

EBA consideration on the postponement of the application of the FRTB in the EU

Background

On 24 July 2024, the European Commission adopted a [Delegated Act](#) in accordance with Article 461a of Regulation (EU) No 575/2013 ('CRR'), that, upon entry into force, would defer the application of the Fundamental Review of the Trading Book (FRTB) standards for the calculation of own funds requirements for market risk in the European Union for 1 year. The Commission Delegated Act was accompanied by a [Communication](#) setting the Commission's expectation regarding ancillary requirements relating to the provisions included in the Delegated Act.

As a result of the Delegated Act, institutions are required to continue calculating the own funds requirements for market risk in the context of the unfloored risk weighted exposure amounts (RWEA) on the basis of the Standardised approach and Internal models approach applicable prior to the implementation of the FRTB in the Union ('CRR2-SA and CRR2-IMA'). The Commission accompanying communication also clarifies that the own funds requirements for market risk for the purposes of the floored RWEA (S-TREA) should be determined on the basis of the standardised approach of the FRTB ('FRTB-SA') or the CRR2-SA, as applicable.

On 12 August 2024, the EBA issued a '[no action letter](#)' that complements the Delegated Act by advising competent authorities not to prioritise any supervisory or enforcement action in relation to the application of the provisions on the boundary between the non-trading and the trading book, until the entire FRTB standard is implemented in the EU and is used for calculating own funds requirements for market risk.

Application of the CRR during the postponement period

In the light of the Delegated Act, the accompanying statement by the European Commission and the EBA 'no action letter', questions and issues may arise as regards the application of the provisions of the CRR and Directive 2013/36/EU (CRD), as well as certain Technical Standards and Guidelines developed by the EBA. Such questions and issues include, but are not limited to, questions on how to read 'broken references' or issues of the interaction between non-deferred and deferred provisions of the CRR and CRD.

This document discusses below issues that have been identified at this stage and for which clarifications on the regulatory approach are considered necessary.

The EBA stands ready to analyse further issues that emerge, and to provide its considerations on the regulatory approach to achieve a sufficient level of consistency in the application of the

provisions during the postponement period. In this context, the EBA recommends that institutions inform their competent authorities of additional issues identified, in particular where those issues are material.

EBA considerations on specific issues arising from postponement of the FRTB

Approach to determining the market risk contribution to the floored RWEA

As mentioned in the Communication accompanying the publication of the Delegated Act, institutions should determine the own funds requirements for market risks for the purposes of calculating the standardised total risk exposure amount (S-TREA)¹

- on the basis of the FRTB-SA, where they are not exempted from the reporting of the FRTB data in accordance with Article 325a CRR, i.e. where the size of their trading book and their size of the business subject to market risk exceeds the thresholds of Articles 94 and 325a, respectively,
- on the basis of the CRR2-SA, if they are exempted from the reporting of the FRTB data in accordance with Article 325a CRR.

Structural foreign exchange positions

Competent authorities can grant institutions the permissions to exempt structural foreign exchange (S-FX) positions from certain own funds requirements. In the context of the CRR2-SA and CRR2-IMA, such a permission is currently based on Article 352(2) CRR and the corresponding EBA Guidelines ([EBA/GL/2020/09](#)). Article 104c CRR² and the future RTS on S-FX positions to be developed in accordance with that article, enable such an exemption also in the context of the application of the FRTB.

Until the RTS on S-FX are adopted, competent authorities may consider permissions granted in accordance with Article 352(2) CRR on the basis of the currently applicable EBA Guidelines on S-FX and the current boundary as compliant with Article 104c CRR and may apply the Guidelines also in the context of Article 104c CRR. This reduces the gap between the treatment of such positions in the context of the calculation of the unfloored and floored RWEA, respectively, during the postponement period, and facilitates the transition from the CRR2- to the FRTB framework.

Once the RTS on S-FX enter into force and the no action letter ceases to apply, the EBA expects that institutions and competent authorities review the permissions granted or extended for the purposes of Article 104c CRR on the basis of the EBA Guidelines to ensure that those comply with the requirements set out in Article 104c CRR and the RTS.

¹ The corresponding reporting standards require institutions to fill in templates and cells dedicated to the S-TREA only, where the institution uses at least one type of internal models. The obligation to report the FRTB-SA data, i.e. the information set out in template C 91.00 of Regulation (EU) 2021/453, may apply also in cases where the entity does not use any type of internal models.

² Added by Regulation (EU) 2024/1623 ('CRR3')

‘Main risk driver’-approach for the calculation of the market risk thresholds

The Delegated Act keeps Article 325a CRR, as it stood prior to the entry into force of the CRR3, in place. The CRR2-version of Article 325a CRR does not prescribe the method for identifying long and short positions. The EBA considers that institutions that opt to perform the threshold calculation of Article 325a CRR during the postponement period by using already the 'main risk driver' approach prescribed by the CRR3 comply with the CRR2-version of that article.

Change in scope of the positions subject to own funds requirements for market risk due to recognition of CVA hedges

Compared to the CRR2, the Regulation (EU) 2024/1623 ('CRR3') broadens the scope of instruments that can be recognized as eligible CVA hedges (see Article 386(1) CRR3).

Institutions have the freedom to recognise, or not to recognise, an instrument that meets the criteria for an eligible CVA hedge for regulatory purposes. Where they opt to recognize an instrument as an eligible hedge in the context of the calculation of the own funds requirements for CVA risk, they have to exclude that instrument from the calculation of the own funds requirements for market risk (see Article 386(4) CRR3).

The EBA considers that the adjustment of the scope of positions covered by the CRR2-IMA that results from the application of Article 386(4) CRR3 is outside the scope of Regulation (EU) No 529/2014 ('RTS on the materiality of extensions and changes of internal approaches'), and as such, it does not require neither an authorisation from the competent authority, nor a notification.

Disclosures

On 21 June 2024, the EBA published the final draft ITS on public disclosures by institutions ([EBA/ITS/2024/05](#)) that updates the disclosures framework to reflect the majority of the changes introduced by Regulation (EU) 2024/1623 ('CRR3') and Directive (EU) 2024/1619 ('CRD6'). Those ITS already reflect the postponement and provide explicit guidance on the information to be disclosed in the different templates (please see Article 15(2) of the ITS and instructions on specific rows and columns of templates dedicated to the disclosures of overview, market risk and floor information).

Reporting

As explained in the Communication accompanying the publication of the Delegated Act, institutions should keep reporting the information set out in Regulation (EU) 2021/453 (original ITS on FRTB reporting); the expansion of the reporting as foreseen by [EBA/ITS/2024/02](#) will take place at a later point in time. Where institutions report information to their competent authorities in XBRL format, they should continue using the v3.2-version of the FRTB module.

When filling in template C 91.00 of the original ITS on FRTB reporting, institutions should consider all their business subject to market risk, i.e. the scope of positions relevant for the output floor calculation. In accordance with the no action letter, the information in both templates C 90.00 and

C 91.00 should be based on the definition of the boundary between the trading and non-trading books that the institution applies as of the reference date.

In accordance with Article 5(2) of EBA/ITS/2024/06, institutions shall keep reporting the information dedicated to the CRR2-SA and CRR2-IMA in templates C 18.00 to C 23.00 and C 24.00, respectively.

‘Prudential boundary’ approach of the operational risk framework

Where appropriate, institutions can apply the ‘prudential boundary’ approach in order to determine the financial component of the business indicator for the purposes of calculating the own funds requirements for operational risk. Where they apply this approach, they perform the calculations on the basis of the same boundary definition as they apply for the purposes of calculating the own funds requirements for market risk.

Once the no action letter ceases to apply, institutions that used the prudential boundary approach during the postponement period are expected to review the information on the use of this approach in line with the forthcoming associated regulatory technical standards and resubmit the corresponding notification.

Implication of the FRTB postponement to the Benchmarking exercise (Market Risk)

As a result of the Delegated Act, institutions will keep applying the CRR2-IMA for the calculation of the own funds requirements for market risk. Institutions that continue to apply the CRR2-IMA remain in the scope of the mandate of Article 78 of Directive 2013/36/EU (CRD) and are expected to take part in the market risk part of the supervisory benchmarking exercise in accordance with <https://www.eba.europa.eu/publications-and-media/press-releases/eba-amends-technical-standards-specifying-data-collection-2025-benchmarking-exercise>