

Dear [Insert Recipient Name]

Fundamental Review of the Trading Book (FRTB): Timetable for submission of internal model/standard approach pre-applications

We recently announced¹ that we will consult on the UK implementation of Basel 3.1, including FRTB, in Q4-2022, and that as part of this CP we will consult on a planned implementation date of Wednesday 1 January 2025. Following this announcement, we have given consideration to the expected timetable for firms to submit new market risk internal model approach (IMA) applications to us for review and decision, ahead of UK implementation. We have set out our proposed approach below, based on an assumed January 2025 implementation date. Further details (eg relating to the materials expected to be included in model/standard approach pre-applications and the application confirmation process) will be provided at a later date.

Existing internal model permissions

The Basel 3.1 framework removes the existing IMA methodologies, replacing them with a completely new framework. Subject to finalisation of the draft rules and the results of the forthcoming consultation, we expect existing internal model permissions for market risk to become redundant (as part of the legislative changes required to bring in Basel 3.1 in the UK). Given the new market risk rules introduced by FRTB are substantially different to the current rules, it is not currently our intention to consult on any temporary extension of the existing modelling regimes or permissions. Therefore, current IMA firms would automatically move to the new standardised approach (SA) when the new rules

¹ Available at: <https://www.bankofengland.co.uk/news/2022/march/implementation-of-basel-standards>



are implemented, unless they had been granted a new IMA permission under FRTB by us.

New internal model applications

In order to allow sufficient time for us to review and come to a decision on prospective model applications ahead of the assumed implementation date, and to ensure that any new IMA permissions are effective on or about the implementation date, we would expect firms to submit final pre-application materials at least 12 months in advance of this, ie by Monday 1 January 2024. We would then assess such pre-application materials ahead of formal confirmation of the permission once the relevant rules come into force (where a decision to grant internal model approval is taken).

Firms submitting after this date should expect to have to use the SA at least for an initial period, pending the completion of their model review. We would expect to give priority in our review work, and allocation of resources, to the firms submitting by the requested date. This could mean that firms applying later (for example, in June 2024) take significantly longer than 12 months to review (in elapsed time).

Pre-engagement

We have been discussing FRTB implementation with firms on a quarterly basis since 2018. These discussions have been useful to maintain an ongoing dialogue with firms. As a result of this, we have been able to keep apprised of their implementation progress, and to begin to talk about some of the more significant implementation challenges and uncertainties. However, the discussions have been relatively high-level.

As we move closer to final implementation, we want to use these meetings to cover more in-depth reviews on selected topics. Following each of these reviews, we will provide feedback on any concerns identified as a result of the reviews (firm-specific and/or industry-wide), as well as communicate any general expectations.

Our planned schedule of reviews, which covers the main new features of FRTB-IMA, is:

- Q4-2022 – Default Risk Charge (DRC)
- Q1-2023 – Risk factor eligibility test (RFET)
- Q2-2023 – Non-modellable risk factors (NMRF)
- Q3-2023 – P&L attribution test (PLAT) and back-testing

Standardised approach

We expect there will be a number of provisions in the new standardised approach that will require regulatory permission (eg the use of firms' own risk sensitivity calculations). Given the larger number of firms that will use SA, we would expect firms to submit any related pre-application materials at least 12 months in advance of UK implementation, in order to allow sufficient time for these to be reviewed.

Ahead of implementation, and to gain further assurance on the accuracy and consistency of firms' implementation of the SA, we intend to conduct a further round of benchmarking. This will cover all PRA-regulated firms in scope of the new SA, and will take place in 2023/2024. We will work closely with ISDA to facilitate this exercise. The methodology is not expected to deviate in any significant way from the most recent round of ISDA FRTB-SA benchmarking voluntarily undertaken by firms.

Yours sincerely

[Name]

[Job title]