
HEATMAP FOLLOWING THE EBA SCRUTINY ON THE IRRBB STANDARDS IMPLEMENTATION IN THE EU

24 JANUARY 2024

EBA/REP/2024/02

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1. Heatmap following the EBA scrutiny on the IRRBB Standards implementation in the EU

1.1 Background and reminder of the regulatory landscape for IRRBB risks

1. Interest rate risk in the banking book (IRRBB) is by nature a complex risk to assess. It is part of an 'enhanced' Pillar 2 framework, generally relying on modelling approaches that can be quite heterogeneous depending on jurisdictions markets' structures. In addition, contrary to internal models used under a Pillar 1 framework, the use of IRRBB internal models is not subject to prior approval from supervisors. Supervisory assessment of IRRBB must be supported by an appropriate regulatory toolkit, given the materiality of this risk for institutions and the impact of non-maturity deposits (NMDs) modelling assumptions calibration after more than a decade of low interest rates, considering the materiality of this risk for large and small institutions. The dedicated attention to the enhanced IRRBB supervision forms a key part of the 2024 European Supervisory Examination Programme.¹
2. The implementation into EU rules of the Basel standards on IRRBB published by the Basel Committee on Banking Supervision in April 2016² started with the EBA Guidelines (GL) on the management of interest rate risk arising from non-trading book activities. These GL, published on the EBA website in July 2018,³ introduced supervisory requirements regarding the management of IRRBB, encompassing the identification, measurement, monitoring and control of IRRBB. The GL also included the revised supervisory outlier tests (SOT) on the Economic Value of Equity (EVE) as an early warning signal and high-level guidance on credit spread risk in the banking book (CSRBB).
3. In a second step the implementation of the Basel IRRBB standards into EU has taken place by means of the publication in October 2022 of the EBA mandates stemming from the Directive 2013/36/EU and issuing an IRRBB regulatory package. This package included draft Regulatory Technical Standards (RTS) on the SOT,⁴ draft RTS on the standardised approach

¹ European Supervisory Examination Programme for 2024 (available [here](#)).

² Available online: <http://www.bis.org/bcbs/publ/d368.htm>.

³ Guidelines on the management of interest rate risk arising from non-trading book activities (available [here](#)).

⁴ Draft Regulatory Technical Standards specifying supervisory shock scenarios, common modelling and parametric assumptions and what constitutes a large decline for the calculation of the economic value of equity and of the net interest income in accordance with Article 98(5a) of Directive 2013/36/EU (available [here](#)).

(SA)⁵ and revised GL on IRRBB and CSRBB.⁶ While providing continuity to the previous GL on the management of interest rate risk arising from non-trading book activities, the updated GL include new aspects, particularly the criteria to identify non-satisfactory IRRBB internal systems and criteria to assess and monitor CSRBB. These GL apply from 30 June 2023, except for the part on CSRBB, which apply from 31 December 2023.

4. In foreseeing the implementation of the legislative notion of a large decline – in the NII due to interest rates change, as per Article 98(5a)(d) of the Directive 2013/36/EU – the introduction of a regulatory definition of what constitutes a ‘*large decline*’ for the purpose of the SOT on net interest income (NII) was an important novelty of the IRRBB package since this SOT is not foreseen by the BCBS standards. Its objective is to complement the long-term assessment of IRRBB risks on the balance sheet provided by EVE measures with a shorter-term perspective targeting the NII. Such measurement is seen as an additional useful regulatory indicator to support the supervisors’ holistic assessment of IRRBB risks.
5. In April 2023, the EBA published an Opinion on the RTS on SOT,⁷ where a relaxation of the initial threshold for a large decline for the SOT on NII was proposed to reflect the changed interest rate environment since the EBA initial publication, pending further ongoing analysis and medium-term reflections on this. The EBA proposed to shift the threshold for a large decline for the SOT on NII from 2.5% to 5% of Tier 1 capital, so as, to accommodate, in a pragmatic way, the sharply changed interest rate environment and consequently, the non-binding nature of the lower bound for the post-shock interest rates for the downward scenarios. At the same time, the EBA recalled that although the SOT on NII is a regulatory metric requirement to have, this should be understood as an additional indicator for the supervisory review of the institutions’ exposures to IRRBB, it is not meant to be associated with any automaticity in the exercise of supervisory measures when institutions exceed the proposed threshold.
6. In July 2023, the final implementing technical standards (ITS) on IRRBB reporting⁸ were published on the EBA website. These ITS represent a steadier state solution compared to the QIS data, which are maintained at this time to support the scrutiny plans, ensuring no overlaps with the ITS. These draft amending ITS provide quantitative and qualitative harmonized data to supervisors across the EU, ensuring appropriate data quality and comprehensive coverage in terms of number of reporting institutions. Furthermore, these

⁵ Draft Regulatory Technical Standards specifying standardised and simplified standardised methodologies to evaluate the risks arising from potential changes in interest rates that affect both the economic value of equity and the net interest income of an institution’s non-trading book activities in accordance with 84(5) of Directive 2013/36/EU (available [here](#)).

⁶ Guidelines issued on the basis of Article 84 (6) of Directive 2013/36/EU specifying criteria for the identification, evaluation, management and mitigation of the risks arising from potential changes in interest rates and of the assessment and monitoring of credit spread risk, of institutions’ non-trading book activities (available [here](#)).

⁷ Opinion of the European Banking Authority on the European Commission’s amendments relating to the final draft Regulatory Technical Standards specifying supervisory shock scenarios, common modelling and parametric assumptions and what constitutes a large decline for the calculation of the economic value of equity and of the net interest income in accordance with Article 98(5a) of Directive 2013/36/EU (available [here](#)).

⁸ Draft Implementing Standards on IRRBB reporting under Commission Implementing Regulation (EU) 2021/451 (available [here](#)).

draft amending ITS complement the ITS on Pillar 3 disclosures of exposures to interest rate risk on positions not held in the trading book. The ITS on Pillar 3 introduced comparable disclosures of institutions' IRRBB risk management framework as well as the sensitivity of institutions' EVE and NII to changes in interest rates.⁹

7. The first reference date of the ITS on IRRBB reporting is expected to be Q3 2024 given the usual EU adoption process for draft technical standards. This implies that the first submission of data may be available in Q4 2024, at the earliest. In order to meet the EBA's and the supervisory community's shorter-term data needs in relation to IRRBB, the EBA deemed necessary to proceed with an ad-hoc data collection,¹⁰ in advance of the adoption and publication of the final ITS in the Official Journal of the EU. The ad-hoc data collection applicable to the largest EU credit institutions has as reference date of December 2023.

1.2 EBA scrutiny plans and work undertaken to date

8. With the publication of the regulatory package on IRRBB, the EBA communicated its scrutiny plans for IRRBB to monitor the impact on institutions from further increases in interest rates and the developments regarding institutions ability to manage the risks. These scrutiny plans encompassed different dimensions. Firstly, they included a close scrutiny of specific aspects of the GL, such as the 5-year repricing maturity cap of NMDs and the repricing approaches used in business lines and products. Secondly, they included a more general assessment of the management of interest rate risk from a prudential perspective, in particular, to changes in the modelling assumptions and hedging strategies used by institutions as well as possible implications on business models and lending strategies in the context of current interest rates. Finally, they encompassed other aspects related to the impact of increases in interest rates on capital instrument valuations or other accounting or liquidity aspects, which interact strongly with IRRBB ones. Work undertaken in regards to the aforementioned areas is noted below.
9. In the first-half of 2023, a roundtable and a series of bilateral technical meetings with selected institutions, were held to better understand the current challenges of IRRBB management. These were aimed at further understanding the implications on business models (e.g., identification of core balances and how institutions reprice/slot them, migration of non-remunerated NMDs to remunerated accounts, pass-through rate to deposits) where changes might be triggered by the increased interest rates. These engagements also involved discussions on the following areas: current hedging strategies and techniques utilised by institutions and any possible forthcoming changes to these and the resulting impact on NII and EVE; preliminary implication of the 5-year cap for NMDs

⁹ Draft implementing technical standards amending Implementing Regulation (EU) No 637/2021 on disclosure of information on exposures to interest rate risk on positions not held in the trading book in accordance with Article 448 of Regulation (EU) No 575/2013 (available [here](#)).

¹⁰ Decision of the European Banking Authority (EBA/DC/501) concerning ad-hoc collection by competent authorities to the EBA of institutions' IRRBB data and amendment of the Annex to EUCLID Decision, published on the EBA website on 7 August 2023 (available [here](#)).

repricing in the internal measurement system (IMS), and, approaches in track to assess and monitor CSRBB and evaluate their impact on NII and EVE.

10. A series of exchanges with regulators outside the Union were also conducted to understand their implementation of the Basel IRRBB standards: use of a Pillar 1 vs Pillar 2 approach, use of internal models vs the standardized approach, use of approaches equivalent to the SOT on NII while explaining the EU IRRBB framework, scope and implementation of CSRBB aspects, implementation of Pillar 3 disclosure and more generally, increased scrutiny by supervisors in the current environment.
11. The EBA is also bringing its input based on its scrutiny work, to the Basel Committee review and possible recalibration of IRRBB shock scenarios.¹¹
12. The work undertaken by the EBA also included the analysis of the data from the [Quantitative Impact Studies \(QIS\)](#) on IRRBB. The 2023 version of the QIS allowed collecting and analysing quantitative and qualitative data (as of December 2022) on the regulatory metrics for EVE and NII; the contribution of balance sheet items to these metrics; the duration and yield; the split into fixed and floating instruments; NMDs' characteristics and their stratification according to thresholds for retail and SMEs. The analysis of QIS data has been complemented by the information collected during the roundtable and the bilateral meetings with selected EU institutions.
13. The analysis of the QIS data has highlighted that the number of outliers on EVE remained constant in 2022, while it has increased quite significantly for the SOT on NII – considering the 5% threshold. This is driven by increasing market interest rates, and the asymmetrical reflection of this in the repricing of the assets and liabilities of institutions. Customer deposits remain repriced for the NII metric at rates with significant negative spreads below risk-free market rates in comparison to loans. Regarding the interest rate scenarios driving the outliers detection, the parallel up interest rate scenario drives the majority of the EVE outliers, whereas the parallel down interest rate scenario drives the NII outliers.
14. Most of QIS' institutions conduct the calculation of the NII SOT (point (d) of Article 5 of the draft RTS on SOTs) by considering that the non-core NMDs balances reprice at rates close to or linked to market rates. However, in some cases, institutions do not reprice non-core NMDs for the NII SOT. To avoid such a misunderstanding on the application of the constant balance sheet assumption for the NII SOT metric, a FAQ has been circulated in the context of the QIS in response to how some institutions were interpreting the notion of '*constant*' balance sheet.
15. Only a few institutions declared quite a relevant share of NMDs with material economic or fiscal constraints in case of withdrawal, as defined in paragraph 111 of the EBA GL on IRRBB and CSRBB. Furthermore, a majority of institutions have declared that they will not model

¹¹ [Basel Committee work programme and strategic priorities for 2023/24 \(bis.org\)](#).

the repricing of operational NMDs from financials, although its modelling is allowed as indicated in the paragraph 110 of the EBA GL on IRRBB and CSRBB.

16. A closer look at the NMDs behavioral assumptions confirms that institutions are following different modelling practices. Practices are not necessarily category related since a significant dispersion can also be observed through the drill down of the modelling practices within all NMDs categories. This might be explained either by differences in the profiles of their depositors or by different modelling practices amongst institutions, which also include a layer of expert judgement. Figures reported by the institutions on the percentage of non-core NMDs suggest that the institutions might be considering a low-level amount of non-core NMDs with not a clear reflection of deposits with a large balance amount. Furthermore, some of QIS institutions responded that they intend to pass through 100% of the market interest rate change coming from the 200bps regulatory shock scenario in the repricing of the cost of retail term deposits that mature for the NII SOT, which suggests the need to conduct further analysis on the repricing rates applied in the NII projections for the NII SOT.

1.3 Heatmap with main areas of scrutiny identified, related actions and corresponding timelines

17. The work undertaken so far highlights that there are some policy aspects that need further scrutiny, including proportionality aspects where relevant, via the QIS/ITS, and continuous exchanges with regulators/supervisors and professional associations and institutions, according to timelines in the short/medium or medium/long terms (see Annex I). Furthermore, additional exchanges with institutions, from a small to large size, is also foreseen to take into careful consideration the concept of proportionality.
18. The EBA will strive to provide additional guidance in some areas as needed by supervisors or as identified as a consequence of the EBA scrutiny plans on the IRRBB in order to support the assessment of IRRBB risk. Due to the variety of models implemented by institutions, additional support might be required for both regulators and supervisors to better understand how the IRRBB risks are assessed and covered, especially in terms of adaptation of the modelling assumptions, repricing rates applied, hedging strategies, back-testing and use of expert judgment and manual adjustments (if any). The EBA will consider developing Q&As, as needed, and will further reflect on incorporating all necessary developments related to IRRBB in order to provide supervisors with additional guidance on assessing and reviewing the IRRBB risks of institutions to complement the GL for common procedures and methodologies for the SREP and supervisory stress testing.
19. The supervisory activities developed by the competent authorities on the IRRBB risks will also feed into the work planned by the EBA, and the outcome of the EBA activities will contribute to achieve the strategic priorities highlighted in the EBA European Supervisory Examination Programme.

1.3.1 Short/Medium term objectives – 2024/Mid-2025: better supervisory and risk management tools

a. Other metrics and indicators for risk management and SREP perspectives

20. In the context of the supervisory review and evaluation process (SREP), Article 98(5) of Directive 2013/36/EU envisages that the IRRBB SOT indicators shall be taken into account by the competent authority to assess whether or not the institution is excessively exposed to IRRBB and adequately manages that risk. In this context, the SOT on NII, in particular, should be understood as a regulatory indicator for the supervisory review of the institutions' IRRBB exposure, with no automaticity in the exercise of supervisory measures for cases of institutions exceeding the respective threshold. As expressed when publishing its Opinion on the SOT on NII, and beyond the inclusion of the most immediate elements such as the use of SOTs for supervisory purposes in the SREP the EBA will explore the development of complementary indicators useful for SREP purposes and supervisory stress testing, if considered necessary.¹² Based on preliminary exchanges with institutions the EBA noted in some cases the use of the 5% threshold for the SOT on NII as an internal limit without identifying other internal limits. In other cases, early warnings from other metrics may take a more central role for institutions (e.g., forecasted NII as % of realized NII or as % of estimated Baseline NII or as absolute amounts; or using the regulatory SOT on NII under a dynamic balance sheet assumption; or with different shock scenarios). The discussions with the industry will continue in this respect.

b. NMDs and behavioral modelling policies

21. As indicated previously, the different practices on behavioral modelling of NMDs reported by the institutions suggests that some areas related to IRRBB measurement require further analysis (e.g., the combination of facts observed on the dispersion in the NMDs modelling assumptions, the differences in the estimations on the percentage of non-core NMDs and the observed practices on the repricing applied to the retail customer deposits in the NII projections), along with continued monitoring through discussions with institutions and providing further guidance where needed. While this work shall fall under the short/medium term actions, it shall also be undertaken in 2025 and beyond.

22. The work may lead to the identification of a non-restrictive list of relevant parameters/risk factors that could be used by institutions and monitored by supervisors in the context of their review of the behavioral modelling assumptions. The EBA will also evaluate the option to develop analytical tools to monitor the use of these parameters/risk factors, building on the data derived from the ad-hoc data collection of IRRBB, related ITS or other relevant data sources. Discussions of shared experiences from supervisors will also feed into this work.

¹² Guidelines on common procedures and methodologies for the supervisory review and evaluation process and supervisory stress testing under Directive 2013/36/EU (available [here](#)).

23. As previously mentioned, institutions also flagged that they might have misunderstood the constant balance sheet assumptions for the NII metric as set out under Article 5(d) of the RTS on SOT. The concept of a constant balance sheet is linked to the need to reprice NMDs to ward off migration to term deposits. Not doing so may lead to inadequate NII estimates, not reflecting in a conservative manner the impact of upward interest rate scenarios and also driving an inflation of the outcome of NII declines under downward scenarios.¹³

c. Hedging polices review

24. There is a variety of hedging strategies that institutions have implemented, with most institutions developing a hedge interest rate on a net balance sheet basis. This largely relies on a natural hedge (i.e., matching the duration of assets and liabilities ‘naturally’) or using interest rate derivatives. The different hedge accounting practices used by institutions encompass cash flow hedge, fair value hedge, micro hedge and macro hedge. Thus, it is deemed necessary to continue monitoring and examining hedging techniques and continuing engagement with institutions. In addition, institutions have been informed that discussions will continue on the macro hedging aspects, as it relates to the International Accounting Standards Board (IASB) project on Dynamic Risk Management. This will be an important project to contribute to in the medium/long term, by holding dedicated discussions/roundtables on this aspect, and continuing exchanges with international regulators using IFRS standards.

d. More disclosure

25. Finally, the preliminary assessment of the results of the ITS on Pillar 3 disclosure of institutions’ exposure to IRRBB highlighted that several institutions used different (lower) shock scenarios from the regulatory shock of 200bps (ranging from 25bps to 50bps or 100bps) as well as different modelling assumptions. In addition, not all qualitative information is disclosed such as the average maturity of NMDs, while this information is compulsory under the ITS. This will be subject to enhanced scrutiny by supervisors going forward. It is also observed that some institutions are disclosing the internal methodologies used to measure the changes in EVE and NII apart from the regulatory metrics.

1.3.2 Medium/Long term objectives – beyond mid-2025: regulatory items under review

26. Continued monitoring in the medium/long term will be undertaken on the 5-year repricing maturity cap of NMDs and the related exemptions. Considering that institutions are expected to comply with the 5 year cap, a monitoring will be conducted with a view to assess any possible unintended effects of the 5-year cap in a way that the outcome of the application of the cap, versus its non-application, would, given its exceptional case, not be the expected one or would be a counterintuitive one.¹⁴ This monitoring shall be done in

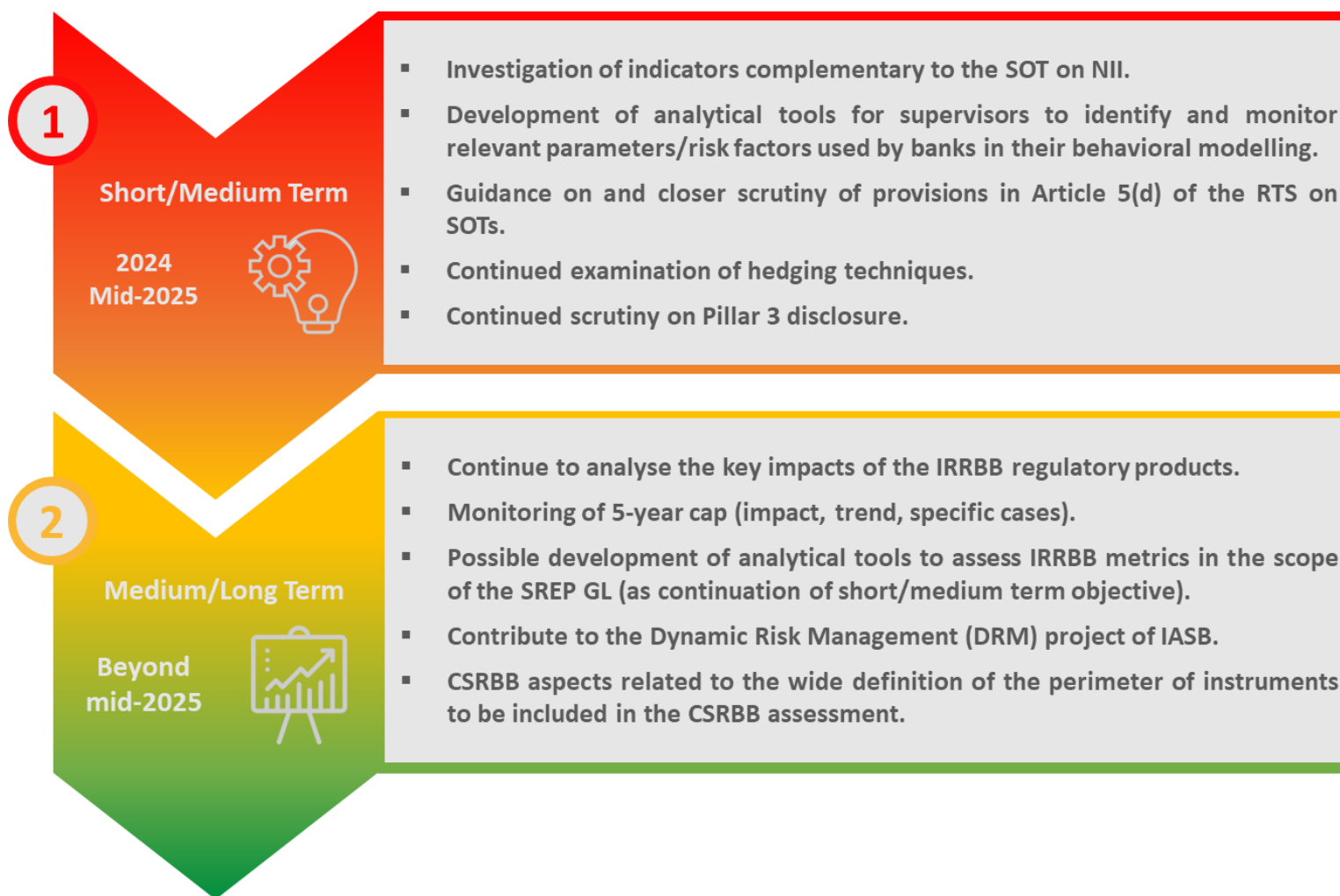
¹³ Q&A 2023_6830 Clarification on EBA provisions for treatment of Non-Stable and Non-Core NMDs in SOT on NII (under review – available [here](#)).

¹⁴ Q&A 2023_6807 Application of the behavioural assumption of a 5-year cap for non-maturity deposits (available [here](#)).

parallel with a continuation of the analysis of the SOT on EVE and NII metrics, as well as implementation of the EBA GL more generally.

27. CSRBB aspects related to the definition of instruments to be included in the CSRBB assessment shall be further monitored. Based on preliminary exchanges with institutions, it seems that, currently, quite different scopes and definitions of CSRBB are being considered. This is an area that the EBA considers as exploratory and still under implementation, hence the initial extended implementation date of December 2023. The EBA will monitor via supervisory engagement information provided by institutions on the exclusions from the scope of CSRBB. The EBA will stand ready to provide guidance where appropriate.

Annex I: Heatmap following the EBA scrutiny on the IRRBB





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