Regulatory Reporting for Interest Rate Risk in the Banking Book

EBA finalises comprehensive IRRBB reporting requirements

Article

Management Summary

The European Banking Authority (EBA) has published its final report on the new regulatory reporting requirements for interest rate risk in the banking book (IRRBB) on 31 July 2023. The revised draft includes the Implementing Technical Standards (ITS), the proposed reporting templates and a description of the relevant data fields. The requirements apply to **all European banks**, with simplified reporting requirements defined for 'other' institutions[1] as well as smaller i.e. 'small and non-complex institutions' (SNCIs). The data must be submitted to the supervisory authority on a quarterly basis and must be provided **both at the group level and at the level of individual institutions.**

With this report, the EBA defines how IRRBB data, including supervisory outlier test (SOT) results, are to be submitted to supervisory authorities. However, the data requirements go beyond the SOTs and include, for example, **granular repricing schedules, model parameters and changes in market value in stress scenarios.** The supervisory authority justifies the reporting requirements with **the interest rate changes and increased inflation in 2022 and 2023.** The required granularity of the results poses major challenges for many banks and, in some cases, requires extensive adjustments to the risk systems and reporting processes. In particular, closer cooperation between Risk Management, Regulatory Reporting and, if necessary, Finance will be required in order to provide the comprehensive data.

1 *'other' institutions are those that are not classified as SNCIs but are also not 'large' institutions under CRR Art.4(1) No.146.*

Timeline

With the published regulatory package, the supervisor has finalised the technical standard and handed them over to the EU Commission for confirmation. The EBA defined an implementation period of approximately one year.

The **first reporting** of the IRRBB templates, as part of the quarterly reporting process, is planned for **30 September 2024**. In addition, **directly ECB supervised banks** must submit the reports **as part of the Short-Term-Exercise (STE)**, starting as of the reporting date 31 December 2023[2]. The data quality and validation rules have been published by the EBA as part of the Data Point Model (DPM) 3.3.

The final data point model[3], the XBRL taxonomy[4] as well as clear validation rules are still being developed by the supervisor.

Regulatory basis and relevance of the Implementing Technical Standards (ITS)

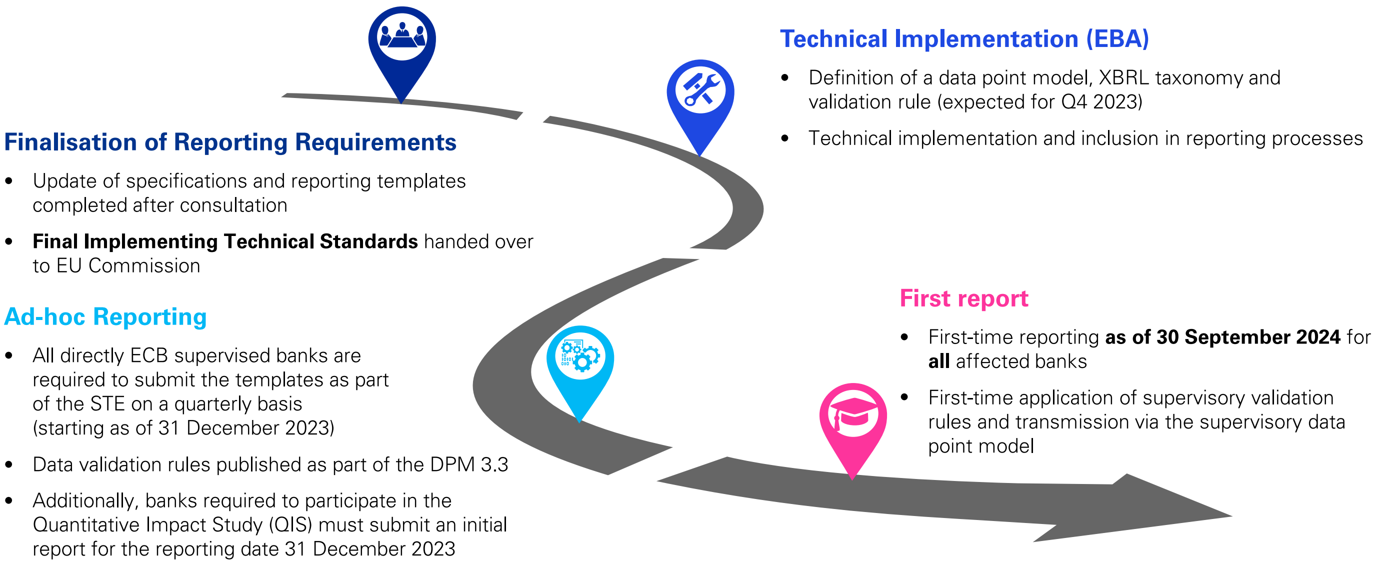
The requirements are based on the requirements of Capital Requirements Regulation (CRR) Article 430 (7), which mandate the EBA to establish general reporting requirements for interest rate risk in the banking book. For the newly defined reporting requirements, the IRRBB-SOT results according to the technical standards published in October 2022 (EBA/RTS/2022/10) play an essential role. In this context, two outlier criteria have been defined, which decide whether an institution is considered an institution with an increased interest rate risk. These criteria are as follows:

- an economic value of equity (EVE) loss in one of the six defined EBA scenarios exceeding 15% of Tier 1 capital
- the periodic interest income risk (net interest income = NII without valuation effects) in a parallel up/down scenario over a one-year horizon exceeding 5%[5] of Tier 1 capital

For details on assumptions and procedures, please refer to our report on the new IRRBB and CSRBB requirements.

If an outlier criterion is exceeded, this must be assessed by the supervisory authority as part of the SREP. The SREP guideline explicitly specifies the outlier criteria as the minimum scope that the supervisor should take into account for the SREP assessment of interest rate risks (see EBA/GL/2022/03 item 331). For the new NII SOT, no direct consequences are to be expected, especially at the beginning, if the threshold is exceeded. The EBA has clarified in an opinion (EBA/OP/2023/03) that the outlier level – which was doubled to 5% of Tier 1 in the opinion – is a first starting point. Depending on the reported results, a re-calibration may take place[6]. Due to the rapid turnaround in interest rates in 2022 and 2023, and the resulting increase in periodic interest rate risks, the supervisory authority would like to monitor the situation for the time being. Such a transitional period is not to be expected for the present-value SOT and exceeding the threshold value may lead to consequences and questions from the supervisory authority.

Figure 1: **Current timeline of the EBA**



Source: KPMG in Germany, 2024

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2 *All QIS-relevant institutions are also required to submit a report as part of Basel III monitoring by the cut-off date of 31.12.2023.*
3 *Translation of the data requirements into the data structures/models of the supervisor.*
4 *eXtensible Business Reporting Language – XML-based language for the exchange of reporting data/documents.*
5 *Current assumption. Approval by the EU Commission pending at the date of publication.*
6 *The proposed change of the threshold to 5% is meant to address the changed market environment and will be re-evaluated, including a review of the overall appropriateness of the large decline definition, should any updated information require so. (EBA/OP/2023/03 page 4).*

Overview of new requirements

The basis of the new reporting requirements are the EVE and NII effects (in the baseline and stress scenarios) according to the supervisory outlier tests and criteria. However, the supervisory requirements go beyond this and require further granular data. This includes the following:

1. **Market values and changes in market value** in a parallel up/down scenario (to approximate the balance sheet impact) (J01.00)

2. A breakdown of present value, periodic and fair value risks[7] **by product and product group** (J02.00, J03.00 and J04.00, respectively)

3. A breakdown of the present value and periodic effects of derivatives by hedge purpose

4. Detailed repricing schedules, separated into fixed-interest and variable-interest rate business as well as modelled and legal cash flows. This results in four to two repricing schedules to be submitted per currency (J05.00, J06.00 and J07.00, respectively)

5. **Model assumptions and durations** in the baseline and stress scenarios (J08.00 and J09.00, respectively)

6. Detailed descriptions of the models and methods used (J10.00 and J11.00, respectively)

An aspect worth noting here is that **fair value fluctuations are included.** In the consultation for the new SOTs for NII/periodic risk, the supervisory authority decided at the time against the explicit inclusion of fair value effects. In the reporting forms now proposed, these are again included as a separate item.

In contrast to previous reports on interest rate risk coefficients, many of the **templates** are to be filled in separately for **each currency.** Submissions are required for all material currencies, i.e. currencies that account for more than 5% of the balance sheet (assets or liabilities) of the banking book; however, at least 90% of the banking book must be covered. The quarterly submission must be **converted into the reporting currency of the institution** (usually euro equivalents).

7 *Change in balance sheet market values (over 12 months) in the event of a 200 basis point parallel shift, realised either via the income statement (P&L) or equity.*

Figure 2: **Extract from the EBA reporting templates (Annex I)**

J 05.00 - REPRICING CASH FLOWS

Currency:
Modelling:

Fixed rate

			% With embedded or explicity automatic optionality					Repricing schedule for all notional repricing cash flows																		
		Notional amount	Bought	Sold	% Subject to behavioural modelling	Weighted average yield	Weighted average maturity (contractual)	Overnight	Greater than overnight up to 1 month	Greater than 1 month up to 3 months	Greater than 3 months up to 6 months	Greater than 6 months up to 9 months	Greater than 9 months up to 12 months	Greater than 12 months up to 1.5 years	Greater than 1.5 years up to 2 years	Greater than 2 years up to 3 years	Greater than 3 years up to 4 years	Greater than 4 years up to 5 years	Greater than 5 years up to 6 years	Greater than 6 years up to 7 years	Greater than 7 years up to 8 years	Greater than 8 years up to 9 years	Greater than 9 years up to 10 years	Greater than 10 years up to 15 years	Greater than 15 years up to 20 years	Greater than 20 years
		0010	0020	0030	0040	0050	0060	0070	0080	0090	0100	0110	0120	0130	0140	0150	0160	0170	0180	0190	0200	0210	0220	0230	0240	0250
TOTAL ASSETS	0010																									
Central bank	0030																									
Interbank	0040																									
Loans and advances	0050																									
of which: non-performing	0060																									
Retail	0070																									
of which: secured by residential real estate	0090																									
Wholesale non-financial	0100																									
Wholesale financial	0110																									
Debt securities	0120																									
Derivatives hedging assets	0140																									
Hedging debt securities	0160																									
Hedging other assets	0170																									
Other	0180																									
Off-balance sheet assets: contingent assets	0190																									
TOTAL LIABILITIES	0200																									
Central bank	0220																									
Interbank	0230																									
Debt securities issued	0240																									
of which: AT1 or T2	0260																									
NMD: Retail transactional	0270																									
of which: core component	0290																									
of which: exempted from the 5Y cap	0300																									
NMDs: Retail non-transactional	0310																									
of which: core component	0330																									
of which: exempted from the 5Y cap	0340																									
NMDs: Wholesale non-financial	0350																									
of which: core component	0370																									
of which: exempted from the 5Y cap	0380																									
NMDs: Wholesale financial	0390																									
of which: operational deposits	0410																									
Term deposits	0420																									
Retail	0440																									
Wholesale non-financial	0450																									
Wholesale financial	0460																									
Derivatives hedging liabilities	0470																									
Hedging debt securities	0490																									
Hedging other liabilities	0500																									
Other	0510																									
Off-balance sheet liabilities: contingent liabilities	0520																									
Other derivatives (Net asset/liability)	0530																									
MEMORANDUM ITEMS																										
Total Assets with MV impact	0570																									
Debt securities	0580																									
Derivatives	0590																									
Other	0600																									
Total Liabilities with MV impact	0610																									
Debt securities issued	0620																									
Derivatives	0630																									
Other	0640																									

Source: EBA, www.eba.europa.eu, August 2023

With reference to the **proportionality principle,** the supervisory authority distinguishes between large institutions[8], 'other' institutions and small institutions (SNCIs), as mentioned above. The requirements are somewhat reduced), but still very comprehensive. For example, even smaller institutions have to break down and provide the repricing schedule for about 30 categories.

Overall, the scope of the reporting form is very extensive. Based on the final templates, **large institution** have to fill in **approx. 4,500 fields per currency** (**'other' institutions approx. 3,600** and SNCIs approx. 3,000); see Figure 3 for details. Submission is required **within 42 calendar days** of the reporting date, which will be a challenge for banks given the high data quality requirements for the present-value and especially periodic risk results needed.

Changes resulting from the consultation period

Even though the main reporting requirements of the draft in January have not changed much compared to its updated and final report, there are **some relevant changes** to point out. From our point of view, the most significant adjustments are as follows:

1. The first reporting date has been moved back to 30 September 2024, which increases the implementation period by three additional months. In addition, the EBA initiated ad-hoc reporting of the full data set on IRRBB for institutions participating in the QIS per reference date 31 December 2023.

2. An additional category was introduced for 'other' institutions, since they do not pose the same systemic risks as large banks.

3. Derivatives no longer have to be reported according to risk types, product types or counterparties, but rather according to their purpose. Results from hedge accounting derivatives are to be reported separately from the other derivatives.

4. The reporting of the EVE and NII key figures according to the legal profile (without models) is no longer necessary.

Despite minor simplifications compared to the consultation, the granularity and the associated challenges remain high.

Main challenges

With the new deadline set for 30 September 2024, the supervisory authority is imposing an implementation period of just over one year. However, directly ECB supervised banks must prepare to submit the results as part of the STE starting form 31 December 2023, and therefore provide the data in sufficient granularity on a very short timeline.

By the time of the 'official' reporting requirements (30 September 2024), many banks will be in the midst of a significant adjustment to the Data Point Model for COREP, as the initial reporting under CRR III is expected by 31 March 2025. This deadline and the scope of the new IRRBB reporting with many granular disclosures will pose significant challenges for many institutions. Although first institutions have already started to implement the supervisory outlier tests, most banks did not expect the reporting requirements that have now been published.

8 'other' institutions are those which are not classified as SNCIs, but which are also not 'large institutions' according to Art.4(1) No. 146

Figure 3: **Overview of reporting requirements**

Template	Request	Data fields per currency	Frequency	Complexity
Evaluation of the IRRBB: EVE / NII SOT and MV Changes **J 01.00**	• **EVE/∆ EVE** and **NII/∆ NII** under standard scenarios • **Market value of the banking book and ∆ market value** under parallel up/down scenario	**~20**	Quarterly	Medium
Breakdown of Sensitivity Estimates **J 02.00** **J 03.00** **J 04.00**	• **EVE and ∆ EVE** and **NII and ∆ NII** under standard scenarios • **Market value of the banking book and ∆ market value** under parallel up/down scenario • Breakdown by **product group**	**~650** **~350** **~70**	Quarterly	High
Repricing Cash Flows **J 05.00** **J 06.00** **J 07.00**	• Notional amount; **weighted maturities;** share of products with optionality; **repricing schedule** (19 buckets) • Delivery in four variations per currency	**~3,480** **~3,100** **~2,780**	Quarterly	High
Relevant Parameters **J 08.00** **J 09.00**	• **Deposits**: pass-through rates, maturities, model assumptions, ... • **Prepayments**: volume, prepayment rates, ... • **Term deposits**: volume, early redemption rates, ...	**~330** **~140**	Quarterly	Medium
Qualitative Information **J 10.00** **J 11.00**	• Qualitative **methodology description for EVE/NII** and behavioural models • Qualitative **description of basis risk and CSRBB** • Information on **yield curves used**	**~40** **~30**	Annual	Low

Large Institutions =
'other' Institutions =
Small and Non-Complex Institutions (SNCIs) =

Legend
High Medium Low

Source: KPMG in Germany, 2024

One of the main challenges will be that **many of the required data points do not** currently **exist in the required granularity.** This includes, for example, the P&L and capital impact of market value fluctuations, a granular decomposition of EVE and NII changes and repricing schedules by product group and model component. Many risk simulations in the IRRBB environment are not currently designed for such granularity of results. For example, the rows in the **reporting forms are based on FINREP terminology** (loans and advances, non-performing), but differ in **their breakdown,** which makes it significantly more difficult to reconcile customer groups and Profit & Loss positions.

In addition, the **data required for completing the templates are distributed across divisions.** For example, the complete filling out of the templates usually requires data from Reporting (e.g., exposure value), Risk Management (e.g., present value indicators), Accounting (e.g., carrying amount) and Financial Controlling (e.g., NII). The different data models of the stakeholders are not always consistent with each other and cannot be reconciled. Thus, for some data/results, there are often different views and granularities in the bank.

In contrast to the previous reporting of IRRBB key figures, which SIs[9] are familiar with from the Short-Term Exercise (STE) and which had a 'best effort' character, the regulated process now requires a significantly more comprehensive and granular reporting. This, in particular, means ensuring the XBRL format as already required for COREP reporting in a consistent and coherent form from the data models, which at the same time fulfil the validation rules of the supervisory authority.

Finally, **automatic data supply and filling processes** are also of great importance. The banks' current reporting software is not designed for the new reports. It will therefore be a challenge for providers of regulatory reporting software to implement the new requirements by Q3-2024, especially since the data point model and the XBRL taxonomy are not yet known and the providers are working in parallel on implementing the CRR III requirements (for 2025).

Recommendations for action

In view of the announced first submission of results by 30 September 2024 and the comprehensive challenges, banks should act and prepare accordingly.

What do sensible measures and the next steps look like for banks to prepare for the implementation of these new requirements? Based on our many years of experience in reporting and implementation of IRRBB methods and models, several steps are necessary for a thorough preparation for the new requirements. This includes above all:

- Performing test calculations on the new SOT for EVE and NII (and assessing results against the outlier criteria) and – if necessary – increasing the granularity of SOT results based on the new reporting requirements

9 *SI = Significant Institutions*

- Analysing own data and data models against the detailed data requirements formulated by the EBA ('gap analysis' of the data model)

- Designing an target picture for filling in the reporting forms (supplier systems, data sources, responsibilities, methods)

- Potentially the preparation of workarounds and tactical solutions for the ad-hoc report as at 31 December 2023 (approximation of missing key figures)

- Coordinating with IT providers regarding software used in Regulatory Reporting and Risk Management, among other things with a view to the various releases prior to to CRR III

This requires a coordinated, cross-divisional approach. In particular, Risk Management, Regulatory Reporting, Finance and Treasury must work closely together in order to be able to implement the supervisory requirements and be prepared for the expansion of regulatory reporting requirements for IRRBB.

Feel free to contact us

Our teams of experienced experts from Risk & Treasury and Regulatory Reporting will be happy to support you in preparing for the new requirements. Be it gap analysis, data analysis or the development of (reporting) processes, our experts will be able to support you in preparing for the requirements.

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