FRTB QIS 7 Refresh – Spotlight (June 2017)

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- Further calibration still required:
  - SA methodology overall capital charge is 2.5x compared to current market risk capital
  - FRTB overall capital charge assuming current model approval is 1.6x compared to current market risk capital
- NMRF remains a big component of the internal models approach capital charge and has increased to 36%
- Cliff effect between standard rules and internal models remains because:
  - 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.

	SBM§ to ES*
Interest rate risk	3.7
Credit spread risk	1.6
Equity risk	3.8
Commodity risk	3.3
Foreign exchange risk	5.3

§The Sensitivities Based Method (SBM) is the Standardised Approach (SA) less the Default Risk Charge and Residual Risk Add-on, and is reflected in relation to Expected Shortfall (Internal Models Approach).

*including regulatory multiplier of 1.5

*Results based on data contributed by 30 banks

- 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.
- Inability to use internal models for part of the portfolio could result to disproportional capital charges due to the large gap between the standard rules and internal models and loss of the diversification benefit