

Engagement Paper

Market risk capital requirements for FCA investment firms

December 2025

How to respond

The review is most relevant to solo regulated investment firms, who have permission to deal in investments as principal in MiFID financial instruments and manage a trading book as part of their regulated activities.

We are asking for comments on this Engagement Paper (EP) by **10 February 2026**.

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Chapter 1

Background

- 1.1** Market risk is the potential for losses that may arise from adverse movements in the market price of both a firm's on and off-balance sheet positions in financial instruments. It exists in both 'cash' instruments, such as shares and bonds, and in derivative products such as futures and options. Market risk is an inherent feature of how traded markets operate. However, the extent and direction of price movement is uncertain, and the firm could suffer a loss on its position. Market risk capital requirements help a firm absorb a potential loss if its price expectations are not met. When applied across the system, these requirements help promote safety, soundness and integrity of the financial markets.
- 1.2** In 1993 European legislation (the Investment Services Directive 93/22/EEC) introduced the concept of regulators authorising investment firms. This was accompanied by prudential legislation. This included the original Capital Adequacy Directive 93/6/EEC, which introduced capital requirements for market risk.
- 1.3** Since then, the market risk capital requirements for UK investment firms dealing on own account have essentially stayed the same as those designed for banks by the Basel Committee on Banking Supervision (BCBS or Basel). This linkage continued through to the UK Capital Requirements Regulation (UK CRR).
- 1.4** In 2021 we implemented our Investment Firms Prudential Regime (IFPR). This sought to make the first break from applying prudential requirements designed for banks to investment firms. However, while the IFPR introduced a wide range of changes, cross-references to the UK CRR still remain in some parts of our rules.
- 1.5** One of these cross-references relates to the market risk capital requirements, which use a version of the UK CRR as it stood on 31 December 2021. This was partly because it would not have been possible to have transposed all the relevant material for market risk into detailed FCA rules in time for the initial implementation of the IFPR.
- 1.6** Our first consultation paper on IFPR in 2020 (CP20/24) explained we would continue our existing approach to market risk under the UK CRR through the 'k-factor' capital requirement on net position risk (K-NPR). The CP acknowledged developments to amend the Basel international standards on market risk for banks, referred to as 'CRR2', and stated we would have regard to the UK CRR2 regime when reviewing our K-NPR rules. This reflected our view that it would not have been appropriate to implement new rules on market risk for the investment firms we prudentially regulate ('FCA investment firms') at that time. These international developments are covered under Chapter 3 of this paper.
- 1.7** All things being equal, investment firms may cause less harm in failure than banks. This may justify more proportionate rules tailored to the harm they pose. In a [speech](#) on 8 October 2024, our chief executive, Nikhil Rathi, said we now had the opportunity to introduce reform in this area. The UK Government then took up the idea of formally reviewing the market risk capital requirements for specialised investment firms as part of its [Financial Services Growth and Competitiveness Strategy](#) published in July 2025. This engagement paper introduces that review.

- 1.8** Our review aims to consider how different approaches to setting market risk capital requirements in the pursuit of market integrity could encourage wholesale trading, improve market liquidity, and in turn reduce barriers to entry for specialised trading firms. It will focus primarily on the current requirements in our Prudential sourcebook for MiFID Investment Firms (MIFIDPRU) sections 4.11 (trading book and dealing on own account: general provisions), 4.12 (K-NPR requirement) and 4.13 (K-CMG requirement), as well as the corresponding sections of the UK CRR as it stood on 31 December 2021. However, we may also consider consequential changes to other parts of MIFIDPRU that support market risk, such as the definition of the trading book or calculating capital for concentration risk under MIFIDPRU 5.
- 1.9** In Chapter 2 we set out some important overriding issues, where we may need to strike a balance when designing any new rules for market risk. For example, regulatory capital is not the only tool that gives protection against trading losses. Chapter 3 then identifies a range of possible approaches on which we seek stakeholder views, to help us narrow down the options for more detailed consideration. Chapter 4 provides a non-exhaustive list of sample questions to help stakeholders consider the wide range of issues covered by this engagement paper.
- 1.10** This review is most relevant to FCA solo regulated investment firms with dealing in investments as principal permissions, where managing a trading book is a part of their regulated activities.

Chapter 2

Design considerations for the review

- 2.1** This section explores overarching issues. We discuss the balance between an appropriate market risk capital regime for investment firms that protects market integrity, but which does not act as a barrier to international competitiveness and sustainable growth. There may not be a single correct answer, hence the need to balance these factors in the detailed design of any subsequent proposals.

Protecting market integrity

- 2.2** Regulatory capital requirements for market risk ensure that trading firms hold sufficient capital to absorb potential losses from adverse price movements without immediately failing. We do not operate a 'zero failure' regime. Some failures are inevitable in a competitive market. However, too many failures, or disorderly failure of significant market participants, could harm confidence in the market. This is because trading firms will interact with central counterparties, trading venues and other regulated market participants. This could be amplified by temporary market dislocation or contagion. So, loss-absorbing capital is an important regulatory tool in achieving our operational objective of protecting and enhancing the integrity of the UK financial system.
- 2.3** While the failure of a trading firm can create risks, a strong UK trading system provides resilience. Deep liquidity, diverse participants and robust infrastructure such as central clearing and settlement systems help absorb shocks and maintain orderly markets even during stress. This interconnected network fosters efficient price discovery, innovation and global competitiveness. It also enables us to maintain effective regulatory oversight through transparent data flows. By supporting confidence and continuity in trading activity, the ecosystem reinforces the UK's position as a leading international financial centre. This serves our strategic objective to make sure relevant markets function well.
- 2.4** Some trading firms may hold their clients' money and assets when trading on their behalf. Firms may also offer other regulatory activities such as managing portfolios or executing orders in the client's name. The risk of harm is mitigated by other activity-based capital requirements ('K-factors'), conduct requirements and client asset rules. Together, these serve to further our operational objective of securing an appropriate degree of protection for consumers. This paper does not consider wider harm further and focuses only on market risk from trading firms when executing orders in the name of the firm.
- 2.5** Our current rules for calculating capital for market (or 'net position') risk are mostly derived from the requirements designed for banks. This may be justifiable as the inherent level of price risk in holding a trading position should be the same, irrespective of the type of firm that holds it.

- 2.6** However, it could be argued that prudential standards should inherently be harm-based. For example, banks accept deposits. So, the need for depositor protection and financial stability demands a high degree of confidence in their loss-absorbing capacity. In contrast, the trading firms we prudentially regulate are generally smaller than banks, do not accept deposits and some do not have external customers. Their balance sheets should generally be capable of being liquidated quickly and their exit from the market should generally affect other stakeholders less. Once any temporary market dislocation has been absorbed, other firms should eventually take up these market opportunities.
- 2.7** Our prudential regime for investment firms considers capital requirements to mitigate the effects of risks from the perspective of both going concern (through the k-factors) and gone concern (through the fixed overheads requirement (FOR)). We consider both to be in line with our objective for market integrity.
- 2.8** Given the general assumption that FCA investment firms may be allowed to fail, the FOR helps provide a means of dealing with the impact of failure. It also allows time for a firm to wind down and exit the market in an orderly manner. It does this by requiring investment firms to hold a minimum amount of capital to cover the expenses of winding-down the business without relying on further trading for revenue. The FOR thus complements market risk capital requirements, as both contribute towards maintaining market integrity involving trading firms.
- 2.9** Any minimum level of regulatory capital requirements for market risk can be seen as providing a baseline level of protection against trading losses that could cause a firm's failure. The lower the level of minimum capital, the lower the level of this protection, not including any other risk mitigants. If we concluded less capital protection is necessary, one possible outcome could be more firm failures.

Regulatory capital and internal or economic capital

- 2.10** Calculating capital requirements for market risk first requires the measurement of potential downside risk from a firm holding a particular position or portfolio. It then requires quantification of an amount of capital to be held against that to absorb a loss. While there are different ways to achieve this, most tend to rely on some form of analysis of price movements, often informed by historic data.
- 2.11** That analysis could be performed in advance by regulators and codified in rules or informed by firms' own risk management. To a certain extent, this fundamental choice is reflected in the current framework for banks and investment firms. Under the standardised approach, regulators have prescribed detailed rules and set calibrations. However, under the internal models approach, a firm that meets rigorous conditions may, with regulatory permission, use its own models and parameters to calculate market risk capital for regulatory purposes.

- 2.12** When introducing IFPR in 2022, we included an alternative to the more traditional net position risk requirements (the K-NPR 'K-factor') for calculating market risk capital. This is known as the 'K-factor' for clearing margin given (K-CMG). In effect, for certain types of cleared trading activity, this allows an investment firm to benefit from using an internal model operated by a central counterparty (CCP) or a clearing member. Subject to our permission, the investment firm can use the margin it is required to give the CCP or clearing member as a basis for quantifying its regulatory requirement for holding capital against market risk.
- 2.13** Setting requirements based on a standardised approach through detailed rules can allow for consistent treatment and provide a baseline level of prudence to guard against stressed events. However, over time it can become out of line with how trading firms view and manage risk themselves, as well as lag market developments. Firms may also become complacent and decide it is easier to hold the standard amount of capital set by the regulator, rather than invest in better understanding the actual risks of their individual trading strategies.
- 2.14** From a competition perspective, using a standardised quantification set by prescriptive rules could be seen as fostering a 'level playing field' between trading firms. However, it might also protect inefficient or poorly managed firms, especially if it detracts from greater risk management and pursuing different trading strategies. It also relies strongly on the standardised calibrations to represent a fair assessment of market risk across the board.
- 2.15** One aim of allowing banks and large investment firms to use an internal model to quantify market risk capital requirements was to encourage better risk management. The expectation was that greater risk-sensitivity would lead to firms calculating market risk capital more in line with the way they viewed the risk from an economic perspective. An obvious risk here is that a firm takes an over-optimistic view of its position when trading, without sufficient independence or robustness in its risk and oversight functions to challenge this. Checks and balances are therefore necessary, with a high threshold for permission to operate an internal model under the current rules. No FCA investment firm currently holds such permission.
- 2.16** Quantifying minimum regulatory capital for market risk should ideally consider both the regulator's and the firm's perspective. If regulatory capital is materially out of line with internal or economic capital without good reason, then firms would calculate prudential requirements for market risk simply for regulatory, rather than for risk management purposes. This may result in less attention being paid to risk management.

Covering different asset classes and products

- 2.17** The current standardised approach to calculating market risk capital requirements for investment firms require them to calculate capital against trading positions held in financial instruments according to different asset classes. For example, debt instruments, equities and collective investment undertakings. A firm should also quantify the capital requirement for the risk from foreign exchange and commodity exposures. The approach needs to cater for a wide range of financial instruments and products including cash trades, securities financing transactions and a wide range of derivative products. While this may deliver consistency, it also brings a degree of complexity, with specific regulatory rules for the different asset classes and specific types of products.
- 2.18** Such design features may have worked for many years but could now come under pressure from technological developments such as blockchain. New types or classes of assets have emerged, most notably a wide range of crypto assets, as well as tokenised securities. Additionally, for some firms the techniques and systems for trading may matter as much as what is traded.
- 2.19** An approach based upon asset classes and products therefore needs to keep pace with such developments. This can be a challenge where it requires traded assets to be categorised, and specific detailed regulatory rules and calibrations apply to each individual asset. So, our review will need to consider if this is still appropriate, and if there are alternative ways to address the trading of all the different types of products in different types of assets.

Capital and Risk management as complementary mitigants

- 2.20** In its document on the supervisory review process, 'SRP10 Importance of supervisory review', the BCBS recognises that capital is not a substitute for addressing fundamentally inadequate control or risk management processes. On the other hand, the International Organisation of Securities Commissions (IOSCO)'s 'Risk Management and Control Guidance for Securities Firms and their Supervisors' underlines that risk management and controls are not a substitute for adequate capital requirements. So, we need to consider risk management and internal controls alongside minimum capital requirements.
- 2.21** Trading firms may believe they are managing predictable volatility, but unexpected market events can occur, and the firm may need to absorb losses with capital without the firm having to exit the market. So, our review will likely need to consider the balance between these 2 types of risk mitigants when setting minimum capital requirements for market risk.

Comparison to other jurisdictions

- 2.22** The UK and the European Union (EU) have adopted similar rules for banks and investment firms, but the scope of firms covered by regulation is narrower in other jurisdictions and also places different requirements on trading firms. In some jurisdictions, non-bank trading firms come under the scope of prudential requirements for market risk only when they either have retail customers or interact with centrally cleared markets. The UK (and EU) previously provided a similar exclusion through the definition of a 'local' firm. This was removed when IFPR was introduced, as firms' market presence had become more sophisticated and significant, including some trading globally.
- 2.23** Some jurisdictions, such as Canada, Hong Kong and the United States, use variants of a net capital rule (NCR) as a key requirement to assess trading firms' capital adequacy. The NCR has a different approach and detail compared to the Basel approach and so is not directly comparable. However, the NCR achieves a broadly similar outcome with asset class (and in some cases product) based capital charges. IOSCO's FR02/2015, 'A Comparison and Analysis of Prudential Standards in the Securities Sector' concluded the 2 key approaches had methodological similarities and differences but the same objective.

Question 1: **Do you have any views on the design considerations in this chapter? Particularly, how the effectiveness and robustness of a firm's market risk management could be captured?**

Chapter 3

Possible approaches

- 3.1** This section discusses possible approaches to setting capital requirements for market risk. At this stage, these are only possible areas for future exploration and development, and we have no preference for any approach. A key purpose of this paper is to get input from industry on the relative merits of the approaches below. We are also open to considering options beyond those outlined in this paper as we narrow these options into proposals for consultation next year.

Option 1: Amend the existing standardised approach

- 3.2** One option would be to amend the existing standardised approach for calculating K-NPR and incorporating the relevant requirements within our Handbook so that there is no longer a need to cross-refer to a 'frozen in time' version of the UK CRR.
- 3.3** The standardised approach is based upon certain assumptions about a diversified trading portfolio that may not be as valid for more specialised trading firms. This is because the standardised approach does not fully recognise hedging or diversification. This can arguably result in a level of regulatory capital requirement that is not proportionate to the firm's risk profile or the potential for harm. Some specialised trading firms have shown us examples where the standardised approach doesn't fully recognise hedging across instruments with different durations, especially for shorter term contracts. This can lead to very high levels of capital required under the standard K-NPR calculations compared to the margin they are required to post with counterparties or for estimated potential losses using standard industry modelling methods. To address such anomalies, we could undertake a set of targeted amendments to the current requirements.
- 3.4** As the standardised approach is based on asset classes, we may need to update the detailed body of rules further after any initial rule changes. This is because of specific market and technological developments such as derivatives in crypto assets and tokenisation.
- 3.5** As an alternative, or in conjunction with amending the current standardised approach to address specific problems, we could allow firms to scale down the results of the current K-NPR calculations via a simple discount factor approach. This may only be appropriate for certain types of trading firms, such as those without significant levels of retail or professional clients or clearing business.

Question 2: **What specific feedback do you have on continuing to use the current market risk standardised approach within our rules? Are there particular provisions that could be improved and if so, how?**

Option 2: A margin-based approach

- 3.6** As noted above, our rules include an alternative to the K-NPR for calculating market risk capital. This is the K-CMG, which is based on clearing margins. It allows firms to seek permission to apply a capital requirement to its cleared portfolio based on the third highest daily total margin provided over the preceding 3 months. This current approach can lead to a more 'static' calculation of market risk under K-CMG than when using K-NPR.
- 3.7** Certain conditions must be satisfied to gain permission to apply K-CMG, which include addressing governance risks. These conditions can be important if the K-CMG approach is seen as allowing an investment firm to effectively 'outsource' the calculation of its market risk capital requirement on a cleared portfolio. This approach is based on margins derived from internal models used by CCPs and clearing members, which are supervised by a banking regulator or a central bank.
- 3.8** The current scope of K-CMG only covers portfolios where open positions are either centrally cleared by an authorised CCP or settled on a delivery-versus-payment basis under the responsibility of a clearing member. We could explore the feasibility of applying a version of this approach to uncleared over the counter derivatives contracts using historic margins.
- 3.9** We could also adapt a margin-based approach further to apply it to certain cash products, such as using a 'derived' margin. For example, where there is already an active and reliably priced future contract on the cash instrument, margins could be derived from those used by the CCP for such futures contracts. However, this approach would also need to consider the issues of governance and controls.
- 3.10** There are currently no set rules on recognising hedging or diversification where firms operate under the K-CMG approach across multiple clearers for separate portfolios. As part of exploring extending a margin-based approach beyond those contracts currently in scope of K-CMG we may also need to consider how hedging or diversification could be recognised.

Question 3: What specific feedback do you have on the use of the current K-CMG?

Question 4: What suggestions do you have for how a margin-based approach might be applied to portfolios that are not centrally cleared?

Option 3: An internally modelled approach

- 3.11** Under MIFIDPRU 4.12.4R, an investment firm can apply for permission to use an internal model approach to calculate its minimum market risk capital requirements for equity and debt instruments, foreign exchange risk and commodities risk. This is a substitute for the standardised approach requirement.
- 3.12** The internal model approach is essentially based on the use of value at risk (VaR) methodology. While VaR is widely used by investment firms as part of their internal risk management, there are currently no FCA investment firms who have applied for permission to use internal models. Firms have suggested this is due to the operational burden of doing so. The standards required for both initial approval and ongoing maintenance of a model are seen as high. These standards are designed for large, internationally active banks where the benefit of lower capital requirements can be substantial.
- 3.13** In theory, the standards expected for internal models should encourage investment in risk management and align more with the way a business views the economic risk of its trading portfolio. However, this alignment is less likely if those standards place a disproportionate burden on firms.
- 3.14** One option could be to amend the current internal model approach to make it more proportionate and risk sensitive. This could incentivise more firms to apply to use internal models, supported by appropriate 'backstops' to guard against misuse.

Question 5: Would you support maintaining the current internal model approach if it was possible to find a proportionate way to incentivise its use? If so, how could this be achieved, and what sort of regulatory backstops would you suggest?

- 3.15** Firms use a wide range of risk management and statistical methods, such as variance-covariance matrices, Monte Carlo simulations, scenario analyses with appropriate shocks or profit and loss attribution. It may be possible to use such techniques to set regulatory capital for the trading book, outside of amending the current internal model approach.
- 3.16** Qualitative standards and parameters would also need to be addressed, including the extent of applying stresses, so that such arrangements would have a degree of consistency and be capable of regulatory oversight.
- 3.17** And there is also the question of whether some form of quantitative 'backstop' would be necessary to counter over-optimistic assumptions or statistical 'gaming', beyond the FOR's existing use.

Question 6: What other techniques beyond VaR are in use within industry for ongoing management, monitoring and quantification of market risk? And what type of qualitative considerations are important?

Option 4: A net capital rule (NCR) approach

- 3.18** Apart from the EU, very few jurisdictions apply the Basel regime for banks onto non-bank entities. They often use some form of the NCR approach instead. This approach is based on relevant firms maintaining specified minimum levels of net liquid assets. The general aim is for a firm to be able to liquidate its balance sheet in an orderly way without causing losses for customers. The NCR approach applies a range of haircuts to risk positions in different assets. Some jurisdictions allow firms using the NCR to apply to use an (VaR based) internal model to decide the appropriate level of these haircuts.
- 3.19** In terms of outcomes, the NCR is not dissimilar from the Basel standardised approach. Both require the regulator to specify a range of charges for different trading assets. Some jurisdictions also apply a limit on the financial leverage of the trading book as part of the NCR. Switching to an NCR-type approach may require wider changes (beyond market risk) to how capital adequacy is currently determined for an investment firm.

Question 7: **If you see an overall benefit in adopting a net capital rule approach, including a limit on the financial leverage of the trading book, please explain what that may be?**

Option 5: A sensitivities-based method

- 3.20** Following the global financial crisis of 2008, Basel undertook a fundamental review of the trading book (FRTB). Among other areas, the review sought to reduce reliance on internal models and increase the risk sensitivity under the standardised approach for market risk.
- 3.21** There is no requirement on the FCA to extend Basel's FRTB approach for banks to FCA investment firms. Until we complete this review and put final rules in place, firms will continue to apply the existing MIFIDPRU rules. While the FRTB provides a comprehensive framework for market risk, this section is only seeking feedback on the potential to use or adapt its revised standardised approach. We welcome any views on the FRTB's proposals on the revised internal model approach, such as expected shortfall methodology, as part of feedback on using the internal modelling techniques discussed earlier.
- 3.22** The FRTB's revised standardised approach aims to increase risk sensitivity compared to the current standardised approach. However, it is also more complex. The core of the sensitivities-based method captures changes in an instrument's value in response to small movements in a set of risk factors. These sensitivities drive loss estimates under a defined stress scenario which help determine the capital required.
- 3.23** This method specifies various risk factors set to reflect stressed market conditions and the risk weights applied to those factors for different instrument types. It applies a methodology for summing the losses calculated for each risk factor to arrive at a portfolio level loss. Some diversification benefit is allowed to improve the degree of risk sensitivity. In addition to the sensitivities-based method, the FRTB's new standardised approach applies 2 further components: a default risk capital requirement and a residual risk add-on.

- 3.24** As a further way of increasing risk sensitivity, the FRTB considers market liquidity. It incorporates varying liquidity horizons to capture the risk of any sudden and severe impairment of market liquidity across assets. These replace the static 10-day horizon assumed for all traded instruments under the current VaR-based framework.
- 3.25** It may be sound to link capital requirements to market liquidity so banks can increase their confidence to withstand market shocks. But there is a risk that adopting such an approach for specialised investment firms could lead them to reduce their participation in certain less liquid markets and traded instruments. This would seem to be at odds with the desired outcome of our review - to encourage wholesale trading, improve market liquidity and reduce barriers to entry for specialised trading firms.

Question 8: What are your views on applying a sensitivities-based approach to calculating market risk? How might such an approach be tailored or simplified for investment firms?

- 3.26** Some banks have relatively small or non-complex trading portfolios. For these firms, the FRTB gives the option of continuing to use a more conservative version of the current standardised approach, but with fixed scalars applied to each risk class i.e. interest rate risk, equity risk, commodity risk and foreign exchange risk. However, we do not currently see any evidence to support increasing the minimum market risk capital requirements for FCA investment firms.
- 3.27** The FRTB also revisited the definition of a trading book to address concerns about allocating assets between the banking and trading books. We recognise these issues, but they do not apply to our firms as they do not operate banking books. However, if there is feedback on how the trading book interacts with 'non-trading' book assets, we may consider this as part of our review.

Option 6: Repurposing K-TCD for exposure to price risk

- 3.28** Investment firms that deal in their own name may also have to calculate a separate capital requirement to protect against the default of a trading counterparty (or K-TCD). This includes the firm having to calculate a transaction's exposure value to capture the replacement cost of an asset or contract and, for a derivative, its potential future exposure. These basic concepts could be repurposed to capture risk currently addressed by K-NPR. Replacement cost and potential future exposure can reflect current market risk of a given position.
- 3.29** There would need to be material revisions to how K-TCD works for counterparty risk to make it work for price risk. Such an approach would also need to consider application across assets and hedged or offsetting exposures, perhaps with some repurposed use of a net/gross ratio. This type of approach would still rely on a set of standardised charges for different asset classes set by the regulator which may not always accurately reflect the risk of loss.

Question 9: Do you have any suggestions on how the relevant elements of K-TCD could be repurposed to capture the market risk within a trading book?

Option 7: A weighted liquid exposure method

3.30 An alternative idea could be to develop a 'weighted liquid exposure' methodology. Here, a firm would assess the time required to execute transactions that close an exposure without moving market prices. A capital charge would then apply to the overall weighted liquidity profile, either on an asset class or portfolio basis. While this may not reflect all risk characteristics, it would provide a measure that can accommodate less liquid instruments, providing they do not make up a material portion of the trading book.

Question 10: Could the weighted liquidity risk of a portfolio form a basis for calculating market risk capital requirements? If so, what suggestions do you have for developing such an approach?

Other considerations

3.31 When reviewing possible approaches to calculating a minimum level of capital for market risk, it may be necessary to consider how they interact with the FOR in the case of a trading firm. Both forms of minimum regulatory capital are relevant to market integrity. It is reasonable to expect an investment firm could experience losses while unwinding its trading book during a wind-down period and so require loss-absorbing capital to support a market exit. However, if a firm can liquidate its trading book within a relatively short time there may be an argument that it does not require the same degree of permanence for all its regulatory capital. Allowing some flexibility for a portion of shorter-term capital could possibly help trading firms support market liquidity and increase trading business during periods of greater market volatility.

3.32 Depending on which approaches to market risk are taken forward, broader changes to MIFIDPRU may be required. For example, where firms use K-CMG as an alternative for position risk they must still calculate K-NPR for the purposes of any concentration risk capital requirements (K-CON). There may also be other interactions with changes that would need to be considered. Should any future approach move away from a more prescribed set of quantitative requirements, it may be appropriate for us to seek more data reporting for market risk than under a more standardised approach.

Question 11: Are there other possible options for calculating market risk or other related issues, such as the definition of the trading book and the calculation of K-CON, that we could consider? If so, please provide details.

Chapter 4

Feedback and questions

- 4.1** We invite feedback to this engagement paper and in particular the possible approaches we discuss in Chapter 3 by 10 February 2026.
- 4.2** In this chapter we have set out some questions for the relevant sections covered in the paper. These are not exhaustive and are to help you provide feedback by drawing out a few of the many issues we may need to consider to progress the review. Investment firms may specialise in different markets, asset classes and instruments, and employ a range of trading strategies. A market risk regime needs to cater for all of them. Therefore, the more you can provide feedback overall, the more it can help us.
- 4.3** You may also have other relevant points to make or specific detailed suggestions as to how to develop a particular approach. We particularly welcome this. We aim to publish a consultation paper next year.

Questions

- Question 1:** Do you have any views on the design considerations in this chapter? Particularly, how the effectiveness and robustness of a firm's market risk management could be captured?
- Question 2:** What specific feedback do you have on continuing to use the current market risk standardised approach within our rules? Are there particular provisions that could be improved and if so, how?
- Question 3:** What specific feedback do you have on the use of the current K-CMG?
- Question 4:** What suggestions do you have for how a margin-based approach might be applied to portfolios that are not centrally cleared?
- Question 5:** Would you support maintaining the current internal model approach if it was possible to find a proportionate way to incentivise its use? If so, how could this be achieved, and what sort of regulatory backstops would you suggest?
- Question 6:** What other techniques beyond VaR are in use within industry for ongoing management, monitoring and quantification of market risk? And what type of qualitative considerations are important?

- Question 7:** If you see an overall benefit in adopting a net capital rule approach, including a limit on the financial leverage of the trading book, please explain what that may be?
- Question 8:** What are your views on applying a sensitivities-based approach to calculating market risk? How might such an approach be tailored or simplified for investment firms?
- Question 9:** Do you have any suggestions on how the relevant elements of K-TCD could be repurposed to capture the market risk within a trading book?
- Question 10:** Could the weighted liquidity risk of a portfolio form a basis for calculating market risk capital requirements? If so, what suggestions do you have for developing such an approach?
- Question 11:** Are there other possible options for calculating market risk or other related issues, such as the definition of the trading book and the calculation of K-CON, that we could consider? If so, please provide details.

Annex 1

Abbreviations used in this paper

Abbreviation	Description
BCBS	Basel Committee on Banking Supervision
CCP	Central counterparty
CP	Consultation paper
CRR	Capital Requirements Regulation
EU	European Union
FCA	Financial Conduct Authority
FRTB	Fundamental Review of the Trading Book
FOR	Fixed Overheads Requirement
IFPR	Investment Firms Prudential Regime
IOSCO	International Organisation of Securities Commissions
K-CMG	K-factor requirement related to clearing margin
K-CON	K-factor requirement based on concentration risk
K-NPR	K-factor requirement on net position risk
K-TCD	K-factor requirement related to the risk from the default of a trading counterparty
MiFID	Markets in Financial Instruments Directive
MIFIDPRU	Prudential sourcebook for MiFID investment firms
NCR	Net capital rule
UK	United Kingdom
VaR	Value at risk

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