BNP PARIBAS

Response to the call for evidence on a third EU Commission Delegated Regulation

We are welcoming the consultation on a potential adoption of an European Commission third Delegated Regulation with respect to the European Union's prudential framework for market risk. However, we are strongly favouring a postponement of the FRTB, the only way to achieve the stated objective (level playing field with other jurisdictions) in a simple way; something that cannot be done via a Delegated Regulation under the mandate of CRR article 461a. It requires therefore a Legislative Proposal at the earliest possible time. ***

Question 1: BNP Paribas views on FRTB implementation

As expressed in the 3rd DA consultation paper, a "*continued delay in other major jurisdictions*" led the Commission "*to delay the start of application of the market risk requirements*" by one year twice. This was "*to avoid significant competitive disadvantages for EU banks' trading activities*". The Commission is acknowledging "*ongoing uncertainty about the implementation timeline and final rules in other jurisdictions*". Specifically: (i) In the UK, Basel 2.5 IMA banks, i.e. those internationally active, may continue using their current market risk capital requirements until 1st of January 2028. (ii) In the US, progress has been slow, and the Basel 3 Endgame Re-Proposal has not yet been released. Considering the time necessary for the consultation process, the finalisation of the rules and operational implementation, FRTB is unlikely to be applicable before 2028.

Facing a similar situation as in 2024 and 2025, the same logic should once again apply: the distortion of the level playing field resulting from differences in the international timeline should be addressed with a postponement of the FRTB application in the European Union. This solution bears many advantages: (i) Not only is it consistent with the root cause of the level playing field issue, and with the intention of the co-legislators, but it is also the simplest route to address it. (ii) A delay removes the need to define temporary measures which would entail many elements of complexity in their calibration and may not reflect well the final rules that will apply at the end of the transitional period. (iii) It also addresses the complexity and costs resulting from changes in the trading book / banking book boundary, since the new boundary definition is to be applied alongside the FRTB rules.

In the spirit of Article 461a CRR, all temporary measures adopted by the Commission aim ensuring a level playing field with third countries, in terms of impact on own funds requirements and as regards the date of application. We appreciate that the empowerment of the Commission only allows a postponement by up to two years which have now been exhausted. Article 461a also mandates the Commission to submit a legislative proposal where it has adopted Delegated Acts to avoid any distortion in the level playing field, where appropriate to do so.

In the prevailing context, unforeseen at the time CRR3 was adopted, and whereas the UK and US have deferred FRTB both content and application to a later date, the EBA report scheduled for July 2026 on the implementation of international standards on own funds requirements for market risk in third countries would be baseless and useless as the basis for the submission of a legislative proposal.

We therefore urge the Commission to submit a legislative proposal at the earliest possible date, to delay FRTB go-live until other key jurisdictions apply the new market risk rules.

Other temporary measures would prove unnecessary if FRTB is delayed. We are convinced that **a delay is the simplest solution to alleviate level-playing field issues**.

However, we will be commenting thereafter on the Commission proposals in the event that a delay would prove impossible. In such case, we would like to stress that the temporary measures should be such that there is no increase in own funds requirements (OFR) for each and every single bank because of the FRTB (directly or through the OF).

Question 2: BNP Paribas views on temporary measures

We welcome the temporary targeted relief measures proposed ("*first component*"). They are going in the right direction and reflect many shortcomings that have been highlighted by the Industry.

However, their impact falls short of preserving own funds requirements at the existing level, under the Basel 2.5 rules. Hence, by themselves, they are insufficient to preserve the level playing field. We refer you to the BNP Paribas' response to the second Delegated Act consultation (a summary of which is provided in the below overview).

Also, we would like to stress again, that it should not preclude the way FRTB shortcomings will be addressed eventually and made permanent via a legislative proposal. Remediations may differ and additional improvements are likely to be needed to achieve a well-functioning prudential framework, consistent across jurisdictions.

<u>Overview of BNPP assessment of target measures</u>

First, the impact of FRTB on own funds requirements is extremely high for banks with large trading activities. both for those applying for the internal model approach (A-IMA) and for those that will rely solely on the standardised approach (A-SA). For some banks, own funds requirements under FRTB as in the CRR3 may be a multiple to what they are under the current applicable rules (European transposition of the Basel 2.5 framework). Pillar 3 disclosures show that the 3 most impacted EU banks, which are the most active EU banks in trading activities, experience on average FRTB A-SA OFR more than double the current Basel 2.5 OFR.

Our assessment, for BNP Paribas, of the European Commission targeted measures is that the OFR increase from FRTB is reduced, stemming mostly from the NMRF framework proposed multiplier. However, OFR will remain above current Basel 2.5 levels.

We recall that the highest priority of the temporary targeted measures for BNP Paribas are:

- P&L Attribution Test (PLAT): making it a monitoring tool
- Non-modellable risk factors (NMRF): postponement of the framework
- Default risk charge (DRC): aligning with the A-SA DRC for sovereign issuers or allow the use of the A-SA DRC
- Expected shortfall (ES): allowing increased liquidity horizon for short maturity instruments
- Collective investment units (CIU): allowing alternatives to looking-through funds

We welcome the Commission renewal of the second Delegated Act consultation targeted relief measures (and additions to them – in particular with regards to the A-SA residual risk add-on) which address, to some extent, some of the above priorities, but we do insist that they are not going far enough. In particular, the

NMRF framework is not deferred, but is only made less penalising and the ES framework still excessively capitalises short maturity hedges.

Question 3: BNP Paribas views on Market OFR multiplier

The "*second component*" is an essential part to complement the targeted relief measures to preserve a level playing field. This multiplier should be such as the Total Risk Exposure Amount (TREA) of each bank is unaffected by the introduction of FRTB.

Indeed, the impact of FRTB may be direct in the un-floored total risk exposure amount (U-TREA) or indirect through the output floor. Hence, a multiplier should be such as to preserve the total risk exposure amount (*TREA*).

Hence, in practice, the multiplier '*m*' shall be set such as:

- if the output floor is not binding, $m \cdot FRTB = B2.5$
- if the output floor is binding, $m \cdot x \cdot FRTB_{SA} = B2.5$
- if the OF is close to U-TREA, then the value of m falls within $B2.5/FRTB$ and $B2.5/FRTB_{SA}/x$

Where:

- $B2.5$, $FRTB$ and $FRTB_{SA}$ are the market risk capital charges under respectively the existing applicable rules (Basel 2.5 framework) and the Fundamental Review of the Trading Book before floor and in the output floor (full standardised approach)
- x is the factor applicable to the standardised total risk exposure amount (*S-TREA*) in the calculation of *TREA* [CRR Art.92], factor which is increased during the transitional period from 50% in 2025 to 72.5% in 2030 [CRR Art.465]

Finally, there should be a cap to the multiplier since it is intending to apply for "*banks negatively impacted by the new rules*" only.

Question 4: BNP Paribas preferred option for a multiplier

BNP Paribas is favouring option (a) over all four options.

The proposed multiplier should be such as to preserve own funds requirements for each bank negatively impacted. This could be achieved if it is calibrated at bank level at each reporting date.

Given that the most severely impacted banks are those, internationally active, with the largest trading book, an Industry-wide multiplier could only be relevant if calibrated on the most impacted bank. Any other calibrations (ex. an average over negatively impacted banks) will leave banks the most exposed to international competition at a disadvantage (i.e. they will still experience an increase in capital requirements).

A multiplier calibrated only once, at the date of implementation of the FRTB, will provide operational benefits. However, it will lack risk sensitivity, and its value may be questioned after a period of time.

Considering the above, weighing the pros and the cons, we have a strong preference for option (a), i.e. for a bank-specific multiplier re-calibrated periodically while options (c) and (d) are the worse.