European Banking Authority

IRRBB HEATMAP IMPLEMENTATION

2ND PHASE – MEDIUM/LONG TERM ACTION PLAN

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IRRBB heatmap implementation

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Abbreviations

CSRBB	Credit Spread Risk in the Banking Book
CVA	Credit Valuation Adjustment
EBA	European Banking Authority
EVE	Economic Value of Equity
FBE	Full Balance Sheet Exemption
FVO	Fair Value Option
HQLA	High-Quality Liquid Assets
ICAAP	Internal Capital Adequacy Assessment Process
IMS	Internal Management System
IRRBB	Interest Rate Risk in the Banking Book
IRS	Interest Rate Swap
ITS	Implementing Technical Standards
NII	Net Interest Income
NMD	Non-Maturity Deposits
QIS	Quantitative Impact Study
SOT	Supervisory Outlier Test
VaR	Value at Risk

1.1 Executive summary

1. Following the adoption of the interest rate risk in the banking book (IRRBB) prudential package in October 2022, the IRRBB Heatmap in January 2024[1] and the IRRBB Heatmap Implementation Report on the short/medium term objectives,[2] this second-phase report advances the European Banking Authority's (EBA) medium- and long-term action plan towards implementation and convergence support.

2. This report provides an analytical review and puts forward recommendations in four priority areas: (i) the application of the 5-year cap on the repricing maturity of non-maturity deposits (NMD); (ii) the modelling of commercial margins in the context of Article 4(4) of Commission Delegated Regulation (EU) 2024/856; (iii) the definition and application of the Credit Spread Risk in the Banking Book (CSRBB) perimeter; and (iv) the use and effectiveness of hedging strategies in managing IRRBB. These observations and recommendations are intended to inform supervisory dialogue and institutions' practices. They should be considered in a proportionate manner, reflecting the size, complexity, risk profile, and business model of each institution. Competent authorities retain full discretion in their application, consistent with the principle of proportionality enshrined in the regulatory framework and taking into account that the recommendations and observations are not intended to be exhaustive. This report does not establish new regulatory requirements, nor does it intend to do so. Rather, it points to areas of supervisory attention informed by recent experience, prevailing market practices, and emerging risks.

    i. Monitoring of the 5-year cap

    The behavioural cap that limits the repricing maturity of NMDs to five years continues to operate as a harmonising benchmark. Quantitative Impact Study (QIS) results confirm that, given the current interest rate environment, the great majority of institutions would not see their internal repricing profiles shortened by the cap, suggesting broad alignment.

    The EBA therefore upholds the cap as the supervisory default. Institutions that seek a longer horizon should demonstrate, within their Internal Measurement System (IMS), how such treatment better reflects product characteristics or client behaviour, substantiate it with historical evidence and integrate it into hedging

[1] Heatmap following the EBA scrutiny on the IRRBB published on 24 January 2024 (available here).

[2] Report on IRRBB heatmap implementation published on 6 February 2025 (available here).

practice, consistent with Q&A 2023_6807. Institutions are incentivized to disclose any approved deviation in Pillar 3.

ii. Analysis on commercial margin modelling

Article 4(4) of Delegated Regulation (EU) 2024/856 requires banks to apply in the SOT on NII a constant spread independent of interest-rate scenarios. The analysis from QIS institutions confirms that margins on term deposits, fixed-rate loans and floating-rate loans are mainly modelled as constant, whereas NMD margins are far more variable due to their behavioural features such as pass-through lags and compression in low-rate environments. To preserve comparability, the recommendations issued for NMD in Section 1.5 of the Report on IRRBB Heatmap implementation should not be extended to other products, except for items that, like NMD, exhibit material behavioural characteristics warranting differentiated modelling assumptions.

iii. CSRBB aspects related to its perimeter of instruments

Institutions should include CSRBB in the Internal Capital Adequacy Assessment Process (ICAAP) if it is considered material. They should generally aim for a common CSRBB perimeter across EVE and NII, though practices still diverge – often by narrowing scope to fair-value instruments. The EBA therefore encourages a consistent perimeter across EVE and NII unless strong, risk-based arguments justify divergence. Institutions should not limit the scope by accounting classification nor by the availability of market observations. Institutions should not exclude any instrument in the banking book from the perimeter of CSRBB ex ante. In any case, institutions should not exclude assets accounted at fair value: coverage should extend to instruments measured under International Financial Reporting Standard (IFRS) 13 at Levels 1 to 3, and also to instruments measured at amortised cost where credit spreads are material, using robust proxy or model methods where needed and available.

No instruments can be excluded simply because the institution intends to hold them. Derivatives should not be excluded solely because they are subject to credit valuation adjustment (CVA) or counterparty credit risk treatments - as CVA and CSRBB do not address the same type of risk. Own issuances other than equity should be included when they are sensitive to market spreads.

iv. Hedging strategies

Interest-rate swaps (IRS) remain the primary derivative for mitigating IRRBB, with micro-hedging prevalent for debt securities and own debt, and macro-hedging more common for behavioural portfolios (e.g., NMD). Institutions should ensure that their hedging practices, where appropriate, consider both the economic value and earnings perspectives, avoiding an exclusive focus on either metric. Hedge designation should align with product characteristics, economic-hedging frameworks should be well-governed, and effectiveness should be evidenced through regular back-testing and documentation.

Next steps

3. The EBA will continue to assess the impact of the IRRBB regulatory package. In particular, analysis of quantitative and qualitative Pillar 3 disclosure practices will continue and will complement the ongoing monitoring of regulatory products, with a view to enhancing transparency and comparability.

4. The impact on EU institutions of the recalibrated interest rate shock scenarios published by the Basel Committee in July 2024[3] will be further considered, drawing on QIS evidence and dialogue with competent authorities. This will enable a careful, evidence-based consideration of whether a review of existing regulatory technical standards is warranted.

5. Finally, the EBA will contribute to the IASB's Dynamic Risk Management (DRM)[4] project by examining the potential prudential implications and the appropriate supervisory response, as needed, to support coherence between accounting and prudential frameworks. The EBA will continue close engagement with institutions, competent authorities and other stakeholders to inform this work.

[3] The recalibrated currency shocks of all EU member states, additionally to BIS members, following the calculations described in paragraphs 98.56 to 98.63 of SRP98 – Application guidance on interest rate risk in the banking book (see SRP98 - Application guidance on interest rate risk in the banking book (bis.org)), will be collected with reference to December 2024.

[4] The objective of the DRM project is to develop an accounting model for macro-hedges based on an entity's dynamic risk management of repricing risk due to changes in interest rates, evaluating the effectiveness of those risk management activities. It also aims to reduce the operational burden currently embedded in IAS 39 for portfolio fair value hedging.

1.2 Background

6. Following the publication of the prudential regulatory package in October 2022 – which included the EBA Guidelines on IRRBB and CSRBB,[5] the Regulatory Technical Standards (RTS) on the Supervisory Outlier Tests (SOTs),[6] and the Standardised Approach (SA) for IRRBB[7] – along with the EBA's announcement of enhanced scrutiny plans in response to the rapidly changing interest rate environment – the EBA has progressively stepped up its monitoring of IRRBB implementation across the EU.

7. The adoption of the Implementing Technical Standards (ITS) on IRRBB supervisory reporting[8] in July 2023 represented a further milestone in operationalising the new framework. These developments were followed by the publication of the IRRBB Heatmap in January 2024, which was followed in February 2025 by the Report on IRRBB Heatmap Implementation that provides observations and recommendations related to the short- and medium-term objectives set by the EBA Heatmap.

8. The primary objective of the EBA's scrutiny work, as originally outlined in the heatmap, is to evaluate how the implementation of IRRBB and related regulatory developments affect institutions' ability to prudently manage interest rate risk, providing valuable insights to both institutions and their supervisors supporting a pragmatic, flexible but convergent approach with open dialogue in the implementation of the IRRBB regulatory framework. This includes addressing the inherent complexity and materiality of the topic, the diversity

[5] Guidelines issued on the basis of Article 84 (6) of Directive 2013/36/EU specifying criteria for the identification, evaluation, management and mitigation of the risks arising from potential changes in interest rates and of the assessment and monitoring of credit spread risk, of institutions' non-trading book activities (available here).

[6] Draft Regulatory Technical Standards specifying supervisory shock scenarios, common modelling and parametric assumptions and what constitutes a large decline for the calculation of the economic value of equity and of the net interest income in accordance with Article 98(5a) of Directive 2013/36/EU (available here).

Commission Delegated Regulation (EU) 2024/856 with regard to the final regulatory technical standards was published in the OJ on 24 April 2024 (available here).

[7] Draft Regulatory Technical Standards specifying standardised and simplified standardised methodologies to evaluate the risks arising from potential changes in interest rates that affect both the economic value of equity and the net interest income of an institution's non-trading book activities in accordance with 84(5) of Directive 2013/36/EU (available here).

Commission Delegated Regulation (EU) 2024/857 with regard to the final regulatory technical standards was published in the OJ on 24 April 2024 (available here).

[8] Implementing Technical Standards on Supervisory Reporting amendments with regard to IRRBB reporting (available here).

Commission Implementing Regulation (EU) 2024/855 of 15 March 2024 amending the implementing technical standards laid down in Implementing Regulation (EU) 2021/451 as regards rules on the supervisory reporting of interest rate risk in the banking book (available here).

of internal modelling practices across EU banks, and the absence of a harmonised Pillar 1 capital requirement for IRRBB. The scrutiny work aims to enhance convergence in risk management and supervisory expectations by identifying key areas where further clarification, alignment, or guidance may be necessary.

9. In addition to the short/medium term objectives, this report advances into the medium- and long-term objectives for IRRBB scrutiny. These include the continued monitoring of the application of the 5-year cap on the repricing maturity of NMD as set out in paragraph 111 of the EBA Guidelines, as well as the assessment of commercial margin modelling practices in the context of Article 4(4) of Commission Delegated Regulation (EU) 2024/856. Moreover, this report deepens the analysis of CSRBB, particularly regarding the consistent delineation of the perimeter of instruments affected by credit spread risk. It also includes updated insights on hedging strategies employed by EU banks to manage interest rate risk, which remains a key area for supervisory dialogue, especially considering the increasing reliance on derivatives for risk mitigation.

10. The analyses and findings presented in this report are based on data collected through the ITS on IRRBB Supervisory Reporting[8] and the three waves of the QIS referencing year-end positions for 2022, 2023, and 2024. Additional insights have been derived from a review of institutions' Pillar 3 disclosures, qualitative responses received during supervisory engagement, and ongoing dialogue with competent authorities across the EU.

11. Table 1 presents the number of institutions included in the QIS sample, distinguishing those using Internal Models (IMS), with a breakdown between Group 1 and Group 2 institutions,[9] as well as those applying the Standardised Approach (SA). The majority of participating institutions continue to apply IMS, highlighting its prevailing role in IRRBB risk management practices across the sample.[10] However, it should be noted that, for the purposes of certain parts of the analysis, the sample has been further reduced in order to assess consistently the data received.[11]

[9] Group 1 institutions are defined as internationally active banks with Tier 1 Capital exceeding EUR 3 billion, while all others are classified as Group 2.

[10] To ensure consistency between reporting sources (QIS and ITS), the sample size has been reduced in certain analyses depending on the availability and completeness of responses. For instance, in the case of the 5-year cap assessment, the final sample comprises 145 banks, reflecting only those for which both QIS data and relevant supervisory reporting could be reliably matched.

[11] For example, in the context of a particular analysis, banks providing information in the reporting but not in the QIS have been excluded from that analysis.

Table 1: *Characteristics of the institutions included in the QIS sample.*

	QIS Sample	IMS	SA	Missing Information
2024	152	129	16	7
2023	122	107	13	2
2022	164	128	18	18

1.2.1 SOT Observations

12. As highlighted in the February 2025 report, since the publication of the IRRBB regulatory framework by the EBA in 2022, interest rates in the Union first increased rapidly, then declined to more stable levels. Since then – for the euro area and most other EU currencies – it can be argued that this stabilisation has continued. Arguably, this has allowed banks to further adapt to the challenges of the changed environment, such as adjustment of hedging practices as well as pass-through of interest rates to the liability side (reducing NII sensitivity to the parallel down).

13. Accordingly, the analysis of the December 2024 data, from the QIS and the ITS, shows a broadly stable distribution of SOT results on both EVE and NII compared with previous years. In this regard, Table 2 presents the number of outliers identified in the SOT on EVE and NII from December 2021 to December 2024. In 2024, one EVE outlier was observed among Group 2 institutions, representing a marginal increase compared with 2023. However, this corresponds to only a single bank within a larger reporting population (152 banks in 2024 compared with 97 in 2023). When considering the proportion of eligible institutions, the share of EVE outliers remained very low in 2024 (0.66%) compared with the level observed in 2022 (8.76%).[12] In parallel, for the NII metric, there is a small decrease in outliers from 2023 (16 cases) to 2024 (11 cases), slightly concentrated among Group 2 institutions.

[12] The percentages are calculated based on the number of outliers divided by the total number of banks in the sample – specifically, 1 out of 152 for ΔEVE and 11 out of 152 for ΔNII, in 2024.

Table 2: *Number of outliers in the SOT on EVE and SOT on NII.*

	ΔEVE			ΔNII		
	QIS Sample	**Group 1**	**Group 2**	**QIS Sample**	**Group 1**	**Group 2**
2024	1	0	1	11	4	7
	0.66%	0.00%	1.15%	7.24%	6.15%	8.05%
	152	65	87	152	65	87
2023	0	0	0	16	8	8
	0.00%	0.00%	0.00%	16.49%	18.60%	14.81%
	97	43	54	97	43	54
2022	12	1	11	39	12	27
	8.76%	1.75%	13.75%	28.06%	20.69%	33.33%
	137	57	80	139	58	81
2021	15	1	14	9	3	6
	13.04%	2.33%	19.44%	7.89%	6.82%	8.57%
	115	43	72	114	44	70

14. To understand somewhat more closely to what extent the EVE of EU banks remain sensitive to IRRBB / could be at risk, Table 3 provides a statistical breakdown of the distribution of ΔEVE across the QIS sample from 2021 to 2024. The weighted mean of ΔEVE[13] shows a significant reduction from -9.27% in 2021 to -5.50% in 2024, indicating enhanced resilience or adaptive strategies by institutions when hedging on EVE. Additionally, the narrowing standard deviation in recent years (2023/2024 vs 2021/2022) might suggest a convergence in IRRBB risk exposures, also partially reflecting the mechanical impact of higher interest rates, which shorten effective durations of assets and liabilities and thereby mechanically reduce the sensitivity of EVE to parallel rate shocks. The percentile distribution exhibits a noticeable narrowing between 2021-2022 and 2023-2024, with the median moving closer to the mean. This indicates a decline in extreme ΔEVE sensitivities and a more homogeneous risk profile across institutions, suggesting lower tail risk and greater convergence in IRRBB exposures, while some residual dispersion remains among institutions at the lower end of the distribution (5th percentile).

[13] Unless otherwise stated, weighted mean presented throughout the report are calculated as weighted by institutions' Tier 1 capital, in order to reflect a capital-based view of systemic relevance and aggregate impact.

Table 3: Distribution of ΔEVE – Worst regulatory scenario.

	ΔEVE					
	Weighted mean	S.D.	5th	50th	95th	# of banks
2024	-5.50%	3.97%	-12.55%	-5.08%	0.00%	152
2023	-5.39%	3.93%	-12.22%	-4.92%	-0.35%	97
2022	-7.10%	8.05%	-19.72%	-5.42%	-0.15%	137
2021	-9.27%	13.92%	-30.70%	-5.99%	0.02%	115

15. Table 4 presents the ΔNII distribution, showing an improved weighted mean (from -2.80% in 2023 to -2.39% in 2024) and the standard deviation reaching its lowest level since 2021. Furthermore, a 5th percentile at -6.90% in 2024 (in contrast to the ΔEVE showed in Table 3 above) highlights that a minor portion of institutions remains highly sensitive to downward interest rate shocks.

16. To compare the NII exposure to that of the EVE in total terms, it is worth noting that, under the December 2024 SOT results, the bank representing the sole EVE outlier against the 15% threshold only exceed the 15% threshold by EUR 45 million, while for the total in which all NII outliers in the sample exceed the 5% NII threshold amounts to EUR 700 million.

Table 4: Distribution of ΔNII – Worst regulatory scenario.

	ΔNII					
	Weighted mean	S.D.	5th	50th	95th	# of banks
2024	-2.39%	1.94%	-6.90%	-2.15%	0.00%	152
2023	-2.80%	3.83%	-7.72%	-2.57%	-0.30%	97
2022	-3.49%	5.05%	-10.91%	-2.63%	0.92%	139
2021	-1.49%	3.32%	-7.19%	-1.41%	3.22%	114

17. Table 5 identifies the IRRBB regulatory scenarios impacting SOT outliers in 2024. For ΔEVE, the parallel up scenario caused 1 outlier. In contrast, the ΔNII metric saw the majority of outliers (10 out of 11) under the parallel down scenario. This dichotomy reflects the inherent asymmetry of the two regulatory metrices.

Table 5: *Scenarios driving the IRRBB outliers in 2024.*

	ΔEVE	ΔNII
Parallel up	1	1
Parallel down	0	10
Steepener	0	
Flattener	0	
Short rate up	0	
Short rate down	0	

1.3 Monitoring of the 5-year cap

KEY TAKEAWAYS OF THIS SECTION

A descriptive analysis undertaken on the impact of the 5-year cap, as of end 2024 shows that:

- The 5-year cap under paragraph 111 of the EBA Guidelines on IRRBB and CSRBB continues to play a key harmonising role by limiting optimistic, and promoting prudentially sound, modelling of NMD stability and reinforcing comparability of interest rate risk metrics across EU institutions
- Overall impact of the cap appears limited, given the current interest rate environment, with a confined sample of institutions that mention they experience unintended consequences.
- A majority of QIS institutions confirmed that their originally modelled repricing profiles are already within the 5-year horizon, indicating broad alignment with the regulatory cap.
- Several institutions noted they would apply an internal cap (either shorter or longer than 5 years) if the regulatory cap were not in place.
- The 5-year cap thus appears to serve primarily as a common reference point that promotes consistency and comparability across institutions' practices.
- In the context of the current interest rate environment, QIS data suggest that the application of 5-year cap to repricing maturity of NMD has had a limited material impact for most banks and has had a harmonising effect.
- In line with Q&A 2023_6807 – *"On the basis of its specific business model, the institution could demonstrate to the competent authority the possible unintended effects of the 5-year cap in a way that the outcome of the application of the cap, versus its non-application, would, given its exceptional case, not be the expected one or would be a counterintuitive one."* – institutions are invited to actively engage with their competent authorities during supervisory dialogue for any deviations from the 5-year cap.

Institutions wishing to adopt a repricing cap longer than 5 years should be able, within their IMS, to:

i. Demonstrate a clear link to the specific characteristics of the business model, product or client segment.

ii. Provide robust behavioural analysis or historical data supporting longer repricing assumptions.

iii. Show how the modelling aligns with hedging strategies.

1.3.1 Observations

18. The 5-year cap sets out in paragraph 111 of the EBA Guidelines on IRRBB and CSRBB limits the assumed repricing maturity of NMD to a maximum of five years. This regulatory constraint aims to prevent overly optimistic modelling of long-term stability in liabilities, which could understate interest rate risk. Thus, the cap is intended to function as a safeguard that ensures prudent and harmonised assumptions regarding NMD stability. While initially considered a major adjustment, QIS data collected under the current conditions of high level of interest rates suggest limited material impacts for most banks. Institutions have adapted their models accordingly, in many instances considering the cap as a harmonizing tool rather than a constraint.

19. This section is closely aligned with the medium- and long-term objectives of the EBA IRRBB Heatmap by assessing the monitoring of the application of the 5-year cap, also in relation of the EBA Q&A 2023_6807 on the application of the behavioural assumption of a 5-year cap for NMD. The analyses presented in this section provide insight into current market practices and are intended to guide further supervisory dialogue.

20. Quantitative data gathered through the ITS on Supervisory Reporting suggests that the implementation of the 5-year cap has had limited impact on the IRRBB metrics for most institutions.[14] At the same time, some institutions indicate unintended impact observed in terms of IRRBB risk management and hedging strategies, due to the 5-year repricing cap in the IRRBB IMS.

21. Institutions typically align their repricing assumptions with regulatory limits to avoid non-compliance, which may explain the limited observed impact. Responses from QIS further suggest that, for many banks, the application of the 5-year cap hardly shortens their original model repricing profiles, given the current interest rate environment, as these were already broadly within the 5-year horizon. This indicates broad alignment with the regulatory cap, even in the absence of a formal restriction. Furthermore, several institutions noted that they would apply an internal cap (not necessarily longer than 5-year) to the repricing profile of the NMDs in the absence of the 5-year cap.

[14] Please refer to paragraph 111 of the EBA Guidelines issued on the basis of Article 84 (6) of Directive 2013/36/EU specifying criteria for the identification, evaluation, management and mitigation of the risks arising from potential changes in interest rates and of the assessment and monitoring of credit spread risk, of institutions' non-trading book activities of 20 October 2022 (EBA/GL/2022/14).

1.3.2 Recommendations

22. Building on the findings discussed in this Section and the EBA response to Q&A 2023_6807, the following recommendations are proposed to supervisors and institutions:

i. Maintain the 5-year cap as the supervisory default.

The cap continues to serve as a harmonising benchmark to prevent overly optimistic assumptions on NMD stability and enhances cross-bank comparability in the context of the SOTs. Supervisors should expect all institutions to respect the 5-year cap unless possible unintended effects of the 5-year cap in a way that the outcome of the application of the cap, versus its non-application, would, given its exceptional case, not be the expected one or would be a counterintuitive one.

ii. Engage early with competent authorities in the context of possible unintended effects of the 5-year cap in a way that the outcome of the application of the cap, versus its non-application, would, given its exceptional case, not be the expected one or would be a counterintuitive one.

Institutions that consider a repricing maturity longer than five years should open a supervisory dialogue before implementation and provide:

a. Evidence that the proposed horizon reflects their specific business-model, customer behaviour, or funding model.

b. Back-tested data demonstrating the possible unintended effects of the 5-year cap.

c. Evidence that the extended horizon is consistently embedded in their IMS and hedging strategy.

iii. Preserve transparency in Pillar 3 disclosures.

Any cap longer than five years that has been agreed with the supervisor should be clearly disclosed, together with its quantitative impact on ΔEVE and ΔNII, to support market discipline.

1.4 Analysis on commercial margin modelling

KEY TAKEAWAYS OF THIS SECTION

This section builds on the guidance presented in Section 1.5 of the IRRBB Heatmap Implementation Report, which addressed the modelling of commercial margins for NMD in the SOT on NII pursuant to Article 4(4) of Commission Delegated Regulation (EU) 2024/856. The analysis undertook highlighted:

- Wide use of constant commercial margins across other balance sheet items (term deposits, fixed loans, and floating loans) in contrast to NMD, where institutions tend to vary assumptions more due to behavioural complexities.
- NMD exhibit inherently variable commercial margins, requiring scenario-sensitive modelling, justifying the recommendations made in the IRRBB Heatmap Implementation Report.

In the context of Article 4(4) of Commission Delegated Regulation (EU) 2024/856, it is proposed to not extend the guidance issued for the treatment of commercial margin in NMD modelling to other balance sheet items under the SOT on NII, since:

- Extending such flexibility more broadly would be inconsistent with Article 4(4) of Commission Delegated Regulation (EU) 2024/856 and could weaken comparability. It should therefore only be considered for items that, like NMD, exhibit material behavioural characteristics warranting differentiated modelling assumptions.

1.4.1 Observations

23. This section builds on the approach detailed in the First IRRBB Heatmap Implementation Report for modelling commercial margins of NMD in the SOT on NII, which was issued in the context of Article 4(4) of Commission Delegated Regulation (EU) 2024/856 and provides recommendations for institutions in the context of the SOT on NII. In particular, it was recommended to institutions to apply in the SOT on NII the same modelling assumptions for commercial margins as those used internally within their IMS for NMD. In cases where such internal modelling assumptions do not exist, institutions should consider using a constant spread over the risk-free rate that remains independent of the interest rate scenario. Moreover, institutions were recommended to consider incorporating specific elements into their modelling practices, such as: (a) modelling margin compression when current spreads are significantly negative; (b) considering potential margin expansion when transitioning away from zero or negative risk-free rate environments; and (c) accounting for lags in pass-through when interest rates have recently increased.

24. The EBA has considered whether the application of such guidance should be extended to other balance sheet items beyond NMD. Current practices indicate that, unlike NMDs, other asset and liability classes generally do not display margin sensitivity or behavioural dynamics, as their margins are typically predetermined by contractual features (e.g. fixed-rate pricing, market-linked spreads). Extending NMD-specific guidance to such items could therefore undermine comparability and complicate supervisory assessments under the SOT on NII, while any flexibility should remain strictly limited to items that, like NMD, exhibit material behavioural characteristics warranting differentiated modelling assumptions.

1.4.2 Recommendations

25. Based on the findings of the analysis on commercial margin modelling across balance sheet items under the SOT scenarios, the following recommendations are provided to support consistency in implementation and supervisory assessment. These recommendations aim to preserve a conservative, harmonised, and comparable framework for IRRBB measurement under the SOTs, while recognising the modelling needs of NMD:

    i. Given the behavioural nature and modelling complexities of NMD, the recommendations on variable commercial margins provided in the IRRBB Heatmap Implementation Report remains appropriate for items that, like NMD, exhibit material behavioural characteristics warranting differentiated modelling assumptions. Extending it more broadly would dilute the prudential intent of Commission Delegated Regulation (EU) 2024/856 and reduce comparability of SOT results.

    ii. Institutions should continue applying a constant spread over the risk-free rate for items such as term deposits, fixed loans, and floating loans, in line with Article 4(4) of Commission Delegated Regulation (EU) 2024/856. These instruments generally exhibit contractually fixed or market-referenced pricing, limiting the relevance of behavioural adjustments, when compared to NMD.

1.5 CSRBB aspects related to its perimeter of instruments

KEY TAKEAWAYS OF THIS SECTION

The descriptive analysis undertaken on CSRBB shows that as of end-2024, EU institutions continue to face challenges in fully identifying, assessing and monitoring CSRBB:

- The definition and consistent application of the CSRBB perimeter remain highly heterogeneous across institutions and Member States.
- A minority of institutions report differentiated CSRBB perimeters for EVE and NII metrics, often justified by product-specific characteristics, accounting treatments, or internal steering practices.
- Market-observed pricing is the dominant criterion for determining CSRBB eligibility, particularly under the fair value accounting classification. Instruments at amortized cost are less consistently included, pointing to gaps in capturing the full spectrum of credit spread risk.
- Overall, while progress has been made in integrating CSRBB into internal frameworks, EU institutions still show room for improvement in consistently defining the perimeter, capturing all relevant exposures, and ensuring a standardised treatment across both assets and liabilities.

Recommendations are proposed to outline considerations that institutions could apply in defining the CSRBB perimeter, and that supervisors may take into account in their assessments:

- CSRBB should be included in an institution's ICAAP if it is considered material.
- Consistency to define a common CSRBB perimeter across EVE and NII is encouraged unless strong economic or risk-based issues support a divergence.
- CSRBB scope should not be limited to IFRS 13 Level 1 and Level 2 instruments but also extend to Level 3. In this regard it needs to be noted that the paragraph 124 of EBA Guidelines on IRRBB/CSRBB hold that institutions should not exclude assets accounted at fair value.
- Also amortized cost instruments should be considered where credit spread sensitivity is material and measurable. Amortized cost instruments should be included in the CSRBB perimeter when they exhibit material exposure to credit spread variations, even in the absence of market pricing, through robust proxy spreads or model-based techniques, where needed and available.

- No instruments should be excluded from the CSRBB perimeter on the basis of holding intention alone. Intention not to trade (or to hold to maturity) does not constitute sufficient grounds for exclusion, as instruments remain sensitive to credit spread movements.
- Instruments subject to CVA or counterparty credit risk treatment should not be excluded solely on this basis – as the existence of CVA risk does not preclude the potential relevance of CSRBB. Derivatives should only be excluded if they do not bear material credit spread risk.
- Own issuances (other than equity instruments) should be included in the CSRBB perimeter, consistent with the principle of linking CSRBB measurement to observable markets and market perceptions of credit risk (distinct from the idiosyncratic credit spread).

1.5.1 Observations

26. The definition and consistent application of the CSRBB perimeter is a key objective under the medium- and long-term objectives of the EBA IRRBB Heatmap. In line with the EBA Guidelines on IRRBB and CSRBB, this section aims to further clarify and monitor the treatment of credit spread risk across EU institutions. Proper delineation of the CSRBB perimeter is essential to ensure comparability, risk sensitivity, and sound supervisory practices.

27. The CSRBB perimeter implementation varies significantly across EU institutions. In particular, while some banks assess and monitor CSRBB exposures across all amortised cost and fair value items, others focus only on limited asset classes. This inconsistency in applying the CSRBB framework raises comparability issues and may undermine supervisory objectives. In this context, the monitoring of CSRBB practices reported through QIS data aim to provide an updated and granular view of current market practices concerning the CSRBB perimeter, the modelling of spread shocks, and their impacts on regulatory metrics.

28. Responses from QIS indicate that most institutions do not envisage applying different CSRBB perimeters for the NII and EVE metrics, aiming instead for alignment across both measures. A smaller share reported that they may tailor the CSRBB perimeter depending on the specific risk perspective, typically justifying separate treatment for NII and EVE by product characteristics or differences in risk transmission mechanisms.

29. A range of practices are used to assess CSRBB on NII, with the constant balance sheet assumption being the most common. Scenario-based analyses are also widely applied, using parallel or calibrated spread shocks to simulate the impact on reinvested or repriced instruments. More advanced institutions use dynamic balance sheet models and market-based calibrations. When looking at the EVE, the run-off balance sheet assumption is generally applied, often complemented by revaluation techniques using discounted cash flow models and a variety of shock calibration methods.

30. Integration of CSRBB into internal risk management has progressed, with many institutions incorporating CSRBB metrics into ICAAP and economic capital, and treating CSRBB as a distinct risk class aligned with supervisory expectations. Challenges remain in the treatment of idiosyncratic spread components, with many banks applying the exemption in paragraph 152 of the EBA Guidelines on IRRBB/CSRBB, citing proportionality, implementation constraints, and concerns about double counting.

31. In practice, CSRBB perimeters are frequently restricted to fair value instruments, particularly debt securities, with some institutions also including own issuances where relevant. This reliance on fair value instruments is often reinforced by the use of market-observed prices. On average, a large majority of fair value assets are priced using direct or indirect market inputs, whereas this is much less common for assets measured at amortised cost, as their accounting treatment does not require any market input. However, tying the CSRBB perimeter too closely to the availability of market observations risks narrowing its scope to IFRS 13 Level 1 and Level 2 instruments, thereby excluding Level 3 and amortised cost instruments. Such an approach raises interpretative concerns, as paragraph 124 of the EBA Guidelines on IRRBB and CSRBB[15] does not differentiate the scope of CSRBB based on the IFRS fair value hierarchy.

32. When comparing inclusion under the EVE and NII metrics, fair value assets generally show a higher degree of integration in the CSRBB perimeter than amortised cost assets. For liabilities, the inclusion is consistently lower across both metrics. These differences highlight not only a structural preference for fair value instruments in the CSRBB scope but also potential interpretative divergence across institutions regarding the treatment of amortised cost instruments, even though the EBA Guidelines on IRRBB and CSRBB do not prescribe an exclusion based on valuation method.

[15] *"Institutions should not exclude any instrument in the banking book from the perimeter of CSRBB ex ante, including assets, liabilities, derivatives and other off-balance sheet items such as loan commitments, irrespective of their accounting treatment. Any potential exclusion of instruments from the relevant perimeter should be done in the case of the absence of sensitivity to credit spread risk and should be appropriately documented and justified. In any case, institutions should not exclude assets accounted at fair value."*

1.5.2 Recommendations

33. The analysis within this section confirms that the definition and application of the CSRBB perimeter remain heterogeneous across EU institutions, with significant interpretative divergences between Member States. In light of these findings, and in line with the EBA Guidelines on IRRBB and CSRBB, the following recommendations are made to support greater harmonisation and transparency in the treatment of CSRBB:

i. **CSRBB should be included in the ICAAP if it is considered material**

If deemed material, the outcomes of the capital adequacy assessment for CSRBB should be reflected in the institution's ICAAP and appropriately integrated into its internal capital assessment processes.

ii. **Encourage consistent CSRBB perimeter across EVE and NII.**

It is generally preferable for institutions to define a common perimeter of instruments for CSRBB risk under both EVE and NII metrics, as this can enhance consistency in risk measurement, reduce operational complexity, and facilitate internal and supervisory comparability.

iii. **Avoid limiting the CSRBB scope based solely on accounting classification.**

Fair value instruments are expected to be included in the CSRBB perimeter – apart from IFRS 13 Level 1 and 2 – should also extend to instruments measured using Level 3 fair value approaches – i.e., valuations that relying on significant model assumptions and unobservable inputs. In this regard it needs to be noted that the paragraph 124 of EBA GL on IRRBB/CSRBB hold that *"institutions should not exclude any instrument in the banking book from the perimeter of CSRBB ex ante, including assets, liabilities, derivatives and other off-balance sheet items such as loan commitments, irrespective of their accounting treatment. Any potential exclusion of instruments from the relevant perimeter should be done in the case of the absence of sensitivity to credit spread risk and should be appropriately documented and justified."*

This implies that, institutions should also consider amortised cost instruments, where these show material sensitivity to credit spreads. The EBA Guidelines on IRRBB and CSRBB do not exclude amortised cost items, and reliance only on market pricing availability may artificially narrow the CSRBB perimeter.

All assets and liabilities whose credit spread risk can be inferred from a direct/indirect or even modelled market price, whatever their accounting treatment should be included in the CSRBB perimeter. In this sense, instruments at amortised cost should be included if they exhibit material exposure to credit spread risk, even where direct market pricing is unavailable. In such cases, institutions may use robust model-based valuations or proxy spreads, where needed and available, ensuring adequate documentation within their IMS.

iv. Do not exclude any instruments on the basis of holding intention

The intention not to trade or sell an instrument does not constitute sufficient grounds for exclusion from the CSRBB perimeter. Instruments remain sensitive to credit spread movements regardless of accounting or management intent.

v. Clarify treatment of derivatives and CVA

The presence of CVA or counterparty credit risk treatment does not in itself justify exclusion from the CSRBB perimeter. Without prejudice of avoiding overlapping between different risk management framework and ensuring full compliance with the dedicated regulation, derivatives should remain in scope where they bear material credit spread risk, with exclusions limited to cases where such risk is immaterial.

vi. Include own issuances (other than equity instruments)

Own issuances (other than equity instruments) should be included in the CSRBB perimeter insofar as they are sensitive to market-wide or sectoral credit spread movements. The idiosyncratic component linked to the institution's own credit quality should be excluded, in line with paragraphs 120-121 of the EBA Guidelines on IRRBB and CSRBB.

1.6 Hedging strategies

KEY TAKEAWAYS OF THIS SECTION

This section builds on the February 2025 IRRBB Heatmap Implementation Report's findings on hedging by providing updated evidence from the latest QIS and ITS data:

- It confirms and deepens the earlier observation that hedging strategies play a central role in mitigating IRRBB exposures, particularly for ΔEVE metrics.
- IRS remain the dominant hedging derivative across EU banks, with weighted averages exceeding 95% across most balance sheet items.
- Hedging effectiveness is clear in reducing SOT breaches: for ΔEVE, hedging cuts the number of outliers from 36% to just 1% of the sample. For ΔNII, hedging has a lower effect, reducing outliers from 20% to 7%.
- While micro-hedging is prevalent for debt securities and own issuances, macro-hedging is more common for NMD and loans.

To support sound and consistent hedging practices across institutions, attention might be given to:

- Ensuring that hedging strategies, where appropriate, reflect both the economic value and earnings perspectives, maintaining a balanced approach that avoids an exclusive focus on either metric.
- Adopting tailored hedging strategies (micro vs macro) in line with the nature and structure of their balance sheet.
- Further developing economic hedging practices to complement, where appropriate, accounting hedge designation.

1.6.1 Observations

34. This section builds on the work already published by the EBA in February 2025 regarding hedging strategies used by EU banks. It aims to continue the monitoring of hedging practices across institutions, with a focus on understanding how banks use derivatives and other instruments to manage interest rate risk. The analyses presented here provide an updated view of current market practices and support supervisory efforts to ensure robust and consistent interest rate risk management frameworks.

35. Table 6 presents the impact of hedging strategies on the number of SOT outliers for both ΔEVE and ΔNII metrics. The comparison between the results with and without hedging highlights the critical role of hedging in reducing IRRBB exposures. For ΔEVE, 1 institution (0.66% of the QIS sample) is identified as outliers when hedging is considered, compared to 55 institutions (36.18% of the QIS sample) without hedging.

***Table 6**: Impact of hedging strategies on regulatory metrics for the SOT on EVE and SOT on NII.*

	ΔEVE			ΔNII		
	QIS Sample	Group 1	Group 2	QIS Sample	Group 1	Group 2
# outliers (if hedges apply)	1	0	1	11	4	7
as of % of total sample	0.66%	0.00%	1.15%	7.24%	6.15%	8.05%
Total sample	152	65	87	152	65	87
# outliers (if hedges do not apply	55	22	33	30	7	23
as of % of total sample	36.18%	33.85%	37.93%	19.74%	10.77%	26.44%
Total sample	152	65	87	152	65	87

36. For ΔNII, data seem to point to a less pronounced difference when compared to ΔEVE. When hedging is practiced hence having regard to net policies outcome, the net effects are clear and all in all outliers decreases significantly, from 30 (19.74% of the sample without hedging) to 11 (7.24% with hedging). This might suggest that banks' hedging strategies seem to be primarily focused on managing/stabilizing economic value (sensitivity), while they are somewhat less systematically applied in smoothing net interest income volatility.

37. QIS data confirms that IRS are by far the dominant derivative used by EU banks, with consistently high coverage across balance sheet items, underscoring the widespread and standardised reliance on IRS for hedging material interest rate exposures. Micro hedging is mainly applied to debt securities and debt securities issued, reflecting the instrument-specific management of these positions, whereas macro hedging is more commonly used for behavioural items such as NMD and, to a lesser extent, loans and advances. Economic hedging plays only a marginal role, with limited application across institutions, indicating that most banks manage interest rate risk primarily within accounting hedge designations.

1.6.2 Recommendations

38. The updated analysis on hedging strategies in this section confirms their fundamental role in managing interest rate risk, particularly for the ΔEVE metric. Based on these findings, the following recommendations are provided to promote sound and effective hedging practices across EU institutions:

i. While the impact of hedging on ΔEVE is clearly more substantial, institutions are encouraged to evaluate short-term earnings volatility and consider, where appropriate, expanding their hedging approaches to also address ΔNII.

ii. Institutions should align their hedging practices with the behavioural and contractual nature of their instruments. For example:

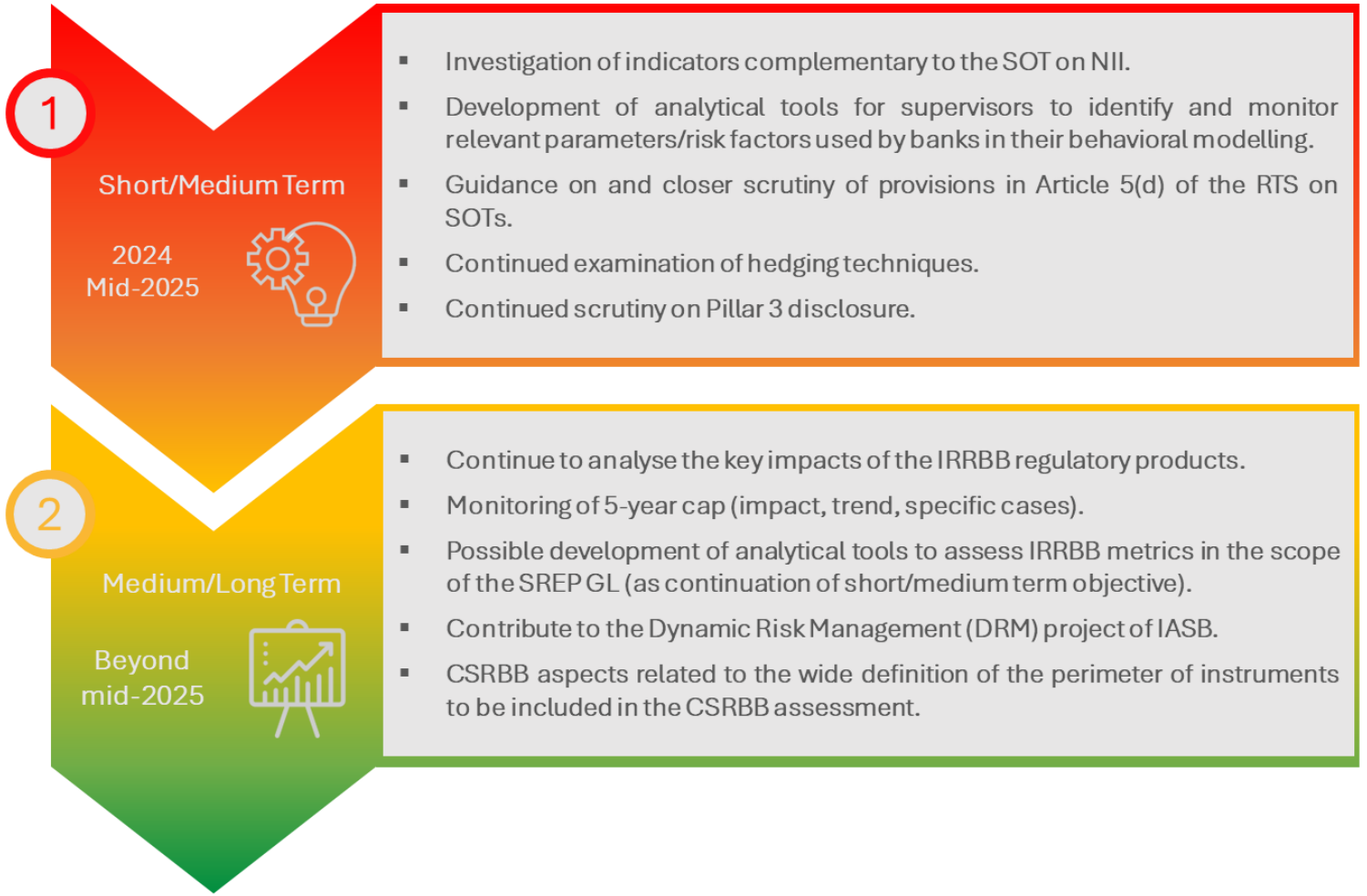
    a. Micro hedging might be more suitable for instruments with fixed and predictable cash flows.

    b. Macro hedging might be more suitable for behavioural items, which require a portfolio-based management approach.

iii. Institutions may consider strengthening the alignment between their internal economic hedging approaches and their accounting hedging practices.

iv. Hedging practices should form a part of the institution's overall risk strategy and be appropriately documented, regularly reviewed, and aligned with IRRBB measurement and IMS, including the SOT metrics.

Annex I: Objectives of the heatmap following the EBA scrutiny on the IRRBB (as published on 24 January 2024)



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