The European Commission
DG-FISMA

EU Transparency Register 022027817030-67
Date: 22.12.2025
Our ref.: 2025-842
Your ref.:

Response to the European Commission Consultation on FRTB

Introduction

Finance Norway appreciates the opportunity to respond to the European Commission's targeted consultation on the application of the market risk prudential framework (FRTB). We support the Commission's efforts to ensure a level playing field for EU banks and welcome the proposed temporary amendments and multiplier options.

Answers to Consultation Questions

Q1: Views on pursuing FRTB implementation with temporary modifications
The industry has long harboured concerns about the impact of FRTB on the Norwegian financial market and it is crucial that the framework is implemented consistently across international jurisdictions to ensure a level playing field in highly competitive international financial markets. We encourage the European Commission to ensure that EU financial institutions are not placed in a disadvantageous position compared with international peers.

Finance Norway supports the implementation of FRTB with temporary targeted amendments and a capital neutrality multiplier via a delegated act. These measures are necessary to address competitive distortions arising from divergent implementation timelines and frameworks across jurisdictions.

It is important to monitor developments in other jurisdictions and consider adjustments to the Level 1 text if needed to maintain global consistency and competitiveness in the long run, e.g. should the final implementation in the United States ("the US") and the United Kingdom ("the UK") deviate significantly from that of the EU. The temporary nature of the proposed amendments allows for further calibration and evidence gathering.

However, any solution based on temporary adjustments would impose an operational burden on institutions, and there is no assurance that the capital impact would be fully neutralized. Finance Norway therefore encourages the European Commission to seek a mandate to expand Article 461a to allow for a further implementation postponement, ensuring that the EU implementation date is aligned with that of the United States (currently expected January 2028 or later). Once there is clarity on the US approach, the EU would be in a position to introduce targeted amendments and calibration multipliers to secure a level playing field with US firms, while allowing the formal EU legislative

Hansteens gt. 2, Oslo . P.O.Box 2473, N-0202 Oslo, Norway . Phone +47 23 28 42 00 . Org.no 996 549 488 . finansnorge.no

process to follow its proper course. In addition, this should allow the EBA no-action letter for the trading book banking book boundary to remain in force, thereby providing the opportunity to await possible changes to the implementation of this operationally burdensome and critically important element of FRTB in other jurisdictions and adapt the EU implementation if relevant.

Q2: Views on the temporary measures proposed for the delegated act

The temporary measures are helpful, especially the improvements to Collective Investment Units and the SBM multiplier. However, according to our members, they will not cover the negative impact in isolation.

In addition, we strongly encourage the European Commission to consider including amendments to the rules governing correlation trading portfolios. Risk management practices in this area have evolved significantly since the financial crisis. Proceeding without any amendments would risk undermining these improvements and introduce substantial interpretive uncertainty for the EU implementation for such products. This would place international competitors at a clear advantage in this market segment. Finance Norway would like to draw the Commission's attention to the detailed white paper – *The Impact of the FRTB on Correlation Trading*[1] – which has been jointly developed by global market participants in this segment and highlights suggested amendments.

Finance Norway supports all proposed temporary amendments under the **Alternative Standardised Approach (ASA)**, as outlined in the Annex:

- CIU exposures: We support quarterly look-through and partial look-through (≥90%), with fallback for residuals.
- Economic hedges in DRC: We welcome flexibility to assign matching maturities to hedged and hedging instruments.
- Residual Risk Add-On (RRAO): We support a multiplier of 0 for options with future realised volatility, Bermudan options, and CMS spread options.
- Carbon trading exposures: We support recalibration of the correlation parameter to better reflect observed market behaviour.
- Phase-in factor: We support the introduction of a multiplier for the sensitivity-based method during the three-year phase-in period. We recommend setting the phase-in factor under FRTB below 0.9. The current calibration of inter-asset correlations is highly conservative and does not fully reflect the diversification benefits in banks' trading books. A lower phase-in factor would help avoid excessive capital requirements during the transition period, support market liquidity, and ensure that capital charges remain proportionate to actual risk. This is also supported by ISDA and other industry bodies, who have demonstrated this through quantitative impact studies.

For institutions applying the **Simplified Standardised Approach (SSA)**, Finance Norway supports the Commission's proposal to phase in the market risk capital requirement impact by applying a flat 0.9 multiplier.

[1] *The Impact of the FRTB on Correlation Trading,* October 2025 by ISDA. https://www.isda.org/2025/10/07/the-impact-of-the-frtb-on-correlation-trading/

Q3: Views on the multiplier for market risk capital requirements
We support the introduction of a capital neutrality multiplier as a pragmatic measure to mitigate competitive distortions. The multiplier should effectively allow firms that wish to continue with their Basel 2.5 models to do so, while firms that wish to go live could discontinue running these models.

We favour a bank-specific multiplier, periodically recalibrated (option a), to ensure risk sensitivity and alignment with Basel 2.5 capital requirements throughout the three-year period.

Q4: Preferred calibration options for the multiplier
Our preferred option is the bank-specific multiplier with periodic recalibration (option a). Any of the other options would be too operationally and computationally complex in terms of quantifying the multipliers. This approach ensures that changes in trading activity and risk profile are reflected in the calibration, reducing the risk of underestimating capital requirements and maintaining a level playing field.

We do not consider ongoing recalibration to be operationally burdensome. We recommend starting the multipliers for one year, awaiting the final US approach, and then updating these for the remaining two years depending on the final US rules.

Additional Comments: Impact on Smaller Bond Markets and Market Making

Background
The regulatory changes to the calculation of market risk capital requirements will affect relatively few banks in smaller jurisdictions, but the impact is significant for those concerned. The new standardised approach for market risk (FRTB) results in a substantial increase in capital requirements compared to the current method. Although the new approach is more advanced and risk-sensitive, it is also conservatively calibrated, leading to a marked increase in capital requirements for most banks reporting under this method. In particular, the calibration of risk weights for credit spread risk appears very conservative. This disproportionately penalizes senior bank issuances, which typically exhibit low credit risk and tight spreads. Furthermore, some of the buckets applied to unrated corporates create unintended consequences, as they do not adequately reflect the actual risk profile of these exposures.

The markets in Norway and Sweden have a significantly smaller number of investors compared to the Eurobond market. As a result, these markets are highly dependent on market-making activities to maintain liquidity. In the investment-grade corporate segment and senior/Senior Non-Preferred (SNP) bank bonds, the 30 largest investors account for approximately 90–95% of the market. In the Eurobond market, by contrast, there are multiple alternative liquidity providers, a broader investor base, and better access to hedging instruments. This creates greater flexibility and lower costs for funding and risk management.

The liquidity in the Norwegian credit bond market is determined by banks that *discretionary* buy and sell bonds on request. The business model includes risk taking both in the primary market and in the secondary market. The profitability of this business model consists of (1) a thin bid/ask-spread and (2) the positive carry in the book. If the interest margin in the book turns *significantly* negative, the business model will break down, and the participants will withdraw.

The primary market is characterized by investors' portfolio rebalancing where near-maturity bonds are sold to finance their participation in new issues. Market makers play a crucial role in this reinvestment cycle.

Many new issues in the Norwegian bond market are underwritten through different versions of *auctions*. For example, the bond financing of the public sector is partially driven by the participation of the banks arranging the issuance (the bookrunners) in auctions and subsequently reoffers to end investors. The issuance of covered bonds and senior unsecured bonds from the financial sector also relies heavily on sufficient risk capacity of market intermediaries.
Market making is also a prerequisite for investors' effective rebalancing of portfolios in the secondary market. A market based on bilateral agreements (*broking*) will severely encumber the active management of bond portfolios.

In the Norwegian investment grade bond market, the liquidity offered by market makers is challenged by increasing regulatory costs (including CRR3). This development has primarily been driven by higher minimum capital ratios and additional buffers as well as a general increase in targeted returns on equity in the Norwegian banking sector.

Credit and liquidity risk premia are exogenously determined in the financial markets and are not set by the market makers. In most segments of the Norwegian bond market, the regulatory costs are now in line with or *above* the market-based credit spreads. Consequently, the *economic* incentive for market makers to supply liquidity is already weak. This situation is an effect of falling credit spreads in the time span from 2022 to date.

Current Challenge
A further increase in regulatory costs will widen the gap between market pricing and capital costs and may force banks to reduce their activity in the capital markets and limit their capacity to provide liquidity through market making. Market making is essential for well-functioning bond markets, ensuring liquidity, efficient pricing, and stability. If market making becomes unviable, liquidity will deteriorate, funding costs will rise, and volatility will increase—contrary to the original intention of FRTB after the financial crisis.

The fundamental problem is that regulatory capital costs for market makers in the Norwegian bond market may diverge significantly from the credit spreads observed in the financial market. When the regulatory framework imposes capital requirements that are disproportionate to the actual market risk pricing, the economic rationale for providing liquidity is undermined. This misalignment creates a situation where market makers withdraw, reducing liquidity and impairing the functioning of the market. Lower liquidity leads to higher liquidity premia, which in turn increases the overall funding cost for issuers—even if their credit quality remains unchanged. Over time, this dynamic can trigger a negative feedback loop: as liquidity deteriorates, investors demand higher compensation for trading risk, further widening the gap between regulatory costs and market pricing. Such reflexivity erodes market efficiency and ultimately raises borrowing costs for the real economy.

This challenge is particularly relevant for smaller bond markets, such as in Norway, where the larger local banks, play a critical role in supporting liquidity and providing access to funding for smaller banks, municipalities and SMEs, and where relevant hedging instruments are less available. The small and medium-sized banks have limited access to international securities markets for funding. This is partly because many smaller banks lack a formal credit rating from recognized rating agencies, which makes it difficult for them to raise capital through bond issuance outside Norway. For large banks, access to international capital markets is significantly easier. They have established credit ratings and a broad network of counterparties, enabling them to issue bonds in larger volumes. This allows them to spread fixed costs across multiple transactions, thereby reducing unit costs. In addition, they hold a strong market position with well-developed relationships with international investors, making it easier to structure transactions that are attractive in global markets. Finally, international markets offer higher liquidity, providing large banks with greater flexibility and lower funding costs compared to smaller institutions.

Small and medium-sized banks, as well as municipalities, are especially dependent on well-functioning market making, as they rely on access to liquidity in the local bond market to fund their activities. These smaller banks are often, in turn, the main source for SME-financing. A well-functioning capital market enables banks to secure funding efficiently, which in turn supports lending and investment in the SME sector. The FRTB framework increases penalties for market making, which may limit banks' capacity to support SME financing. The challenge is most pronounced in the market for bank bonds, as the FRTB framework imposes the most significant impact on short-term holdings of debt instruments issued by financial institutions. A market-making bank also has very limited opportunities to hedge credit risk in its trading portfolio relating to securities issued by smaller banks and other local issuers. The availability of instruments such as credit derivatives (CDS), short positions, and other hedging mechanisms is very limited for this type of issuer. This makes it challenging to reduce capital requirements under the FRTB, which is both more risk-sensitive and conservatively calibrated. In contrast, larger and more liquid capital markets offer far better access to such instruments, as issuers are larger and the underlying securities more liquid. This provides participants in those markets with greater flexibility in risk management and lower capital costs.

If market making becomes unprofitable, banks’ ability to fund SMEs will be impaired, with negative consequences for growth, innovation, and employment.

Proposed Solution

We urge the Commission to consider the specific challenges faced by smaller bond markets and the risk of negative spillover effects on local liquidity, funding costs, SME financing, and market stability. The calibration of the standardised approaches should be revisited to avoid unintended consequences for well-functioning local markets and the broader economy.

As a possible solution, we propose that the Commission considers temporarily reducing the risk weights for credit spread risk (CSR) for non-securitizations under the Alternative Standardised Approach—potentially by up to 50 percent—to avoid adverse effects for banks operating in smaller or less liquid bond markets. This targeted adjustment would address market-specific challenges, support market making, and maintain liquidity in local bond markets, while still upholding the overall objectives of the FRTB framework. Such a measure would help ensure that capital requirements remain risk-sensitive and proportionate, and that well-functioning local markets can continue to support funding for banks, municipalities, and corporates including SMEs.

Yours sincerely
Finance Norway

Katrine Olsen
Principal adviser