

LSEG's FRTB data solution for a Standardised Approach

What is the Fundamental Review of the Trading Book regulation?

Fundamental Review of the Trading Book (FRTB) is one of the most material incoming prudential regulations, issued in 2019 by the Basel Committee for Banking Supervision (BCBS). It is being introduced to address several perceived weaknesses in the current regulatory framework (Basel 2.5). FRTB has global applicability, and it determines how banks must calculate their capital requirements for any market risk exposure they face in their trading books. The regulation is implemented by market risk departments. The global enforcement date is 1 January 2023, but local jurisdictions have the authority to tweak the rules at a local level to reflect the specific requirements of the local financial market, as well as to change the enforcement deadline.

Customer challenges

Quality and up-to-date data to calculate SBM – The capital charges calculation under the sensitivities-based method (SBM) are driven by risk sensitivities, which require banks to conduct some non-trivial mapping exercises. These mappings require the availability of an internal, up-to-date and quality inventory of T&Cs data for relevant financial instruments.

Equity investments in funds – The FRTB regulation prescribes different ways to treat equity investments in funds, such as the Look Through Approach (LTA, applicable when it is possible to get access to the relevant fund constituents and weights), the Index-based Approach (IBA), applicable when the fund is mirroring an index, the Mandate Based Approach (MBA), which requires the fund's mandate or prospectus to approximate a "hypothetical portfolio" consistent with the fund's investment guidelines (e.g. weightings, asset classes) and then compute capital based on that hypothetical decomposition. These requirements are complex to fulfil and require detailed and accurate data for the relevant equity investments in funds that banks have in their trading portfolio.

Index look-through approach – A similar "look-through approach" is prescribed for index instruments, meaning that customers need access to the individual constituents of an index, to treat the underlying positions related to a given index, for the SBM calculation, as if they were held directly by the bank.

Our proposition

Data for SBA calculation

LSEG will provide new data fields at instrument level to support banks in the calculation of the SBA, made available via DataScope Select and DataScope Plus. New fields include:

1. **Risk Class** – specifies the class of risk the instruments belong to
2. **Risk Bucket** – specifies the set of risk factors which the instrument relates to
3. **Risk Weight** – measures the extent to which that instrument is impacted by the relevant risk factor

To give full transparency to customers on the way buckets and weights have been calculated, LSEG also provides the following new data fields at instrument level, used to calculate the above SBM fields:

1. **RTB Economy Type** – indicates whether an issuer is based in an advanced or emerging market economy
2. **FRTB Sector** – code identifying the industry of the issuer in line with the FRTB guidelines
3. **FRTB Market Cap** – indicates if an issuer has a large or small market capitalization
4. **Credit Quality** – code representing the bond grade according to the credit rating value

These fields are only available in DataScope Select but will be delivered through DataScope Plus in the April 2022 release.

Data for equity investments in funds

LSEG provide data that allow customers to handle the different methodologies applicable to equity investment in funds.

Look-through requirements, Customers can access via DataScope Select and DataScope On Site. the current list of individual constituents and weights for the relevant funds in their portfolio This includes identification of UCITs and alternative investment funds (to identify whether a look-through approach applies).

Data is available on a delayed basis as it is subject to embargoes:

- **Index Based Approach (IBA)**

For any given fund that is tracking an Index, LSEG provides the “tracking error” (i.e. the difference between the fund benchmark and the index performance) for the relevant fund benchmarks.

- **Mandate Based Approach (MBA)**

LSEG provides information on the fund objective, taken from the fund prospectus. The investment objectives are an abbreviated text taken from the sales prospectuses, under investment goal, objective, investment philosophy sections.

Data for index look-through

LSEG allows customers to fulfil the index look-through requirements via the DataStream® product. Customers can also access the current list of individual constituents and weights for listed equity or credit indices (content subject to license from the relevant index providers).