

Status
Q&A

Legal act
Directive 2013/36/EU (CRD) as amended

Topic
Supervisory review and evaluation (SREP) and Pillar 2

Article
98

Paragraph
5

Subparagraph
-

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De Volksbank N.V.

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Type of submitter
Credit

COM Delegated or Implementing Acts/RTS/ITS/GLs
EBA/GL/2015/08 – Final Report on Guidelines on the management of interest rate risk arising from non-trading book activities

(Actual GL is EBA/GL/2018/02 but this is not a possible option on the EBA Q&A site)

Article/Paragraph
Not applicable (in EBA/GL/2018/02 it is article 113)

Single Rulebook Q&A
European Banking Authority, 11/12/2018
www.eba.europa.eu

Subject matter
Application of the sudden parallel +/-200 basis points shift of the yield curve in the Supervisory outlier test (actual reference: EBA/GL/2018/02; article113 paragraph 5)

Question

How should banks apply the sudden parallel +/-200 basis points shift of the yield curve in their forecast yield curve?

Background on the question

Per guideline 113 (EBA/GL/2018/02) banks will discount the cashflows on both the actual curve and the curve with +/- 200 basis points shift, for the calculation of the impact on their EVE of a sudden parallel +/- 200 basis points shift of the yield curve. The impact is the delta of both calculations.

As described in guideline 115d. (EBA/GL/2018/02) behavioral options should be reflected in the calculation. Client behavior of prepayments is interest rate sensitive and banks use internal forecasts of the yield curve to predict prepayment cashflows. The question focuses on the use of the forecast of the yield curve that is required for reflecting client behavior. The guidelines impose an instant shock to the spot yield curve, but no specific guidance is given on how banks should apply the parallel shift to their forecasted yield curve n years ahead?

We determined 4 applications. Please refer to the attached file for descriptions.

The different applications could be one of the following methods:

*Different applications for the use of **the forecasted yield curve** in generating interest rate dependent cash flows (for example prepayment)*

	Application 1	Application 2	Application 3	Application 4
Calculations with current yield curve (base scenario)	Current yield curve kept constant	Bank's forecast curve	Bank's forecast curve	Forward curve
Calculations with shift +/- 200 bp (upward/downward scenario)	Shift +/- 200 bp kept constant	Shift +/- 200 bp kept constant	Bank's forecast curve + shift +/- 200 bp	Forward curve + shift +/- 200bp

Substantiation and visualisation per application

Application 1

The base scenario does not take the forecast yield curve into account. The upward/downward scenario shifts the yield curve and is kept constant.

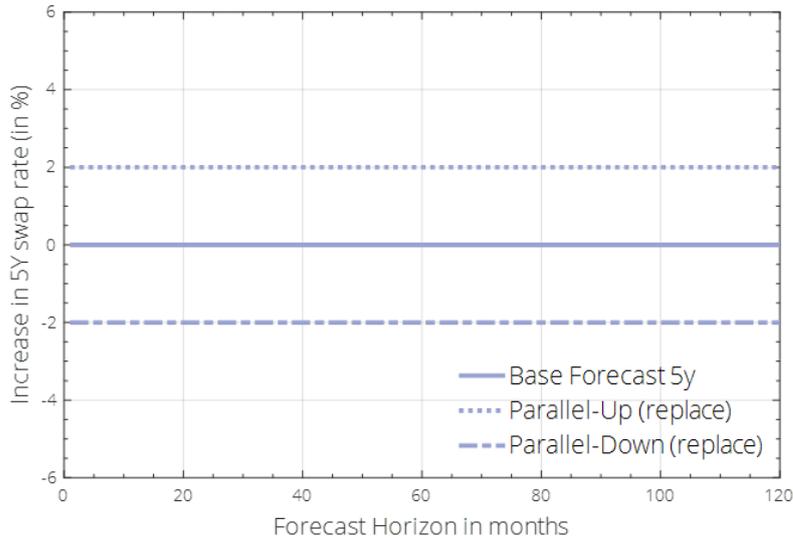


Figure 1: Application 1

Application 2

The base scenario will be calculated on the regular assumptions including a forecast of the yield curve as determined by the macro-economic desk of the bank. The upward/downward shift scenario will be kept constant.

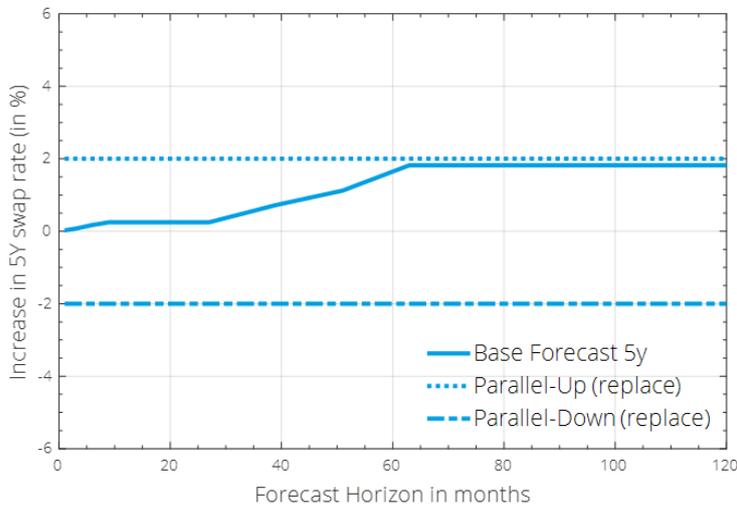


Figure 2: Application 2 (actual forecast)

Application 3

The base scenario will be calculated on the regular assumptions including a forecast of the yield curve. The upward/downward shift scenario will also include the internal forecast of the yield curve.

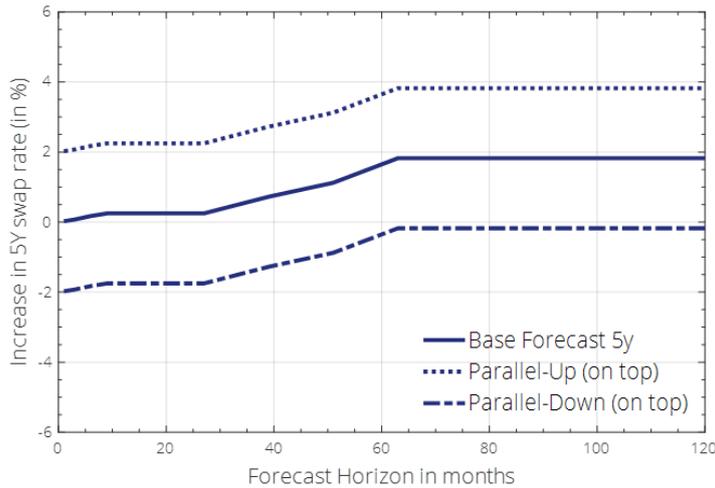


Figure 3: Application 3 (actual forecast also apply to upward/downward scenario)

Application 4

The base scenario will be calculated based on the implied forward rate. The upward/downward shift scenario are applied to the yield curve, and afterwards implied forward rates are derived based on the shocked yield curves.

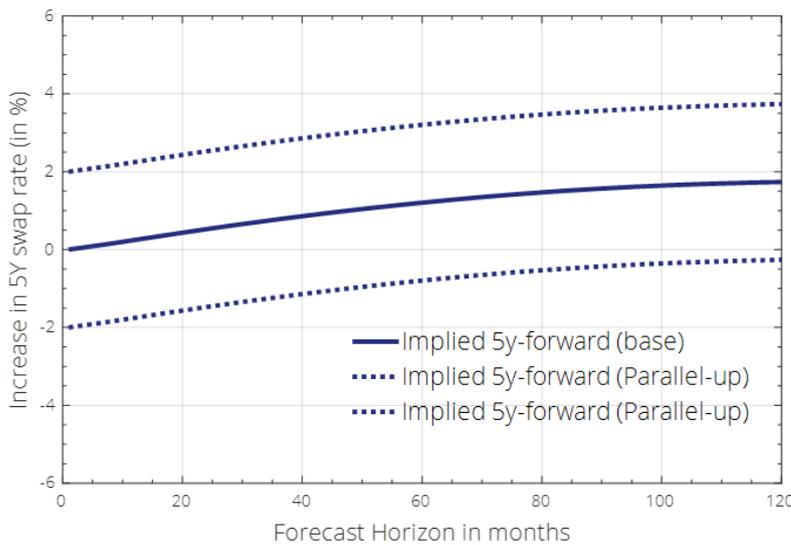


Figure 4: Application 4 (forward yield curves)

Proposed answer to the EBA:

Application 4 is a technical and theoretical solution and supports the comparability between banks. The downside of application 4 is that it does not take the internal forecast of the yield curve into account with the consequence that it will not be part of bank's risk management.