






IRRBB/CSRBB Framework Support

IMPLEMENTATION OF IRRBB AND CSRBB REGULATION ON EUROPEAN LEVEL

The European Banking Authority (EBA) has finalized new regulatory guidelines and technical standards for Interest Rate Risk in the Banking Book (IRRBB) and Credit Spread Risk in the Banking Book (CSRBB), which are already applicable to all banks within the EU, replacing the previous EBA GL/2018/02 guideline. While the guidelines are in force, the technical standards (RTS) are still pending implementation. Despite this, banks are currently facing increased regulatory scrutiny. Institutions across South-eastern Europe have begun receiving requests for compliance checks and are subject to inspections from regulators to ensure they meet the requirements set out in the newly applicable guidelines.





GL on IRRBB and CSRBB

EBA/GL/2022/14

-  Implementation by 2023/06 (IRRBB) and 2023/12 (CSRBB)
-  CSRBB to become a separate risk category (governance, risk management, validation, IT, etc.)
-  All balance sheet positions to be assessed in the CSRBB perimeter (FV assets as a minimum scope)
-  5-year cap to the repricing maturity of non-maturing deposits (NMDs)
-  Bigger model governance scrutiny





RTS on Supervisory Outlier Test (SOT)

EBA/RTS/2022/10

-  Implementation within 20 days after publication in the Official Journal of European Union, which is anticipated to happen soon.
-  NII risk assuming 1 year horizon and constant B/S
-  New NII supervisory outlier tests (SOTs) of decline of 5% of Tier 1 capital. SOT on delta EVE to be based only on the 15% of Tier 1 capital threshold
-  New floor at -150 bps rising to 0 in 50-year horizon

RTS on SA-CCR

EBA/RTS/2022/09

-  Standardised (SA) and simplified standardised (S-SA) methodologies for the EVE and NII
-  Regulators could require SA if internal models are deemed inadequate
-  Not to be used as floor or challenger models (theoretically)
-  NII SA is complex – data, FV effects, basis risk, etc.

CHALLENGES

1. Implementation

Implementation of regulatory-compliant risk methods, models and calculation tools for IRRBB and CSRBB still represent a major challenge for local banks, and deadlines are unusually tight

2. CSRBB identification

Much room for interpretation with respect to CSRBB requirements remains, but with greatly extended requirements on CSRBB governance

3. New interest environment

Regulatory floors are no longer providing cushion, as new interest reality means more Pillar 2 capital and/or breach of the NII/EVE SOT

4. Inadequate internal models

ECB's 2022-2024 priorities include vulnerabilities caused by inadequate IRRBB and CSRBB models. Poor data quality may also result in conservative approaches, such as SA or S-SA.

5. Model validation

Independent model validation is challenging both in terms of governance and output results

6. Regulatory scrutiny

According to our market overview ECB and local regulators are also stepping up efforts to enhance IRRBB and CSRBB arrangements, incl. by targeted reviews and on-site inspections

OPPORTUNITIES

Pillar 2 capital allocation

Improving behavioral model assumptions could enhance methods to allocate Balance/Sheet planning forecasts to IRRBB products and reduce Pillar 2 capital allocation

IRRBB mitigation

Identifying hedging strategies to mitigate interest rate risk improving bank's overall risk management and potentially enhance its profitability

Risk integration

Common and integrated risk data model to reduce reconciliation costs (e.g., IRRBB, liquidity, accounting, credit risk, etc.)

Digital Transformation

Leveraging advanced analytics and machine learning to improve the accuracy and efficiency of interest rate risk management processes, including data management, scenario analysis, and stress testing.





IRRBB/CSRBB Framework Support

IRRBB/CSRBB FRAMEWORK – HOW CAN WE HELP ?





- 1** **Gap analysis**
Our gap analysis services include a comprehensive review of your current IRRBB/CSRBB framework to identify areas of improvement and potential risks. This includes analysing your risk management processes, data quality and governance, model documentation and validation, and regulatory compliance. By identifying these gaps, we can help you develop a plan to address them and improve the overall effectiveness of your framework.
- 3** **Calculation Engine Development**
Our calculation engine development services involve creating custom calculation engines to support your IRRBB/CSRBB framework handling different components of IRR measurements, such as instrument categorization, optionalities, application of multiple shock and scenarios, calculation of different metrics such as ΔEVE , ΔNII etc.
- 5** **Behavioural Modelling**
Our behavioral modelling services use advanced techniques to analyse how changes in interest rates may affect the behavior of the client and how to manage these risks effectively. These models take into account various factors such as market conditions, credit risk, and prepayment behavior. We also provide prepayment and pricing modelling services to help you understand the impact of behavioral options on your portfolio and develop pricing strategies accordingly.

- 2** **IRRBB/CSRBB Framework Implementation**
Our IRRBB/CSRBB framework implementation services assist in the implementation of your IRRBB/CSRBB framework, providing guidance on regulations, best practices, and technology solutions. This includes mapping out processes, selecting appropriate technology solutions, developing model documentation, and providing training to your team.
- 4** **Stress Testing and Scenario Analysis**
Our stress testing and scenario analysis services evaluate the potential impact of extreme market events on your IRRBB/CSRBB framework and identify potential vulnerabilities covering the regulatory required and internal scenarios. This includes analysing the impact of different stress scenarios on your portfolio, identifying potential risks and developing mitigation strategies.
- 6** **Model Validation**
Our model validation services ensure that your existing models are accurate, reliable, and compliant with regulations. This includes conducting a thorough review of model documentation, testing model assumptions, and comparing model outputs with real-world data. We also provide recommendations for any necessary improvements to ensure your models are fit for purpose.

DELOITTE VALUE SOLUTIONS

-  **Organisation**
Centralised response team and communication, kick-off meetings and an action plan. Clear responsibilities and action plan
-  **Deficiencies and Issue Management**
Become aware of potential deficiencies by running preliminary health checks, use opportunity to understand past issues, anticipate issues/roadblocks and work on remedies
-  **Data and IT**
Centralized data definition, data quality checks, samplings of portfolios, impact quantification. Support in the preparation of data and process flows
-  **Governance and Processes**
Review of key governance structures and processes to be compliant with regulatory requirements and ECB views on minimum requirements

QUALIFICATIONS

-  **Experienced professionals**
Senior professionals with broad-based and relevant experiences in IRRBB/CSRBB modelling, audit and advisory
-  **International team**
Access to an extended Risk Advisory Global Network that assisted many of the world's leading financial services organisations in all aspects of the IRRBB/CSRBB framework.
-  **BUCF and ECRS**
Collaboration on an international level through the Banking Union Center in Frankfurt (BUCF) and the EMEA Center for Regulatory Strategy (ECRS) providing fundamental views on regulatory changes and issues
-  **Experience and multi-dimensional exposure to the supervisory approach**
 - The direct participation in IRRBB/CSRBB models' development in order to be compliant with regulatory requirements
 - Understanding of the supervisory approach and the critical supervisory view on deficiencies is part of the inherent experience of our professionals
 - Deloitte has supported the supervisor in several missions with different topics and provided advice to banks in the IRRBB/CSRBB models development...
 - ➔ this unique combination of different views enables Deloitte to provide substantial support in relation to IRRBB/CSRBB models and risk management.

CONTACTS

Need Assistance with IRRBB?

For inquiries or support regarding Interest Rate Risk in the Banking Book, please feel free to reach out to our dedicated team. Our experts are here to assist you with any questions or guidance you may need. We're committed to providing you with the assistance and information you require promptly.



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