Fundamental Review of the Trading Book: Navigating regulatory divergence in global market risk frameworks

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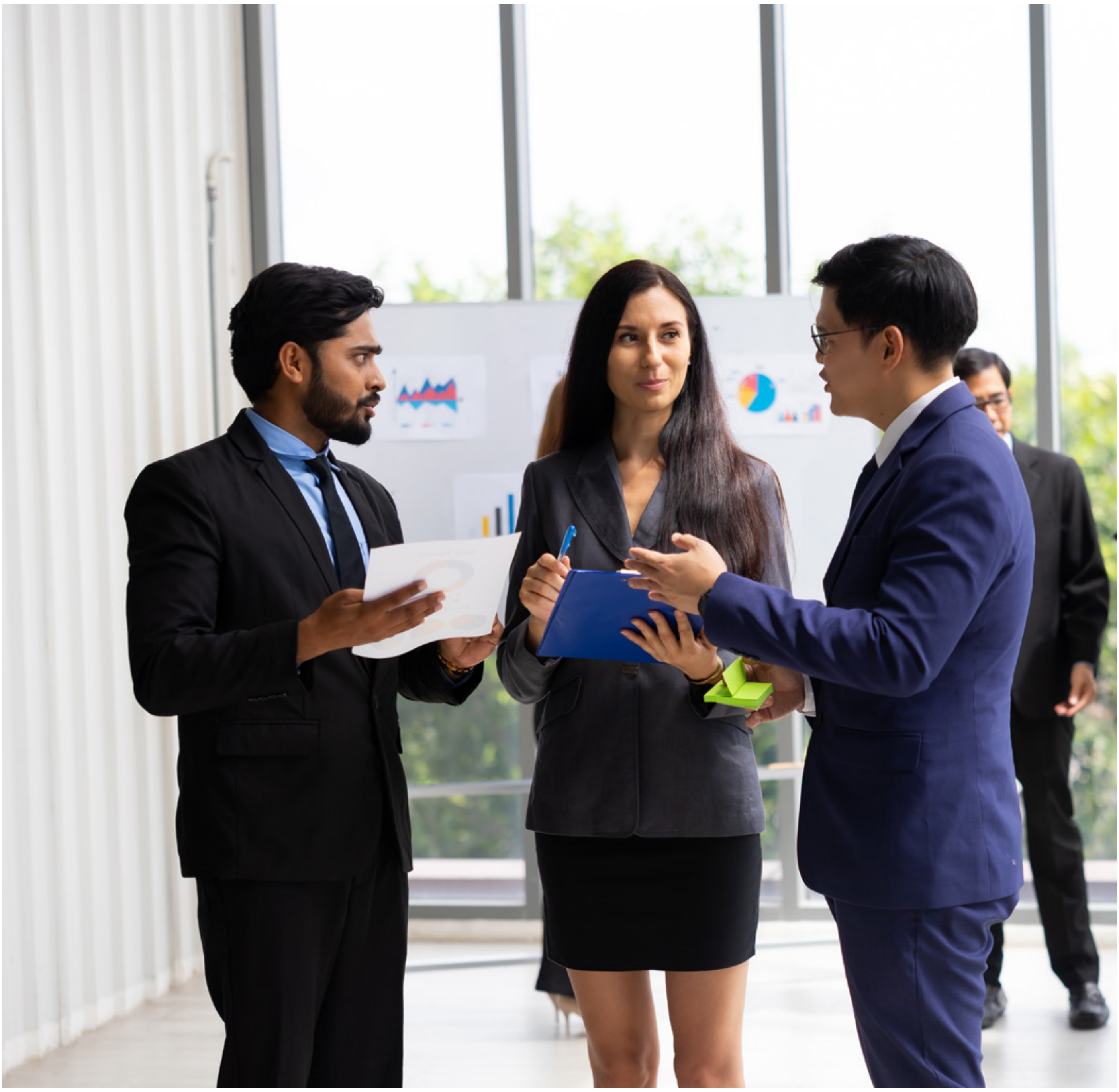
The global financial system is at an important juncture where regulators across the world are implementing Fundamental Review of the Trading Book (FRTB) – a key element of Basel III, which aims to overhaul market risk frameworks. However, its implementation across the globe has been staggered and uneven. Due to this difference in views with regards to the implementation of FRTB standards across regulators, active banks across the globe are finding it difficult to navigate compliance, capital planning and operational risk. This article explores the latest regulatory developments in FRTB, its implications for multinational banks, how financial institutions are responding to FRTB, and what banks and regulators could do to streamline the way forward.



FRTB's implementation across the globe

The primary objective of FRTB is to bring consistency, risk sensitivity and transparency to market risk capital requirements. However, its global rollout has been inconsistent. Let's look at some examples of how different countries are adopting FTRB at various junctures of their compliance journey.

United Kingdom (UK PRA)[1]

On 15 July 2025, the Bank of England's Prudential Regulation Authority (PRA) had released Consultation Paper CP17/25, which proposed a delay in implementing the Internal Models Approach (IMA) for FRTB from January 2027 to January 2028. While other areas of FRTB such as standardised approach (SA) and trading book boundary rules are still on track to go live in January 2027. The main aim of PRA is to align the UK's implementation with similar delays in the EU and to avoid regulatory mismatch with the US.

United States (Fed, OCC, FDIC)[3]

The US has adopted a phased approach as part of their broader BASEL III Endgame implementations. FRTB compliance was proposed to start from 1 July 2025, with full phase-in by 1 July 2028. The final rule was still under review as on August 2025.

European Union (EU)[2]

The EU, has proposed to delay full FRTB implementation until 1 January 2027. The delay could be due to the need to align the implementation with the global peers and to give banks more time to prepare. The proposed amendments are part of CRR3/CRD6 legislative updates.

Hong Kong (HKMA)[4]

Hong Kong is one of the early adopters as reporting under FRTB went live in July 2024 and capital requirements went live in January 2025. The HKMA has also issued detailed guidelines and maintains proper alignment with global standards.

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1. https://www.bankofengland.co.uk/prudential-regulation/publication/2025/july/basel-3-1-adjustments-to-the-market-risk-framework-consultation-paper
2. https://finance.ec.europa.eu/news/commission-proposes-postpone-one-additional-year-market-risk-prudential-requirements-under-basel-iii-2025-06-12_en
3. https://www.federalreserve.gov/newsevents/pressreleases/bcreg20230727a.htm
4. https://www.hkma.gov.hk/eng/regulatory-resources/regulatory-guides/by-subject-current/market-risk/

How difference in FRTB's implementation across geographies can impact global banks

The staggered implementation timelines and regional variations have resulted in several practical challenges for banks operating across borders:

1 Compliance complexity

Banks now need to manage multiple regulatory regimes. This leads to duplication of reporting frameworks, region-specific model approvals and difference in the treatment of market risk across entities.

2 Capital arbitrage risks

Different go-live dates for internal models approach (IMA) and standardised approach (SA) can result in capital arbitrage. Banks can book trades in jurisdictions with less strict requirements, which can distort risk alignment and regulatory intent.

3 Technology and infrastructure challenges

Having a single platform to serve different timelines is a challenging task. Banks have to develop modular risk systems and reporting systems that are able to support different frameworks parallelly.

4 Inconsistent desk-level decisions

Under FRTB, trading desks needs to be approved individually under the IMA. Any misalignment in approvals can create a confusing scenario around trade booking, hedging strategies and desk-level risk appetite.

5 Increased governance and oversight burden

The workload of model risk management (MRM) and internal audit (IA) teams have increased significantly due to the need for jurisdiction-specific documentation, model testing and sign offs.

What banks can do

Since FRTB's implementation is not streamlined, banks are coming up with several tactics to minimise disruption and streamline compliance:

Modular technology platforms

Financial institutions are heavily investing in robust systems and IT infrastructure that can switch between different regulatory configurations easily. Such systems include flexible capital calculators, real-time risk engines and adaptable reporting templates, and can be adjusted based on different regulatory and jurisdictional requirements.

Centralised regulatory coordination teams

Banks have established central FRTB management committees comprising legal, risk, compliance and technology functions. Though the primary aim of such committees is to coordinate implementation efforts, they also act as internal intelligence units and provide updates, maintain checklists and ensure that appropriate communication is maintained with senior stakeholders.

Selective adoption of IMA

Many banks have strategically adopted the FRTB IMA approach only in jurisdictions which provide supervisory clarity and where significant capital relief can be achieved. For all other regions where supervisory clarity is not present, banks are adopting a standardised approach in order to avoid a cumbersome model approval process.

Regulatory advocacy

Global financial institutions are also leveraging their membership and influence in industry forums such as International Swaps and Derivatives Association (ISDA), Global Financial Markets Association (GFMA) and Institute of International Finance (IIF) to raise concerns and influence global alignment and clarity in FRTB implementation. Banks are actively engaging with local supervisory bodies to gain clarity and flexibility on model validation timelines and technical interpretations of the FRTB guidelines.

Risk-based prioritisation

Banks are conducting materiality assessments to prioritise FRTB implementation either at trading desk level, product class level or at legal entity level. Banks are undertaking such exercises to figure out high stakes areas so that high material areas are addressed first without over burdening the internal workforce.

Internal simulation and scenario testing

Simulation engines are being used aggressively by banks to test out different implementation scenarios across various jurisdictions. These simulation exercises are helping banks quantify the capital impact under various timelines. This is also helping businesses make more informed decisions related to trade booking and trading desk structuring.

Enhanced internal training programmes

FRTB is a complex and evolving regulatory framework. Global financial institutions are coming up with jurisdiction-specific training for traders, risk managers, model validators, compliance officers and IT developers to reduce operational inefficiencies and increase preparedness.

AI and automation deployment

Banks are increasingly adopting machine learning (ML) models and artificial intelligence (AI)-enabled platforms to streamline data classification, validate risk factor eligibilities, perform profit and loss (PnL) attribution, and automate documentation. These technologies are significantly reducing human errors and increasing the efficiency of banking processes.

Governance enhancements

Banks are updating their MRM and governance frameworks to ensure faster turnaround for new model and model change approvals. Many banks have already adopted a tiered governance structure which is based on model materiality.

Cross-entity collaboration models

Multinational banks have focused on close partnerships with their global subsidiaries across regions. This includes sharing playbooks, joint regulatory response systems and a unified FRTB operating model to ensure firm-wide consistency.

Next steps for banks and regulators

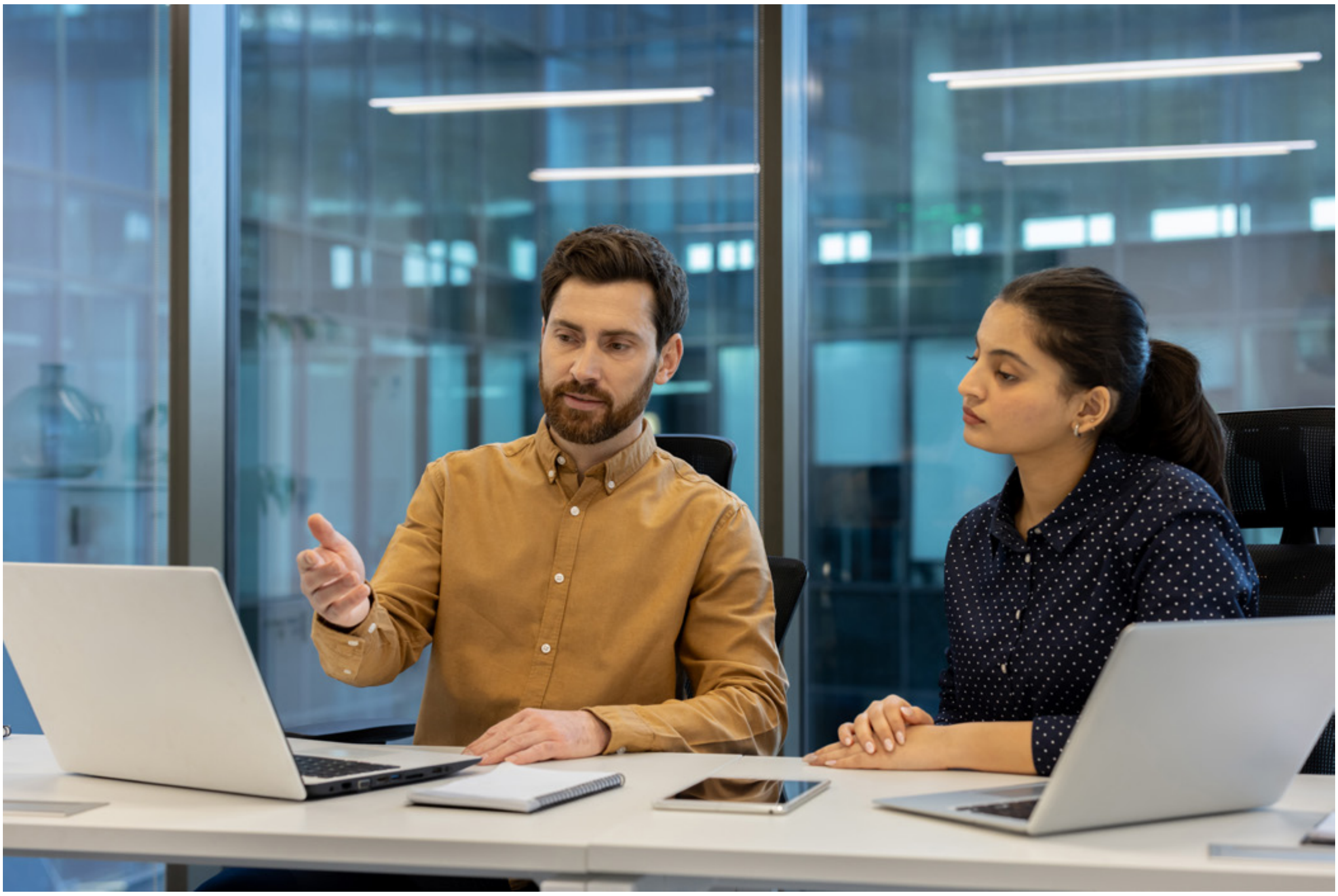
While banks have taken proactive steps, there is still a lot of room for improvement in terms of strategies and regulatory foresight:

Banks

- **Enhance internal training**: Train teams with jurisdiction-specific knowledge to reduce operational errors.
- **Invest in AI and automation**: Use ML models to automate model calibration processes and data quality checks, and improve compliance workflows.
- **Plan scenarios**: Conduct rigorous stress tests and scenario analyses to understand the capital impacts for different FRTB rollout paths.
- **Align cross-jurisdictional frameworks**: Develop internal policies and procedures which force consistency across jurisdictions while also accounting for local deviations.
- **Develop future-proof models**: Design internal models in such a way that the models can be quickly calibrated and tweaked to meet different jurisdictional thresholds without needing complete redevelopment.
- **Engage in pre-consultation dialogues**: Proactively engage with regulators during consultation periods to align expectations and minimise last-minute changes.

Regulators

- **Harmonised timelines:** Global forums like the Basel Committee could enforce tighter coordination on implementation calendars.
- **Mutual recognition of models:** Regulators could enable a system where model approvals of one jurisdiction are valid in another.
- **Clearer technical guidance:** Divergence in interpretation of the risk factor eligibility test (RFET), P&L attribution (PLAT), and back-testing thresholds have caused confusion. A global standard would help in aligning the reporting across various regulators.
- **Phased but aligned implementation:** While local constraints exist, agreement on milestone-based global timelines could help in balancing flexibility with consistency.
- **Inter-agency coordination mechanisms:** Establishing regular conversations between major supervisory bodies Prudential Regulation Authority(PRA), European Central Bank (ECB), Federal Reserve (Fed), Hong Kong Monetary Authority (HKMA)) could help identify convergence opportunities and avoid regulatory blind spots.



Conclusion

The implementation of FRTB was supposed to bring about a more resilient and transparent global financial system. However, the difference in regulatory timelines and interpretations have created new inefficiencies, uncertainties and operational issues for global banks. While institutions are adapting FRTB through modular systems, strategic planning and regulatory engagement, lack of consensus across jurisdictions continues to hinder the realisation of its full potential. Banks and regulators must course correct by coordinating action, encouraging dialogue and developing mutual recognition frameworks. By embracing these changes, the global financial sector can ensure that FRTB fulfils its purpose of developing a streamlined and resilient financial ecosystem.

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Contact us

Manish Maini
Partner, Financial Services and Treasury
PwC India
manish.maini@pwc.com

Debdipta Majumdar
Director, Financial Services and Treasury
PwC India
debdipta.majumdar@pwc.com

Authors

Manish Maini, Debdipta Majumdar

Editor

Rubina Malhotra

Design

Pooja Sharma

pwc.in

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