastructure advancement if they are planning to phase out CRR2-IMA implementations. Delays to the launch of FRTB have therefore placed CRR2-IMA banks in the position where they are unable to efficiently maintain their market risk models and infrastructure at a time of

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[4] From completeness; there is also a simplified standardised approach.

increasing market uncertainty. We should not accept the risks to the quality of risk management associated with additional delays.

Most major jurisdictions have finalised FRTB related legislation. FRTB is or will soon be live in Japan, Hong Kong, Singapore, Canada, South Africa, Switzerland, and Australia. The recent experiences of banks and supervisors in these jurisdictions confirm our view that FRTB-SA is fit for purpose and may therefore be adapted globally.

The US is expected to confirm its plans in 2026. The UK is expected to go live in 2027, but with IMA delayed to (at least) 2028: here, banks with existing Basel 2.5 internal model approvals firms would retain the existing IMA model permissions during the delay phase. **Against the backdrop of increasing FRTB adaptation globally, it is essential that the EU provide market participants with clarity regarding its policy intentions.**

2. ***What are your/your institution's views on the temporary measures proposed for the delegated act?***

NVB is broadly supportive of the Commission's proposal to enhance the FRTB framework through a series of targeted measures. We additionally urge the Commission to address remaining uncertainty regarding the trading/banking boundary.

The objective of any FRTB review should be to reduce the operational complexity of the existing rulebook without endangering financial stability, and – notwithstanding our reservations regarding the Boundary rule – the Commission's proposal achieves this goal.

We recognise the issues mentioned in the annex to the consultation paper, which cover shortcomings in FRTB-IMA. It can now be concluded that shortcomings in areas such as Profit and Loss Attribution Test (PLAT) and Non-Modellable Risk Factors (NMRF) have resulted in a low adaptation of FRTB-IMA. For more detailed analysis of the FRTB-IMA related amendments, we refer to the work of other industry associations. Consideration should be given to the long-term need to increase the attractiveness and therefore utilisation of the FRTB-IMA, where additional work is required. Postponing FRTB-IMA (but not FRTB-SA) would therefore allow for the possibility to start discussing improvements to the FRTB-IMA framework at the Basel level that could allow banks to reconsider their chosen approach.

Noting that 99.9% of European banks will adopt FRTB-SA as their primary Pillar One metric, we welcome the Commission's proposed reform to the rules for the Standardised Approach. Our feedback is summarised thus:

- **Collective Investment Undertakings (CIUs):** The current rules are disproportionate and impose requirements that in many cases cannot be met due to the limited availability of the required fund data. Moving to a quarterly review process with a 90% coverage target should align with the reporting schedule of the different funds and so reduce the number of unnecessary fails. Longer term, we would encourage the Commission to apply this 90% coverage ratio to other CIU related elements of the FRTB rulebook such as the Boundary rule to accommodate temporary deviations due to corporate actions such as IPOs or de-listings. Such an approach would be consistent with the direction recently signalled by the PRA.

- **DRC and RRAO:** The proposal for better recognition of economic hedges in the Default Risk Charge (DRC) and the Residual Risk Add-On (RRAO) will allow for better alignment of regulatory and economic perspectives and so enhance the quality of risk management.
- **Carbon:** Proposals for Carbon Trading exposures are consistent with emerging industry sustainability strategies and therefore merit support.
- **Temporary adjustment factor:** Noting that this capital adjustment is positioned as a temporary measure designed to manage transitional elements of the FRTB framework, it has our support. We acknowledge that the parameterisation may require periodic review depending on future global developments.

Boundary Rule

We observe that recent dialogue has overlooked the FRTB Boundary rule and share our concern that uncertainty remains regarding the application of this rule in the forthcoming transitional period. An overly rigid application of sometimes unclear rules and differences between Basel and EU definitions (e.g. trading intent) will create anomalies, for example:

- Economic hedges used to manage the interest rate risk in banking book portfolios (such as mortgages) risk being classified as trading positions for reasons unrelated to risk management on account of their accounting treatment.
- Issuer corporate actions (such as IPOs, de-listings, and debt-equity conversions) create non-compliant boundary positions which cannot be corrected without supervisory approval.
- The transfer of government bonds from market-making primary dealer portfolios to HQLA portfolios is not permitted without prior supervisory approval, even when executed at an arms-length basis and warranted by sound liquidity management purposes.

We urge the Commission to proactively engage with market participants on the implementation issues arising from the practicalities of the rules. As currently written, there is a conflict since it artificially modifies the scope of FRTB application without adequate supporting economic rationale. Given this conflict, we would recommend that the Commission provide more clarity on this topic.

Conclusion

In conclusion, we support the Commission’s proposal for technical enhancements to the framework and would be glad to support any required drafting or review work ahead of implementation.

3. ***What are your/your institution's views on the multiplier for the capital requirements for market risk?***

In principle, we support the proposal as an interim measure pending finalisation of FRTB in other major jurisdictions. Any measure should satisfy the Commission's selection criteria and so be *simple and risk-sensitive, and relatively easy to implement, maintain and supervise*.

We expand on the different policy options in our answer to Question 4 below.

4. ***What are your/your institution's preferred calibration options for the multiplier and how would those address the risk of underestimating the capital requirements during the three-year period?***

NVB supports the use of temporary scalars as part of the implementation process. Our preference is for top-down uniform scalars (Option C, then D) since these are simple and transparent. Option B would be acceptable if appropriate measures are taken to ensure calibration integrity. We do not support option A in its current form. We also propose a compromise solution (Option E) based on a hybrid of Option C for FRTB-SA, but Option A for FRTB-IMA.

Our analysis of the different options is given in greater detail below.

Option A represents a de-facto delay to FRTB. This overly complex approach runs contrary to the Commission's Simplification agenda, is detrimental to industry wide risk management, and should be rejected outright.

This option is unambiguously the most complex of the different options presented and so cannot be said to be simple. For banks currently under IMA that are looking to adopt FRTB-SA, we are particularly concerned that once FRTB goes live on 1st Jan 2027, CRR2 models would cease to have legal force. For the affected banks, maintenance of a CRR2 market risk models, which is already extremely challenging, would become impossible. This means that Option A cannot be said to be risk sensitive, since the results of the more risk sensitive FRTB-SA calculations are subordinated to results from a model with questionable legal force and which cannot be maintained.

Supervisors wishing to understand the true market risk levels at a regulated firm based on Risk Weighted Assets proposed by this approach, would have to disaggregate the CRR2 and CRR3 components of the submitted numbers. The control framework used to produce these numbers would be based on FRTB, but the capital would be computed by ever-weakening CRR2 models, with the latter becoming increasingly unreliable over time due to weakened maintenance. Banks should simply be allowed to use FRTB-SA going forward, as this approach is methodologically superior.

Finally, we remark that the opacity of this approach risks misleading investors regarding a firm's financial position at a time of increasing financial uncertainty. We do not therefore consider this approach to be supportable by any reasonable standard of prudential risk management. We therefore outright reject it.

Option B is less complex than Option A with fewer imperfections. Our principal concern with this option relates to the way it is to be calibrated. If the scalar is to be calibrated on a single point-in-time metric (such as closing RWA amounts for 2026) then firms with immature FRTB reporting systems would receive a more favourable capital scalar compared to otherwise economically identical firms who are FRTB ready. Firms would therefore have a perverse incentive to overlook the quality of their risk reporting systems whilst maximising those risk exposures amplified by FRTB in the coming period, which would weaken trust in the market risk numbers posted by firms throughout the EU. To avoid these scenarios, the Commission may wish to consider a more nuanced calibration approach based on different observations.

Options C fulfils the Commission's selection criteria (simple and risk-sensitive, and relatively easy to implement, maintain and supervise). The design is conceptually straightforward, with common scalars applying throughout the transition period, and the output is transparently linked to (risk sensitive) FRTB-SA results. Of the two options presented, ***Option C is the simplest, most transparent, and therefore preferred option.***

Option D is conceptually similar to Option C and shares the same merits. It also aligns with the spirit of the Commission's mandate (CRR art 461a) which empower the Commission to set scalars along risk class dimensions rather than bank specific dimensions. However, given a choice, we prefer the level playing field represented by Option C above.

Option E: Mindful of the need to seek solutions which address the concerns of as many market participants as possible, a workable compromise would be to determine the FRTB-SA capital scalars using Option C, but to determine **only** the FRTB-IMA capital scalars using Option A. This would produce a result broadly comparable to the Bank of England approach which will apply in 2027 and addresses the reservations we have regarding Option A.

In conclusion: We remain supportive of any option which commands adequate support if there is no requirement for banks to maintain Basel 2.5 systems for a further three years.

Conclusions

To summarise our Consultation response:

- **NVB believes it is counterproductive to further delay FRTB**, either directly or indirectly. Any such move would come at excessive costs and will weaken the EU's Simplification agenda.

- **We support the proposed FRTB amendments.** They are consistent with the stated Commission goal of simplification where achievable without detriment to financial stability objectives. In addition to needed reform to the Boundary rule, the measures proposed will make the efficient functioning of FRTB less cumbrous and provide a foundation for longer term FRTB reform.

- **We support temporary capital scalars** provided they do not require ongoing maintenance of existing models. Of the options provided, C is the preferred solution as it is the most transparent, although other options (excluding A) would also be acceptable.

- **A prompt implementation of FRTB-SA will provide regulatory certainty** and should therefore be conducive to financial stability in Europe. We urge the Commission to delay no more and to complete FRTB implementation.

About the Dutch Banking Association

The Dutch Banking Association (Nederlandse Vereniging van Banken, NVB) is the representative voice of the Dutch banking community with around sixty-five members, large and small, domestic, and international banks. At the European level, the Association is a member of the European Banking Federation and has a Brussels office (Transparency Register: 51894741860-19) to represent the Dutch banking sector in the European policy formation and legislative processes.

The NVB works towards a service-oriented, sustainable, and internationally competitive banking industry. For more information, please refer to our website: www.nvb.nl.