

Prudential Regulation Authority
Consultation Paper 9/26 – Basel 3.1
Adjustments to the Market Risk Internal Model
Approach Framework

September 2026

Industry Response

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The Prudential Regulation Authority

Subject: Consultation Paper 9/26 – Basel 3.1: Adjustments to the market risk internal model approach framework

Executive summary

The International Swaps and Derivatives Association ('ISDA'), the Association for Financial Markets in Europe ('AFME'), the Institute of International Finance ('IIF'), UK Finance ('UKF') and our members ('the industry') welcome the opportunity to comment on the Prudential Regulation Authority's ('PRA') consultation on adjustments to the internal model approach ('IMA') for the market risk framework ('CP 9/26').

The industry is looking forward to continuing its engagement with the PRA on this important part of the Fundamental Review of the Trading Book ('FRTB') framework which we believe should be risk-appropriate and as consistent as possible across jurisdictions to ensure a level playing field without competitive distortions.

Given the significant cross-border capital market activities that fall under the FRTB, divergence is a key source of concern given the potential impact on competitiveness and growth considerations. This was also highlighted in PS 1/261 where the PRA stated that the decision to delay FRTB-IMA was due to "the current uncertainty around the timing of implementation of the Basel 3.1 standards in the US and taking into account competitiveness and growth considerations".

The FRTB framework continues to pose challenges, and IMA in particular, due to significant operational complexity and excessively conservative capital requirements that do not align with the underlying economic risk. The changes proposed by the PRA are therefore welcome and needed. We note in that context that major areas in the consultation broadly align with the US draft proposals, and the EU approach as well. However, there is a need for further revisions in some areas.

With regards to international alignment, major jurisdictions have recently taken steps to address these deficiencies. In the spring, the US Agencies launched a wide-ranging consultation on the Basel III endgame framework, with significant amendments to FRTB and aiming at encouraging further IMA adoption. More recently, the European Commission also announced a series of temporary scalars, operational relief measures across FRTB-ASA and FRTB-IMA and a capital neutrality multiplier to mitigate the impact of FRTB until 31 December 2029, driven by concerns regarding the international level playing field and the impact on EU banks remaining high.

1 <https://www.bankofengland.co.uk/prudential-regulation/publication/2026/january/implementation-of-the-basel-3-1-final-rules-policy-statement>

Once final rules are in place, it would be important for the PRA to further consider what these jurisdictions have done, although ultimately, we believe this should be resolved internationally under the Basel Committee, especially since a lot of other jurisdictions have gone ahead with implementation².

We take note of 1 January 2028 as the UK implementation start date for FRTB-IMA but urge the PRA to retain some flexibility. The US does not yet have final rules nor a set implementation date. The EU market risk delegated act³ is only temporary (applying for a period of three years until the end of 2029) and provides transitional provisions for FRTB in the EU including overall capital neutrality with Basel 2.5 with more permanent changes to come in a banking legislative package in 2027.

The industry recommends that the PRA retain the existing transitional arrangements that permit firms to continue using the Basel 2.5 IMA where overseas implementation is materially delayed and/or consider any type of transitional provisions and their end-date where such flexibility is provided in other major jurisdictions.

Maintaining these provisions would provide firms with necessary flexibility in managing implementation timelines, while also supporting the PRA's stated objective of promoting an international level playing field and competitiveness of the UK banks operating internationally.

To achieve that, we believe an extension of the current UK transitional provisions for a minimum of 12 months to align with other major jurisdictions is necessary for firms intending to implement FRTB-IMA.

Firms which are planning to adopt FRTB-ASA, in its entirety, and do not plan to apply for FRTB-IMA can simply give up their waiver as they can currently under the current transitional provisions that exist until the end of 2027. Similarly, firms that plan to implement FRTB-IMA in full or for some part of their trading book operations should be allowed flexibility to switch to FRTB-IMA for the PRA approved scope during the transitional period.

As an increasing number of jurisdictions adopt the FRTB, it has become clear that the effect of the updated market risk rules is largely contingent on each bank's specific trading portfolio. Large international banks with diversified exposures are more significantly impacted, due to the limitations on portfolio diversification embedded within the FRTB framework. This underlines the importance of preserving a credible and risk-sensitive role for internal models under FRTB and where regulators should focus to address outstanding issues.

The PRA justly noted that based on existing data and firm feedback, there is only a small number of banks planning to adopt FRTB-IMA. This is not only relevant for the UK, but across the globe in other major jurisdictions. In a 2024 paper⁴, we have shown that many banks that are or were on the IMA under Basel 2.5 plan to transition entirely to the standardized approach under the FRTB. Furthermore, those banks transitioning from the IMA under Basel 2.5 to the IMA under the FRTB only plan to do so for a very limited portion of the trading book (15-40% under the FRTB compared to an average of 85% under Basel 2.5). The

² Some jurisdictions like Canada, Japan, China, Hong-Kong, and Singapore have proceeded with implementation, there is still uncertainty in the US on the timeline and final content for implementation of the Basel III Endgame framework. The EU has decided for temporary measures to be applied for a period of 3 years starting and will propose permanent changes next year.

³ https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L_202601221

⁴ <https://www.isda.org/2024/07/18/fundamental-review-of-the-trading-book-internal-models-approach-adoption/>

paper shows that technical adjustments are a critical part in incentivising the use of IMA. In addition, banks have noted in the ISDA study that the indirect impact of the overall capital framework and in particular the output floor plays an important role in whether to apply for IMA.

As the output floor is intended to be applied at a group/top-of-house level across all risk types under Pillar 1, banks in certain jurisdictions will be constrained by the output floor due to significantly larger credit portfolios relative to their trading footprint, which tends to dominate floor consumption. As a result, the potential benefit from the trading book capital component will need to be measured against the benefits that credit risk model approvals provide. Banks noted in the ISDA study that this removes the incentive for them to invest in the IMA, as the return on investment in terms of capital efficiency is generally negligible in the context of the output floor.

You will find below an overview of our response to the main points raised in the consultation

Table 11 – Internal Model Approach targeted amendments proposed by PRA with Industry response

Profit & Loss Attribution Test (PLAT)	The industry recommends permanently removing the Spearman correlation test and retaining the KS test as the sole PLAT metric, consistent with the position taken by the US agencies.
Non-Modellable Risk Factors (NMRFs)	The industry supports the Type 1 / Type 2 classification but recommends two adjustments to the aggregation formula: (i) applying a single square root across combined SSRM components, consistent with the US NPR and (ii) retaining Type 1 NMRFs within ES with a one-notch liquidity horizon increase rather than capturing them additionally in SSRM.
Risk Factor Eligibility test (RFET)	We support the reduction in the observation threshold to 16 and the introduction of prorated requirements for new instruments, and further recommend removing the 90-day distribution requirement, which is the more significant practical constraint and has already been removed under the US NPR. On price observations from exchanges and trading platforms, the industry recommends that the PRA align with the US NPR approach: data sourced from regulated exchanges and trading platforms should automatically qualify as verifiable price observations without any requirement for additional volume checks, bid-offer spread checks, or third-party audits. The partial relaxation of audit requirements proposed in CP9/26 is insufficient and does not substantially reduce the compliance burden.
Data Principles (DP)	We recommend that the PRA align more closely with the US NPR by adopting a more principles-based, outcome-focused approach, including removing DP1 as redundant following the introduction of the Type 1/Type 2 framework, eliminating the prescriptive comparison metrics, statistical tests and ES impact assessments under DP4, and amending DP6 to permit the inclusion of

	idiosyncratic risk where empirically justified removing the need for case-by-case regulatory permission.
Changes to Expected Shortfall (ES)	Calculation Frequency: the industry has consistently advocated for weekly calculation across all major jurisdictions; the EU has accepted this position and the same case has been made to the US agencies. The industry recommends that the PRA: (i) permit weekly calculation of all IMA ES and SSRM components as the standard approach; (ii) permit less frequent refresh cycles for the full-set to reduced-set monitoring ratio where firms can evidence stability; and (iii) amend Article 325bb(4)(a) so that weekly undiversified ES calculation is not conditional on demonstrating daily capability. Liquidity Horizon: • A mandatory maturity cap disconnects the capital calculation from actual portfolio risk; the industry recommends that firms be permitted but not required to apply such caps. • On liquidity horizon(LH) assignment, the industry recommends aligning with the US NPR by: (i) assigning default LH20 and LH10 to equity index volatility and price risk factors respectively without mandating constituent-level decomposition; (ii) extending the weighted-average derogation under Article 325bdx(4) to all multi-underlying instruments including CIUs and baskets; and (iii) clarifying that MDB and international organisation credit spread risk factors are assigned sovereign liquidity horizons by default.

Our response also includes some additional points beyond the scope of CP 9/26 that the industry wishes to highlight on the broader FRTB framework including on FRTB-ASA and the Trading Book / Banking Book Boundary.

1. The Internal Models Approach (IMA)

The industry welcomes the package of targeted adjustments set out in CP9/26 and recognises that this consultation represents a meaningful step forward in addressing some of the most significant barriers to FRTB-IMA adoption. The proposals reflect the PRA's review of BCBS QIS data, firms' IMA approval applications and industry feedback on the practical operation of the framework. The industry considers that this evidence-based approach has resulted in a package of adjustments that supports international alignment and that is appropriately targeted at the most pressing operational and calibration concerns.

The industry particularly welcomes the extension of the PLAT monitoring period to three years, the introduction of the Type 1/Type 2 NMRF classification, the operational simplifications to the NMRF framework including the alignment of stress periods and the reduction in calculation frequency for Type 2 NMRFs, the proposed adjustments to the RFET to address new issuances and reduce the verifiable price threshold for less liquid risk factors, and the recognition of diversification between ASA and IMA portfolios. These changes address concerns that the industry has raised in previous consultations and that have been a factor in the limited number of firms currently planning to adopt internal models. The industry also notes that the proposals are broadly consistent with the direction being taken in other major jurisdictions, which is important for supporting a level playing field for internationally active firms.

The industry considers that the PRA's proposals represent a positive step, but further targeted adjustments will be necessary to fully realise the potential of the IMA framework and ultimately achieve broader adoption. The sections below set out the industry's response to each of the PRA's proposals, together with a number of additional recommendations. These further changes, particularly in relation to PLAT as a monitoring tool, NMRF aggregation formula, IMA calculation frequency, criteria for the modellability of risk factors, and changes to ES framework, are important to achieving a framework that is both appropriately risk-sensitive and operationally viable. The industry looks forward to continuing to engage with the PRA on these matters ahead of the 1 January 2028 implementation date.

1.1. Recognising diversification in the aggregation of IMA and ASA capital

The industry welcomes the PRA's proposal to address the lack of diversification when aggregating IMA and ASA capital requirements. The proposed formula, which treats non-IMA desks on an incremental basis, represents a sensible aggregation approach and largely resolves the concern that banks were previously unable to realise diversification benefits from incremental IMA approval. The PRA's proposal appropriately ensures that capital benefits arise proportionally to the extent of internal model coverage, thereby restoring a meaningful incentive for banks to expand model scope over time.

However, the industry has identified two additional concerns that require attention. First, the cap based on full ASA should apply automatically, rather than requiring firms to seek prior supervisory permission. The proposed permission-based regime, introduced under Article 325az paragraph 3A, will be

operationally slow and firms may need to bear the higher own fund requirements until their application is reviewed by the PRA. As part of the permissions application, firms may need to provide extensive documentation, including model validation materials, and there is no clarity on what the PRA would expect in order to grant or maintain such permission. The industry recommends that the ASA cap be made automatic. Second, the placement of this permission regime under Article 325az paragraph 3A appears to be a drafting error: the current cross-reference links to paragraph 2 of the same article, which relates to desks failing qualitative requirements, rather than to Article 325ba, which governs the aggregated market risk capital requirement. The industry recommends that the reference be corrected to Article 325ba to ensure the provision operates as intended.

Industry Recommendation:

The industry welcomes the PRA's proposal to introduce an incremental aggregation approach for IMA and ASA capital requirements and supports its adoption as an appropriate method for recognising diversification benefits proportionally to the degree of internal model coverage. The industry makes the following additional recommendations: (i) the ASA cap introduced by the PRA should apply automatically and should not require firms to seek prior supervisory permission. Instead, this could be supported by a post-notification process, which would enable the PRA to review the individual bank's model outcomes in relation to SA capital. Permissions create additional process, documentation, and governance requirements—often for a largely mechanical outcome. Also, a permission-based approach introduces timing and outcome uncertainty that can distort capital planning and (ii) the placement of the ASA cap permission under Article 325az(3A) appears incorrect. The current cross-reference to paragraph 2, which relates to desks failing qualitative requirements, appears to be a drafting error and should instead refer to Article 325ba, which governs the aggregated market risk capital requirement.

1.2. Profit and Loss Attribution Test (PLAT) as a monitoring tool

The industry welcomes the PRA's decision to suspend the binding capital consequences of the PLAT for a three-year monitoring period, recognising that this is consistent with the direction taken by both the US agencies⁵ and the European Commission⁶. However, the industry strongly objects to the retention of the Spearman correlation test as part of this monitoring framework and recommends its permanent removal.

The industry strongly contests the PRA's characterisation in the consultation that producing Spearman test data is operationally straightforward and involves minimal uplift. In practice and particularly given the PRA's indication that it may take further supervisory action where significant concerns arise from the PLAT Spearman test data, firms will not be in a position simply to generate and submit the Spearman metric in isolation. They will also need to invest significant time and resources in reviewing and

⁵ US NPR 2026 - 91 Fed. Reg. at 15,059. [Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations](#)

⁶ https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L_202601221

understanding the outputs, addressing any issues identified, embedding the results within internal monitoring and governance frameworks and reaching a sufficient level of comfort around any counter-intuitive results to be able to explain and, where necessary, defend them in a supervisory context. These are real and material costs, that will be incurred throughout the monitoring period notwithstanding that the test carries no direct binding capital consequences during that time.

The industry would also note that an alternative approach under which firms generate and report the Spearman output without an appropriate control and governance framework around it would risk producing unreliable data that may not provide a sound basis for the recalibration or policy adjustments the PRA has indicated it wishes to undertake. The industry therefore considers that the two available outcomes are either material operational cost or data of limited supervisory utility, and that neither provides a satisfactory justification for retaining the test during the monitoring period.

Disproportionate impact on well-hedged portfolios: As highlighted in previous industry response⁷, cases have been observed where desks with underlying positions and their hedges individually passing PLAT still fail the Spearman correlation test when applied to the hedged portfolio P&L time series. Hedging is intended to neutralize a portfolio's exposure to underlying risk factor movements. A well-hedged portfolio will exhibit relatively small P&L variations regardless of whether and to what degree the underlying risk factors rise or fall. However, because the Spearman correlation test evaluates P&L ranks over 250 scenarios⁸, the results may be dominated by minimal residual P&Ls left after hedging, leading to artificially low correlation levels between HPL and RTPL time series. This outcome is counterintuitive: hedging is intended to neutralise exposure to underlying risk factor movements, yet the Spearman test systematically penalises precisely this behaviour.

Vulnerability in low-volatility environments. The same dynamic arises for any portfolio — hedged or otherwise — during periods of low market volatility. When absolute P&L magnitudes are small, the rank-based metric becomes unstable and sensitive to immaterial variations, producing volatile and uninformative results that do not reflect genuine model deficiencies.

Excessive penalisation of proxy usage. Where firms employ proxies to model less liquid risk factors — a practice that is both common and often conservative, since the proxy is typically more volatile than the underlying — the resulting divergence between RTPL (based on the proxy) and HPL (based on the actual risk factor) can drive Spearman test failures. This penalises prudent risk capture rather than rewarding it.

Given these well-documented shortcomings, the industry considers that the Spearman correlation test should be permanently removed from the PLAT.

Operational burden of monitoring is not minimal

⁷ ISDA & IIF. *ISDA/IIF Response to PRA on Adjustments to Basel 3.1 Market Risk Framework*. September 2025. Available at: [ISDA-IIF-Response-to-PRA-on-Adjustments-to-Basel-3.1-Market-Risk-Framework](#)

⁸ To calculate the Spearman correlation metric for a trading desk, banks must use the time series of RTPL and HPL from the most recent 250 trading days.

The operational cost of retaining the Spearman test extends well beyond the mechanical computation of the metric. Practical experience across the industry has demonstrated that Spearman results are acutely sensitive to operational noise, including:

- timing mismatches between HPL and RTPL data arising from system processing windows;
- data alignment issues caused by end-of-day P&L estimation procedures, where HPL may be locked to an estimate due to system issues while RTPL is computed without interruption, creating artificial divergence across multiple days;
- market data discrepancies — such as incorrect corporate action terms, cash or coupon payment errors, or stale marks — that are manually corrected in the signed-off P&L but not reflected in RTPL, producing mismatches unrelated to model assumptions; and
- position data misalignments arising during credit restructuring events or other operational processes where manual P&L adjustments are applied to HPL but not to RTPL.

The effect is that Spearman failures frequently trigger investigative and governance workflows only to conclude that the failure reflects an operational artefact rather than a model deficiency. Any informational value the PRA expects from Spearman monitoring would depend on firms performing precisely this analysis, meaning the requirement would impose a real and recurring cost that cannot be characterised as a minimal operational uplift.

No incremental value from a three-year monitoring period

The structural shortcomings of the Spearman test are already well understood by regulators, the industry, and the Basel Committee⁹. These flaws have been extensively documented in prior consultation responses, including by ISDA¹⁰ and ISDA/SIFMA¹¹.

The industry's position is that the design limitations of the Spearman test and its uncertain discriminatory power in certain portfolio types are already well-documented. Collecting three years of monitoring data is unlikely to resolve these fundamental concerns and would not generate incremental supervisory or prudential value commensurate with the compliance costs involved.

Furthermore, the Spearman test is not required under the US NPR framework¹². The industry urges the PRA to align with the US approach and permanently remove the Spearman test, as opposed to merely suspend it for the duration of the monitoring period.

Using the KS test alone during the monitoring period would allow supervisors to gather meaningful evidence and assess whether it is still possible to address the uncertainty and volatility in banks' capital

⁹ [Basel Committee on Banking Supervision - Consultative Document](#)

¹⁰ ISDA & AFME. *ISDA/AFME Response to the PRA CP 16/22 – Implementation of the Basel 3.1 standards*. March 2023. Available at: [ISDA-Responds-to-PRA-Consultation-on-Basel-3.1-Implementation.pdf](#)

¹¹ ISDA and SIFMA. *Response to US Basel III NPR*. January 2024. <https://www.isda.org/a/1ElgE/ISDA-and-SIFMA-Response-to-US-Basel-III-NPR.pdf>

¹² US NPR 2026 - 91 Fed. Reg. at 15,059. [Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations](#)

requirements, while avoiding the distorted signals and disproportionate costs to firms generated by the Spearman test.

The industry further notes that extensive real-world data across firms and market conditions is required to assess the effectiveness of any PLAT threshold. The limited data available to date — which may not capture seasonal effects, market cycles, or a representative range of portfolio compositions — reinforces the case for a monitoring-only approach using the KS test, rather than retaining a structurally flawed metric alongside it.

Industry Recommendation:

Consistent with the US NPR framework¹³, the industry recommends permanently removing the Spearman correlation test from PLAT. The test has well-documented structural shortcomings, in particular its tendency to produce counterintuitive results for well-hedged portfolios, its instability in low-volatility regimes, its excessive penalisation of proxy usage, and its disproportionate impact on simple portfolios and these flaws are inherent to its design rather than matters of calibration.

There is no prudential value in collecting three years of monitoring data to confirm the existence of known deficiencies and dubious discriminatory power. The operational burden of producing, interpreting, and governing Spearman outputs, is real and material contrary to the PRA's characterisation, and is compounded by the test's sensitivity to operational noise unrelated to model performance.

During the proposed three-year monitoring period, the KS test should function as the sole statistical measure of profit-and-loss attribution.

1.3. Capital requirements for Non-Modellable Risk Factors (NMRFs)

The industry acknowledges that the limited availability of third-party vendor solutions has contributed to a larger proportion of risk factors being classified as NMRFs than was anticipated when the FRTB standards were calibrated. The industry welcomes the PRA's recognition of this issue and the package of targeted adjustments proposed in CP9/26, which address a number of the most significant concerns with the current framework. In particular, the introduction of the Type 1/Type 2 NMRF classification, the removal of the distinction between idiosyncratic and non-idiosyncratic risk factors, the alignment of NMRF and ES stress periods, and the reduction in calculation frequency for Type 2 NMRFs collectively represent a meaningful improvement in the proportionality and operational workability of the framework.

¹³ US NPR 2026 - 91 Fed. Reg. at 15,059. [Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations](#)

Notwithstanding these welcome developments, the industry considers that certain structural features of the NMRF framework continue to give rise to capital outcomes that are disproportionate to the underlying risk. Additionally, there is concern about the procyclical nature of the NMRF framework, which may discourage effective risk management by concentrating risk across banks' portfolios and the broader financial system into a smaller set of risk factors. Overall, the multiple levels of conservatism inherent in the NMRF framework have contributed significantly to the lack of IMA adoption observed across the globe.

1.3.1. Type 1 / Type 2 Framework for NMRFs

The industry welcomes the PRA's proposal to introduce the Type 1 / Type 2 framework for NMRFs. However, the industry also notes that the PRA's proposed SSRM aggregation formula for Type 1 and Type 2 NMRFs is more conservative compared to other jurisdictions, in particular the US NPR formula by construction. Under the PRA's formulation, the Type 1 and Type 2 components each sit under separate square root terms (i.e., a sum of two square roots), whereas the US NPR¹⁴ places both terms under a single square root. This structural difference means that the PRA formula is equivalent to applying full positive dependence with no diversification between separately calibrated severe stress losses across the two categories and as a result will always produce a higher capital outcome than the US NPR approach for any given portfolio. This effectively layers an additional conservatism assumption on top of already conservative, stress period tail-calibrated risk factor-level stresses. Industry strongly believes that this leads to capital outcomes that are unnecessarily punitive compared to the US NPR proposal. The industry recommends that the PRA align its formula with the US NPR approach by placing both terms under a single square root.

$$SS_{total} = \sqrt{\left(\sum_{i \in T1} (SS_i)^2\right) + \left((1 - \rho) \sum_{j \in T2} (SS_j)^2 + \rho \left(\sum_{j \in T2} SS_j\right)^2\right)}$$

Additionally, the industry supports a framework that permits Type 1 NMRFs to be subject to capital requirements based on the ES methodology. However, Type 1 NMRFs should not be subject separately to SSRM because that approach would not appropriately recognize diversification within and across asset classes and would result in an over calibration of capital requirements. The industry's view is that removing Type 1 NMRFs from SSRM and retaining them solely within the ES framework, subject to an adjusted liquidity horizon, would represent a more operationally workable and risk-sensitive treatment. This is not primarily a capital reduction argument but rather a question of operational simplicity: the SSRM

¹⁴ US NPR 2026 - 91 Fed. Reg. at 15,059. [Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations](#)

calculation for Type 1 NMRFs requires firms to maintain and operate separate calculation infrastructures for two distinct capitalisation methodologies for risk factors that, by definition, satisfy the qualitative data standards and are already modelled within the ES framework. Reducing this dual-methodology complexity would lower the operational barrier to FRTB-IMA adoption without compromising the prudential intent of the framework.

The industry notes that the US agencies explicitly acknowledged this concern in the preamble to the US NPR and proposed as an alternative assigning minimum liquidity horizons to Type 1 NMRFs that are one level higher than those that would otherwise apply, retaining those risk factors within the ES framework rather than capturing them additionally within SES. The industry considers this approach to be operationally workable and supports it as the preferred treatment. Whilst the agencies raised the possibility that applying higher minimum liquidity horizons could increase variability in capital requirements across firms, the industry does not consider this a material concern in practice: firms implementing FRTB-IMA are already required to maintain a table assigning liquidity horizons to each risk factor, and a one-notch uplift to Type 1 NMRFs within that existing infrastructure is a straightforward incremental step. QIS data from the US NPR process showed that removing Type 1 NMRFs from SSRM and increasing their liquidity horizon by one notch within ES would lead to a reduction of approximately USD 6 billion in risk-weighted assets¹⁵, an outcome the industry considers proportionate given the qualitative standards those risk factors are required to satisfy.

Industry Recommendation:

The industry supports the PRA's introduction of a two-tier classification framework for NMRFs, distinguishing between those that satisfy qualitative data standards and those that do not, which is consistent with the treatment proposed under the US NPR. Risk factors that do not meet the RFET threshold but satisfy the underlying data principles should be classified as Type 1 and capitalised within the ES framework, subject to adjusted liquidity horizons. The industry further recommends aligning with the SSRM aggregation formula proposed in the US NPR by placing the Type 1 and Type 2 components under a single square root, rather than summing two separate square roots, which produces a more conservative outcome. The assumption of perfect correlation between separately calibrated severe stress losses and no diversification across two categories of NMRF creates an unjustified divergence from the US approach. The industry also aligns with the US NPR industry response¹⁶ and recommends removing Type 1 NMRFs from the SSRM calculation entirely, with their liquidity horizon instead increased by one notch within the ES framework. This approach is consistent with the alternative treatment acknowledged by the US agencies in the preamble to the US NPR¹⁷.

¹⁵ ISDA, SIFMA and IIF. *Response to US Basel III NPR*. June 2026. [ISDA, SIFMA and IIF Submit Comment Letter on Basel III Endgame Proposal](#)

¹⁶ ISDA, SIFMA and IIF. *Response to US Basel III NPR*. June 2026. [ISDA, SIFMA and IIF Submit Comment Letter on Basel III Endgame Proposal](#)

¹⁷ US NPR 2026 - 91 Fed. Reg. at 15,059. [Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations](#)

1.3.2. Alignment of SSRM and ES windows

The industry welcomes the PRA's operational simplification to remove the need for firms to identify and maintain separate stress periods between modellable and non-modellable risk factors.

However, a drafting issue should be addressed to give effect to the PRA's intended alignment of stress periods. Article 325bk(10) currently requires separate stress-period calibration for NMRFs, while the new flexibility in paragraph 2A does not expressly disapply that requirement. Without corrective language, the two provisions would conflict and the operational benefit of the proposal may not be fully realised. The industry recommends that the PRA: (a) amend paragraph 2A to include an explicit derogation from Article 325bk(10); and (b) remove or materially simplify Article 325bk(10), retaining only a brief provision for institutions that wish to maintain separate stress periods while adding a link to paragraph 2A.

Industry Recommendation:

The industry supports the PRA's proposal and recommends that the PRA amend the rules to resolve the drafting conflict between the new flexibility in paragraph 2A and the existing mandatory language in Article 325bk(10). The PRA should either: (a) insert an explicit derogation into paragraph 2A disapplying Article 325bk(10) where institutions elect to align stress periods; or (b) remove or simplify Article 325bk(10) so that the two provisions are no longer in tension.

1.4. Calculation Frequency of IMA Components

The industry welcomes the PRA's reduction in the required calculation frequency for Type 2 NMRFs from a daily to a monthly basis and acknowledges the introduction of flexibility allowing firms to monitor the reduced-set to full-set ES ratio using alternative measures. However, the industry considers that the current framework does not adequately address the core operational and cost drivers that represent a meaningful barrier to sustainable FRTB-IMA adoption and sets out below its recommendations for further relief on ES calculation frequency.

A key barrier to broader and sustainable FRTB-IMA adoption is the ongoing run-the-bank cost of producing IMA components — particularly ES and SSRM for Type 1 NMRFs at daily frequency. Daily production is operationally intensive given the large number of required ES permutations: reduced set versus full set, stressed versus current period, multiple liquidity horizons, and diversified versus undiversified measures. SSRM calculations for Type 1 NMRFs involve additional risk factor-level stressed scenario runs that compound the computational burden of daily ES production.

While PRA rules and recent consultation introduce some flexibility, the current framework does not address the core operational and cost drivers:

- **Article 325bb(4)(a)** provides a derogation to compute undiversified ES weekly, but the conditions require firms to demonstrate that weekly calculation does not underestimate market risk. In

practice, this tends to require banks to maintain the full capability to run all ES measures daily, which materially reduces the usefulness of the derogation.

- **CP 9/26** provides helpful flexibility by allowing firms to monitor the reduced-set/full-set ES using alternative measures. However, this flexibility delivers limited benefit if firms must still compute the underlying reduced-set and full-set ES measures daily across liquidity horizons, as this remains one of the most computationally expensive parts of the process.

The industry notes that divergences in international approaches create a material level playing field concern. Under the US NPR, firms may calculate ES using a direct approach based solely on the stressed period, which carries materially lower computational costs than the indirect approach required under the PRA rules. In addition, the industry has separately advocated to the US agencies that FRTB-IMA calculations should be permitted on at least a weekly basis, and the European Union has already adopted this position in its implementation of the framework. Taken together, these developments mean that UK firms face a more operationally burdensome and costly calculation regime than their international counterparts — an outcome that is difficult to justify on prudential grounds and risks undermining the competitiveness of UK-regulated firms in cross-border markets. The industry considers that a move to weekly calculation would not compromise prudential outcomes. Basel standard MAR30.10¹⁸ recognises that a bank's capital model need not be recalculated independently on a daily basis, provided its methodology is aligned with the internal risk management model, a condition that is already met through the use of daily VaR for Back-testing and management reporting.

Furthermore, where daily ES calculation serves primarily to generate a stable 60-day average capital charge, 12 weekly observations produce an equivalent outcome. This is already accepted in the FRTB-IMA DRC framework. Weekly calculation, combined with robust internal governance and controls, would reduce avoidable infrastructure and production costs without compromising capital stability.

Industry Recommendation:

The industry recommends that the PRA permits a less frequent (“standard cadence”) calculation of FRTB-IMA components to deliver material run-the-bank cost relief, while maintaining prudential integrity.

Specifically, we propose that the PRA:

1. **Allow weekly calculation of IMA ES/SSRM components:** Across all major jurisdictions, the industry has consistently advocated for weekly calculation. The EU has accepted this position through the Delegated Act¹⁹, and the industry has separately made the same case to the US agencies²⁰. Permitting weekly calculation in the UK would reduce ongoing operational and infrastructure costs and ensure UK firms are not placed at a competitive disadvantage relative to international counterparts.

¹⁸ Basel Committee on Banking Supervision. *Minimum Capital Requirements for Market Risk*. Bank for International Settlements, January 2019. <https://www.bis.org/bcbs/publ/d457.pdf>

¹⁹ https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L_202601221

²⁰ ISDA, SIFMA and IIF. *Response to US Basel III NPR*. June 2026. [ISDA, SIFMA and IIF Submit Comment Letter on Basel III Endgame Proposal](#)

2. **Full set vs reduced set monitoring (325bb(1) / 325bc(1)(a)):** Permit a derogation to support less frequent refresh cycles for slower-moving components—particularly in relation to the *full set* versus *reduced set* monitoring ratio—where firms can evidence ongoing stability and continue to maintain appropriate governance, oversight, and control.
3. **Amends the undiversified ES derogation in article 325bb(4)(a)** so that the ability to compute undiversified ES weekly is not conditional on demonstrating daily capability (i.e., remove conditions that effectively require firms to be able to run all ES measures daily).

1.5. Changes to RFET

The development of RFET data solutions by third-party vendors remains limited, resulting in a significant number of risk factors being classified as NMRFs. The industry wishes to emphasize that implementing and operationalising RFET remains extremely challenging and costly, creating a barrier to the adoption of FRTB-IMA. Below, we highlight some of the key outstanding issues within the RFET framework and propose amendments to regulatory requirements that do not offer a commensurate compliance benefit.

1.5.1. Removal of the 90-day observation requirement

The industry supports the PRA's proposal to reduce the verifiable price observation threshold from 24 to 16 for risk factors with liquidity horizons greater than 20 days, and acknowledges this as an important step towards improving the proportionality of the RFET framework.

However, the PRA has retained the requirement that qualifying observations must be distributed such that no 90-day period contains fewer than four verifiable prices.

The PRA's proposal to reduce the RPO threshold (from 24 to 16) while keeping the 90-day test provides very limited benefit compared to pre-consultation status as the 16 RPOs would need to be uniformly distributed to pass the 4-in-90-day test, hence diminishing the benefit of allowing the lower threshold.

The industry considers this retained 90-day distribution requirement to be the most significant remaining constraint within the RFET framework. In practice, it can continue to result in risk factors being classified as non-modellable despite satisfying the proposed reduced annual observation threshold and despite having sufficient evidence of ongoing market activity.

The industry notes that the US NPR removes this requirement entirely, recognising that the overall number of representative and verifiable price observations is the more relevant indicator of modellability. Retaining the 90-day condition creates an additional constraint that disproportionately impacts less frequently traded but nevertheless liquid markets — particularly for risk factors with longer liquidity horizons, where observations may occur in clusters rather than being evenly distributed throughout the year. This could result in a material competitive disadvantage for UK-regulated firms relative to their US counterparts.

The industry therefore considers that the PRA's proposed reduction in observation thresholds should be accompanied by removal of the 90-day distribution requirement in order to ensure that the intended benefits of the proposal are fully realised.

Industry Recommendation:

The industry recommendation aligns with the US NPR and proposes that the PRA removes the requirement that qualifying observations must be distributed such that no 90-day period contains fewer than four verifiable prices. A risk factor should be considered modellable where it satisfies the applicable annual observation threshold without the additional 90-day distribution condition.

1.5.2. Proportional data requirements for the RFET of new issuances

The industry supports the PRA's proposal to introduce prorated RFET observation requirements for new issuances. However, the industry is concerned that the proposed drafting continues to create unnecessary dependencies on quarterly reporting reference dates and may lead to inconsistent treatment of new issuances.

The issue arises from proposed Article 325be(4A) referencing the general RFET requirement in Article 325be(3) that modellability be assessed based on observations obtained "*over an observation period of 12 months ending at the preceding quarterly reporting reference date*".

While this is workable for established risk factors, it creates uncertainty for instruments issued after a quarterly reporting reference date. Under the proposed drafting, firms may be unable to commence the RFET assessment until the next quarterly reporting reference date, irrespective of the availability of representative and verifiable prices during the intervening period.

The proposed new issuance provision does not fully resolve this concern, as it continues to anchor the observation period to the most recent quarterly reporting reference date. As a result, otherwise identical instruments may receive materially different RFET treatment depending solely on their date of issuance relative to the reporting cycle, an outcome that is not consistent with the underlying objective of the RFET, which is to assess modellability based on the availability of representative and verifiable prices rather than reporting-period timing.

The industry notes that the US NPR²¹ and the EU Delegated Regulation (Article 495k)²² adopt a simpler approach by allowing the observation period for a new issuance to begin on the issuance date and permitting the required number of observations to be prorated until twelve months after issuance. This removes unnecessary reporting-cycle dependencies whilst preserving the underlying RFET objectives.

²¹ US NPR 2026 - 91 Fed. Reg. at 15,059. [Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations](#)

²² https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L_202601221

Industry Recommendation:

The industry recommendation aligns with the US NPR and the EU Delegated Regulation and proposes that the PRA amend the observation period provision in Article 325be(4A) as follows:

4A. Where a risk factor relates to a new issuance for which the 12 month observation period referred to in paragraph 3 is not yet available, the institution may: (a) replace the 12 month observation period with a shorter period beginning with the date of the new issuance ~~and ending at the most recent quarterly reporting reference date~~; and the number of price observations required to pass the assessment referred in paragraph 1 may be prorated until 12 months after the issuance date.

This would remove unnecessary dependencies on quarterly reporting reference dates and ensure that RFET outcomes are driven by the availability of representative and verifiable price observations over the period for which observations could reasonably be expected to exist rather than reporting-cycle mechanics.

1.5.3. Price observations from the exchanges and trading platforms

1.5.3.1. Audit Requirements

The industry acknowledges the PRA's intention to reduce the burden associated with audit requirements for verifiable price observations and welcomes the relaxation of certain sub-requirements (Article 325be(6d)(ii-iv)) in this area as a step in the right direction. However, the adjustments proposed do not fully resolve the concerns raised in previous responses. The remaining requirements (Article 325be(6d)(i)) continue to create operational complexity and uncertainty for firms, and the partial nature of the relaxation means that the overall compliance burden is not materially reduced.

The industry notes a significant divergence from the approach taken in the US NPR, under which data sourced from exchanges, regulated trading platforms and certain multilateral development banks automatically qualifies as meeting verifiable price observation requirements without any further checks, audits or volume assessments.

Firms sourcing price data directly from exchanges and trading platforms are required to access audit reports for each individual exchange or platform. Such reports are generally not publicly available and would typically require separate legal arrangements (for example, non-disclosure agreements) with each venue (exchange/trading platform). In addition, venues are under no regulatory obligation to engage with banks on this matter. Furthermore, even where access can be obtained, the scope of those audits may not explicitly cover the requirements envisaged under this article—namely, the validity of price information, governance and processes and the confirmation that the exchange or trading platform possesses the information necessary to verify that a price is verifiable in accordance with Article 325be(5).

This places firms in the position of having to route the same data through third-party RFET vendors, who can satisfy the audit requirement through their own processes without accessing exchange- or platform-level audit reports directly, adding unnecessary cost and intermediation where the data is already

available to firms. Compounding this, the market for RFET data vendor offerings remains insufficiently developed and standardised, creating avoidable compliance uncertainty at a critical point in implementation preparation.

The industry considers that the US approach fully resolves the concerns raised in relation to audit requirements and strongly recommends that the PRA align with this position, as set out in the recommendation below.

Industry Recommendation:

The industry recommends full alignment with the US NPR approach: data sourced from regulated exchanges, trading platforms and authorised data reporting services should automatically qualify as verifiable price observations without any requirement for additional volume checks, bid-offer spread checks, or third-party audits. The partial relaxation of audit requirements in this consultation is insufficient and operationally inconsistent; it does not substantially reduce the compliance burden.

The industry recommends that the PRA amend Article 325be(6) as follows:

Article 325be(6). An institution shall use a transaction or a quotation for the purpose of points (a)(ii) and (a)(iii) of paragraph 5 only if all the following conditions are met:

...

(d) the institution has verified that the third-party vendor is subject, at least annually, to an independent audit by a third-party undertaking, within the meaning of Article 325bi(1)(i), regarding the validity of its price information, governance and processes, and has access to audit results and reports, in case these are requested by the PRA; this point (d) shall not apply where the verifiable price or quotation is sourced from a trading platform or an exchange that is subject to authorisation and oversight by a competent authority.

For the purpose of point (d), the independent audit by a third-party undertaking shall include, at a minimum, all of the following elements: ~~except points (d)(ii) to (d)(iv) shall not apply where the third-party vendor is a trading platform or an exchange subject to authorisation and oversight by a competent authority:~~

1.5.3.2. Price Verifiability

Article 325be(5) requires that verifiable price observations must come from transactions or quotations of a non-negligible volume reflective of current market conditions and that bid-offer spreads do not substantially deviate from prevailing market conditions.

As noted in the previous sub-section, the US approach fully resolves the issues the industry has consistently highlighted and strongly advocates for the PRA to align with this position

The industry's position is that these requirements are appropriate for OTC prices, however redundant for exchange sourced data. Price observations for listed instruments (e.g., equity spot prices and precious

metal prices) sourced from regulated exchanges, inherently reflect usual volumes and current market conditions: trading activity is typically concentrated on a single venue exchange offering the deepest liquidity and best execution, individual transaction sizes are small given continuous order matching and the common practice of splitting larger orders, and volume checks of the kind envisaged by Article 325be(5) provide no incremental verification benefit. Average daily volumes, as used under MiFID Best Execution requirements, are the appropriate measure of market liquidity and confirm that exchange prices need not be excluded on grounds of negligible volume. This is consistent with existing practices across firms' Risk and Finance, including the use of exchange time series for ES modelling and independent price verification (IPV), where no additional volume checks are applied.

The same logic applies to bid–offer spreads. Quotations sourced simultaneously from an exchange's active order book inherently reflect current market conditions: exchanges execute crossed quotations instantly, and exchange members are subject to stringent regulations preventing market abuse and uncompetitive quoting. Spread checks were designed to address concerns arising in OTC markets — for example, where quotes from different counterparties may diverge materially — and their application to exchange order book data is unnecessary and operationally burdensome.

Industry Recommendation:

The industry recommends full alignment with the US NPR approach: data sourced from regulated exchanges, trading platforms and authorised data reporting services should automatically qualify as verifiable price observations without any requirement for additional volume checks, bid-offer spread checks, or third-party audits. Where price observations for listed instruments are sourced from regulated exchanges, they inherently reflect usual volumes and current market conditions and should be treated as meeting the non-negligible volume and bid-offer spread requirements without further verification.

The industry recommends that the PRA amend Article 325be(5) as follows:

Article 325be(5). For the purposes of this Article:

.....

(b) an institution shall not consider a price to be verifiable where any of the following conditions are met:

- i. the price is obtained from a transaction or quotation between two entities of the same group;*
- ii. the price is obtained from a transaction or quotation of a negligible volume as compared to usual volume of transactions or quotes, reflective of current market conditions; or*
- iii. the price is obtained from a quotation that is substantially further off mid-market than the institution identified on a given observation date actual bona fide competitive bid and offer quotations, with a bid–offer spread deviating substantially from bid–offer spreads reflective of current market conditions;*

For the purposes of this Article, in determining whether a price is verifiable, point (b)(ii) and point (b)(iii) shall not apply where the price or quotation is obtained from a trading platform or an exchange that is subject to authorisation and ongoing oversight by a competent authority.

(c) transactions shall not be conducted and quotations shall not be committed with the sole purpose of identifying a sufficient number of verifiable prices to meet the criteria specified in points (a) and (b) of paragraph 3; or

(d) the observation date of a verifiable price shall correspond to the day of execution for transactions and to the day on which the quotation was committed for quotations. The observation date of verifiable prices shall be recorded based on a consistent single time zone across all data sources.

1.5.3.3. RFET assessments for risk factors derived from exchange traded instruments

Requiring RFET assessments for risk factors derived from exchange traded instruments with deep and continuous liquidity creates significant operational challenges without corresponding regulatory benefit. For a majority of such risk factors, the existence of an active, transparent and supervised market already provides strong evidence that sufficient representative and liquid price observations are available.

The industry recommends that the PRA allow exempting risk factors derived from liquid exchange traded instruments from the RFET requirements under Article 325be and instead subjecting them solely to the data requirements applicable to the modellable risk factors.

On an annual basis, as part of the annual self-attestation, firms will be required to demonstrate their approach to limit the exemption to demonstrably suitably liquid instruments and instead retain the application of the RFET requirements to insufficiently liquid exchange traded instruments.

Industry Recommendation:

The industry proposes that the risk factors derived from exchange traded instruments with deep and continuous liquidity be exempted from the RFET requirements under Article 325be and be subject only to the data requirements applicable to modellable risk factors. As part of the annual self-attestation process, firms should be expected to evidence that the exemption is confined to instruments with demonstrably sufficient liquidity, and that RFET requirements continue to apply to exchange-traded instruments that do not meet that standard.

1.6. Amendments to the data principles framework

The industry has identified a number of issues with the data principles framework that require targeted amendments to ensure consistency across jurisdictions, remove redundant requirements, and better reflect the operational and risk management challenges associated with FRTB-IMA implementation. The data principles govern the quality and fitness of data inputs used in the ES model, and their calibration has a direct bearing on the proportion of risk factors classified as NMRFs and the operational burden of FRTB-IMA adoption. The four areas of concern set out below relate to Data Principle 1 (DP1), Data Principle 3 (DP3), Data Principle 4 (DP4), and Data Principle 6 (DP6).

1.6.1. Data Principle 1 – Removal of the requirement to derive data inputs from modellable risk factors only

Article 325bh(4) (Data Principle 1) requires that data inputs used in an institution's risk measurement model be derived only from modellable risk factors, with a limited permission for interpolation — and extrapolation subject to supervisory approval — from a combination of modellable risk factors. The industry considers that DP1, as currently drafted, is no longer fit for purpose following the introduction of the Type 1/Type 2 NMRF framework and should be removed.

The fundamental difficulty with DP1 is that it was designed for a framework in which only RFET-modellable risk factors could be included in ES. Under that earlier framework, the requirement to derive data inputs from modellable risk factors had a coherent meaning. However, CP9/26 explicitly introduces Type 1 NMRFs, risk factors that fail the quantitative RFET threshold but satisfy the qualitative data standards, as a category that may be included within the ES calculation. DP1's requirement to use only modellable risk factors as data inputs directly conflicts with this, since historically the term "modellable" in DP1 has been understood to mean risk factors passing RFET. Applying that interpretation would exclude Type 1 NMRFs from ES by construction, even where they are explicitly permitted under the revised framework. Amending the terminology rather than removing the provision — for example, replacing "modellable" with a reference encompassing both RFET-modellable and Type 1 NMRF-eligible risk factors, would create circularity, as DP1 would then restate the eligibility conditions it is supposed to supplement rather than establishing an independent data quality standard. Data principles should provide testable, operationally implementable data quality criteria, not redefine or restate eligibility tests.

The substance of DP1, ensuring that interpolation and extrapolation do not distort correlations or understate volatility, is already addressed by Data Principle 3 (Article 325bh(6)), which directly governs the accuracy of data inputs used in ES. In practice, firms already operate governance and validation controls around interpolation and extrapolation that provide meaningful evidence of data fitness without relying on DP1 as a separate and now conflicting constraint. With respect to its relation with PLAT, the concern that DP1 is intended to address is also covered in part by Article 325bg(9), which requires that RTPL and PLAT inputs be consistent with market data used in the risk measurement model.

The US NPR does not retain an equivalent requirement, with agencies having addressed the underlying concern through DP3 (requiring that prices not understate volatility or misrepresent correlations) and removed DP1 on the basis of the redundancy and circularity risk it creates.

Industry Recommendation:

The industry recommendation aligns with the US NPR and proposes that the PRA remove Article 325bh(4) (Data Principle 1) from the rules. Following the introduction of the Type 1/Type 2 NMRF framework, DP1's restriction on deriving data inputs from modellable risk factors only directly conflicts with the explicit permission for Type 1 NMRFs to be included in ES. The underlying data quality objective of DP1 is already addressed by Data Principle 3 (Article 325bh(6)) and by Article 325bg(9). Removal would resolve the conflict without creating a regulatory gap and would align the UK framework with the US NPR, which does not retain an equivalent provision.

The industry recommends that the PRA amend Article 325bh(4) as follows:

Data inputs derived from a combination of modellable risk factors

325bh(4) An institution shall ensure that:

(a) it derives data input used in an institution's risk measurement model from only modellable risk factors. An institution may use interpolation from a combination of modellable risk factors to determine a data input; provided that if so specified in the IMA permission, an institution may use extrapolation to determine a data input if the extrapolation is only a reasonable distance from the closest modellable risk factor;

(b) where an institution uses interpolation or extrapolation to generate a data input for the institution's risk measurement model, it must determine the theoretical changes in portfolio value for the P&L attribution requirements in accordance with Article 325bg using that same interpolation or extrapolation; and

(c) by way of derogation, where an institution additionally calculates a stress scenario risk measure referred to in Article 325bk for one or more non-modellable risk factors that relate to that data input, the institution may also include the changes in those non-modellable risk factors for the purposes of determining the theoretical changes in portfolio value for the P&L attribution requirements in accordance with Article 325bg.

1.6.2. Data Principle 3 – Reflection of volatility and correlation

The PRA's DP3 requires firms to ensure that data inputs accurately reflect the volatility and correlation of risk factors, additionally any transformations applied to those data inputs do not reduce the accuracy of the volatility and correlation estimates. In practice, firms routinely employ a range of data-transformation techniques as part of the model, and these are subject to independent model validation and governance.

However, a strict interpretation may require firms to demonstrate DP 3 compliance for each individual risk factor subject to data transformation, over and above the model governance. This would introduce a significant operational burden, without providing additional prudential benefit regarding accuracy and risk sensitivity of modelling framework.

By contrast, the US NPR adopts a more principles-based approach, requiring that data inputs reflect market volatility and correlation without prescribing detailed requirements around data transformations.

Industry Recommendation:

The industry recommendation aligns with the US NPR and proposes that the PRA align DP3 more closely with the US NPR by adopting a more principles-based and outcome-focused approach. Specifically, we propose the change below to article 325bh (6) (b) to confirm firms are permitted to demonstrate compliance through existing model validation and governance frameworks to ensure that the overall risk measurement model appropriately captures volatility and correlation. This would preserve the prudential objective while reducing operational burden.

"(b) ~~any~~ where transformations are applied to data inputs, ~~shall not have the effect of reducing the accuracy of the~~ institution shall ensure the risk measurement model continues to appropriately reflect volatility of and correlations between risk factors..."

1.6.3. Data Principle 4 – Removal of prescriptive statistical requirements for price series comparison

Article 325bh(7)–(9) (Data Principle 4) requires institutions to perform at least quarterly analysis comparing four prescribed price series, including the price series used in the risk measurement model, HPL and RTPL data, verifiable prices and IPV data, and to apply mandatory statistical tests that monitor whether the data used in the risk measurement model results in an understatement of ES. Where a potential understatement is identified, the institution must take one of two prescribed remediation steps: adjusting model inputs or outputs or reclassifying the risk factor as non-modellable.

The industry supports the underlying intent of DP4, that prices used in ES should be based on, and consistent with, market-observed prices, and that where derived or adjusted prices are used, firms should be able to evidence that these are reasonably representative of verifiable prices. However, the industry considers that the current DP4 framework is unnecessarily prescriptive in mandating a specific set of comparison metrics and statistical tests at the regulatory level and proposes that the PRA retain the principle-based expectation while removing the detailed prescriptive requirements currently set out in Articles 325bh(7) - (9).

The requirement to conduct quarterly comparisons across four specifically prescribed price series, applying mandatory statistical tests for each, is more operationally rigid than the prudential objective requires. Firms' trading books vary considerably in terms of instrument type, liquidity, data availability and the nature of proxies and adjustments applied in the risk measurement model. A single prescribed set of comparison metrics and statistical tests applied uniformly across all risk factors and all portfolios does not reflect this diversity, and in practice produces compliance costs that bear no proportionate relationship to the improvement in model accuracy or capital sensitivity that results. Where comparisons across price series do identify potentially material discrepancies, firms apply their existing model governance and control frameworks, including escalation procedures and validation review, to investigate and remediate the issue. This governance response delivers the same prudential outcome as the prescribed remediation steps in Article 325bh(9), without mandating a regulatory test that may not be appropriate to the instrument or market context.

The approach taken in the Basel text and the US NPR is more principle-based: the requirement is that prices used in the risk measurement model should be observed or quoted in the market, and where derived prices are used, the firm should be able to reconcile them to credible external sources. The US NPR does not mandate a specific set of comparison metrics, statistical tests or prescribed remediation steps. The industry considers that aligning with this approach would ensure that supervisory attention remains focused on whether firms can evidence sound data quality and appropriate capital outcomes,

rather than on whether firms have produced a set of prescribed metrics that may not add risk sensitivity or comparability in practice.

Industry Recommendation:

Consistent with the US NPR, the industry recommends that the PRA retain the principle-based requirement in Article 325bh(7), that data inputs used in the risk measurement model should be reasonably reflective of prices observed and quoted in the market, while removing the prescriptive statistical requirements currently set out in Articles 325bh(8) and (9), including the mandatory statistical tests and the prescribed remediation steps. The industry supports the objective of DP4 but considers that the detailed prescriptive requirements create a disproportionate compliance burden without commensurate prudential benefit, and that the underlying data quality objective is more effectively achieved through firms' existing governance and validation frameworks. This would align the UK approach with the more principle-based treatment reflected in the Basel text and the US NPR.

The industry recommends that the PRA amend Articles 325bh(7), (8) and (9) as follows:

Consistency of data inputs with verifiable prices and with front-office and back-office prices

Article 325bh

7. An institution shall ensure that the data inputs used for their risk measurement model are consistent with
~~*perform at least quarterly analysis to compare prices series in point (a) with the alternative price series in points (b) and (d) as follows:*~~
~~*(a) the price series used in the risk measurement model;*~~
~~*(a) the price data used to generate the actual changes in the value of the portfolio and the hypothetical changes in the value of the portfolio;*~~
~~*(b) verifiable prices in accordance with Article 325be; and*~~
~~*(c) price data used in the independent price verification process in accordance with paragraph 8 of Trading Book (CRR) Article 105 including daily and intra-month data where this is collected.*~~

8. For the purpose of performing the analysis in paragraph 7, the institution:

~~*(a) shall compare the levels, volatilities and correlations of price series from these four alternative price series for the purpose of highlighting differences between the sources that are material in terms of their impact on the measurement of the expected shortfall;*~~

~~*(a) shall compare data inputs used in an institution's risk measurement model with these alternative price series and the input data used must be reasonably reflective of prices observed and/or quoted in the market. Where data used are not derived from verifiable prices, the bank must demonstrate that the data used are reasonably representative of verifiable prices;*~~

~~*(b) shall, where the four alternative price series are derived from overlapping underlying data, explicitly reflect this in the analysis. The institution shall give due considerations to price uncertainty; and*~~

~~*(c) shall combine all available information, including information about intra-day movements, to derive a statistical test or tests that monitor price series referred to this paragraph to assess whether*~~

~~the price data used in the risk measurement model results in an understatement of the measurement of the expected shortfall,~~

provided that, for the purposes of any analysis involving the price series in **point (b) and (c)** of paragraph 7, the institution may perform the assessment on a best efforts basis.

9. An institution shall appropriately review and escalate the methodologies and results of the analysis in this Article. ~~Where a potential understatement of ES is detected~~ **Where comparisons of price series highlight potentially material weaknesses**, an institution shall consider at least one of the following actions:

- (a) make appropriate adjustments to the inputs or output of the risk measurement;
- (b) consider those risk factors to be non-modellable in accordance with Article 325be.

1.6.4. Data Principle 6 – Removing the prohibition on including idiosyncratic risk for risk factors absent from the stress period

Article 325bh(12)(b) (Data Principle 6) currently provides that, where a risk factor did not exist during the identified stress period, an institution shall not include the idiosyncratic component of that risk factor in the subset of modellable risk factors used for the reduced-set ES calculation under Article 325bc(2)(a), unless its IMA permission specifically provides otherwise. The industry considers that this restriction should be amended to permit the inclusion of idiosyncratic risk where the institution can provide robust empirical evidence that the data inputs used are consistent with the behaviour of similar risk factors observed during the stress period.

The practical consequence of Article 325bh(12)(b) as currently drafted is that the classification of a risk factor's idiosyncratic component and therefore its treatment within the reduced-set ES, depends on whether the instrument existed during the historic stress window rather than on whether the risk is real, material and capable of sound quantification today. A risk factor can be economically meaningful and exhibit material sensitivity to idiosyncratic shocks even if it did not trade, or did not exist in its current form, during the identified stress period. Excluding the idiosyncratic component in those circumstances can result in an understatement of risk relative to the true exposure of the portfolio.

This outcome is particularly relevant for newer issuers and instruments in evolving markets. Equity listings, index composition and instrument structures change substantially over time, and the current prohibition introduces a structural bias against the inclusion of newer names and instruments in the reduced-set ES, regardless of the quality or depth of the empirical evidence available to support their inclusion. The effect is to limit the risk sensitivity of the ES calculation in a manner that is not proportionate to the prudential objective.

The industry notes that the treatment of risk factors not present in the stress period is already addressed, at a broader level, by Article 325bh(12)(a), which permits the use of proxy or backfill approaches where the institution can empirically justify that the data inputs are consistent with the level of changes observed in similar risk factors during the stress period. Where a risk factor satisfies that condition at the systematic

level, there is no prudential rationale for a categorical exclusion of its idiosyncratic component at the sub-factor level, and the current prohibition is therefore difficult to justify in the context of a framework that already accepts pragmatic empirical solutions where historical data is incomplete. This inconsistency is further underlined by Article 325bh(5) (Data Principle 2), which explicitly requires institutions to capture idiosyncratic risk, a requirement that is directly undermined by the categorical restriction in Article 325bh(12)(b).

The US framework recognises this concern, adopting an approach that focuses on whether firms can demonstrate that the prices used in the risk measurement model are consistent with the appropriate stress-period behaviour of similar instruments, including through proxy or backfilled approaches. The US framework does not impose a categorical prohibition on idiosyncratic risk inclusion for risk factors absent from the stress period. The industry considers that the PRA should align with this approach by permitting idiosyncratic risk to be included in the reduced-set ES where the institution can provide robust, tested empirical evidence that the data inputs are consistent with the stress-period behaviour of comparable instruments.

Industry Recommendation:

Consistent with the US NPR, the industry recommends that the PRA amend Article 325bh(12)(b) from effectively “shall not include unless PRA permits” to “may include the idiosyncratic component” of a risk factor in the subset of modellable risk factors under Article 325bc(2)(a) where, although that risk factor did not exist during the identified stress period, the institution can empirically justify that the data inputs used are consistent with the level of changes observed in similar risk factors during that period. The blanket prohibition on including idiosyncratic risk for such risk factors creates outcomes that are disproportionate to the prudential objective, are inconsistent with the broader empirical approach already recognised in Article 325bh(12)(a) and Data Principle 2, and diverge from the approach taken in the US framework. This will also avoid mandatory case-by-case regulatory permission for including idiosyncratic risks in the reduced set, removing unnecessary frequent approvals and improving proportionality. Inclusion should be subject to the same empirical justification standard as the systematic component, ensuring that the prudential safeguard is maintained through the quality of the evidence rather than through a categorical restriction based on the timing of issuance.

The industry recommends that the PRA amend Article 325bh(12) as follows:

*Article 325bh**Data inputs for stress period*

11. An institution shall ensure that the data inputs used for their risk measurement model for the purpose of calculating the partial expected shortfall calculations referred to in Article 325bc(2) are determined directly from market prices in the period of significant financial stress identified in accordance with point (c) of Article 325bc(2); provided that, by way of derogation from this requirement, where the fundamental characteristics of a certain risk factor now differ from the characteristics of that risk factor in the identified period of significant financial stress and the institution is able to empirically justify each instance where the derogation is applied, an institution

may determine stressed data inputs from market prices other than those in the identified period of significant financial stress.

12. Where a risk factor did not exist in the identified period of significant financial stress, an institution may determine data inputs from market prices other than those relating to that risk factor in the identified period of significant financial stress, subject to the following requirements:

(a) it shall be able to empirically justify that the data inputs used are consistent with the level of changes observed in similar risk factors in the identified historical period; and

(b) it ~~shall not~~ may include the idiosyncratic component of ~~name-specific~~ risk factors in the subset of modellable risk factors chosen in point (a) of Article 325bc(2) ~~where it can be empirically justified; unless specified otherwise in its IMA permission;~~

provided that, where an institution is unable to empirically justify that the data inputs used are consistent with the level of changes observed in similar risk factors in the identified historical period, the risk factor shall not be included in the subset of modellable risk factors chosen in point (a) Article 325bc(2) and specified in the institution's IMA permission.

1.7. Changes to ES

1.7.1. Capping of liquidity horizons

Under the current framework, banks are required to take into account the maturity of a position in determining its applicable liquidity horizon. When a position's maturity falls below the prescribed fixed liquidity horizons, the effective liquidity horizon is set at the next longest liquidity horizon above that maturity. The Industry has significant concerns about this requirement, which introduces unrealistic constraints that are inconsistent with market practice, negatively impacts capital and risk management outcomes, and represents a material barrier to FRTB-IMA adoption, particularly for desks that trade in liquid instruments and actively hedge their risks.

The core problem is that mandatory maturity capping in Article 325bd(4) implies, in effect, that no position will be renewed beyond its contractual expiry. This premise does not reflect how markets operate. Hedges are routinely rolled at maturity, and the economic risk associated with a position frequently extends beyond its contractual termination date, for example, in cases of physical settlement. Imposing a hard maturity cap on liquidity horizons therefore creates a disconnect between the regulatory capital calculation and the actual risk profile of the portfolio. The industry notes that this issue also generates a significant operational and computational burden, as firms are required to track and assign liquidity horizons at the individual position level across a typically large volume of trades with numerous distinct maturity dates, a task that is both resource-intensive and prone to introducing artificial volatility into the capital calculation.

The industry response to the US NPR²³ provides flexibility by allowing banks to consider the next longest maturity-based liquidity horizon as the ‘minimum’ liquidity horizon thereby allowing banks to apply a longer liquidity horizon.

The practical consequences of this requirement are material and manifest in several distinct ways:

1. **Unrealistic hedge breaks between the same risk factors across different instruments:** For example, short-dated index options are frequently used as liquid hedges against credit exposures of longer maturity.
2. **Unnecessarily volatile capital charges even when there is no change to the true underlying risk:** For example, the maturity of certain instruments tends to cluster around particular dates (e.g., listed futures maturing on the third Friday of expiring months, or monthly equity, index, or currency option expiration dates, or IMM dates), leading to drastically volatile capital changes near those dates.
3. **Incorrect representation of risk:** For example, physically delivered futures or options would continue to carry risk exposures to relevant risk factors beyond the expiration date. If capped at position maturity, the risk on those risk factors would not be correctly captured.

The industry notes that it has made equivalent representations to the US agencies in the context of the US NPR²⁴, requesting that the final rules explicitly clarify that a banking organisation is permitted but not required to take into account the maturity of a covered position for the purposes of determining the applicable liquidity horizon.

Industry Recommendation:

The industry recommendation aligns with the US NPR industry response and proposes that the PRA should clarify that firms are permitted, but not required, to take into account the maturity of a covered position in determining the applicable liquidity horizon. Where a firm does not apply a maturity cap, it should be permitted to assign the liquidity horizon that would otherwise apply to the relevant risk factor, irrespective of the maturity of the positions giving rise to that exposure. Where a firm elects to apply maturity-based capping, the PRA should clarify that the firm may, but it is not required to assign the next longer liquidity horizon above the position's remaining maturity. Alternatively, the PRA should consider allowing firms to adopt their own methodology for determining the appropriate liquidity horizon, subject to adequate justification and validation, provided that the resulting horizon is no shorter than the regulatory minimum prescribed for the relevant risk factor.

²³ ISDA, SIFMA and IIF. *Response to US Basel III NPR*. June 2026. [ISDA, SIFMA and IIF Submit Comment Letter on Basel III Endgame Proposal](#)

²⁴ ISDA, SIFMA and IIF. *Response to US Basel III NPR*. June 2026. [ISDA, SIFMA and IIF Submit Comment Letter on Basel III Endgame Proposal](#)

1.7.2. Liquidity Horizon Mapping for Equity Indices, CIUs and MDB Risk Factors

The current PRA FRTB IMA liquidity horizon framework creates implementation complexity and may result in higher capital requirements for UK firms relative to international peers in relation to equity index risk factors, collective investment undertakings (CIUs), and Multilateral Development Bank (MDB) / international organisation credit spread risk factors.

These challenges largely arise from differences between the PRA framework and the US NPR without a clear prudential benefit while imposing additional operational burden.

Equity Index Risk Factors

Under Article 325b(4)(c), homogenous equity index risk factors are mapped using a weighted-average approach based on underlying constituents. This requires constituent-level decomposition even where indices are modelled, hedged and managed as standalone instruments.

For equity index volatility risk factors, this can result in LH20 (large-Cap) or LH60 (small-cap) depending on constituent composition, potentially overstating the time required to reduce or hedge the relevant risk. By contrast, the US NPR allows assigning a default LH20 (large-cap) to equity index volatility irrespective of constituent composition, consistent with the PRA ASA framework's treatment of equity index vega risk.

For equity index price risk factors, constituent-level decomposition is also required to determine whether LH10 (large-cap) or LH20 (small-cap) applies. The US NPR instead permits a default LH10 (large-cap) assignment, reflecting the liquidity of the index as a standalone traded instrument and reducing unnecessary implementation complexity.

Multi-underlying instruments except homogeneous indices

The current PRA FRTB IMA liquidity horizon framework creates implementation complexity and may result in higher capital requirements for UK firms relative to international peers in relation to equity index risk factors, collective investment undertakings (CIUs), and Multilateral Development Bank (MDB) / international organisation credit spread risk factors.

By contrast, the US NPR permits a weighted-average approach for all multi-underlying instruments. The absence of an equivalent provision in the PRA framework may therefore lead to higher liquidity horizon assignments and IMA capital requirements for UK firms.

Therefore, the industry recommends extending the derogation under Article 325b(4) to all multi-underlying instruments, including CIUs and baskets when risked via single name.

MDB and International Organisation Credit Spread Risk Factors

The PRA framework does not explicitly specify whether MDB and international organisation credit spread risk factors should be mapped as sovereign risk factors (LH20 IG / LH40 HY) or corporate risk factors (LH40 IG / LH60 HY).

Industry considers these exposures to be more closely aligned with sovereigns than corporates, consistent with both the US NPR treatment of MDB and supranational exposures and the PRA ASA framework's application of common delta risk weights to sovereigns, MDBs and international organisations.

Industry Recommendation:

- Align with the US NPR to allow assigning default large-cap LH ie.20-day LH and 10-day LH to equity index volatility risk factors and equity index price risk factors respectively by updating the Liquidity assignment table prescribed in the rules and not mandating the need for constituent-level decomposition for liquidity horizon determination.
- Align with the US NPR by extending the derogation to use weighted-average methodology under Article 325b(4)(c) to all multi-underlying instruments including CIUs and baskets when risked via single name, enabling more risk-sensitive liquidity horizon assignments.
- Align with the US NPR by clarifying that credit spread risk factors relating to MDBs and international organisations under CRR Articles 117(2) and 118 should be assigned the same liquidity horizons as sovereign risk factors by default.

These changes would improve risk sensitivity, reduce implementation complexity, and promote greater international consistency without undermining prudential outcomes.

1.8. Treatment of CIUs

The industry welcomes the flexibility introduced by the PRA to allow firms to apply the internal models approach to CIUs meeting the 90% look-through threshold and acknowledges this as a meaningful step toward addressing the operational barriers to IMA adoption for fund exposures. However, the industry wishes to highlight a number of outstanding concerns with the current framework that this consultation does not fully address.

First, Article 325b(1)(k) continues to require institutions to demonstrate, at least annually, that their alternative modelling approach is more conservative than a full look-through calculation. The industry considers this requirement to be operationally disproportionate. The additional obligation to validate conservatism against a full look-through on an annual basis requires a shadow full-look-through functionality (including CIU decompositions, model calibrations, proxies, time series data sourcing, governance and reconciliation for each underlying constituent) which creates a compliance burden that undermines the relief that the PRA's rule seeks to provide.

Any alternative approach from look-through will be risk-sensitive and governed as part of the model development cycle. Firms use alternative modelling approaches that reflect how CIU exposures are managed in practice. For example, a firm may model a CIU using fund-level risk factors, including benchmark or index proxies aligned to the fund's mandate, relevant sector or asset-class drivers, and observable NAV behaviour. Where appropriately calibrated, this provides a coherent representation of the fund's risk profile. The approach can also be conservative by design, particularly where proxy factors exhibit equal or greater volatility than the underlying constituents and where basis or tracking-error add-

ons are applied. The conservatism of the methodology therefore derives from its design, calibration and governance, rather than from an annual point-in-time comparison with full look-through.

In addition, ongoing internal monitoring provides the relevant control. CIU positions are actively managed, and trading and risk desks maintain an ongoing view of each fund's mandate, benchmark and key performance drivers. They monitor these exposures as part of normal position management, which would identify any material drift in the fund's risk profile or any weakening in the modelling approach before, and independently of, a scheduled annual test. A fixed annual demonstration therefore adds limited assurance beyond firms' continuous risk management, model governance and validation controls.

Statistical tests provide an additional safeguard. To the extent an alternative approach were to become insufficiently conservative, this would also be expected to emerge through the Back-testing and PLA framework.

The industry therefore recommends that the PRA remove the explicit annual conservatism demonstration requirement in Article 325bh(1)(k). Instead, the PRA should expect banks to set out and justify a non-look-through approach to modelling CIUs, supported by the established model governance (e.g. independent validation, and model monitoring and remediation) and supervisory expectations (e.g., Back-testing, PLAT monitoring).

Second, the industry recommends that the PRA provide greater flexibility in the capitalisation of the non-look-through residual portion of a CIU. Under the proposed framework, the only available treatment for the portion that cannot be looked through is the standardised approach fallback. The industry considers this unnecessarily restrictive: where a bank can demonstrate to the satisfaction of its supervisor that an alternative modelling approach adequately captures the risk of the residual, there is no prudential basis to mandate the ASA fallback as the sole option. The industry therefore recommends that the PRA permit institutions to apply alternative approaches to capitalise the non-look-through portion within IMA, in addition to the existing ASA fallback.

Third, the industry notes that, for the purposes of the PLAT and Back-testing, institutions should be permitted to model the entire CIU, including the non-look-through residual, within the IMA framework. Requiring the residual to be carved out and capitalised separately under the ASA would create an artificial discontinuity between the positions in scope for RTPL, HPL and APL calculations. This would introduce residual noise into the PLAT and Back-testing assessments without any corresponding improvement in its risk-sensitivity, and would therefore be operationally disruptive and counterproductive to the objectives of the test.

Industry Recommendation:

The industry welcomes the PRA's proposal to allow IMA treatment for CIUs meeting the 90% look-through threshold and recommends the following additional changes. First, the annual conservatism test under Article 325bh(1)(k) should be removed in favour of relying on firms' existing model governance, continuous position monitoring, and the Back-testing/PLA framework, which already provide ongoing assurance that a chosen methodology remains appropriately conservative without the need for a discrete point-in-time exercise. This recommendation is consistent with the approach taken

in the US NPR²⁵ on regulatory capital, which permits banking organizations to apply an alternative modelling approach, without imposing a parallel requirement to separately benchmark that approach against a full look-through calculation on a recurring basis. Second, banks should be permitted to capitalise the non-look-through residual portion of a CIU using a supervisor-approved alternative approach, rather than being restricted to the standardised fallback, provided the firm can demonstrate to its supervisor that the approach adequately captures the residual risk. Third, for PLAT and Back-testing purposes, institutions should be permitted to treat the CIU as a single modelled position — including the non-look-through residual — so that RTPL, HPL, and APL calculations are not artificially fragmented across two separate capital frameworks.

1.9. Changes to Default Risk Charge (DRC)

In accordance with Article 325bl(1), FRTB-IMA trading desks are subject to additional or incremental own fund requirements for the default risk of credit and equity exposures using the internal model-based DRC. Articles 325bm(2) and 325az(4) also require capitalisation under FRTB-ASA if a bank no longer meets the criteria for using FRTB-IMA, including the use of the FRTB-IMA DRC model and if trading desks fail the Back-testing and PLAT requirements.

Since the DRC is specifically designed to address the incremental charge for capturing the sudden jump-to-default (JTD) risk of issuers, the industry recommends that:

- a) The internal model-based DRC should be treated independently from the approval to use the IMA (ES and NMRF measurement model) at the trading desk level; and
- b) Banks should have the flexibility to use the regulatory-prescribed SA-DRC instead of being mandated to develop their own internal DRC model for FRTB-IMA trading desks.

The FRTB-IMA eligibility tests primarily assess performance using risk metrics versus daily P&L, rather than evaluating JTD risk, which is separately captured by a DRC model. As such, penalising the DRC model when a trading desk fails the Back-testing and PLAT tests is unjustifiable.

Treating the DRC as a standalone component encourages the development of risk-sensitive DRC models, which are better able to reflect the impact of systemic defaults under stressed conditions. For instance, FRTB-IMA DRC captures default correlations across issuers and simulates scenarios where multiple issuers default simultaneously, whereas the SA-DRC uses a single default metric (i.e., the risk of individual issuers). Additionally, the internal model-based DRC better recognizes portfolio diversification than the SA-DRC.

However, while developing an internal DRC model has its advantages, certain trading desks and instruments present challenges in modelling due to complex data and valuation requirements. For example, full revaluation may require a significant computation effort, and models may require

²⁵ US NPR 2026 - 91 Fed. Reg. at 15,059. [Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations](#)

simplifications to capture the default risk of complex multi-underlying products. This also requires intensive data for correlation modelling.

To address these challenges, banks should be allowed the flexibility to choose between using the regulatory-prescribed SA-DRC or the internal model-based DRC to calculate the incremental default risk charge.

This proposal would ensure a level playing field with US banks, where the internal model-based DRC requirement was removed in the US NPR, while still aligning with the Basel framework. Moreover, Article 325az(2) prohibits capital arbitrage, meaning banks cannot choose between the internal model-based DRC and SA-DRC based solely on which would result in a lower capital requirement.

The industry recommends updates to the formula for own fund requirements under Article 325ba, calculated as the sum of the following components:

1. $IMA_{(non-default)g\&y} + Capital\ Surcharge + \max(SA, SBM_{all\ desks} - SA, SBM_{g\&y}; 0)$
2. $IMA_{default} + \max(SA, DRC_{all\ desks} - SA, DRC_{IMA\ scope}; 0)$
3. $RAAO_{(SA\ Scope)}$

Industry Recommendation:

Given that the DRC specifically addresses the incremental charge for capturing the sudden JTD risk of issuers, the industry recommends the following:

- The internal model-based DRC should be treated independently from the approval to use the FRTB-IMA (ES and NMRF measurement model) at the trading desk level; and
- Banks should have the flexibility to use the regulatory prescribed SA-DRC instead of being mandated to develop an internal DRC model for FRTB-IMA trading desks.

1.10. Back-testing and PLAT Requirements for Notional Trading Desks

Under the PRA's Basel 3.1 market risk framework, institutions seeking IMA permission must satisfy Back-testing (Article 325bf) and PLAT requirements (Article 325bg) at the individual trading desk level, including for notional trading desks. Both tests depend on a clean, comparable daily hypothetical and actual P&L and are conceptually designed for genuine trading desks holding fair-valued inventory supported by a robust daily front-office P&L.

Notional trading desks are established purely to house non-trading book (banking book) risks not booked in any trading desk and contain positions that are not fair-valued daily. The framework permits a quarterly

fair value basis (Article 325a1(7)) and the use of the last available accounting value (Article 325a1(6)) for such items, while still requiring daily measurement of FX movements (Article 325a1(14)). The daily hypothetical P&L needed for Back-testing and PLAT must therefore be synthetically constructed, introducing operational complexity and noise that is unrelated to model performance, such that any resulting exception or test failure reflects accounting artefacts and valuation convention rather than model quality. The industry considers this outcome to be operationally disproportionate and inconsistent with the prudential purpose those tests are designed to serve.

Industry Recommendation:

The industry recommendation aligns with the US NPR industry response and proposes that the PRA provide a conditional exemption for notional desks from PLAT (Article 325bg) and both desk level and entity level Back-testing (Article 325bf) requirements, subject to the following safeguards:

1. The notional desk uses risk models already validated through model-eligible trading desks that independently meet Back-testing and PLAT requirements.
2. The firm demonstrates, as part of its IMA permission application and on an annual basis thereafter, that the applicable risk factors of the notional desk are captured in a materially complete manner through its model-eligible trading desks.

This preserves prudential integrity where the model is still proven while removing requirements that are operationally disproportionate.

2. Clarifications

2.1. Residual Risk Add-on Scope

The draft rulebook amendments in CP9/26, Appendix 2 Article 325ba (3) imply that the Residual Risk Add-On (RRAO) applies to all positions, including those capitalised under the IMA. We understand this may be an unintentional drafting error rather than a deliberate policy decision, as RRAO is expected to be applicable solely as a component of the ASA.

Industry Recommendation:

The industry recommends that the PRA should amend the final rules to explicitly restrict RRAO to positions not capitalised under IMA (i.e. positions not in IMA_{g&y}).

2.2. Standards for Grant of an IMA Permission

The latest rulebook in PS1/26, as amended by CP9/26, should be updated to reflect both the PRA's proposals and the feedback set out in this response. For example, point 4 of 'Annex 1 Standards for Grant of an IMA Permission' continues to exclude from IMA scope any CIU positions for which the institution cannot look through to the underlying positions. However, CP9/26 amends the definition of IMA-ineligible positions to allow CIUs with more than 90% look-through to be modelled under the IMA.

Industry Recommendation:

The industry recommends that the PRA review and amend the Standards for Grant of an IMA Permission to align with the revised definition of IMA-ineligible positions, so that CIUs with more than 90% look-through may be included within the scope of the internal models approach.

2.3. Scope of Pre-approval and Pre-notification requirements

Firms continue to identify a need for clearer PRA rules on when a proposed change to IMA usage under the FRTB framework should trigger pre-approval or pre-notification requirements. More explicit guidance in this area would support consistent application of the regime and reduce regulatory uncertainty in supervisory engagement. The industry recommends that the PRA provide additional clarification on the two matters set out below.

Product classes

As drafted, Article 325azx (Annex 2 – Part A-1(a)(ii) and Part B-1(a)) appears to retain a requirement to obtain prior approval (Part A-1(a)(ii)) or provide two weeks' pre-notification (Part B-1(a)) where the scope of "product classes" is altered. This construct reflects the Basel 2.5 framework, under which IMA permission is granted at the product-class level.

FRTB permissions are, however, granted at trading desk level.

Industry Recommendation:

The industry recommends that the PRA clarify how the product-class change controls in Article 325azx are intended to operate within the FRTB desk-based permission model.

Changes relating to the reduced set

The industry requests greater precision on the application of Article 325azx(1)(c) to "material changes" connected to a firm's selection of the reduced set of modellable risk factors referred to in Article 325bc(2). The industry's interpretation is that this provision is directed at material amendments to approved models, policies or procedures that affect the reduced-set methodology or outcomes, rather than at routine period-to-period fluctuations in the reduced set itself. In practice, the composition of the reduced set may change over time — for example, across quarterly periods — as a consequence of the normal operation of approved models. Clarification on this point would help ensure that ordinary period-to-period movements are not treated as change events requiring repeated supervisory interaction.

The industry further notes that while Annex 2 – Part A-1(c) provides impact thresholds for ESRM, SSRM and DRC, it does not set corresponding thresholds or expectations for evaluating impacts on the reduced-set/full-set ratio referenced in Article 325bc(2). The industry would welcome clarification from the PRA on the relevant materiality criteria for this assessment, and confirmation that such criteria apply only when determining whether a change to approved models, policies or procedures requires pre-approval — rather than to time-dependent changes arising from the normal operation of already-approved models used to determine the reduced set.

Industry Recommendation:

The industry recommends that the PRA clarify that Article 325azx(1)(c) does not apply to routine period-to-period fluctuations in the reduced set arising from the normal operation of approved models, and that the PRA establish explicit materiality thresholds for the reduced-set/full-set ratio under Article 325bc(2) consistent with those provided under Annex 2 – Part A-1(c).

3. Reporting and Disclosure Requirements

The industry welcomes the PRA's proposal to make consequential amendments to the reporting and disclosure requirements to reflect the revised NMRF classification and aggregation mechanics, and supports the objective of ensuring that disclosures remain interpretable and comparable across firms.

However, the industry notes that the updates set out in the appendices to CP9/26 do not currently appear to give full effect to the proposal as stated. As drafted, the changes to the Reporting Instructions (Annex II) and the corresponding templates (Annex I) reference only one template — OF 24.02 Market Risk: Internal Model Approach 1B (IMA1B) — and are limited to updates arising from the amended definitions for non-modellable risk factors.

Several other templates appear to remain aligned to the pre-existing reporting framework, requesting desk-level ASA capital in a manner that maps to the historical split between SA scope and IMA scope rather than to the proposed aggregate construction based on the difference between the ASA for all positions and the ASA for IMA positions. This creates ambiguity for firms about what should be reported and how reported figures should reconcile to the revised capital requirement, which could result in inconsistent implementation across firms and reduce the comparability of disclosures that the PRA's proposal is intended to preserve.

Industry Recommendation:

The industry recommends that the PRA extend the reporting and disclosure amendments beyond OF 24.02 (IMA1B) and update the full set of relevant reporting and disclosure templates for IMA banks to explicitly capture: (i) ASA across all positions; (ii) ASA on IMA positions; and (iii) the incremental component implied by the proposed aggregation formula. The updated templates could also set out clearly how IMA firms are expected to reconcile reported figures to the final capital requirement under the revised formula, including the scope perimeter between IMA and ASA positions. The industry further recommends that the Reporting Instructions be enhanced to provide clear and consistent guidance on calculation methodology and aggregation mechanics, scope and desk classification, and any aggregation or reconciliation checks that supervisors expect firms to perform. A non-exhaustive list of impacted disclosure and reporting templates is set out in the Appendix to this response.

4. The Alternative Standardised Approach (ASA)

The industry notes that CP9/26 is focused on targeted adjustments to the IMA framework. Nevertheless, the industry wishes to draw the PRA's attention to a number of areas within the ASA framework where the current calibration and design give rise to capital requirements that are disproportionate, inconsistent with international approaches, or operationally difficult to implement. These concerns are significant for firms that will operate under the ASA in whole or in part, and the industry considers that they warrant attention as part of the PRA's ongoing post-implementation review programme.

In that context, the sections below address a number of outstanding ASA concerns. These include: the absence of an inter-asset class correlation parameter within the Sensitivities-Based Method (SBM), which results in SBM capital requirements that do not reflect observed diversification across risk classes and are materially more conservative than historical data would support; the treatment of the Alternative Correlation Trading Portfolio (ACTP), where UK firms lack the permanent permission to apply look-through and decomposition approaches available to their US and EU counterparts, creating a direct competitive disadvantage; the calibration of the hedge benefit ratio (HBR) in the Default Risk Charge, where the current formula materially overstates the benefit of short positions in stressed scenarios; and the treatment of DRC maturities for deliverable instruments.

4.1. Adjustment factor for own funds requirements under the ASA

In general, the SBM would strengthen the market risk capital framework by introducing a standardized approach to market risk within the UK banking capital framework, serving as a credible alternative to the internal models approach.

The industry believes that certain aspects of the SBM framework should be improved to better recognise diversification and align market risk capital requirements with common risk management practices.

To facilitate a robust assessment of diversification effects across asset classes that leverages data, we propose a concept previously submitted in response to the US NPR²⁶ and in response to a similar proposal²⁷ from the EC in their consultation on market risk²⁸. The industry recommended incorporating a correlation parameter across risk classes within SBM, in accordance with the following formula:

$$\text{capital requirement} = \sqrt{\sum_b SBM_b^2 + \sum_b \sum_{c \neq b} \rho_{bc} SBM_b SBM_c} + DRC + RRAO$$

²⁶ ISDA, SIFMA and IIF. *Response to US Basel III NPR*. June 2026. [IIF, ISDA and SIFMA Submit Comment Letter on Basel III Endgame Proposal](#)

²⁷ ISDA, AFME & IIF. *ISDA/AFME/IIF Response to EC's Targeted Consultation on the Market Risk Prudential Framework*. January 2026. Available at: [ISDA-AFME-IIF-Response-to-ECs-Targeted-Consultation-on-the-Market-Risk-Prudential-Framework.pdf](#)

²⁸ European Commission. *Targeted Consultation on the Application of the Market Risk Prudential Framework—2025*. March 2025. https://finance.ec.europa.eu/regulation-and-supervision/consultations-0/targeted-consultation-application-market-risk-prudential-framework-2025_en.

Under this formulation, SBM_b would represent the risk class-level capital requirement for each risk class under SBM; ρ_{bc} would represent a new inter-asset class correlation parameter or parameter set ('Rho Parameter').

The industry response to the US NPR²⁹ advocated for the introduction of a rho parameter of 0.5, which led to an approximate reduction of 22% in SBM capital (or 13% in FRTB-ASA capital). However, historical industry correlation³⁰ analysis across asset classes indicates that this rho value is conservative. As shown in Figure 1 and Figure 2, a rho of 0.5 is unnecessarily conservative, with correlations distributed around 0% and with respect to the tail scenario of actual realised correlations.

This is further demonstrated by Figure 3 and Figure 4, which illustrate that even during periods of market stress since 2008, correlation levels have remained stable without significant spikes. Correlations are distributed around 0%. An extreme assumption – such as using the 99.9th percentile of the distribution – would correspond to calibrating rho at 30%. This demonstrates that the industry's proposed rho of 0.5 is itself a conservative assumption, providing a meaningful buffer above what the historical data would support even under stressed conditions.

²⁹ ISDA, SIFMA and IIF. *Response to US Basel III NPR*. June 2026. [ISDA, SIFMA and IIF Submit Comment Letter on Basel III Endgame Proposal](#)

³⁰ As the focus is correlation, historical VaR data from the industry can be used as a suitable proxy for SBM to back out the rho correlation parameter introduced. Data is obtained from public disclosures of EU & US banks' historical VaR figures from Q2 2008 to Q1 2026.

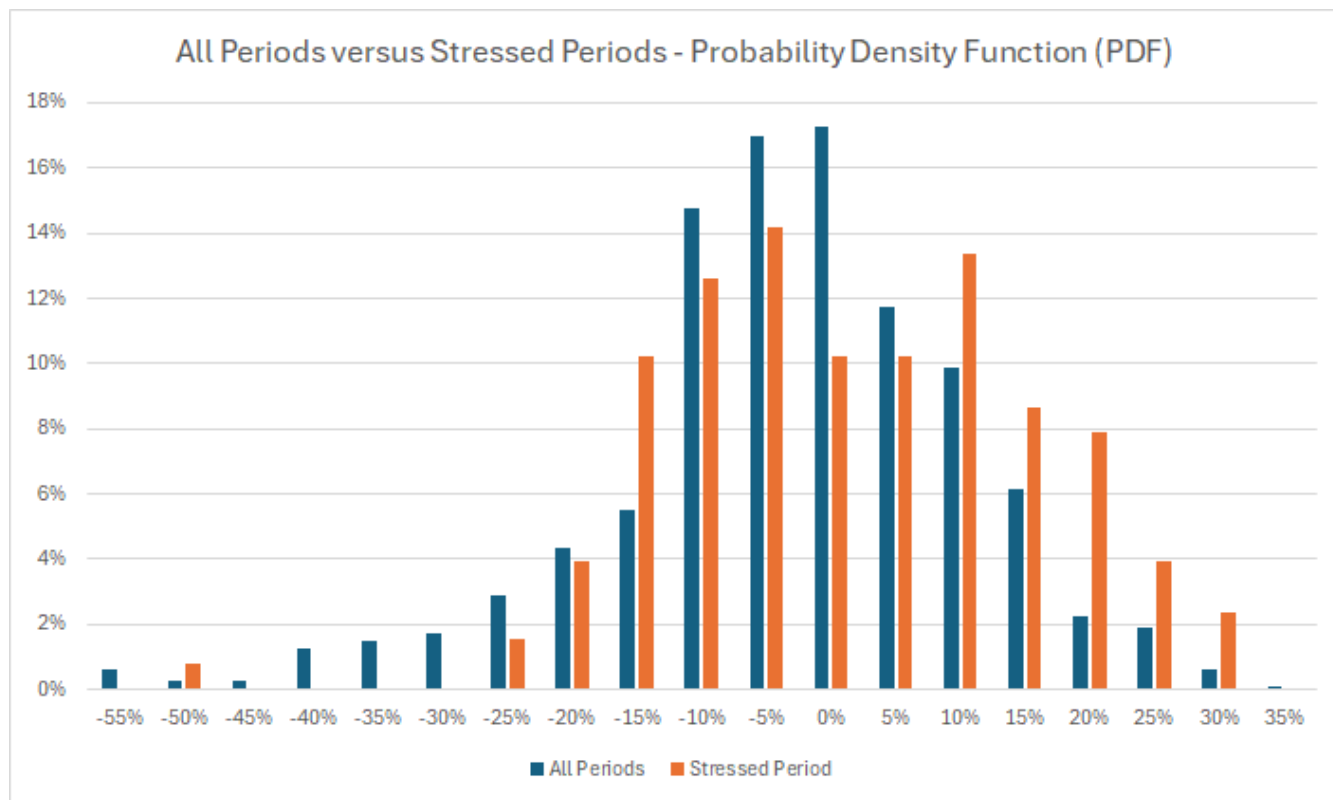


Figure 1 - Distribution of implied rho

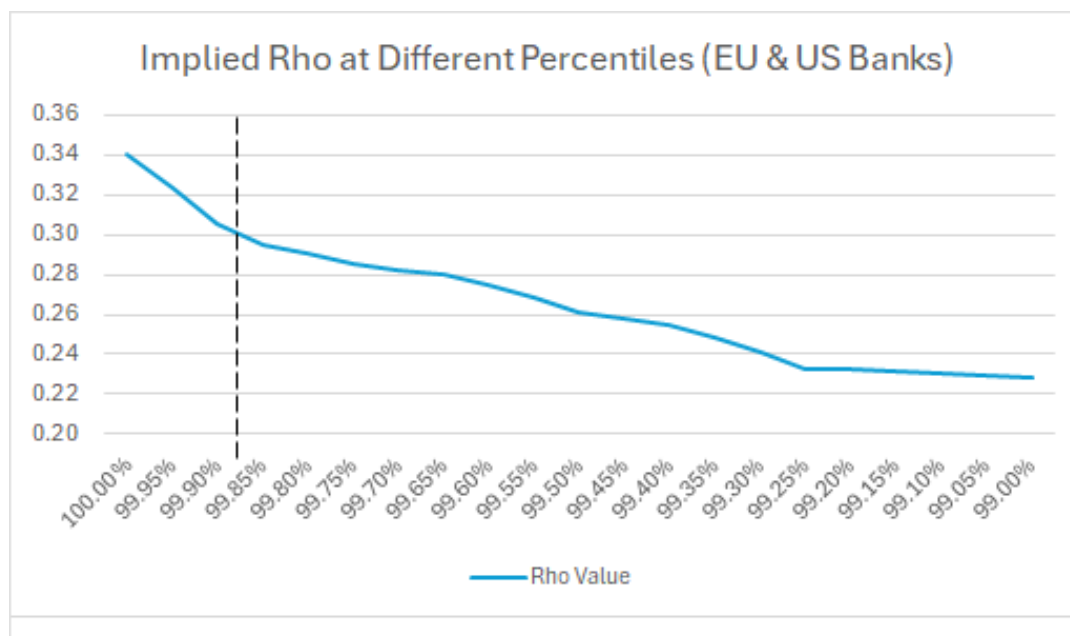


Figure 2 - Implied Rho at extreme percentiles

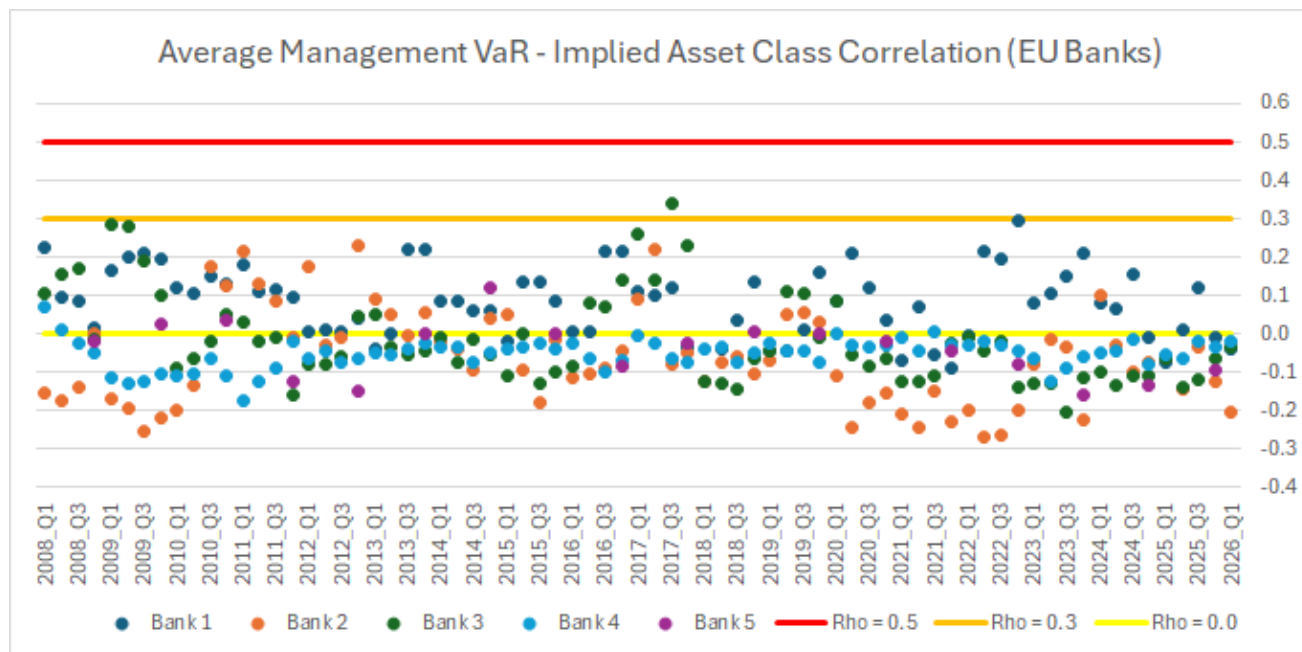


Figure 3 - EU banks implied asset class correlation obtained from management VaR since Q2 2008

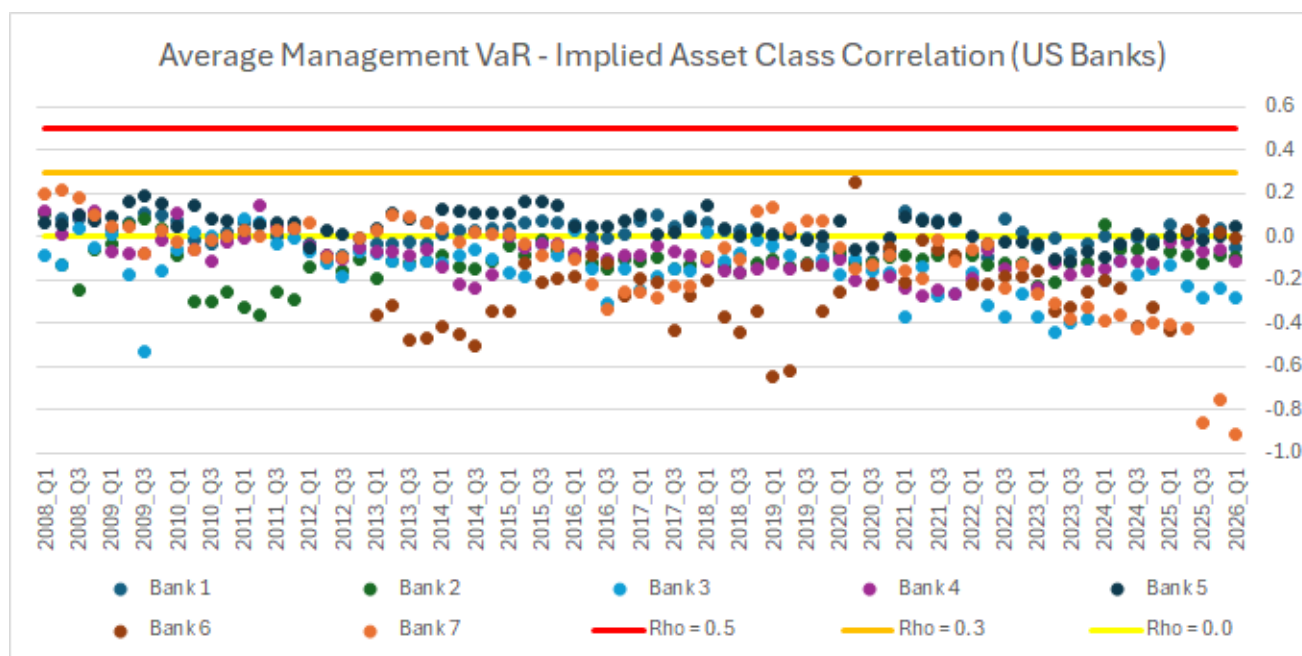


Figure 4 - US banks implied asset class correlation obtained from management VaR since Q2 2008

Industry Recommendation:

The industry recommendation aligns with the US NPR industry response which incorporates a correlation parameter across risk classes within SBM with a rho value of 0.5³¹. The industry considers this to be a conservative calibration as the historical correlation analysis presented above demonstrates, realised inter-asset class correlations are distributed around 0% and, even at the 99.9th percentile of historical implied rho values since 2008, correspond to an implied rho of approximately 30%. A rho of 0.5 therefore provides a substantial margin of conservatism above what the data would justify, while delivering a meaningful improvement in the risk-sensitivity of the SBM framework.

The EU Delegated Regulation introduced a multiplier in the FRTB-SBM framework and the industry encourages the PRA to consider this more risk-sensitive approach outlined above, which better reflects diversification benefits across asset classes while helping to also address level playing field concerns across jurisdictions.

4.2. Alternative Correlation Trading Portfolio

Correlation trading instruments play an important role in financial markets by improving liquidity and price discovery in the corporate debt market, while providing cost-effective hedging solutions for managing default risk. A reduction in access to effective hedging instruments, combined with higher hedging costs, could limit banks' ability to provide funding and risk management services to clients, ultimately slowing investment and economic expansion.

Banks remain concerned about the uncertainty surrounding the rules for the alternative correlation trading portfolio (ACTP), as well as the potential for disproportionate impacts from ACTP products. This is particularly the case if decomposition across credit spread risk (CSR) is not permitted, and the DRC decomposition approach remains unclear.

Credit Spread Risk

Standard practice in bank risk management for ACTP baskets and indices is to apply look through, decomposing positions into single-name constituents to reflect the actual underlying credit exposures and to enable netting at the issuer level. A capital framework that does not permit this approach produces capital requirements that are disconnected from economic risk, forces banks to manage economic risk

³¹ We note that the SBM rho value of 0.3 aligns with the average of the values in the cross-asset class correlation matrix used in the ISDA standard initial margin model (ISDA SIMM®). ISDA SIMM® employs a similar formula to the cross-asset class diversification approach proposed above. However, ISDA SIMM® alone is not enough to justify the rho value of 0.3 since it has two fundamental differences from FRTB SA: (1) it does not use a fixed set of parameters and instead undergoes concentric recalibration every six months based on updated market data; (2) it incorporates product-class netting (e.g., interest rate risks from an equity trade cannot be netted against interest rate risks from an interest rate swap), which influences the calibration.

and regulatory capital in separate and inconsistent processes and creates significant disincentives to risk-reducing hedging activity.

Under Article 325i(1) ACTP index positions are excluded from the look-through treatment available for other multi-underlying instruments and must instead be capitalised on the basis of a single sensitivity to the index. The effect is that netting of sensitivities across economically near-identical positions — for example, between consecutive series of the same index differing by only one or two underlying names — is not recognised, producing capital charges that bear no reasonable relationship to the actual net spread risk of the position. Additionally, in the absence of decomposition, there is no clear basis for mapping the undecomposed CSR sensitivity within the ACTP framework, since no index buckets exist within the relevant risk class.

The industry notes that this issue has now been addressed in both the US and the EU, creating a significant and unjustified divergence with the UK rules. In the US, the NPR³² explicitly permits the decomposition of multi-underlying instruments for ACTP CSR. In the EU, Article 495t³³ introduces a transitional derogation from Article 325i(1)(a) and (1)(b) of the CRR, allowing institutions to apply the look-through treatment to ACTP index positions until 31 December 2029. The UK PRA rules contain no equivalent provision, leaving UK-regulated firms at a material competitive disadvantage relative to their US and EU counterparts that are active in the same markets.

Default Risk Charge

The rules for ACTP DRC remain unclear. While Article 325ac allows for decomposition using a valuation model in the context of DRC, it is unclear how this should be applied. To ensure transparency and consistency, we request confirmation that the DRC for all multi-underlying instruments can be calculated as follows:

- a. Decomposition into single-name JTDs, assuming that only the single-name defaults, without rescaling the single-name JTDs
- b. Decomposition into single-name JTD using the non-securitization supervisory LGD
- c. Netting against all other exposures in the same underlying name, including single-name CDSs and decomposed single-name exposures of untranched indices
- d. Bucketing of single name exposures should follow the non-securitisation approach
- e. Assigning non-securitization risk weights to the netted single-name JTDs

An illustrative example demonstrating why each of these points — in particular the treatment of scaling under (a) and the consistent application of LGD under (b) — is necessary to ensure a risk-sensitive and

³² US NPR 2026 - 91 Fed. Reg. at 15,059. [Regulatory Capital Rule: Category I and II Banking Organizations, Banking Organizations With Significant Trading Activity, and Optional Adoption for Other Banking Organizations](#)

³³ https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=OJ:L_202601221

internally consistent capitalisation of ACTP positions can be found in the ISDA paper *The Impact of the FRTB on Correlation Trading*³⁴.

Industry Recommendation:

Consistent with the US NPR and EU Delegated Regulation, we urge the PRA to explicitly permit the look-through and decomposition of ACTP index and basket positions into their single-name constituents. For DRC, the industry recommendation aligns with the US NPR industry response and proposes that the PRA confirms the decomposition methodology set out above as the permitted approach for calculating ACTP DRC requirements, and encourages the PRA to engage with other major jurisdictions to support convergence on a consistent international approach. Without these changes, the current capital treatment could make it economically unfeasible for banks to engage in activities that support efficiency and liquidity in the corporate debt market.

4.3. Default Risk Charge – Hedge Benefit Ratio

Under the Market Risk ASA framework, Article 325y(4), the DRC framework requires institutions to calculate a hedge benefit ratio (HBR) to recognise the offsetting effect of short positions against gross jump-to-default exposures within each bucket. The HBR is calculated as the ratio of the net long default exposure to the sum of gross long and gross short default exposures within the bucket, and is applied uniformly across all issuers within that bucket.

The industry considers that the current HBR formulation does not adequately capture the diversification and hedging benefits available within a well-diversified portfolio containing both long and short positions. The fundamental limitation of the existing approach is that it aggregates long positions and short positions separately at the bucket level, in effect assuming perfect correlation across issuer defaults within each directional grouping. For a portfolio with genuine economic hedging between long and short positions — where the underlying issuer defaults are not perfectly correlated — this assumption is not reflective of actual default risk and leads to capital requirements that are systematically overstated relative to the true risk of the portfolio.

The industry notes that the SA-DRC calculation is the primary methodology and the HBR is therefore the principal and, in most cases, sole mechanism available to recognise hedging and diversification within DRC. Its appropriate calibration is correspondingly important: an HBR that assumes perfect issuer default correlation within each bucket does not meaningfully reflect the risk reduction achieved through genuine portfolio hedging, and results in capital requirements that do not correspond to the economic risk of well-managed trading book positions.

³⁴ *The Impact of the FRTB on Correlation Trading* (October 2025): <https://www.isda.org/2025/10/07/the-impact-of-the-frtb-on-correlation-trading/>

The industry has raised equivalent concerns in its response to the US NPR³⁵. The industry proposed a revised HBR formula that would better capture the economic hedging relationship between long and short positions within each bucket. Under this alternative formulation, the HBR for each bucket would be calculated as:

$$HBR = \frac{\sum net\ default\ exposure_{(long)}}{\sqrt{(\sum net\ default\ exposure_{(long)})^2 + (\sum net\ default\ exposure_{(short)})^2}}$$

This revised formula produces an HBR between 0 and 1 — an economically meaningful range — and reflects the less-than-perfect correlation between issuer defaults on the long and short sides of the portfolio, rather than the perfect correlation assumption embedded in the current approach. Based on US QIS data, implementation of this revised formula would result in a reduction of approximately 19% in non-securitisation DRC risk-weighted assets, bringing capital requirements into closer alignment with the actual risk profile of diversified trading portfolios.

Industry Recommendation:

The industry recommendation aligns with the US industry response and proposes that the PRA revise the HBR formula in Article 325y(4) of the Market Risk: Advanced Standardised Approach (CRR) Part to better reflect the economic hedging and diversification benefits available within well-diversified portfolios containing both long and short default exposures. Specifically, the HBR for each bucket should be calculated as the ratio of net long default exposure to the square root of the sum of squared gross long and gross short default exposures, rather than the ratio of net long exposure to total gross exposure. This revision would remove the implicit assumption of perfect correlation across issuer defaults within each directional group, produce capital outcomes that are more commensurate with the actual default risk of hedged portfolios.

4.4. DRC maturity alignment for deliverable instruments hedging derivative contracts

Under the current PRA rules, the rules require maturity scaling for credit exposures, including derivatives, to be based on the instrument maturity without any consideration of deliverability of an instrument in a derivative contract. In cases where maturity of the derivative and the deliverable instrument are different, and either one of them is less than 1 year, this would lead to broken hedges in DRC capital. In practice long dated deliverable instruments can often be delivered into short dated derivative contracts, for e.g. in agency trading, UMBS agency bonds which usually have long dated maturity, can be delivered into short

³⁵ ISDA, SIFMA and IIF. *Response to US Basel III NPR*. June 2026. [ISDA, SIFMA and IIF Submit Comment Letter on Basel III Endgame Proposal](#)

dated To-be-announced contracts (TBAs), these TBAs typically have maturity of 3 months. Similar situations would arise in other cases, for e.g. bonds and physically settled bond forwards/options.

The US NPR rules [§ __.210 (a)(2)(iii)(A)(2)] address this issue by allowing banks to assign the derivative's maturity to the hedged instrument where the instrument can be delivered into the derivative contract, to permit full offsetting for DRC purposes. For e.g. if the UMBS pool is deliverable into the TBA contract (i.e. it satisfies all TBA good-delivery requirements), then the bank may treat the UMBS pool as having the same maturity as the TBA contract, thereby permitting full offsetting.

The lack of clarity in PRA 1/26, versus the explicit guidance in the US NPR, may imply the full offsetting across the derivative and its deliverable instrument is not permissible under the PRA rules. This creates a competitive disadvantage for UK firms vs. US peers. Additionally, such a treatment would result in higher capital requirements that do not reflect the underlying risks of these transactions.

Industry Recommendation:

The industry recommendation aligns with the US NPR and proposes that the PRA clarify that institutions may align the maturity of a default risk position with that of a derivative contract it hedges, where the position can be delivered in fulfilment of the contract. Aligning the PRA framework with the US NPR would result in a more risk-sensitive and internationally consistent capital treatment.

5. Trading Book / Banking Book Boundary

The industry has identified a number of trading book/banking book boundary provisions that warrant further consideration once implementation experience has been gained. In particular, firms have observed instances where economically similar exposures could receive a different boundary treatment depending on the legal form through which risk is held. The industry considers that there are opportunities to enhance the risk sensitivity and operational effectiveness of the boundary framework while maintaining its prudential integrity.

Industry Recommendation:

The industry recommends that the PRA consider any issues as part of their post-implementation assessment of the FRTB framework, drawing on firms' implementation experience and regulatory reporting of the boundary to identify targeted improvements to the consistency, risk sensitivity, and operational effectiveness of the boundary. The industry will also look to highlight any thematic issues that are identified. The industry also recommends that the PRA monitor developments in other major jurisdictions and, where differences in boundary requirements give rise to unnecessary divergences in classification for internationally active firms, consider whether alignment with the approaches adopted in those jurisdictions would be appropriate.

Appendix

The below is a non-exhaustive list of impacted disclosure and reporting templates with suggested amendments and clarifications.

Reporting

- **Output Floor:**
 - **Template OF 02.00 (CA2)**
 - **Row 050, column 0020** - Clarify that, for IMA firms, ASA capital should be reported on the basis of the difference between ASA for all positions and ASA for IMA positions.
 - **Template OF 02.01**
 - **Row 0571-0574** - For IMA firms, these rows appear to request ASA-scope (non-modelled) amounts; however, the own funds requirement is aggregated using the difference between ASA for all positions and ASA for IMA positions. The PRA may wish to clarify the instructions and/or adjust the template to ensure the reporting aligns with the intended aggregation approach.
- **Market Risk:**
 - **Template OF 91.01 – 91.10**
 - For IMA firms, these templates appear to request ASA-scope (non-modelled) amounts; however, the own funds requirement is aggregated using the difference between ASA for all positions and ASA for IMA positions. As the templates do not currently appear to support “marginal” capital reporting directly, the PRA may wish to clarify the instructions (and, if needed, consider minor template adjustments) to support consistent interpretation and implementation.

Disclosures

- **Market Risk:**
 - **Template: UKB MR2**
 - **Row 0130 and Row 0150:** Consider updating the row descriptions/instructions to make clear that ASA capital is derived as the difference between (i) ASA for all positions and (ii) ASA for IMA positions.
 - **Template UKB MR1**
 - Clarify the intended scope for IMA firms, i.e. whether ASA disclosures should cover ASA for all positions or only positions within ASA scope.

- **Output Floor:**
 - **Template UKB OV1**
 - **Item 20b** - Clarify that, for IMA firms, ASA capital should be presented on the basis of the difference between ASA for all positions and ASA for IMA positions.
 - **Template UKB CMS1**
 - **Row 050, column b** - Clarify that, for IMA firms, ASA capital should be presented on the basis of the difference between ASA for all positions and ASA for IMA positions.

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Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 78 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on [LinkedIn](#) and [YouTube](#).

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The Association for Financial Markets in Europe (AFME) represents a broad range of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks and other financial institutions. AFME advocates for stable, competitive and sustainable European financial markets, that support economic growth and benefit society.

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The Institute of International Finance (IIF) is the global association of the financial industry, with about 400 members from more than 60 countries. The IIF provides its members with innovative research, unparalleled global advocacy, and access to leading industry events that leverage its influential network. Its mission is to support the financial industry in the prudent management of risks; to develop sound industry practices; and to advocate for regulatory, financial and economic policies that are in the broad interests of its members and foster global financial stability and sustainable economic growth. IIF members include commercial and investment banks, asset managers, insurance companies, professional services firms, exchanges, sovereign wealth funds, hedge funds, central banks and development banks.

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UK Finance is the collective voice for the banking and finance industry, representing around 300 firms. We are a centre of trust, expertise and collaboration, championing a thriving financial-services sector and its role in helping individuals, businesses and communities achieve their ambitions.

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