Expert Talk

FRTB delays create opportunity: Time to accelerate IMA adoption

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Data & Feeds

The implementation deadline for Basel III's Fundamental Review of the Trading Book (FRTB) has shifted again in major jurisdictions and so banks should use this breathing room to finalize implementation on their trading desks, to ensure they are in a robust competitive position for the future. Although the risk factor eligibility test (RFET) is one of the most challenging aspects of the IMA, LSEG's FRTB solution –Trade Discovery – provides the real price observation data firms need to reduce market risk capital, boost trade profitability, and enhance risk management.

The FRTB implementation deadline at global level remains highly fragmented and uncertain, with the EU expected to go live in January 2027:

- European Union – The EU recently adopted a delegated act to postpone its FRTB deadline to January 2027, with the intention of matching a US implementation schedule. No more delays can be applied under the current Capital Requirements Regulation III legislative package, making it more likely this is a firm deadline.
- United Kingdom – Implementation has been delayed to January 2027 for the Standardised Approach and January 2028 for the IMA. The UK is holding back its final rules in case adjustments are needed considering the US package.
- United States – Implementation has been delayed while the Basel III Endgame rules are revisited. A recent statement from a Federal Reserve official indicated that a fresh draft could be published by early 2026. This draft could enable FRTB to move forward.
- Asia-Pacific, where the adoption of IMA is modest as well, some jurisdictions – e.g. Hong Kong, Singapore, Japan, China – have already implemented FRTB to some extent, mainly focusing on the Standardised Approach. Others, like Australia, are still working to define the final rules and the related implementation timeline.

In the EU, only three banks have announced that they will go live with FRTB via the IMA, as the current IMA approach is considered by some banks to be too complex, with excessive costs not balanced by material capital requirements savings. Other jurisdictions are showing a similar trend, where the adoption of IMA in the first wave of FRTB implementation is modest. This suggests that banks believe there is a need to simplifying the overall IMA framework to increase IMA adoption for banks in successive implementation waves.

Potential rule changes coming?

In April 2025, the EU issued a public consultation on the FRTB, driven by US and UK implementation uncertainty, both in terms of timeline and content. This uncertainty raised major level playing field concerns among EU banks operating across multiple jurisdictions. The consultation paper presented three different options: no action, confirm the Jan 2026 timeline; delay by one year the implementation timeline; or implement in Jan 2026 by adopting a package of 10 revised requirements, designed to simplify and reduce the implementation burden for both the IMA and the Standardised Model approaches.

The outcome of the consultation was to go for the one year delay, moving FRTB implementation from Jan 2026 to Jan 2027, but the package of revised requirements is a sign of where the EU could land eventually in terms of altering the rules to mitigate any potential competitive disadvantages for EU banks, if the US and UK choose not to go live in 2027.

Notably, one of the proposed measures in this package focused on mitigating the capital requirement impact from non-modellable risk factors (NMRFs) in the risk factor eligibility test (RFET) for IMA desks, via a phase-in approach. The RFET is a liquidity test to be run at the trading desk level. It is aimed at determining those risk factors that are to be capitalised using the expected shortfall calculations, named modellable risk factors. To pass the RFET, banks must source executed trade and committed quote data – real price observations (RPOs) – for the previous year, which are being used as a proxy for liquidity in an individual risk factor. The trading desk needs to attribute RPOs to individual risk factors, and check whether there is sufficient liquidity – in other words, enough RPOs – to pass predefined liquidity thresholds.

Often, although the trade data exists to pass the RFET for a particular risk factor, a bank will not possess that data internally. This data gap can lead to failing the RFET for a trade. Those trades with risk factors not passing the RFET – NMRFs – will be capitalised under a much more punitive methodology, the stress scenario risk measure. The capital requirement impact due to NMRFs is significant and it is one of the main reasons why banks are holding off on implementing the IMA. A quantitative impact study released by the Basel Committee on Banking Supervision in March 2025 estimates that 18-21% of IMA capital requirements can be attributed to NMRFs.

In the EU's proposed modification, a bank would apply a flat multiplier in the 35-45% range for a three-year period, instead of performing this calculation.

The NMRF challenge

Minimising NMRF- related regulatory capital is one of the biggest challenges banks are experiencing, as most of the desks which are candidates to use the IMA have complex derivative-based trading positions, most of which refer to over-the-counter (OTC) derivative instruments traded in markets that are very illiquid, such as rates products with optionality and long dated FX options, with very low trading activity. Banks are struggling to find the executed trade data necessary for passing the RFET for their risk factors, since their internal trading activity – and therefore data – is usually not sufficient to meet the RFET RPO requirements.

So, to minimise their NMRFs, banks have the option to buy trade data from external data vendors. However, the FRTB rules are very prescriptive and request that banks that are purchasing data from an external vendor for the RFET compliance test to verify that the relevant vendor has gone through an external independent audit. This audit is aimed at verifying the validity of the vendor's RPO data in terms of fulfilling all the requirements stated by the RFET rules, because of the importance of the data in terms of impacting the overall capital requirements calculation for IMA desks. Both the FRTB rules as defined by the Basel Committee for Banking Supervision (BCBS) and the related EU interpretation have specific sections that clarify these audit requirements for data vendors as part of the wider RFET requirements:

- Paragraph 31.14 of the "Basel Committee on Banking Supervision (BCBS) – Minimum capital requirements for market risk" document - January 2019
- Article 2 (Verifiable Prices) of the "Commission delegated regulation (EU) 2022/2060 of 14 June 2022"

So, determining that data vendors have completed this important external independent audit needs to be a key element of their FRTB compliance framework.

Maximising IMA benefits

The LSEG FRTB solution – LSEG Trade Discovery – provides banks and their trading desks with audited trade data needed to minimise NMRFs for their IMA desks, reducing the amount of market risk capital they are required to hold. LSEG Trade Discovery has partnered with banks – the advisory board includes six of the top ten banks globally – to deliver a data solution tailored to IMA trading desks.

LSEG is also partnering with major market infrastructure providers – such as clearing houses, interdealer brokers, trading platforms and trade repository firms, for sourcing trade data related to OTC derivatives across all asset classes (rates, FX, equity, credit). In addition, LSEG provides trade data sourced from hundreds of venues subject to transparency such as exchanges and MiFID venues. This combination of data sources means Trade Discovery provides trade data with wider coverage, with billions of RPO data points eligible for the RFET.

In addition, the LSEG FRTB solution – Trade Discovery – is subject to an annual external independent audit to ensure the data it contains complies with the FRTB RFET, supporting trust and confidence among the banks using their regulatory compliant trade data for the RFET use case. As a result, the LSEG FRTB solution enables trading desks to implement the IMA today – and to be in a better competitive position when FRTB goes live.

For all these reasons, Deutsche Bank, one of the three banks in EU that will implement IMA for some of its trading desks, has decided recently to partner with LSEG for sourcing FRTB RPO data.

Regulation doesn't sit still, neither do we - Explore LSEG's FRTB solution.