

# Fundamental Review of the Trading Book

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Fundamental Review of the Trading Book (FRTB) establishes minimal capital requirements for market risk for a bank's trading desks. FRTB is the standard set by the Basel Committee on Banking Supervision (BCBS) whose members represent 28 jurisdictions and over 90% percent of the world's banking assets and its members are presently implementing these standards.

Banks have the option to possibly lower their capital charges by taking the Internal Model Approach (IMA) over the Standard Approach (SA). Banks who take the IMA approach must demonstrate enough real price observations (RPOs) to pass the Risk Factor Eligibility Test (RFET) and perform desk level profit & loss attribution tests (PLAT) to backtest their IMA.

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## Marketplace problems

Passing the RFET requires an involved and wide-ranging technical undertaking, since banks must gather sufficient RPOs for each risk factor used in their IMA. Even if a bank can pass the RFET test, it must also have access to adequate historical data to backtest their IMA under the PLAT.

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## ICE's solution

We offer two FRTB Solutions:

- The RPO / RFET Solution provides the RPOs as well as the RFET analysis. The RFET analysis determines which risk factors passed the test with supporting metadata based on the RPO data. More RPOs can mean lower capital charges.
  - The Historical Data for ES Models solution provides historical pricing data to calibrate expected shortfall models necessary to pass the PLAT.
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## Why ICE

- **Coverage:** data across six asset classes, drawing on all the reference and market data that ICE has to offer. Data sources include public, third-party, and proprietary sources.
- **Transparency:** each RPO can be traced to a specific trade or quote with the substantiating data.
- **Flexibility:** clients can feed RPOs into a larger internal database before conducting their own eligibility tests or rely solely on ICE's RPO data and RFET solution.
- **Configurability:** clients can configure RPO/RFET solution to select observations, create cohorts beyond regulatory risk buckets, and define what constitutes a committed quote.
- **Predictive analytics:** RFET solution includes data about how close each risk factor is to passing or failing, which allows clients to anticipate a possible failure and adjust their IMAs in advance, thus avoiding capital charges. Predictive data may also indicate a risk factor that is close to passing and could benefit from adding internal data.

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