AFME Response:

EBA Consultation on the amending ITS on supervisory reporting to introduce new IRRBB reporting

May 2023

Overarching/General comments:

AFME and its members welcome the opportunity to comment on the EBA consultation on the draft implementing standards regarding IRRBB reporting.

Our comments mainly focus on key aspects of the proposed reporting package and responses to the questions raised in the consultation paper. As overarching comments, we would like to comment on the complexity of the reporting requirements and their associated resourcing requirements coupled with the very demanding timeline for implementation. We believe that the reporting requirements envisaged exceed considerably the purpose of the underlying regulation, and clarification would be welcome between the very high level of granularity and how this relates to the IRRBB regulation. The volume of data expected appears disproportionate to other risk areas, as illustrated in the first instance by the high number of tabs in the reporting template.

It is important also that previous and existing IRRBB reporting obligations under national frameworks would no longer apply with the introduction of the EU wide requirements.

Answers to the consultation and focus on specific templates

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 general, we consider the instructions are sufficiently clear. However, more details would be desirable regarding concerning the following:

- PVO1 (without automatic optionality). It is not clear whether any transaction with automatic optionality should be included in the calculations regardless of whether the option is activated or not.
- Market value calculations should be more clearly defined. For instance, there could be different possibilities to include Amortised Cost issuances hedged with derivatives at Fair Value:
    1) The legs of the derivative could be split into asset and liability
    2) Include both legs together netted within *Derivatives* line
    3) Included together with the covered issuance (ΔMV net of the effect of hedges).

Additionally, there is a need to specify how Cash Flow hedges should be included. As well as, to determine whether derivatives not designed as accounting hedges would be considered within the scope of Market Value calculations.

The calculation proposal (one year time-horizon considering the total size and composition of the amount of which the value is sensitive to ΔMV shall be maintained by replacing maturing instruments) would be challenging and not aligned with how internally the sensitivities are obtained.

In addition, we would like to ask the EBA to further clarify on the required distinction between the behavioural and contractual view with regards to NII. The NII impact of the internal behavioural deposit modelling portfolio is in general neutral. The positive impact respectively stabilization of NII materializes due to investment in long-term assets or receiver hedges which also represent contractual deals.

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?

No discrepancies have been identified. However, some of the calculation requirements are not currently available and, if necessary, would require a considerable resource commitment:

- Breakdown of derivatives (in particular by counterparty)
- Contractual amount (removing the effects of behavioural and/or conditional modelling) and weighted average maturity (contractual)

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

We believe that the proposed templates cover areas that are beyond the scope of the underlying regulation and focus also on aspects not strictly related to the identification of IRRBB exposure i.e. breakdown of derivatives by counterparty and collateralization.

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? Please provide indications for specific templates and options relevant for your institution. Please also indicate whether the same implementation will be used by many reporting institutions such that costs are shared among them.

Although we are an association and we cannot reply to this question directly ; our members have highlighted that it is very difficult to measure these amounts ex-ante. Cost sharing benefits, may exist, but would be limited, as relevant changes in local tools and system will be required.

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?

Complex developments will be required, particularly in the information provisioning and ALM Tools developments/parametrization in order to get the new metrics, breakdowns and information that is being requested. Clarity is requested as to whether the deadline for the submission of reports would be the usual 45 days.

2. **Questions on Proportionality**

Question 6

Do respondents agree that the decision to simplify reporting templates is the best approach in implementing proportionality? In case you do not agree, what other proposal would be more efficient to reduce costs?

Yes, we would agree with a decision to simplify reporting templates. However, the proposed classification of banks required to report the extended templates seems to be disproportionate and does not take into consideration the different complexity of the financial institutions as well as the relative weight of the EVE and NII risk measures on the overall risk profile of a bank.

We would recommend to implement a IRRBB dependent proportionality threshold, for example if the contribution of IRRBB to the overall ICAAP impact and/or NII in relation to total income exceeds a particular threshold.

Question 7

Do respondents perceive that the reporting requirements are proportionate for small and non-complex institutions? How could proportionality be further improved for these institutions? Particularly, does template J 08.00 on qualitative information add substantial reporting costs to these institutions? Is there some quantitative information contained in Templates J 05.00, J 06.00 and J 07.00 that is overly burdensome? Is the expected frequency for templates J 05.00, J 06.00, J 07.00 and J 08.00 feasible and proportionate?

In general, we consider they are proportionate. However, certain topics explained previously (PVO1, Market Value, breakdowns, contractual amount) would still apply total or partially.

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)? Is there some quantitative information contained in Templates J 02.00, J 03.00 and J 04.00 that is overly burdensome? Is the expected frequency for templates J 02.00, J 03.00, J 04.00 and J 08.00 feasible and proportionate? How could proportionality be further improved for these institutions?

In general, we believe they are proportionate. However certain topics (PVO1, Market Value, breakdowns, contractual amount, carrying amount, exposure value) would appear to be overly burdensome.

Question 9

Do respondents agree that the number of currencies requested in this reporting package is proportionate? 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?

Yes, we would agree for template J 01.00. For templates J 02.00 to J 08.00, we would recommend to further limit the number of currencies for which the reporting is required compared to the current proposal (e.g. perhaps limit the number of currencies to the main two and an ‘all other’ category and perhaps only currencies >10%)

Question 10

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? 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? 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.

We consider 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) would add substantial reporting costs. Hence, we recommend ignoring the split of EVE/NII measures.
An alternative approach would be to calculate the contractual amount disclosure only with year-end data where possible.

3. **Questions on reporting templates**

Question 11

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

Do respondents currently compute the figures in column 0020 for internal monitoring and/or supervisory reporting? 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)? Would respondents propose a different approach to reduce the reporting costs? Please elaborate.

Metrics are not currently computed without the application of modeling for internal management/monitoring and, therefore, calculating these figures would add considerable reporting costs. The alternative approach would be to calculate the contractual amount disclosure only with year-end data. Additionally, providing the level of EVE under baseline scenario disaggregated by currency is not currently reported and would entail challenges, with limited usefulness.

More widely, as SOT NII does not cover Market Value Changes, template J 01.00 should not cover the MVC. It is not clear what purpose the ‘contractual amount’ column would serve and this should be deleted.

We consider that the J02:00 template is not necessary as the information can be derived from the J03.00 *Repricing Cash Flows Template*. In addition:

- the level of EVE and NII are not necessary to derive EVE and NII sensitivities : the baseline scenario level columns should be deleted;
- several breakdowns are useless for IRRBB and should be deleted:
  - type of loans (secured by immovable property / consumer loans)
  - type of customers for loans (retail, wholesale non-financial, wholesale financial)
  - type of counterparties for derivatives (internal, third parties collateralized, third parties non-collateralized)
  - type of derivatives (linear, non-linear)
  - type of debt securities (T1, T2)

Owing to the same comment as above, the adjusted J05.00 template should be sufficient and makes J02.00 redundant

Question 12

J 03.00 / J06.00 template: Repricing cash flows

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

Yes, its inclusion would mean implementation challenges. However, more clarity and detail would be needed on both definitions (Carrying amount and Exposure value) to better understand what is required.

Several of the comments made to the previous question apply also. In particular,

  - the level of EVE and NII are not necessary to derive EVE and NII sensitivities : the baseline scenario level columns should be deleted;
  - several breakdowns are useless for IRRBB and should be deleted:
    - type of loans (secured by immovable property / consumer loans)
    - type of customers for loans (retail, wholesale non-financial, wholesale financial)
    - type of counterparties for derivatives (internal, third parties collateralized, third parties non-collateralized)
    - type of derivatives (linear, non-linear)
    - type of debt securities (T1, T2)
- the column should be aligned with currently existing STE template from 0090 to 0270;
- weighted average yield is irrelevant;
- PV01 is not relevant in this repricing template
- subject to the very same comment as above, adjusted J06.00 template should be sufficient and makes J02.00 redundant.

Templates J05.00 and J06.00 should also be simplified along these lines.

Question 14

J 08.00 template – Qualitative information

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

We would recommend the consideration of whether a sensitivity-based approach could be appropriate.

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About AFME:

AFME represents a broad array of European and global participants in the wholesale financial markets. Its members comprise pan-EU and global banks as well as key regional banks, brokers, law firms, investors and other financial market participants. We advocate stable, competitive, sustainable European financial markets that support economic growth and benefit society.

AFME is the European member of the Global Financial Markets Association (GFMA) a global alliance with the Securities Industry and Financial Markets Association (SIFMA) in the US, and the Asia Securities Industry and Financial Markets Association (ASIFMA) in Asia. AFME is listed on the EU Register of Interest Representatives, registration number 65110063986-76.