

Fundamental Review of the Trading Book

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.

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.

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.

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.

Limitations

This document contains information that is confidential and proprietary property and/or trade secret of Intercontinental Exchange, Inc. and/or its affiliates, is not to be published, reproduced, copied, disclosed or used without the express written consent of Intercontinental Exchange, Inc. and/or its affiliates. This document is provided for informational purposes only. The information contained herein is subject to change and does not constitute any form of warranty, representation, or undertaking. Nothing herein should in any way be deemed to alter the legal rights and obligations contained in agreements between Intercontinental Exchange, Inc. and/or any of its affiliates and their respective clients relating to any of the products or services described herein. Nothing herein is intended to constitute legal, tax, accounting, investment or other professional advice.

Intercontinental Exchange, Inc. and its affiliates, makes no warranties whatsoever, either express or implied, as to merchantability, fitness for a particular purpose, or any other matter. Without limiting the foregoing, Intercontinental Exchange, Inc. and its affiliates makes no representation or warranty that any data or information (including but not limited to evaluations) supplied to or by it are complete or free from errors, omissions, or defects.

Services provided by ICE Data Derivatives, Inc. are not and shall not be construed as investment advice. ICE Data Services refers to a group of products and services offered by certain Intercontinental Exchange, Inc. (NYSE:ICE) companies and is the marketing name used for ICE Data Services, Inc. and its subsidiaries globally, including ICE Data Pricing & Reference Data, LLC, ICE Data Services Europe Limited and ICE Data Services Australia Pty Ltd. ICE Data Services is also the marketing name used for ICE Data Derivatives, Inc. and its subsidiaries globally and certain other data products and services offered by other affiliates of Intercontinental Exchange, Inc. (NYSE:ICE).

Trademarks of Intercontinental Exchange, Inc. and/or its affiliates include: Intercontinental Exchange, ICE, ICE block design, NYSE, ICE Data Services, ICE Data and New York Stock Exchange. Information regarding additional trademarks and intellectual property rights of Intercontinental Exchange, Inc. and/or its affiliates is located at ice.com/terms-of-use. Other products, services, or company names mentioned herein are the property of, and may be the service mark or trademark of, their respective owners.