New Implementing Technical Standards on IRRBB disclosure (EBA/ITS/2021/07)

November 2021

Further information on interest rate risk in the banking book (IRRBB) and its management

The European Banking Authority (EBA) has published the Implementing Technical Standards EBA/ITS/2021/07 detailing future disclosure requirements regarding exposure to interest rate risk for positions not held in the trading book in accordance with Regulation (EU) No. 575/2013 Art. 448.

Within the framework of the regulatory roadmap, the new paper represents a further step towards extensively clarifying market price risks in the banking book and describes how IRRBB must be considered in future disclosures. The aim is to harmonize the disclosed key figures and qualitative information in the area of interest rate risk. Further clarifications on outlier tests and standard approaches are expected by the beginning of 2022.

According to Art. 448 CRR, the requirements established with CRR II had to be disclosed beginning on 28 June 2021 (based on the previous consultation paper). The new ITS comes into effect within 20 days of its publication within the “Official Journal of the European Union”.

Disclosure frequency

Information regarding interest rate risks from positions not held in the trading book according to Art. 448 CRR must be disclosed. All large (Art. 433 a.) and "other" (Art. 433 c. Para. 1) capital market-oriented institutions must publish all relevant quantitative and qualitative information annually.
In addition, large, capital market-oriented institutions are obliged to disclose quantitative information every six months. Small non-complex institutions (Art. 433 b.) and subsidiaries (Art. 13 CRR) are released from this obligation.

Quantitative disclosure requirements

The general structure of the disclosure requirements was defined previously by the requirements lined out in Art. 448 CRR. The ITS paper expands upon this and in particular provides the format for the quantitative disclosures as well as further details regarding the qualitative requirements in the area of IRRBB (see Figure 1).
The regulatory paper focuses on the quantitative disclosure of the Economic Value of Equity (EVE) and periodic (NII) interest rate risk, which is to be made comparable across different banks and models. In the past, there were few concrete guidelines as to which ratios and information had to be used in the context of IRRBB. This led to banks disclosing different information and ratios to the market whose assumptions were not sufficiently clearly defined. Comparability of IRRBB disclosures was thus hardly possible.

	Internal risk management requirements	Definition of standard models	Parameters and assumptions for disclosure and SOT*
Economic Value of Equity (EVE)	✓ EBA/GL/2018/02 and MaRisk (5th amendment)	✗ Technical Standards (TS) pending (announced by Q1/2022)	✓ EBA/GL/2018/02 and Bafin Circular 06/2019 (update and formalization via TS announced by Q1/2022).
Net Interest Income (NII)	✓ EBA/GL/2018/02 and MaRisk (5th amendment) für earnings incl. NII	✗ Technical Standards (TS) pending (announced by Q1/2022)	✗ Technical Standards (TS) pending (announced by Q1/2022)

* SOT = Supervisory Outlier Test (Supervisory standard tests)

Figure 1: Current regulatory requirements (as of November 2021)

For the EVE risk it will be mandatory to disclose the six previously defined EBA standard scenarios in accordance with EBA/GL/2018/02 point 115 (see Figure 2). In terms of methodology, the requirements of the regulatory standard shock must be complied with. The present-value key figures should already be known and available from the regulatory reporting system of German and European banks.

For NII risk, there is currently no standard outlier test with corresponding methodological specifications. The EBA has announced a consultation paper for an NII standard shock in accordance with Art. 98 5a(c) after initial delays until the beginning of 2022. It is expected that the BCBS requirements will be implemented and that the NII risk will have to be reported and disclosed on a 12-month horizon with a constant balance sheet and including all interest cash flow components.
Such NII ratios are to be determined and disclosed for the "Parallel Up" and "Parallel Down" scenarios in accordance with EBA/GL/2018/02 par. 115.

It is remarkable, that the NII results must be disclosed, without the EBA providing a clear definition of the risk metrics and assumptions. The EBA explicitly accepts the associated non-comparability of the figures within the initial disclosures. Banks are encouraged to use their internal NII measurement methods in the meantime.

It should be further noted that the regulatory authority clarified that within the initial disclosures no comparison to prior values is necessary. The columns “Last Period” can therefore be omitted within the first disclosure.

Going forward, banks are further free to apply the standardized approaches for EVE and NII both for internal risk management - if appropriate - as well as for disclosure. The EBA has not yet defined the standardized approaches in accordance with Art. 84(5) CRD. It intends to publish technical standards by the end of 2021 or Q1 2022. Presently there is no obligation to use the standard models so long as the supervisory authority does not prescribe their use on a bank-specific basis.

Qualitative disclosure obligations

in addition to quantitative risk metrics, banks are required to disclose qualitative information regarding their risk management approach. This includes information on the management strategy and risk measurement, such as hedging strategies, frequency of risk measurement and management, and key assumptions of the models and methods. If the bank should deviate from the methods and assumptions outlined in the disclosure (standard-outlier-tests) for internal risk measurement, these differences must be described.

Also noteworthy is the requirement to disclose the average and longest fixed-interest periods assigned to non-maturing and savings deposits. The average maturity is therein to be disclosed separately for the “core part” and the overall deposit volume of the models. This is particularly interesting in light of the fact that the German supervisory authority has only recently specified that an investment period for model tranches of more than 10 years is no longer considered appropriate.
If banks (prospectively) use the standard models for EVE and NII for disclosure purposes, a description of the key assumptions can be waived.

Relevant next steps in supervision and banking

The supervisory authority is expected to publish the mentioned additional technical standards (in particular standard models and the NII outlier test) in Q1 2022. The technical standard for the NII standard-outlier test would further specify the disclosure obligations.
With regard to the qualitative requirements, banks should also carry out benchmarking in order to avoid being unnecessary outliers. This should include, for example, a comparison of methodological assumptions and investment structures for deposits.
In the future, it could also be of interest, especially for small and medium-sized institutions, to switch to the standard approaches (still to be published) for EVE and NII for internal risk measurement. This could reduce workload(further) developing and maintaining the prescribed methodologies. The possible impact of this must be individually evaluated and quantified for each institution.

		a	b	c	d
Supervisory shock scenarios		Changes of the economic value of equity		Changes of the net interest income	
		Current period	Last period	Current period	Last period
1	Parallel up				
2	Parallel down				
3	Steepener				
4	Flattener				
5	Short rates up				

Figure 1: Quantitative disclosure sheet (according to the ITS)

Feel free to contact us!
We are happy to support you in all areas of IRRBB and the corresponding disclosure, gap analyses and implementation. In particular, a short, cost-effective conspicuity check of your planned IRRBB disclosure enables you to compare the new and harmonized disclosure requirement.

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