to	European Commission
date	17 April 2025
subject	Response to EC Targeted Consultation on the Application of the Market Risk Prudential Framework

Consultation response

Introduction

The Dutch Banking Association (NVB) is pleased to respond to the European Commission's Targeted Consultation on the Application of the Market Risk Prudential Framework.

When looking at FRTB, we see two different approaches. We regard FRTB-SA as significant improvement on the currently applicable SA, which will improve the quality of risk management. FRTB-IMA, however, has well-known shortcomings that remain unresolved to this day. Given the enhanced risk sensitivity, we believe FRTB-SA should be implemented without further delay and FRTB-IMA implementation should be postponed.

A prompt implementation of FRTB-SA will provide regulatory certainty and should therefore be conducive to financial stability in the EU, as we will further demonstrate in this paper. Furthermore, the enactment of the proposed technical enhancements to FRTB-SA will improve the quality and functioning of the FRTB framework without endangering financial stability.

By contrast, a further delay is unlikely to increase political certainty, but will have a negative impact on operational cost, legacy model performance, and financial stability. These factors would: i) undermine the competitiveness of European Banks; ii) place EU banks at a disadvantage, iii) reduce the quality of risk management, and iv) contribute to a non-level playing field.

The remainder of this paper addresses the questions posed by Commission's consultation, regarding the impact of our preferred option, our views on the proposed temporary measures, and consideration of the other options available.

Gustav Mahlerplein 29-35
1082 MS Amsterdam
www.nvb.nl

Response per item described:

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

- Other

Question 1.1 Please explain what other option you would favour:

The NVB supports the suggestion made by the Commission on page 6 of the Consultation Paper to introduce targeted amendments to the alternative standardised approach ('FRTB-SA'), whilst delaying the date of application for the alternative internal model approach ('FRTB-IMA'). This would mean that an amended version of FRTB-SA would take effect for all EU banks on 1 January 2026, with FRTB-IMA taking effect at a later date. Banks planning to adopt FRTB-IMA would continue to use their internal models or would upgrade to FRTB-SA if they are currently on existing SA.

When implementing this option, one should be conscious of the outstanding technical – but impactful – items for which a solution has yet to be found. This affects prominent items mentioned in the consultation paper and includes related items such as the trading book - banking book boundary ("TB/BB boundary"). While the industry currently operates under the EBA's 'no action letter,' its continuation and hence future enforcement is unclear, even though the Consultation Paper touches upon important items addressed in the EBA 'no action letter.'

For example, the transfer of government bonds from the trading book to the HQLA liquidity buffer. Rather than to optimise capital requirements, such transfers would be enacted out of (regulatory) prudence. Under the new set-up, such reclassifications appear no longer possible.

Taking this option forward requires further work on the technical elements. And in case these will not be crystalised before 2026, we request the Commission to consult with EBA with the aim to extend the EBA's 'no-action letter'. This would also ensure that FRTB-IMA banks do not need to implement the TB/BB boundary on their current IMA models.

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

The impact of our preferred option is as follows:

a. The removal of uncertainty re. FRTB-SA promotes both financial stability and competitiveness. It provides regulatory certainty and should therefore be conducive to financial stability in the EU.
b. The enactment of the proposed technical enhancements will improve the quality and functioning of FRTB, without endangering financial stability.
c. The introduction of an amended FRTB-SA in 2026 avoids the unwanted cost that would be associated with further delays.
d. It could entice banks to re-evaluate decision not to pursue FRTB-IMA approach.

We expand upon these themes below.

a. Increases Stability and Competitiveness

Political uncertainty is detrimental to economic stability. Market participants expect authorities to provide a stable and predictable regulatory environment, in which investors, institutions, and customers can make long-term decisions with confidence. Continuing the uncertainty regarding market risk regulatory timelines is detrimental to efficient markets and introduces uncertainty into pricing of longer dated products, where capital usage is one of the pricing components.

We continue to monitor developments in the United States, but do not expect any significant moves with FRTB relevance in the near term. A general delay to FRTB in the EU is therefore unlikely to increase political certainty vis-à-vis other major jurisdictions. We however strongly disagree with the notion that the EU's banking sector competitiveness can only be ensured by responding to the US with parallel delays of the entire framework. It creates uncertainty for European banks, especially in an environment where most are retiring their existing CRR market risk models, noting only three European Banks are known to be proposing to adopt FRTB-IMA.

b. Enhances FRTB quality and functioning.

This option provides the Commission with an opportunity to address legitimate concerns regarding the efficient functioning of certain aspects of the FRTB rulebook, both for SA and IMA. Some of the existing rules create operational burdens that are disproportionate, create unnecessary complexity, and distract from the core objectives of financial stability and competitiveness. We enlarge on this point in our answer to Question 3.

Notwithstanding these points, the FRTB-SA forms a coherent package with other elements such as the new CVA-SA. It is also more risk sensitive than the current SA. Whilst improvements are possible (e.g. to CIUs), we believe it is better to start soon and allow the new framework to develop organically through periodic reviews informed by user experience, rather than allowing perfection to become the enemy of good practice.

c. Avoids the unwanted cost of delay.

We are concerned that the cost of delay has not been adequately considered in prior decisions. A further delay implies additional costs due to dual reporting systems having to be kept in place. FRTB-SA is already an existing reporting requirement for supervisory monitoring and output floor purposes. This means that most European Banks are currently maintaining two distinct reporting systems. It also means that all European Banks are without exception ready to go live with FRTB-SA in 2026. Against this backdrop, it does not make sense to further delay the FRTB-SA go-live.

For Banks which currently use CRR2 IMA but are planning to adopt FRTB-SA, the maintenance of existing models is a concern, as both banks and the ECB are reluctant to invest time on changes of legacy models, given their imminent demise. The consequence is that identified model issues cannot be readily addressed anymore. This means legacy models will deteriorate over time, which decreases their suitability for risk and capital management purposes.

We therefore recommend that the Commission rejects delay and instead opts to implement an amended SA, using its mandate for targeted operational relief measures to address areas of valid industry concern.

d. It will entice banks to re-evaluate decision not to pursue FRTB-IMA approach.

For banks currently not planning to move to the FRTB-IMA, a delay in the application of the FRTB-IMA combined with potential targeted amendments could create the conditions where they can re-evaluate their decision not to pursue FRTB-IMA, as these amendments address long standing key concerns with the IMA framework we would very much like to see resolved. The decommissioning of the existing IMA helps to free capacity for this analysis, while the start of FRTB-SA shows commitment from the regulators to continue with FRTB.

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

We are broadly supportive of the Commission's proposal to enhance the FRTB framework through a series of targeted measures. The objective of any such exercise should be to reduce the operational complexity of the existing rulebook without endangering financial stability, and the Commission's proposal largely achieves that goal.

Consideration should be given to the long-term need to increase the attractiveness and therefore utilisation of FRTB-IMA in the EU. Additional work is likely to be required here. Postponing FRTB-IMA (but not FRTB-SA) would therefore allow for the possibility to start discussing improvements to the FRTB-IMA framework that could allow more banks to reconsider their chosen approach.

Noting that however the vast majority 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.

- **Collective Investment Undertakings:** 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 fund elements such as the Boundary rule to accommodate temporary deviations due to corporate actions such as IPOs or de-listings.
- **Default Risk Charge (DRC) and Residual Risk Add-On** (**RRAO)**: The proposal for better recognition of economic hedges in the DRC and the 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 have our 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 cautious support. We acknowledge that the parameterisation may require periodic review depending on future global developments, but also deviations could occur in major jurisdictions, which cannot be assessed or understood at this point. Should substantial deviations occur in other jurisdictions, the European Commission should be willing to exercise its mandate to propose

permanent deviations in order to safeguard EU competitiveness, whilst maintaining solid capital requirements to safeguard against risk.

In conclusion, we support the Commission's proposal for technical enhancements to the framework and look forward to collaborating proactively with the authorities in the efficient drafting and implementation required.

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

The consultation paper identifies three core options and acknowledges that these are not mutually exclusive. To conclude our analysis, we summarise the principal considerations associated with these options.

- Option One (full go live in 2026) has merit and would, if selected, have our support. However, we believe that whilst this is a valid option, a disadvantage is that it would overlook the option to make valuable enhancements to the quality and functioning of the FRTB framework, which we have discussed in our previous answers.
- Option Two (full delay) would represent a worrisome development. From a level playing field perspective, one cannot compare the experience of a model user in the US, where internal models remain in force indefinitely, with that of a model user in Europe, where planned but delayed obsolescence due to upcoming cutover to FRTB, renders efficient model management impossible. This should, however, not preclude the EU from only delaying FRTB-IMA: the number of firms proposing to use this approach in the EU is very limited at present and it would make sense to take time to reflect upon positive enhancements which increase the attractiveness of this option.
- Option Three (targeted measures) is consistent with the generally stated Commission goal of simplification, where achievable without detriment to financial stability. The measures proposed will make the efficient functioning of FRTB less cumbrous and provide a foundation for longer term solutions.

The NVB is therefore supportive of the Commission's proposal to implement a combination of the options described. We prefer to delay the date of application FRTB-IMA, while introducing targeted amendments to FRTB-SA. This would allow FRTB-SA Banks to go-live (and so avoid the cost of delay) whilst allowing the firms who are planning to use FRTB-IMA to transition in a more nuanced manner to a better IMA. It will also allow the European Banking sector to complete the implementation of the market risk Basel standards. Finally, as already mentioned in our answer to question 1.1, clarification is also required on the status of the 'no action letter,' which covers technical but impactful items that need to be resolved, such as the TB/BB boundary.