

PRA RULEBOOK: CRR FIRMS: MARKET RISK (CRR) INSTRUMENT 2026**Powers exercised**

- A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137G (The PRA’s general rules);
 - (2) section 137T (General supplementary powers);
 - (3) section 144G(1) (Disapplication or modification of CRR rules in individual cases);
 - (4) section 144H(1) (Relationship with the CRR);
 - (5) section 192XA (Rules applying to holding companies); and
 - (6) section 192XC (Disapplication or modification of rules in individual cases).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

PRA Rulebook: CRR Firms: Market Risk (CRR) Instrument 2026

- C. The PRA makes the rules in the Annexes to this instrument.

Part	Annex
Market Risk: Internal Model Approach (CRR)	A
Reporting (CRR)	B
Trading Book (CRR)	C

Notes

- D. In the Annexes to this instrument, the “notes” (indicated by “[Note:]”) are included for the convenience of readers but do not form part of the legislative text.

Templates, Annexes and instruction documents

- E. The rules in this instrument include any template, Annex or instruction document referred to in the rules. Where indicated by “[here](#)”, the rules when published electronically will include a hyperlink to the appropriate document.

Commencement

- F. This instrument comes into force on 1 January 2027.

Citation

- G. This instrument may be cited as the PRA Rulebook: CRR Firms: Market Risk (CRR) Instrument 2026.

By order of the Prudential Regulation Committee

[DATE]

Annex A

Market Risk: Internal Model Approach (CRR) Part

In this Annex new text is underlined and deleted text is struck through.

1 APPLICATION AND DEFINITIONS

...

1.3 In this Part, the following definitions shall apply:

...

ineligible position

means a position which is:

- (1) a securitisation or re-securitisation position or a position that is included in the *ACTP*; or
- (2) a CIU position (other than a CIU position of the type specified out in Article 325az(9)) for which the institution is unable to look through to where the underlying positions of the CIU which the institution is able to look through to amount in aggregate to less than 90% of the value of the CIU.

...

type 1 non-modellable risk factors

means those risk factors or standardised buckets that:

- (1) are not modellable in accordance with paragraph 3 or 8 of Article 325be, as applicable; and
- (2) meet all the requirements of paragraphs 4 to 14 of Article 325bh.

type 2 non-modellable risk factors

means those risk factors or standardised buckets that:

- (1) are not modellable in accordance with paragraph 3 or 8 of Article 325be, as applicable; and
- (2) do not meet all the requirements of paragraphs 4 to 14 of Article 325bh.

...

4 TRANSITIONALS

4.1 ~~For a period of one year beginning with the day after the end of the *IMA transitional period*,~~
An institution shall:

- (1) for a period of three years beginning with the day after the end of the *IMA transitional period* shall apply this Part for the purposes of calculating its own funds requirement for market risk under Article 325ba on the basis that, throughout that period, every trading desk for which the institution has an *IMA permission* is classified as a green desk in accordance with Article 325bg; and
- (2) for a period of one year beginning with the day after the end of the *IMA transitional period* shall not be required to demonstrate compliance with paragraph 6(a) of the *IMA standards* for the purposes of an application for an *IMA permission*.

...

5 CAPITAL REQUIREMENTS FOR MARKET RISK INTERNAL MODEL APPROACH (CRR)

SECTION 1 PERMISSION AND OWN FUNDS REQUIREMENTS

ARTICLE 325az PERMISSION TO USE INTERNAL MODELS

...

3A. By way of derogation from paragraph 2, an institution may, with the permission of the PRA, adjust the own funds requirement calculated by its internal model in accordance with this Part. When applying for such permission, the institution shall demonstrate to the satisfaction of the PRA that its aggregate own funds requirement for market risk would, without the adjustment, be larger than the own funds requirement calculated in accordance with the Market Risk: Advanced Standardised Approach (CRR) Part and not reflective of the risk to the institution.

[Note: This is a permission under sections 144G and 192XC of FSMA to which Part 8 of the *Capital Requirements Regulations* applies]

...

8. For the purposes of the calculations in paragraphs 6 and 7 the institution shall include all those positions in the calculation of the own funds requirements calculated in accordance with the Market Risk: Advanced Standardised Approach (CRR) Part for the portfolio of positions not assigned to trading desks for which the institution has permission to calculate the own funds requirements using internal models in accordance with this Part, including the positions that are assigned to red zone or orange zone trading desks as specified in paragraph 7 of Article 325bg or to trading desks that cease to meet the requirements set out in Article 325bf(3) for the preceding 12 monthsCU as defined in Article 325ba(3).

...

ARTICLE 325ba OWN FUNDS REQUIREMENTS WHEN USING INTERNAL MODELS

...

2A. For the purposes of this Article, where an institution has a position in a CIU that tracks an index benchmark so that the annualised return difference between the CIU and the tracked index benchmark over the last 12 months is below 1% in absolute terms, ignoring fees and commissions, the institution may treat that position as a position in the tracked index benchmark. An institution shall verify compliance with that condition when the institution enters into the position and, after that, at least annually.

Where data over the last 12 months cannot as yet be obtained, an institution may use an annualised return difference for a period shorter than 12 months.

3. For the purpose of point (a) of paragraph 1, and in accordance with the *back-testing requirements* and *P&L attribution requirements*, an institution shall calculate the total own funds requirements for all its trading book positions and all its *non-trading book positions* generating foreign exchange or commodity risks ~~as the sum of the results of formulas (a) and (b) as follows:~~

(a) ~~$\min (IMA_{g\&y} + Capital\ surcharge + C_{LI}; SA_{all\ desks})$~~ [deleted]

(b) ~~$\max (IMA_{g\&y} - SA_{g\&y}; 0)$~~ [deleted]

~~$IMA_{g\&y} + Capital\ Surcharge + \max(SA - SBM_{all\ desks} - SA - SBM_{g\&y}; 0) + \max(SA - DRC_{all\ desks} - SA - DRC_{g\&y}; 0) + RRAO$~~

Where:

$IMA_{g\&y}$ = the own funds requirements calculated in accordance with this Article for the portfolio of all positions assigned to trading desks that meet the requirements set out in Article 325bf(3) for the preceding 12 *months* and have been classified as green or yellow desks among those in accordance with Article 325bg and for which the institution calculates the own funds requirements in accordance with this Part;

~~$SA_{g\&y}$ = the own funds requirements calculated in accordance with the Market Risk: Advanced Standardised Approach (CRR) Part for the portfolio of all positions assigned to trading desks that meet the requirements set out in Article 325bf(3) for the preceding 12 *months* and have been classified as green zone or yellow zone trading desks among those in accordance with Article 325bg and for which the institution has permission to calculate the own funds requirements using internal models in accordance with this Part;~~

Capital surcharge = the capital surcharge calculated in accordance with paragraph 4;

~~\mathcal{E}_y = the own funds requirements calculated in accordance with the Market Risk: Advanced Standardised Approach (CRR) Part for the portfolio of positions not assigned to trading desks for which the institution has permission to calculate the own funds requirements using internal models in accordance with this Part, including the positions that are assigned to red zone or orange zone trading desks as specified in Paragraph 7 of Article 325bg or to trading desks that cease to meet the requirements set out in Article 325bf(3) for the preceding 12 *months*;~~

~~$SA_{(all\ desks)}$ = the own funds requirements of all trading book positions and all *non-trading book positions* generating foreign exchange or commodity risks in accordance with the Market Risk: Advanced Standardised Approach (CRR) Part.~~

$SA-SBM_{all\ desks}$ = the own funds requirement under the sensitivities-based method set out in Section 2 of the Market Risk: Advanced Standardised Approach (CRR) Part of all trading book positions and all *non-trading book positions* generating foreign exchange or commodity risks;

$SA-SBM_{g\&y}$ = the own funds requirement under the sensitivities-based method set out in Section 2 of the Market Risk: Advanced Standardised Approach (CRR) Part for the portfolio of all positions assigned to trading desks that meet the requirements set out in Article 325bf(3) for the preceding 12 *months* and have been classified as green zone or yellow zone trading desks among those in accordance with Article 325bg and for which the institution has permission to calculate the own funds requirements using internal models in accordance with this Part;

$SA-DRC_{all\ desks}$ = the own funds requirement for the default risk set out in Section 5 of the Market Risk: Advanced Standardised Approach (CRR) Part of all trading book positions and all *non-trading book positions* generating foreign exchange or commodity risks;

$SA-DRC_{g\&y}$ = the own funds requirement for the default risk set out in Section 5 of the Market Risk: Advanced Standardised Approach (CRR) Part for the portfolio of all positions assigned to trading desks that meet the requirements set out in Article 325bf(3) for the preceding 12 *months* and have been classified as green zone or yellow zone trading desks among those in accordance with Article 325bg and for which the institution has permission to calculate the own funds requirements using internal models in accordance with this Part;

RAO= the own funds requirement for residual risks set out in Section 4 of the Market Risk: Advanced Standardised Approach (CRR) Part.

4. An institution which calculates the own funds requirements in accordance with this Part for positions assigned to trading desks that have been classified as yellow zone desks in accordance with Article 325bg shall compute, in relation to those positions, a capital surcharge in accordance with the following formula:

$$\text{Capital surcharge} = k \times \max(SA_{g\&y} - IMA_{g\&y}; 0)$$

Where:

k = as specified in paragraph 5;

$IMA_{g\&y}$ = as specified in paragraph 3;

$SA_{g\&y}$ = the own funds requirements calculated in accordance with the Market Risk: Advanced Standardised Approach (CRR) Part for the portfolio of all positions assigned to trading desks that meet the requirements set out in Article 325bf(3) for the preceding 12 months and have been classified as green zone or yellow zone trading desks among those in accordance with Article 325bg and for which the institution has permission to calculate the own funds requirements using internal models in accordance with this Part as specified in paragraph 3.

...

ARTICLE 325bc PARTIAL EXPECTED SHORTFALL CALCULATIONS

...

2. ...

(a) in calculating:

$$PES_t^{RS}$$

an institution shall only apply scenarios of future shocks to a subset of the modellable risk factors of the positions in the portfolio as specified in the institution's *IMA permission* so that the following requirement is met with the sum taken over from the preceding 60 *business days*:

$$\frac{1}{60} \cdot \sum_{k=0}^{59} \frac{PES_{t-k}^{RC}}{PES_{t-k}^{FC}} \geq 75\%$$

An institution may meet the requirement by applying an alternative measure, provided the alternative measure demonstrates that the subset of modellable risk factors (PES_{t-k}^{RC}) explains at least 75% of the variability of the losses estimated for the full set of modellable risk factors (PES_{t-k}^{FC}) over the preceding 60 *business days*, and the institution notifies the *PRA* promptly of the alternative measure.

...

If the institution provides to the *PRA* a reasoned confirmation that the institution is compliant with the requirements referred to in the first sub-paragraph of point (a) of this paragraph 2, it may resume the use of internal models in accordance with this Part to

calculate own funds requirements for market risk for the positions assigned to those trading desks;

...

ARTICLE 325be ASSESSMENT OF THE MODELLABILITY OF RISK FACTORS

...

2. As part of the assessment referred to in paragraph 1, an institution shall calculate the own funds requirements for market risk ~~in accordance with~~;
 - (a) for type 1 non-modellable risk factors, applying the expected shortfall risk measure in accordance with Article 325bb and the stress scenario risk measure in accordance with paragraph 13 of Article 325bk; or
 - (b) for type 2 non-modellable risk factors, in accordance with Article 325bk for these risk factors that are not modellable.

3. With the exception of the cases referred to in paragraphs 8 to 10A, an institution shall consider a risk factor subject to the assessment referred to in paragraph 1 to be modellable where, ~~over an observation period of 12 months ending at the preceding quarterly reporting reference date an institution has identified for that risk factor either of the following:~~
 - (a) a minimum of 24 prices which are verifiable in accordance with paragraphs 5 and 6 with distinct observation dates, which are representative of the risk factor in accordance with paragraph 7 and for which there are no 90-day periods with less than four of those verifiable prices; and over an observation period of 12 months ending at the preceding quarterly reporting reference date the institution has identified for that risk factor one of the following:
 - (i) for risk factors with a liquidity horizon that is less than or equal to 20 days, a minimum of 24 prices, which are verifiable in accordance with paragraphs 5 and 6 with distinct observation dates, which are representative of the risk factor in accordance with paragraph 7 and for which there are no 90-day periods with less than four of those verifiable prices;
 - (ii) for risk factors with a liquidity horizon that is greater than 20 days, a minimum of 16 prices, which are verifiable in accordance with paragraphs 5 and 6, with distinct observation dates and which are representative of the risk factor in accordance with paragraph 7 and for which there are no 90-day periods with less than four of those verifiable prices; or
 - (iii) a minimum of 100 prices, which are verifiable in accordance with paragraphs 5 and 6, with distinct observation dates and which are representative of the risk factor in accordance with paragraph 7; and
 - (b) the risk factor meets all the requirements in paragraphs 4 to 14 of Article 325bha minimum of 100 prices which are verifiable in accordance with paragraphs 5 and 6, with distinct observation dates and which are representative of the risk factor in accordance with paragraph 7.

- 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

...

- (b) adjust pro-rata the minimum number of price observations required by point (a) of paragraph 3.

...

Verifiable prices

5. For the purposes of this Article:

...

- (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 one of the criteria specified in points (a) and (b) of paragraph 3; ~~or~~ and

...

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*.

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*:

...

...

Criteria for the modellability of risk factors belonging to curves, surfaces and cubes

8. In relation to the modellability of risk factors belonging to curves, surfaces and cubes, an institution shall comply with the following:

...

- (b) an institution shall consider a bucket modellable where it meets all the requirements in paragraphs 4 to 14 of Article 325bh and, over an observation period of 12 months ending at the preceding quarterly reporting reference date, the institution has identified, for that bucket, either one of the following is met:

- (i) for a bucket with a liquidity horizon that is less than or equal to 20 days, a minimum of 24 prices which are verifiable in accordance with paragraphs 5 and 6, with distinct observation dates, which are allocated to that bucket and for which there shall be no 90-day period with less than four of those verifiable prices; ~~or~~
- (ii) a minimum of 100 prices which are verifiable in accordance with paragraphs 5 and 6, with distinct observation dates and which are allocated to that bucket for a bucket with a liquidity horizon that is greater than 20 days, a minimum of 16 prices which are verifiable in accordance with paragraphs 5 and 6, with distinct observation dates, which are allocated to that bucket and for which there shall be no 90-day period with less than four of those verifiable prices; or

(iii) a minimum of 100 prices which are verifiable in accordance with paragraphs 5 and 6, with distinct observation dates and which are allocated to that bucket;

...

8A. Where a bucket relates to a new issuance for which the 12 month observation period referred to in point (b) of paragraph 8 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
- (b) adjust pro-rata the minimum number of price observations required by point (b) of paragraph 8.

...

10A. An institution may, with the permission of the PRA, use an alternative approach to points (a) to (c) of paragraph 10. When applying for such permission, the institution shall demonstrate to the satisfaction of the PRA that the alternative approach demonstrates a clear linkage between each of the risk factors from which the parametric curve, surface or cube is derived and the verifiable prices used to determine modellability.

[Note: This is a permission created under sections 144G(2) and 192XC of FSMA to which Part 8 of the Capital Requirements Regulations applies]

Documentation

11. An institution shall clearly document in its internal policies:

...

- (e) the modellability assessment for parametric curves, surfaces or cubes in accordance with paragraph 10 or 10A;

...

ARTICLE 325bf REGULATORY BACK-TESTING REQUIREMENTS AND MULTIPLICATION FACTORS

...

6. An institution shall calculate the multiplication factor (m_c) as the sum of the value of 1.5 and an add-on between 0 and 0.5 in accordance with Table 3. For the portfolio referred to in paragraph 5, the institution shall calculate that add-on on the basis of the number of overshootings that occurred over the most recent 250 *business days* as evidenced by the institution's back-testing of the value-at-risk number calculated in accordance with point (a) of this paragraph. The institution's calculation of the add-on shall be subject to the following requirements:

- (a) an overshooting shall be a one-day change in the portfolio's value that exceeds the related value-at-risk number calculated by the institution's internal model in accordance with the following:

...

- (iii) scenarios of future shocks shall apply to the risk factors of the trading desks' positions referred to in Article 325bg(3) and which are considered modellable in accordance with Article 325be or are type 1 non-modellable risk factors;

...

ARTICLE 325bh REQUIREMENTS ON RISK MEASUREMENT

...

Systematic and idiosyncratic market risk

5. An institution shall ensure the data inputs used for their *risk measurement model* are appropriate for adequately capturing both systematic and idiosyncratic market risk.

Where the data inputs in paragraph 11 do not allow for adequate capture of systematic or idiosyncratic market risks, the institution shall ensure that the systematic or idiosyncratic market risk is capitalised ~~separately through~~as non-modellable risk factors in accordance with the methodology set out in Article 325bk.

...

ARTICLE 325bk CALCULATION OF STRESS SCENARIO RISK MEASURE

...

- 2A. An institution may apply the same stress period for type 1 non-modellable risk factors and type 2 non-modellable risk factors as it applies to modellable risk factors and modellable standardised buckets.
- 2B. An institution shall calculate that part of the SS_{total} formula in paragraph 13 which relates to type 2 non-modellable risk factors on a monthly basis.

...

Aggregation of stress scenario risk measures

13. An institution shall calculate the aggregate stress scenario risk measure for the purposes of Article 325ba by applying the following formula:

$$SS_{total} = \sqrt{\sum_{k \in I^{CSR}} (SS_k)^2} + \sqrt{\sum_{i \in I^{EQ}} (SS_i)^2} + \sqrt{\left(\rho \times \sum_{j \in OR} SS_j\right)^2 + (1 - \rho^2) \times \sum_{j \in OR} (SS_j)^2}$$

$$SS_{total} = \sqrt{\sum_{i \in T_1} (SS_i)^2} + \sqrt{\left(\rho \times \sum_{j \in T_2} SS_j\right)^2 + (1 - \rho^2) \sum_{j \in T_2} (SS_j)^2}$$

Where:

I^{CSR} – ~~the set of non-modellable risk factors or non-modellable standardised buckets for which the institution determined a stress scenario risk measure that was classified as reflecting idiosyncratic credit spread risk only, in accordance with this Article;~~

k – ~~an index denoting the non-modellable risk factors or non-modellable standardised buckets belonging to I^{CSR} ;~~

I^{EQ} – ~~the set of non-modellable risk factors or non-modellable standardised buckets for which the institution determined a stress scenario risk measure that was classified as reflecting idiosyncratic equity risk only, in accordance with this Article;~~

Appendix 2

~~l = an index denoting the non-modellable risk factors or non-modellable standardised buckets belonging to I^{EQ} ;~~

~~OR = the set of non-modellable risk factors or non-modellable standardised buckets for which the institution determined a stress scenario risk measure that was neither classified as reflecting idiosyncratic credit spread risk only, nor idiosyncratic equity risk only, both as in accordance with this Article;~~

T_1 = the set of *type 1 non-modellable risk factors*;

T_2 = the set of *type 2 non-modellable risk factors*;

i = an index denoting each T_1 non-modellable risk factor or T_1 non-modellable standardised bucket;

j = an index denoting each T_2 non-modellable risk factor or T_2 non-modellable standardised bucket

~~$SS_i, SS_j, SS_k, SS_l, SS_j$ = respectively the stress scenario risk measures for the non-modellable risk factors or the non-modellable standardised buckets i, j, k, l, j calculated in accordance with paragraphs 3, 4 and 7;~~

SS_{total} = the stress scenario risk measure for the purposes of Article 325ba;

ρ = 0.6.

14. ~~An institution shall ensure that non-modellable risk factors that the institution classifies as reflecting only idiosyncratic credit spread risk meet all the following conditions:~~
 - ~~(a) the nature of the risk factor is such that it shall reflect idiosyncratic credit spread risk only;~~
 - ~~(b) the value taken by the risk factor shall not be driven by systematic risk components;~~
 - ~~(c) the correlation among risk factors is negligible;~~
 - ~~(d) there are no material subsets within that set of idiosyncratic risk factors that have non-negligible correlation;~~
 - ~~(e) there are no important systematic risk factors that are not considered and that could explain some of the movements in those non-modellable risk factors; and~~
 - ~~(f) the institution performs and documents the statistical tests used to verify the conditions in points (c), (d) and (e) of this paragraph. [Deleted]~~

15. ~~The institution shall ensure that non-modellable risk factors that the institution classifies as reflecting only idiosyncratic equity risk meet all the following conditions:~~
 - ~~(a) the nature of the risk factor is such that it shall reflect idiosyncratic equity risk only;~~
 - ~~(b) the value taken by the risk factor shall not be driven by systematic risk components;~~
 - ~~(c) the correlation among risk factors is negligible;~~
 - ~~(d) there are no material subsets within that set of idiosyncratic risk factors that have non-negligible correlation;~~
 - ~~(e) there are no important systematic risk factors that are not considered and that could explain some of the movements in those non-modellable risk factors; and~~

Appendix 2

~~(f) the institution performs and documents the statistical tests used to verify the conditions in points (c), (d) and (e) of this paragraph. [Deleted]~~

...

Draft for consultation

Annex B

Amendments to the Reporting (CRR) Part

In this Annex new text is underlined and deleted text is struck through.

...

6 TEMPLATES AND INSTRUCTIONS

ANNEX I

...

6.47B Annex I Template OF 24.02 can be found ~~here~~here.

...

ANNEX II

6.57 Annex II can be found ~~here~~here.

...

Draft for consultation

Annex C

Amendments to the Trading Book (CRR) Part

In this Annex new text is underlined and deleted text is struck through.

...

3 TRADING BOOK (PART THREE TITLE I CHAPTER 1, AND ARTICLE 94, CRR)

...

ARTICLE 104 INCLUSION IN THE TRADING BOOK OR NON-TRADING BOOK

...

2. An institution must assign to the non-trading book instruments that are:

...

- (h) derivative instruments and shares or units in a CIU; ~~(other than a CIU that is a real estate investment trust, or a real estate investment fund or a listed closed-ended investment fund, where 'closed ended investment fund' has the meaning given in the FCA Handbook);~~ that have as underlying instruments ~~and any~~ instruments in any of points (a) to (g), provided that in the case of shares or units in a CIU, such underlying instruments in aggregate amount to more than 10% of the value of the CIU-;

...

ARTICLE 106 INTERNAL HEDGES

...

9. When an institution hedges non-trading book general interest rate risk exposures using interest rate positions booked in its trading book via an internal hedge which meets the criteria in paragraph 10A, the institution shall recognise the internal hedge in the trading book and non-trading book only where the following requirements are met:

...

- (b) the institution allocates the internal hedge to a dedicated general interest rate internal hedge portfolio in the trading book:
- (i) that is solely dedicated to internal hedging of general interest rate risks arising from the non-trading book; ~~and~~
- (ii) for which own funds requirements for market risk are calculated separately and added to the own funds requirements for market risk for other trading book positions;

and in calculating the own funds requirements for the dedicated general interest rate internal hedge portfolio and for other trading book positions, the institution may use the same stress period and subset of modellable risk factors chosen in point (a) of Article 325bc(2);

...