

# **FUNDAMENTAL REVIEW OF THE TRADING BOOK**

The Fundamental Review of the Trading Book is a new Basel committee framework for the next generation market risk regulatory capital rules. It is inspired by the undercapitalisation of trading book exposures witnessed during the financial crisis.

FUNDAMENTAL REVIEW OF THE TRADING BOOK aims to address shortcoming of the current Basel 2.5 market risk capital framework.

FUNDAMENTAL REVIEW OF THE TRADING BOOK provides a clear definition of the boundary between the trading book and the banking book. It consists of an overhaul of the internal model approach (IMA) to focus on tail risk and an overhaul of the standardized approach (SA) to make it more risk sensitive.

Each approach also explicitly captures default risk and other residual risks. Liquidity risk is explicitly included for different asset classes via liquidity horizons.

Referece:

<https://finpricing.com/lib/EqBarrier.html>