FRTB QIS4 Refresh - Spotlight

- Significant step in right direction – Highlights:
  - SA methodology overall capital charge is 2.4x compared to current market risk capital (QIS4: 4.2x); and
  - Residual risk add on in standard rules has reduced to 6% (QIS4: 49%) of total SA capital.
- NMRF remains a big component of internal models approach capital charge 30% (QIS4: 29%)
- Cliff effect between standard rules and internal models remains because:
  - Banks were asked to assume most desks obtain model approvals in the QIS instructions. In reality most banks are likely to lose model approval for a number of desks due to stringent tests;
  - Capital floors based on some percentage of standardised approach will be imposed; and
  - Cliff effect between the IMA and SA varies materially between and within risk classes, which may result in significant reallocation of capital and business activity.

	SA to IMA*
Interest rate risk	3.0
Credit spread risk	2.0
Equity risk	4.1
Commodity risk	2.9
Foreign exchange risk	6.2

*SA excluding residual risk add on & IMA excluding NMRF

*Results based on data contributed by 21 banks, refreshing earlier QIS4 analysis based on final FRTB rules

- Charges on securitization products improved in the final text, however, when looking at capital for the securitization portfolio including hedges, we see a significant increase in capital versus current levels.
- The results of P&L Attribution test and the calibration of the capital floor based on standard rules need to be considered to assess the full capital impact and how the change will translate to bank business models.