Febelfin response to EBA consultation on draft Guidelines on IRRBB and CSRBB

Draft Guidelines issued on the basis of Article 84 (6) of Directive 2013/36/EU specifying aspects of 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

Question 1: In the context of the measurement of the impact of IRRBB under internal systems, paragraph 111 envisages a five year cap repricing maturity for retail and nonfinancial wholesale deposits without a specified maturity. Would you foresee any unintended consequence or undesirable effect from this behavioural assumption in particular on certain business models or specific activities? If this is the case, please kindly provide concrete examples of it.

Febelfin response:

- **More important is the exclusion of 'financial institution clients' from the behavioural modelling** (also in paragraph 111). It is expected that such deposits should be modelled at the o/n rate. Whether the impact is positive or negative depends on the interest rate scenario. From an economic point of view, however, a standard duration (whether or not on 1 day) is just as inaccurate as is the case for the 'retail' portfolio. **As financial institution clients do not behave as an overnight position, such treatment might increase the risk especially from an NII perspective.**

- The maximum duration of 5 years has no immediate impact on the current interest rate risk reporting for Belgian banks as the National Competent Authority has stricter requirements in place[1]. In theory, the duration of the replicating model of especially the Belgian current accounts could reach a duration of more than 5 years. There is limited operational impact in any remodelling to enforce this cap.

Question 2: Do respondents find that the criteria to identify non-satisfactory IRRBB internal models provide the minimum elements for supervisors' assessment?

Febelfin response:

- We stress that IRRBB is dependent on the business model of each bank, and therefore, **all banks depending on their size should have some degree of freedom to manage their ALM via internal models.**

[1] Circulaire NBB_2019_18 / Guidelines on sound management practices and reporting concerning interest rate risk arising from non-trading activities | nbb.be

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- **The conditions are not set out clearly enough and give much freedom to impose a 'standardized approach'.** The sector is of the opinion that as any Standardized Approach would not be risk sensitive, as made clear by BCBS, **it should be clarified that requiring its application should follow a careful analysis to evidence whether the Standardized Approach would be more risk sensitive than the Internal Model evaluation it would substitute. Bar such an evidence, Standardized Approach should not apply.** Therefore, it is essential to better frame the conditions under which such a requirement could apply.

- Moreover, the guidelines should require competent authorities to **grant institutions the possibility to remedy potential shortcomings in their Internal Model evaluation within a reasonable period of time before the Standardized Approach is imposed.**

Question 3: Is there any specific element in the definition of CSRBB that is not clear enough for the required assessment and monitoring of CSRBB by institutions?

Febelfin response:

- **The sector is not in favour to introduce the proposed CSRBB requirements.** The credit spread is partially already captured, for example, on banks' investment portfolios. **We do not see the added value of extending the capture of credit spread risk to basic universal banking activities, like mortgages.**

- **In addition, it is technically very difficult to capture this spread**. The definition is far-reaching, if all assets and certain liabilities are to be considered, it will be very difficult to estimate and operationalise what is exactly the credit spread component in each of these scoped assets and liabilities. **CSRBB should relate to fair-valued assets that are actively traded on a deep and liquid markets so as to have identifiable and measurable market perception and changes thereof.**

Question 4: As to the suggested perimeter of items exposed to CSRBB, would you consider any specific conceptual or operational challenge to implement it?

Febelfin response:

- Given the broad scope of CSRBB, much broader than the current succession, there is a major operational challenge to implement these regulations. **Sufficient time should be provided to develop and implement a coherent management framework.**

Question 5: Is the separation of IRRBB and CSRBB sufficient to understand where the Guidelines apply to: IRRBB only, CSRBB only and both IRRBB and CSRBB?

Febelfin response:

- We would like to stress that the implementation of the Guidelines will require a significant time to be carried out. Consequently, a sufficient period (at least 1 year) should be assigned before application. Ideally, the final application date of the Guidelines should be aligned with the application of the technical standards, as the EBA suggested already in article 8.