



Regulatory Reporting for Interest Rate Risk in the Banking Book

EBA aims to include comprehensive IRRBB reporting in COREP

Article





Management Summary

The European Banking Authority (EBA) published a consultation paper on the future regulatory reporting requirements for interest rate risk in the banking book (IRRBB) on 31 January 2023. The consultation package includes the [Implementing Technical Standard](#) (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 smaller, nationally supervised banks, i.e. „Small and Non-Complex Institutions“ (SNCIs)¹. The plan is to include the data within the **quarterly Common Reporting Framework (COREP)-reporting**. This means that the data must be provided **both at the group level and at the level of individual institutions**.

With the consultation, the supervisory authority defines how the supervisory outlier test (SOT) results defined in 2022 are to be submitted to the supervisory authority. However, the data requirements go far beyond the pure SOTs and include, for example, **granular repricing schedules, model parameters and changes in market value in stress scenarios**. The supervisory authority justifies the comprehensive reporting requirements with **the interest rate changes and increased inflation in 2022**. In our opinion, the granularity of the required results will present many banks with major challenges and will, in some cases, require 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 be able to provide the comprehensive data.

¹ Note: Banks in the „Others“ category (those not captured by large institutions and SNCIs) will be subject to the same reporting requirements as the larger and complex institutions.

Timeline

The EBA is asking banks to submit feedback and questions regarding the consultation package by 2 May 2023. Subsequently, the supervisor plans to finalise the technical standard and hand it over to the EU Commission within three months of the consultation period. Based on past EBA papers on IRRBB, we do not expect the main reporting requirements of the EBA draft to change after the consultation phase.

The first reporting of the IRRBB templates, as part of the quarterly COREP process, is planned for 30 June 2024. The EBA would also like to use the time until then to develop a data point model (DPM)² and to define the XBRL taxonomy³ as well as clear validation rules for the submitted templates.

Regulatory basis and relevance of the consultation package

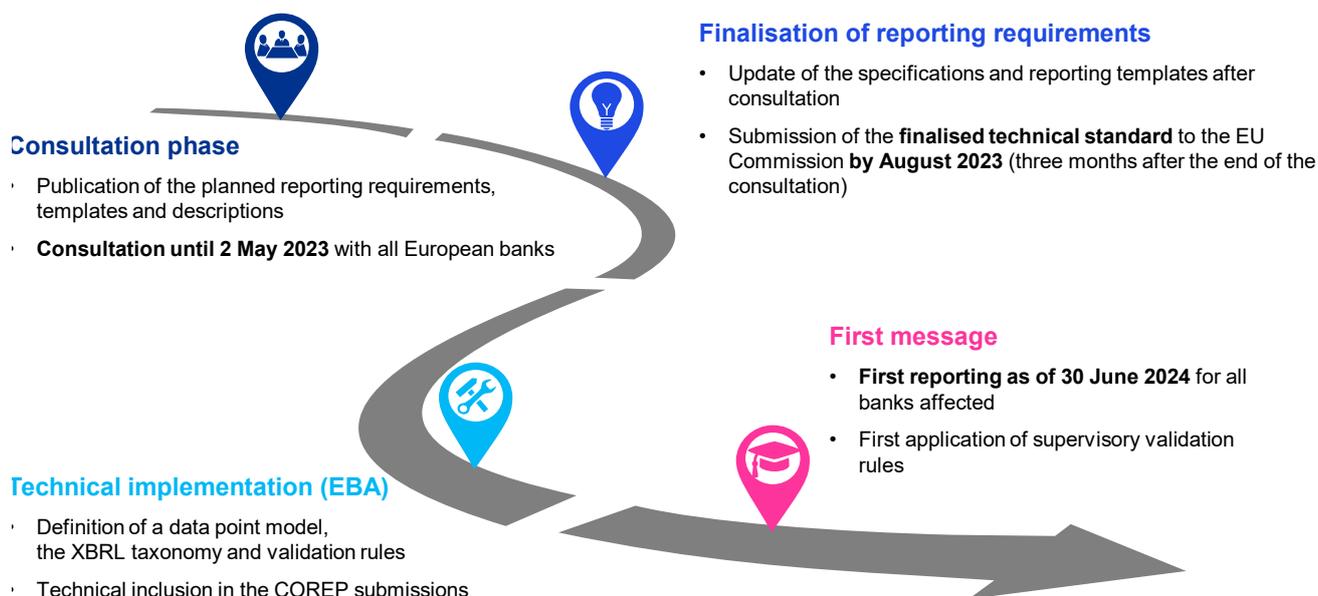
The requirements are based on the specifications of the EBA (Commission Implementing Regulation 2021/451) for COREP, which are based on the general reporting requirements of banks. For the newly defined IRRBB part of COREP, the IRRBB-SOT results according to the technical standards published in October 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 one of two defined EBA scenarios over a one-year horizon exceeding 2.5% of Tier 1 capital

For details on assumptions and procedures, please refer to our [Whitepaper](#) on the new IRRBB and CSRBB requirements.

If an outlier criterion is exceeded, this must be considered and assessed by the supervisory authority as part of the Supervisory Review and Evaluation Process (SREP). The SREP guideline explicitly specifies the outlier criteria as the minimum scope that the supervisor must take into account for the SREP assessment of interest rate risks (see EBA/GL/2022/03 item 331). If the supervisory authority identifies an increased risk, it can take measures. The paper explicitly specifies increased capital requirements, restrictions for the bank's business or specifications for the modelling/parameterisation of the risk calculation as potential consequences.

Figure 1: Short timeline for implementation



Source: KPMG in Germany, 2023

² Translation of the data requirements into the data structures / models of the supervisor.

³ eXtensible Business Reporting Language - XML-based language for the exchange of reporting data/documents.



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 significantly beyond this and require further granular data. This includes the following:

1. **EVE and NII** results assuming legal cash flows (without models) (J01.00)
2. **Market values** and changes in market value in a parallel up/down scenario (to approximate the balance sheet impact) (J01.00)
3. A breakdown of present value, periodic and fair value risks⁴ **by product and product group** (J02.00 and J05.00, respectively)
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 repricing schedules to be submitted per currency (J03.00 and J06.00, respectively)
5. **Model assumptions and durations** in the baseline and stress scenarios (J04.00 and J07.00, respectively)
6. Detailed descriptions of the models and methods used (J08.00)

An aspect worth noting here is that **fair value fluctuations** were **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).

With reference to the **proportionality principle**, the supervisory authority distinguishes between small institutions (SNICs) and more complex institutions, as mentioned above. The requirements are somewhat reduced (approx. 50% of the fields), but still very comprehensive. For example, even smaller institutions have to break down and provide the repricing schedule for about 40 categories.

Overall, the scope of the reporting form is significantly larger than expected. Insofar as the repricing schedules are to be delivered in the four variants, **non-SNICs** have to fill in **approx. 6000 fields per currency (SNICs approx. 4300)**; see Figure 2 for details. Submission is required **within 42 calendar days** of the reporting date, which will be a challenge given the high data quality requirements for the present-value and especially periodic risk results needed.

⁴ 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: Data requirements demand a granular and consistent data model for IRRBB

Template	Request	Data fields per currency	Frequency	Complexity
J01.00 - Evaluation of the IRRBB: EVE/NII SOT and MV changes	<ul style="list-style-type: none"> EVE / Δ EVE and NII / Δ NII under standard scenarios Market value of the banking book and Δ market value under parallel up/down scenario 	~33	Quarterly	Medium
J02.00 - Breakdown of sensitivity estimates	<ul style="list-style-type: none"> EVE and Δ EVE and NII and Δ NII under standard scenarios Market value of the banking book and Δ market value under parallel up/down scenario 	~614	Quarterly	High
J05.00 - Breakdown of sensitivity estimates (simplified)	<ul style="list-style-type: none"> Breakdown by product group 	(~64 for SNCIs)	Quarterly	High
J03.00 - Repricing cash flows	<ul style="list-style-type: none"> Notional amount; weighted maturities; share of products with optionality; repricing schedule (19 buckets) 	~5,000	Quarterly	High
J06.00 - Repricing cash flows (simplified)	<ul style="list-style-type: none"> Delivery in four variations per currency 	(~4,000 for SNCIs)	Quarterly	High
J04.00 - Relevant parameters	<ul style="list-style-type: none"> Deposits: pass-through rates, maturities, model assumptions, ... Prepayments: volume, prepayment rates, ... 	~360	Quarterly	Medium
J07.00 - Relevant parameters (simplified)	<ul style="list-style-type: none"> Term deposits: volume, early redemption rates, ... 	(~142 for SNCIs)	Quarterly	Medium
J08.00 - Qualitative information	<ul style="list-style-type: none"> Qualitative methodology description for EVE/NII and behavioural models Qualitative description of basis risk and CSRBB Information on yield curves used 	~36	Annual	Medium

Large & other institutions = ■ ● ● ● ● ● ● ● ● ● ● ● ●

Small and non-complex institutions (SNCIs) = ■ ● ● ● ● ● ● ● ● ● ● ● ●

Legend

● High ● Medium ● Low

Source: KPMG in Germany, 2023

Main challenges

With the deadline set for 30 June 2024, the supervisory authority is imposing an implementation period of just over one year. By this time, many banks will be in the midst of a significant adjustment to the DPM 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.

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 P&L positions. In addition, the **data required for completing the templates are distributed across divisions**. For example, complete fil

ling 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 SIs⁵ are familiar with from the short-term exercise and which had a “best effort” character, it is now necessary to generate a significantly more comprehensive and granular report in the regulated process in XBRL format and to do so in a **consistent and coherent form** based on the data models, which at the same time fulfill the **validation rules** of the supervisory authority.

Finally, **automatic data supply and filling processes** are also of great importance for **COREP reporting**. 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 mid-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).

⁵ SI = Significant Institutions



Recommendations for action

The EBA's consultation period will continue until 2 May 2023. Until then, banks and banking industry associations have the opportunity to address questions and comments. In past consultation phases on IRRBB, the EBA made only a few changes upon receiving the responses. Nevertheless, we recommend closely following the discussions on the supervisory proposals to utilise possible opportunities for interpretation and to influence open decisions in favour of the banks.

In addition, we recommend early 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
- Analysing own data and data models against the detailed data requirements formulated by the EBA ("gap analysis" of the data model)
- Designing an early target picture for filling in the reporting forms (supplier systems, data sources, responsibilities, methods)
- Coordinating at an early stage with IT providers regarding software used in Regulatory Reporting and Risk Management, among other things with a view to the various releases on the way to CRR III

This requires an early, 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 COREP reporting.

In view of the announced first submission of results by 30 June 2024 and the comprehensive challenges, banks must act now and actively prepare. Waiting for the finalisation of the requirements in the second half of 2023 without prior preparation does not seem advisable.

Feel free to contact us

Our teams of experienced experts from Financial Services will be happy to set up the new requirements together with you. Whether it is a 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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