Consultation Paper: Draft Regulatory Technical Standards specifying standardized and simplified standardized 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 (EBA/CP/21021/38 standardised methods)

General comments

Proportionality
The EU framework for management of interest rate risk in the banking book has become very comprehensive and complex. Despite the legal basis for the documents being only two articles in the CRD (art 84 (5) and (6) and art 98 (5a)), the guidelines EBA are currently consulting consist of 176 pages combined. In addition to this comes EBAs SREP guidelines whose new version has just been released by the EBA (on March 18th 2022 with very limited time to assess the reciprocal implications of these documents) as well as guidelines and supervisory expectations from National Competent Authorities (NCAs). In contrast, the Basel standard on which the framework is based is far less comprehensive and easier to understand. Also, the EU framework applies to all banks whereas the Basel standards initially were developed for large internationally active institutions.

There is a general focus on ensuring proportionality in the prudential regulation in the EU. Although we acknowledge the need for sufficiently prudent management of interest rate risk amongst all EU/EEA banks we believe the current framework is too complex and challenging to implement. There is a general possibility for institutions, after a thorough and well documented assessment, to exclude certain risks if they can justify that those risks are not material. However, we believe there is a risk that supervisory practice will not be harmonized across the different jurisdictions. Hence, we believe that the guidelines and technical standards should provide more guidance on the application of the proportionality principle. This application should take into consideration the peculiarities of the national banking models and the interest risk inherent in national markets.

Additional comments
The new standardize methods for EVE and NII seem to be very calculation and maintenance intensive, but at the same time they include several simplifications compared to the granularity that many banks' internal systems provide, hence both banks and supervisors risk losing insight from an interest rate risk management perspective if banks are required to apply this method by NCAs.

Q7: Do respondents find it practical how the determination of several components of the NII calculation, with in particular the fair value component of Article 20 and the fair value component of automatic options of Article 15, is generally based on the processes used for the EVE calculation (in particular Article 16 and Article 12)?

The delta NII measure including administrative expenses and the alfa calibration parameter seems to add even additional complexity and not fully account for the bank's flexibility to adjust their cost structure.

Also, we believe the EBA needs to be precise in its definition regarding which particular fair value components and instruments are required to be included in the calculations. As of currently, the GL gives room for interpretation which will lead to different practices among banks and jurisdictions.

Q10: Do respondents find that all the necessary aspects are covered and the steps and assumptions for the evaluation of EVE and NII as laid out in the standardised approach and simplified standardised approach clear enough and operationally implementable?

Given the complexity of the new requirements included in the 2 RTSs, it seems appropriate to grant financial institutions sufficient time before the new conditions will enter into force, i.e. postpone implementation to the semester following the publication on the Official Journal of the European Union