POSITION PAPER

ESBG's response to the EBA consultation on its ITS on IRRBB supervisory reporting

ESBG (European Savings and Retail Banking Group)

Rue Marie-Thérèse, 11 - B-1000 Brussels

ESBG Transparency Register ID: 8765978796-80

2 May 2023

ESBG

Dear Sir/Madam,

Thank you for the opportunity to comment on the European Banking Authority (EBA) consultation on its draft Implementing Technical Standards (ITS) on supervisory reporting with respect to interest rate risk in the banking book (IRRBB). The European Savings and Retail Banking Group (ESBG) would like to provide you with the comments below, which we hope will be considered by the EBA.

1. General questions:

Question 1: Are the instructions and templates clear to the respondents? More specifically, do respondents consider that all definitions are unambiguous and accurate (e.g. linear and non-linear derivatives, contingent assets and liabilities, total assets/liabilities with impact on MV, etc)?

In ESBG's view, the currency criteria is unnecessarily complex for J 0.1 as it is requesting the template to be produced in each currency which is considered in the supervisory outlier test (SOT). A banking Group can have multiple smaller currencies which it has to cover in SOT as they are relevant for particular banking subsidiaries and therefore would need to generate multiple J0.1 templates which have limited added value.

There is a large number of breakdowns which do not provide any added value for operative IRRBB risk management, e.g. in Annex 28 J 0.2 where it is required to split between loans secured with collateral and without collateral, or requiring breakdown of modelled non-maturity deposits (NMDs) between operational deposits and fixed rate deposits, or splitting derivatives between internal deals and external which are broken down between collateralized and without a credit support annex (CSA) agreement. We believe that the requested breakdowns do not support in any case the internal management of IRRBB.

Question 2: Do the respondents identify any discrepancies between these templates and instructions and the calculation of the requirements set out in the underlying regulation?

With respect to currency coverage, in our opinion the RTS disadvantage banks with positions in various currencies because then, according to RTS, template J 0.1 must be populated for each currency represented in SOT, which multiplies the effort.

The need to calculate figures with contractual features basically stipulates the need to always have 2 economic value of equity (EVE) numbers. This creates 2 results with very much different profiles since a big retail bank has large amount of NMDs which then must be shown as Overnight. Also, it provides extreme effort on technical and human resources as EVE has to be calculated twice and also questions the purpose of entire exercise since there are model limitations already defined.

Question 3: Do the respondents agree that the amended ITS fits the purpose of the underlying regulation?

ESBG tends to believe that the level of detail in the requests as mentioned above provides limited additional information about the IRRBB exposure and it doesn't improve the quality of internal management of IRRBB. The rationale and added value of requesting additional calculations besides SOT on EVE, net interest income (NII) and standard repricing schedule is not clear from this paper.

Additional calculations whose purpose is unclear, especially for small entities, and which need to be provided on a quarterly basis are:

- The repricing schedule with contractual features (it is not clear what is the added value of such report, e.g. allocating all demand deposits to overnight);
- PV01 with eliminating optionality;
- EVE and NII according to contractual features.

Question 4: How many full-time equivalent (FTE) employees does your institution expect to involve in the implementation for how many months in order to report in a compliant way?

For some of our members it has been reported that the efforts would be in the amount of at least 250 person days allocated to teams of 6 FTEs. This includes project management, coordination across all entities, business specification, technical implementation, testing and documentation efforts.

Please provide indications for specific templates and options relevant for your institution.

It varies across the membership, but all templates are relevant. In the case of banking groups, some subsidiaries belong to large institutions and some to smaller ones.

Please also indicate whether the same implementation will be used by many reporting institutions such that costs are shared among them.

For some members the implementation of requested calculations will be shared among subsidiaries.

Question 5: What technical and procedural dependencies does the implementation of the ITS imply for your institution? How do they affect the time schedule of the implementation?

For ESBG members the implementation of the ITS would imply a large-scale automation, especially for banking groups that consist of many credit institutions for which the reports will need to be created.

The risk management system of banks will be as well under large pressure due to many supporting runs needed besides usual SOT for EVE and NII: PV01 without optionality, Reprice schedule with contractual features, EVE with contractual features, NII with contractual features.

Moreover, all these activities will have to be supported by an **adequate IT infrastructure** on quarterly basis which means significant investments in building additional IT capacity to support such a large number of calculations to be performed quarterly.

2. Proportionality:

Question 6: Do respondents agree that the decision to simplify reporting templates is the best approach in implementing proportionality?

ESBG supports the introduction of more proportionality, however we believe that the design of template J 0.1 does not properly embrace the idea of proportionality.

More specifically, template 1 already requires showing internal EVE (including models) and one with contractual features. This by itself means have to produce 2 EVEs for every entity quarterly. Furthermore, switching off models for every entity in a large banking group consisting of many entities doesn't represent a simplification but it increases the complexity.

In our view, the foreseen proportionality applied in practice does not really reduce the complexity of populating the templates, bearing in mind especially banking groups with large number of banking subsidiaries. It should also be noted that differences between simplified and non-simplified templates (e.g. J03 and J 06) do not provide any tangible benefits as the requirements in x axis are the same.

In case you do not agree, what other proposal would be more efficient to reduce costs?

A more efficient way to reduce costs would be to maintain the basic EVE SOT requirement and not requesting a 2nd EVE measure (including only contractual features).

Likewise, interest reprice gap report for smaller entities should be included with only basic breakdowns and without having it with contractual maturity. In addition, calculating PV01 without optionalities for each entity represents additional calculation and reporting efforts.

Furthermore, the EBA proposal would create confusion in terms of decision making and steering, e.g. how the result of PV01 should be treated or if any actions need to be made.

<u>Question 7:</u> Do respondents perceive that the reporting requirements are proportionate for small and non-complex institutions?

We do not. Please see our response to question 6.

How could proportionality be further improved for these institutions?

Please see our response to question 6.

Particularly, does template J 08.00 on qualitative information add substantial reporting costs to these institutions?

In our view it doesn't.

Is there some quantitative information contained in Templates J 05.00, J 06.00 and J 07.00 that is overly burdensome?

In our opinion, PV01 without optionality means new calculations as embedded caps and floors must be eliminated, and sourcing info about credit exposure would be extremely complicated and having it in specified granularity.

Is the expected frequency for templates J 05.00, J 06.00, J 07.00 and J 08.00 feasible and proportionate?

For what concerns J 06, collecting credit exposure is extremely burdensome for all entities as it involves credit risk systems. In addition, it provides no added value for IRRBB and should be eliminated from template J 06 as well as J03.

Also, calculating PV01 without optionality and the entire repricing schedule with all positions only according to contractual maturity requires 2 additional calculations.

J07 does not provide any info when provided quarterly as modelling assumptions are driven by modelling changes which happen only once a year. Hence this template as well as J04 should be done only annually at group level.

Overall, having templates 5,6 and 7 on quarterly basis as "simplified" templates doesn't provide any relief for smaller entities. In this respect, we would suggest that the requested information is reduced for both rows and columns to reduce the burden in terms of banks' efforts.

Question 8: Do respondents perceive that the reporting requirements are proportionate for institutions other than large institutions and small and non-complex institutions ('other' institutions)?

ESBG believes the reporting requirements are not proportionate enough. Please see our response to questions 6 and 7.

Is there some quantitative information contained in Templates J 02.00, J 03.00 and J 04.00 that is overly burdensome?

J 02: the breakdown of derivatives according to counterparty and collateralization provides no added value. The breakdown of loans on counterparty type and existence of collateral provides no added value for IRRBB breakdown of NMDs on fixed and operational deposits. In general, the practice of splitting interest rate swaps on receiver (asset side) and payer (liability side) brings no added value.

J 03: Reporting Carrying amount according to accounting info is not feasible as the accounting structure looks different than this template. Moreover, the same breakdown criticism as above can be identified - the burden of calculating all positions according to contractual maturity is rather large; the calculation of PV01 without optionality basically represents another calculation of the same positions and same as of date.

Template J 03 represents an extreme increase in calculation workload for internal risk management as it basically involves 3 sets of calculations: i) Interest rate gap according to modelled behaviour, ii) without modelled behaviour and iii) eliminating optionalities (including embedded ones).

J04: the same unnecessary breakdowns can be identified again (e.g. on loans). In addition, the quarterly frequency of reporting repricing dates is not really necessary as such figures are largely driven in case of modelling changes which occur during annual review of models.

Is the expected frequency for templates J 02.00, J 03.00, J 04.00 and J 08.00 feasible and proportionate?

Considering the comments above, we would like to stress once more tha the concept of applying proportionality does not bring the desired relief. In J 03 having loan split on basis of existing collateral or split of derivatives on basis of collateral and counterparty is redundant for IRRBB purposes and creates additional effort to collect such information in IRRBB monitoring system.

How could proportionality be further improved for these institutions?

We believe that the simplified interest rate gap according to internal assumptions should be adequate and a basic breakdown should be applied, e.g. having split between loans, central bank reserves and financial assets should be sufficient. Having Loan split on basis of existing collateral is redundant for IRRBB purposes.

In our opinion, templates J03 and J04 should be excluded for all institutions regardless of size as all relevant information is contained in J06 and J07.

<u>Question 9</u>: Do respondents agree that the number of currencies requested in this reporting package is proportionate?

We would suggest amending the currency requirement for template J01. It should be noted in fact that banking groups consisting of many smaller subsidiaries spread in more countries can have consolidated SOT calculated taking into consideration many currencies. Therefore, there's no added value in the fact that on a consolidated basis the template J01 has to be calculated for each of the currencies considered in SOT. **The currency threshold should instead be applied like for other templates.**

Particularly for templates J 02.00 to J 08.00, do these amended ITS request right amount of information for currencies that have a limited/marginal contribution to the IRRBB?

N.A.

<u>Question 10</u>: Do respondents currently compute their IRRBB figures, such as those in panels 03.00 and J 06.00, broken down by fixed/floating, for internal monitoring and/or supervisory reporting?

Only partially for some members. The repricing schedule with contractual features is calculated on group level only (in the case of banking groups), not separately for each entity of the Group. PV01 without automatic optionalities is not calculated.

If not, do respondents perceive that the reporting of templates J 03.00 and J 06.00 by fixed and floating rate instrument as a different dimension (i.e. in the Z axis) add substantial reporting costs with respect to different kind of solution?

The driver of additional efforts for J03 and J 06 is that these entail additional calculations as specified in the x-axis: Contractual view has to be shown --> additional calculation needed PV01 without automatic optionalities --> additional calculation needed to remove embedded caps and floors.

Would respondents propose a different approach to reduce the reporting costs (e.g breakdown in rows by fixed/floating rate instrument, or instead of having it in a different dimension duplicate the columns of the panel to fit fixed and floating in different columns)? Please elaborate.

There is no material relief between J03 and J06 in terms of having it simpler for smaller entities. Therefore, we would suggest eliminating the need for info mentioned above on x axis for smaller entities. Also, our proposal is to remove J03 as the breakdown in columns has no added value to understanding IRRBB measures and will create large effort to have it.

3. J 01.00 template - IRRBB sensitivity estimates: Economic Value of Equity (EVE)/Net Interest Income (NII) Supervisory Outlier Tests (SOT) and Market Value (MV) changes:

Question 11: Do respondents currently compute the figures in column 0020 for internal monitoring and/or supervisory reporting?

Some of our members do not.

If not, do respondents perceive that column 0020 adds considerable reporting costs in order to calculate these figures (please consider that it would only be reported for the aggregate of all currencies)?

Having the figures in column 0020 calculated quarterly for all entities would create material additional effort by IT infrastructure as it basically stipulates to have 2 EVE/NII ratios produced regularly. In the case of a banking group, since this has to be reported by small entities as well, the central function would have to provide additional support to prepare numbers for them as well, which is a large impact on operational efforts.

Additionally, this request would create **confusion in the reporting framework** as it raises questions if this number should be used at all for taking internal management decisions. Also, since it has to be calculated by all entities (small ones as well) it creates confusion in steering and managing EVE/NII ratio.

Would respondents propose a different approach to reduce the reporting costs? Please elaborate.

ESBG believes this figure should be reported at group level only and annually as it is for monitoring purposes and should be adequate to assess the impact of modelling on the group consolidated view (in the case of banking groups).

4. J 03.00/J06.00 template: Repricing cash flows:

Question 12: Does the inclusion of carrying amount and credit risk exposure amount cause implementation challenges? If yes, please describe the challenges.

The challenge identified by ESBG members is to link credit risk information of positions to IRRBB system and in the same granularity. These inputs are not relevant for IRRBB. The credit risk systems are not integrated to IRRBB monitoring system. Moreover, carrying amount and credit risk exposure are not in any way supplementary information to repricing schedule which is based on outstanding notional.

5. J 08.00 template: Qualitative information:

Question 13: What other types of methodologies for NII could be reported in row 0030?

N.A.

Question 14: What other types of methodologies for EVE could be reported in row 0070?

N.A.

<u>Question 15</u>: What other risk-free yield curves used for discounting could be reported in rows 0320 and 0330?

N.A.

<u>Question 16</u>: Since it is necessary to collect qualitative information to complement the quantitative to get a full overview of the IRRBB risks from a supervisory perspective, do respondents see other IRRBB related aspects that might be necessary to cover?

N.A.

<u>Question 17</u>: Do respondents see any issue about reporting the qualitative information in J 08.00? How do respondents consider this information in terms of usefulness and practicability?

N.A.

About ESBG (European Savings and Retail Banking Group)

ESBG represents the locally focused European banking sector, helping savings and retail banks in 21 European countries strengthen their unique approach that focuses on providing service to local communities and boosting SMEs. An advocate for a proportionate approach to banking rules, ESBG unites at EU level some 900 banks, which together employ more than 650,000 people driven to innovate at roughly 50,000 outlets. ESBG members have total assets of €5.3 trillion, provide €1 trillion in corporate loans (including to SMEs), and serve 163 million Europeans seeking retail banking services. ESBG members are committed to further unleash the promise of sustainable, responsible 21st century banking. Our transparency ID is 8765978796-80.

European Savings and Retail Banking Group – aisbl
Rue Marie-Thérèse, 11 ■ B-1000 Brussels ■ Tel: +32 2 211 11 11 ■ Fax: +32 2 211 11 99
Info@wsbi-esbg.org ■ www.wsbi-esbg.org

Published by ESBG. May 2023.