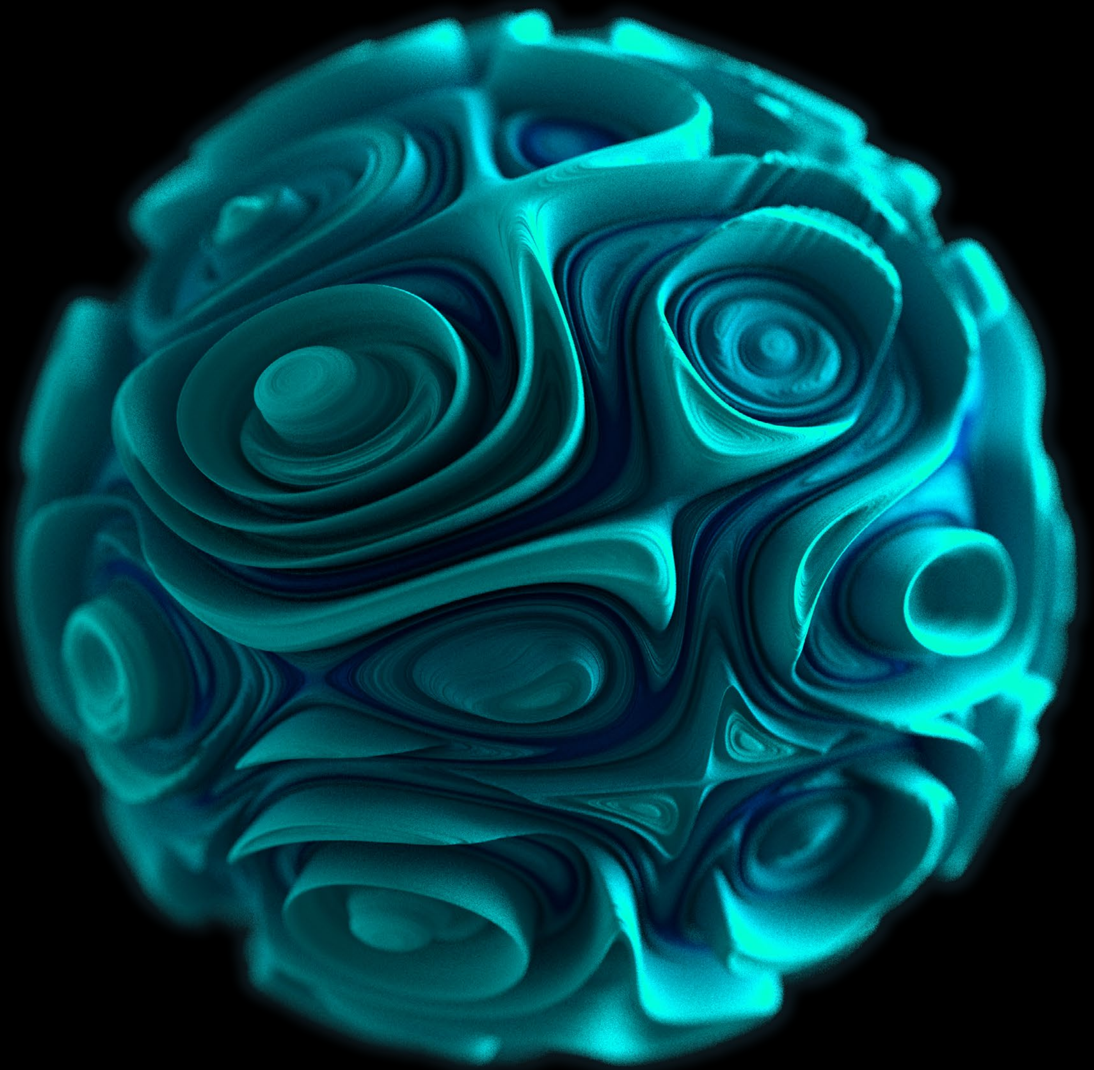
Deloitte.



CSRBB Survey
General Report

MAKING AN IMPACT THAT MATTERS since 1845

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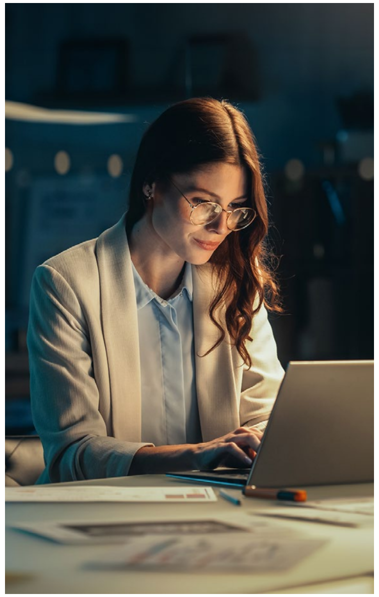


About the survey

Deloitte's EMEA-wide survey on credit spread risk in the banking book (CSRBB) included 42 banks with different locations, sizes and business models to assess the status of CSRBB implementation.

The regulatory landscape for IRRBB and CSRBB is still evolving.

April 2016

BCBS standards
These standards provide an initial definition of CSRBB.

July 2018

EBA guidelines on IRRBB
These provide guidance for banks when it comes to assessing and monitoring their CSRBB exposure as part of regular risk management activities.

Oct 2022

EBA final guidelines
In addition to providing a more comprehensive definition of CSRBB, these guidelines detail the assessment and monitoring framework.

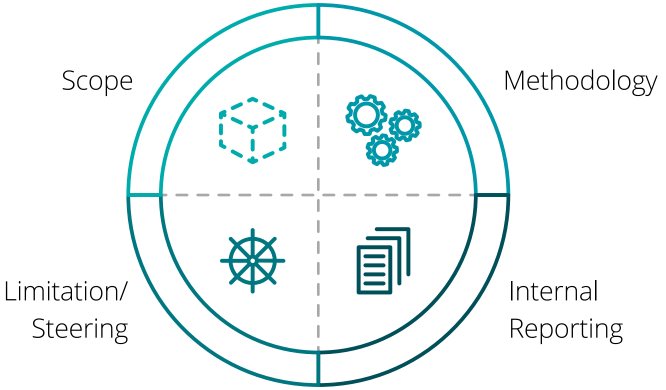
July 2023

Final report on the draft ITSs governing IRRBB reporting
The EBA's report outlines the final amendments to the implementing technical standards (ITS) for IRRBB reporting.

Jan 2024

EBA heatmap for IRRBB and CSRBB
In its heatmap, the EBA details its scrutiny plans for implementing CSRBB standards over the medium to long term (beyond mid-2025).

Following publication of the latest EBA Guidelines on IRRBB and CSRBB (Oct 2022), Deloitte conducted an EMEA-wide survey on CSRBB focusing on four key topics:



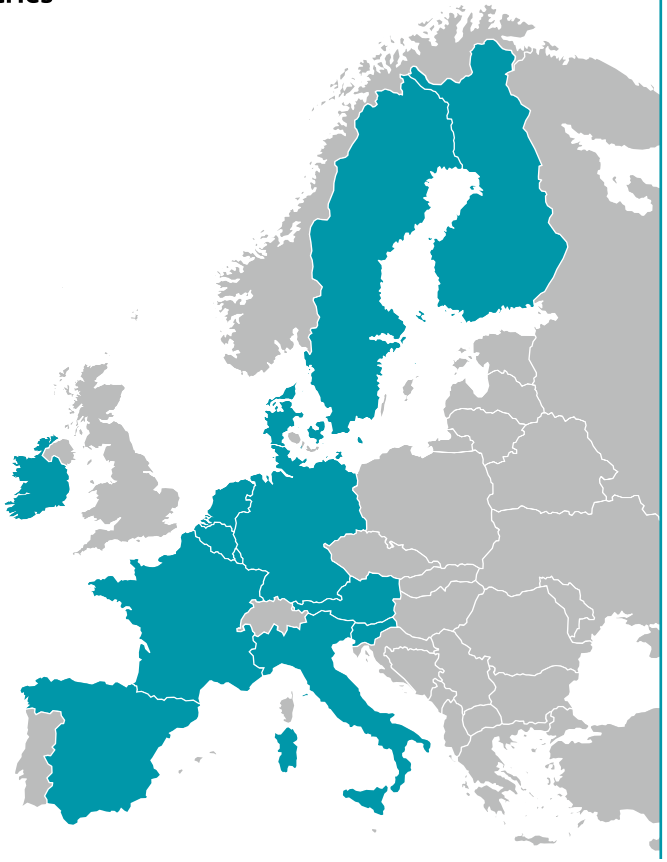
- The survey aims to provide a broad benchmark for banks regarding the current implementation status of CSRBB standards in the market.
- The results give guidance and support for further development and discussion with regulatory authorities.
- For ECB supervised banks, the implementation deadline of the CSRBB standards was end of 2023. For Non-ECB supervised banks, national authorities are taking next steps.
- In addition to IRRBB, the ECB announced that CSRBB will be among its top priorities over the coming years, with the first on-site inspections already scheduled.[1]

[1] https://www.bankingsupervision.europa.eu/banking/priorities/html/ssm.supervisory_priorities202312~a15d5d36ab.en.html

About the survey

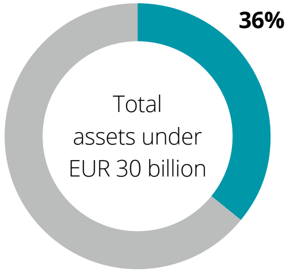
We surveyed a total of 42 European banks from 13 countries, which are each of different sizes and business models and subject to oversight by either the ECB or a national central bank (non-ECB).

Countries

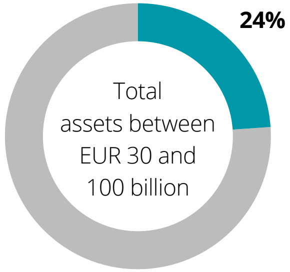


Percentage of banks in each of three size categories

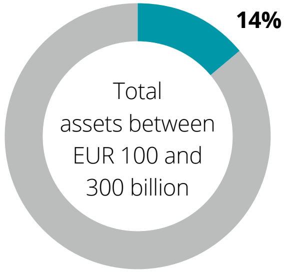
Small banks



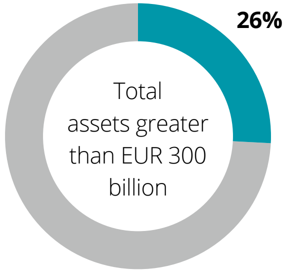
Medium banks



Large banks



Largest banks



Under the direct supervision of the ECB?

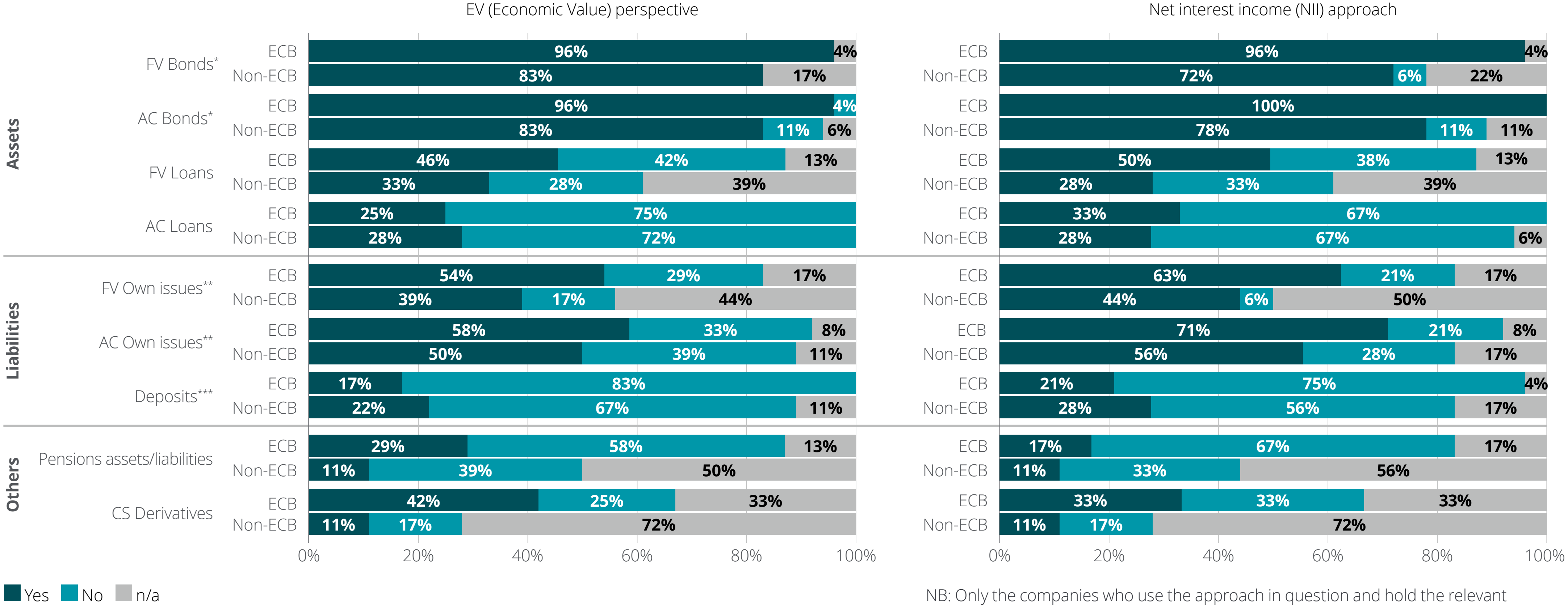
Scope


Top Performers
March
+16%
5739
2019
2020
Relative Performance

Positions within the scope of CSRBB

FV bonds, AC loans and deposits are included in the scope for most banks, while more than half also include own issues. More than 70% of ECB and non-ECB banks use the same scope for the economic value (EV) or net interest income (NII) metrics.

Which of the following positions have been included in the CSRBB scope? (Multiple answers possible)



Position	Bank	EV Yes	EV No	EV n/a	NII Yes	NII No	NII n/a
FV Bonds*	ECB	96%		4%	96%		4%
FV Bonds*	Non-ECB	83%		17%	72%	6%	22%
AC Bonds*	ECB	96%	4%		100%		
AC Bonds*	Non-ECB	83%	11%	6%	78%	11%	11%
FV Loans	ECB	46%	42%	13%	50%	38%	13%
FV Loans	Non-ECB	33%	28%	39%	28%	33%	39%
AC Loans	ECB	25%	75%		33%	67%	
AC Loans	Non-ECB	28%	72%		28%	67%	6%
FV Own issues**	ECB	54%	29%	17%	63%	21%	17%
FV Own issues**	Non-ECB	39%	17%	44%	44%	6%	50%
AC Own issues**	ECB	58%	33%	8%	71%	21%	8%
AC Own issues**	Non-ECB	50%	39%	11%	56%	28%	17%
Deposits***	ECB	17%	83%		21%	75%	4%
Deposits***	Non-ECB	22%	67%	11%	28%	56%	17%
Pensions assets/liabilities	ECB	29%	58%	13%	17%	67%	17%
Pensions assets/liabilities	Non-ECB	11%	39%	50%	11%	33%	56%
CS Derivatives	ECB	42%	25%	33%	33%	33%	33%
CS Derivatives	Non-ECB	11%	17%	72%	11%	17%	72%

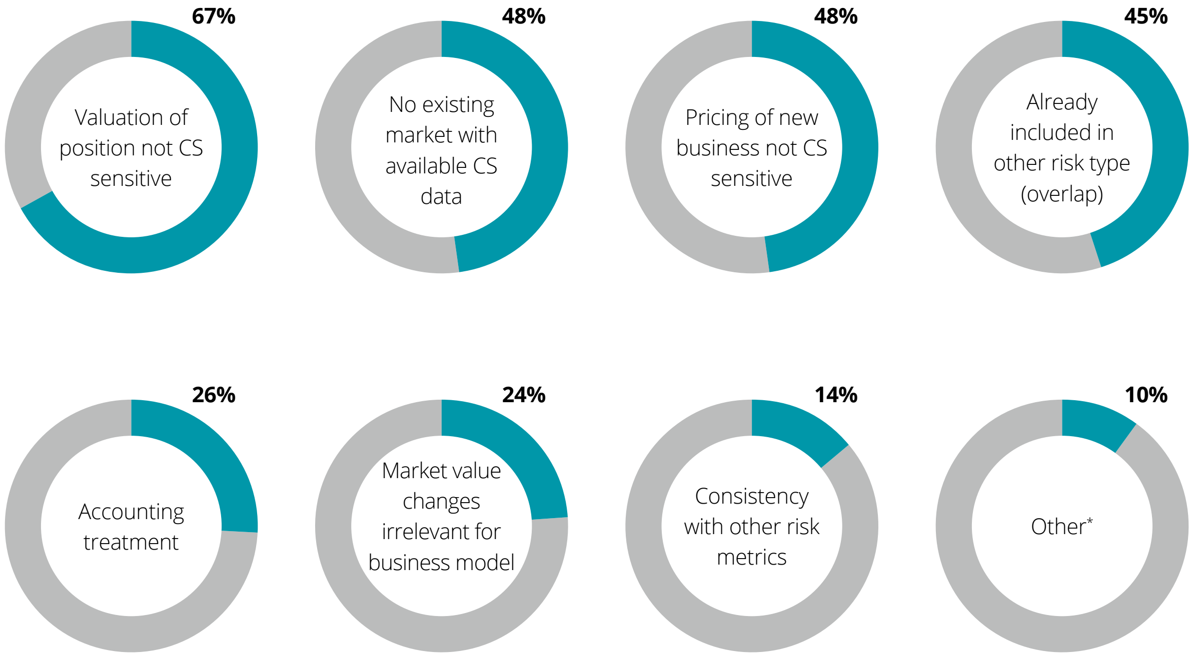
NB: Only the companies who use the approach in question and hold the relevant positions are included in this evaluation. All other are listed as N/A.

* Bonds may also refer to asset-backed securities (ABSs), promissory loans and other "bond-like assets" that best fit in this category
** including commercial paper
*** Deposits may include saving deposits, sight deposits, term deposits, call deposits and other deposit-like liabilities that best fit this category

Reasons why certain positions are excluded from CSRBB calculations

In the EV approach, positions are mainly excluded because their valuation is not sensitive to credit spread risks. From the NII perspective, 48% of banks exclude positions because pricing of new business is not sensitive to credit spread risk.

What are the main criteria for excluding positions from CSRBB scope? (Multiple answers possible)



* Other: (i) lack of liquidity for positions measured at cost, e.g., deposits, loans; (ii) amounts not material; (iii) based on the common understanding of the European Banking Federation (EBF)/consistent with common industry practice; (iv) due to potential impact of rating downgrade

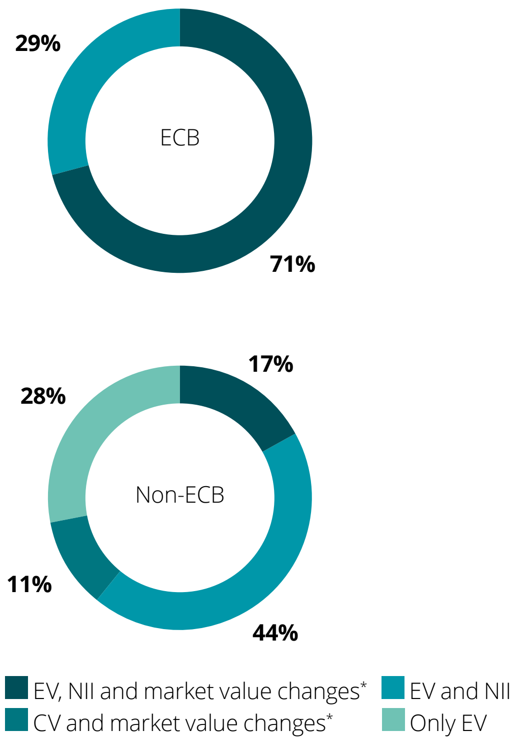
1. 12% of the banks define the entire banking book as CSRRB relevant.
2. 48% of banks refer to positions that have no market or lack CS market data (e.g., for AC loans and deposits).
3. There is no major difference between ECB and non-ECB banks in the reasons provided.
4. 45% of banks indicate that positions are excluded because they are already covered by other risk calculations, e.g., liquidity risk, business risk or credit risk.

Methodology

Approaches and metrics for monitoring CSRBB

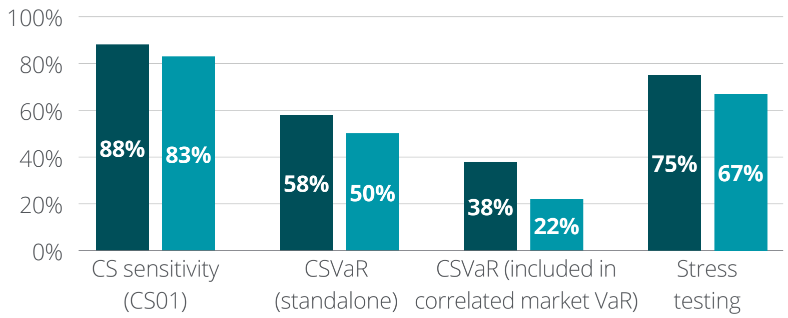
All banks in our survey have implemented EV metrics, and while all ECB supervised banks also track NII metrics, almost half of the non-ECB banks do not.

For which perspectives do you have Credit Spread Metrics implemented? (Multiple answers possible)

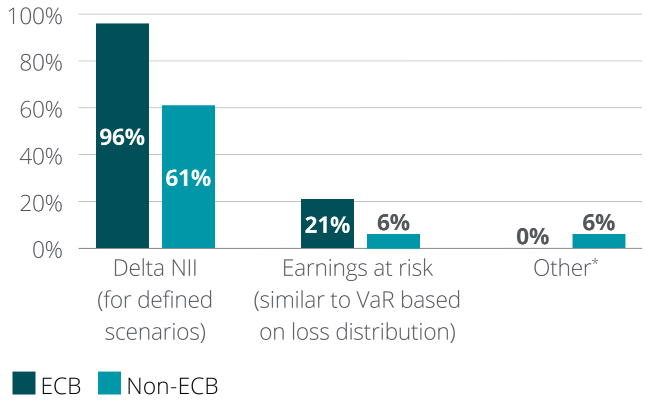


* These metrics constitute a subset of those included in the EV approach and depend on the accounting treatment in question (e.g., FVP, FVOCI). NII and market value changes are earnings-based metrics.

Which of the following methods do you use for EV metrics? (Multiple answers possible)



Which NII metrics do you have in place for NII? (Multiple answers possible)



* Other: "risks from refinancing costs"

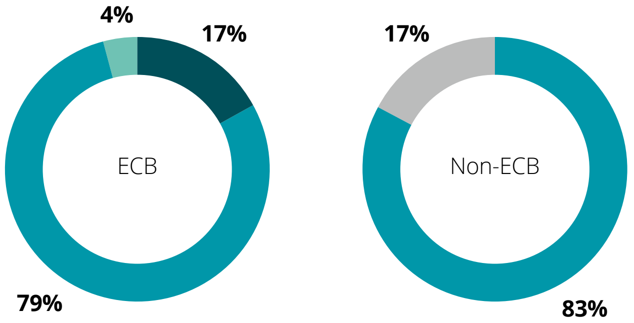
Observations

- All banks in our survey (both ECB and non-ECB) measure credit spread risk based on the economic value (EV) approach.
- Although the EBA guidelines recommend modeling credit spread risk using EV metrics, NII metrics and changes in market value, not all of the non-ECB banks currently include the NII approach.
- Most of the respondents report using CS01 for EV metrics.
- Delta NII is the primary metric in the NII approach.

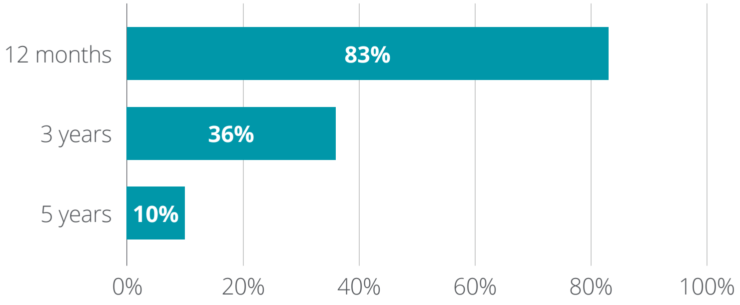
Monitoring CSRBB using the NII approach

Most banks do not consider the underlying CS scenario when modeling the impact of new business and use a static balance sheet as the basis for monitoring CSRBB with the NII approach.

Do you consider the underlying CS scenarios when estimating the impact of new business on CSRBB?

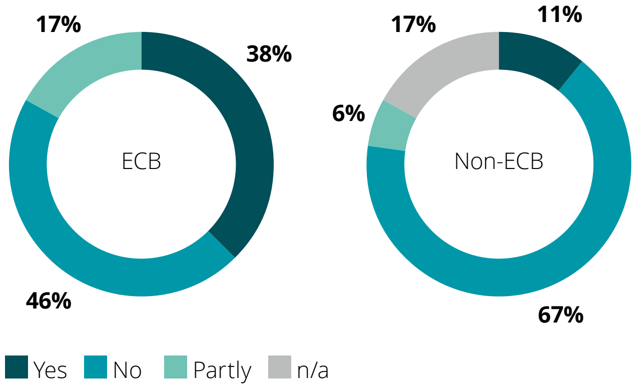


What is your NII time horizon? (Multiple answers possible)

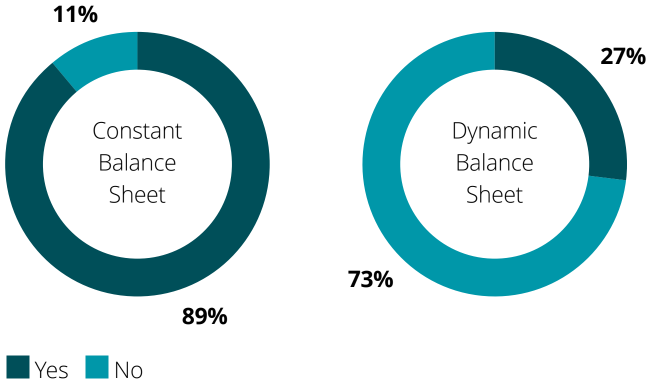


No significant differences between ECB and Non-ECB

In the case of dynamic modeling, have you collaborated with financial control to calculate the impact of new business subject to credit spread risk?



Do you use a static or a dynamic balance sheet as the basis for measuring the impact of new business/run-off of existing business? (Multiple answers possible)



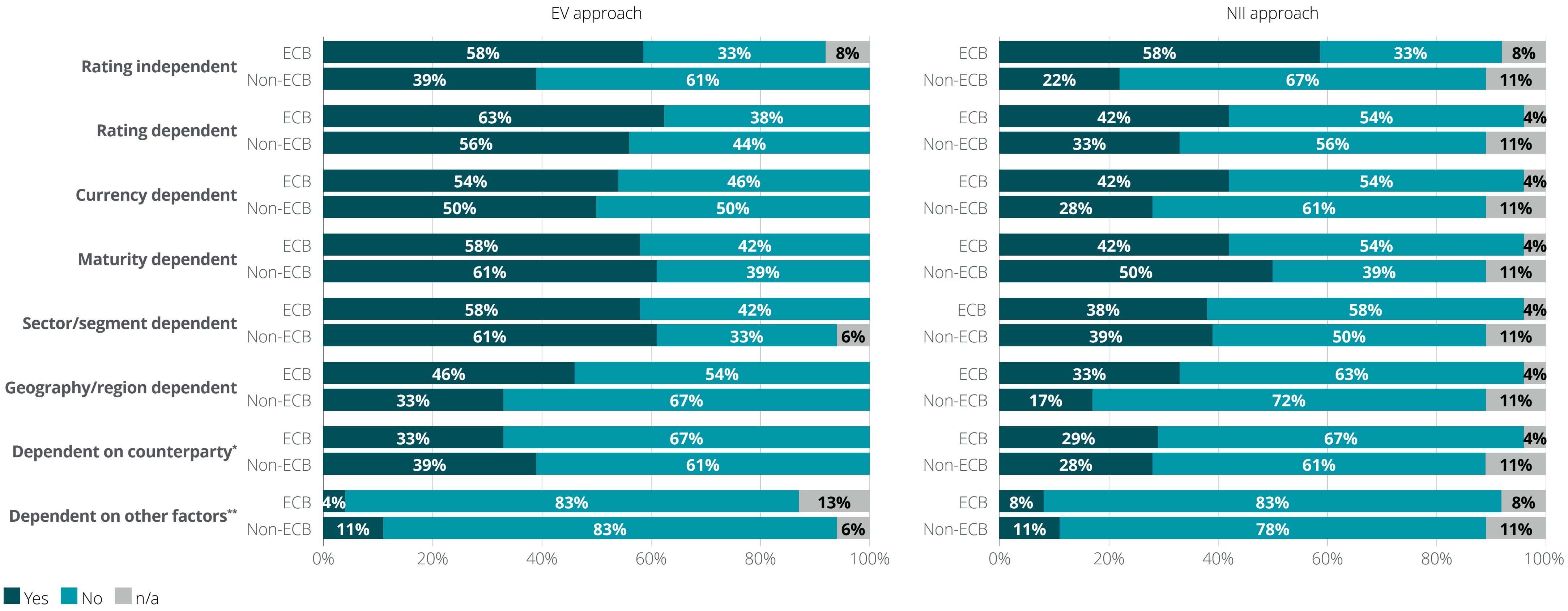
Observations

- When it comes to modeling the impact of new business sensitive to credit spread risk, the majority of banks do not factor in the underlying CS scenarios.
- Most of the banks in our survey have a 12-month time horizon for NII metrics, while only a few extend that to 5 years.
- The majority of banks in our survey use a static balance sheet as the basis for modeling NII.
- Only 27% of the banks take a dynamic view of the balance sheet when modeling credit spread risk.

Distinctions made in credit spread scenarios/shifts

There are differences in the way banks apply credit spread shifts between the EV approach and the NII approach, the most common among them being rating-independent, rating-dependent and sector-dependent shifts.

Determinants of credit spread scenarios/shifts: implemented CS shifts include shifts that are... (Multiple answers possible)



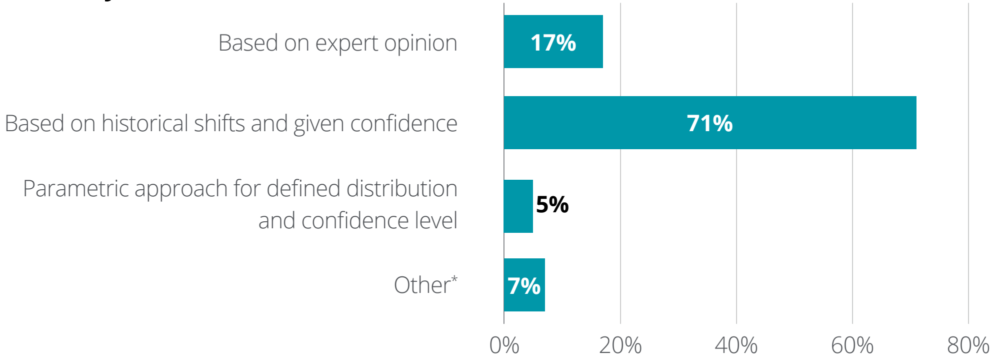
* Differentiating between groups of counterparties (e.g., retail vs. corporate, collateralized vs. uncollateralized)

** Other: (i) including tiered bonds (e.g., covered, senior or subordinated bonds); properties of different financial products (NII approach)

Determination of credit spread shifts

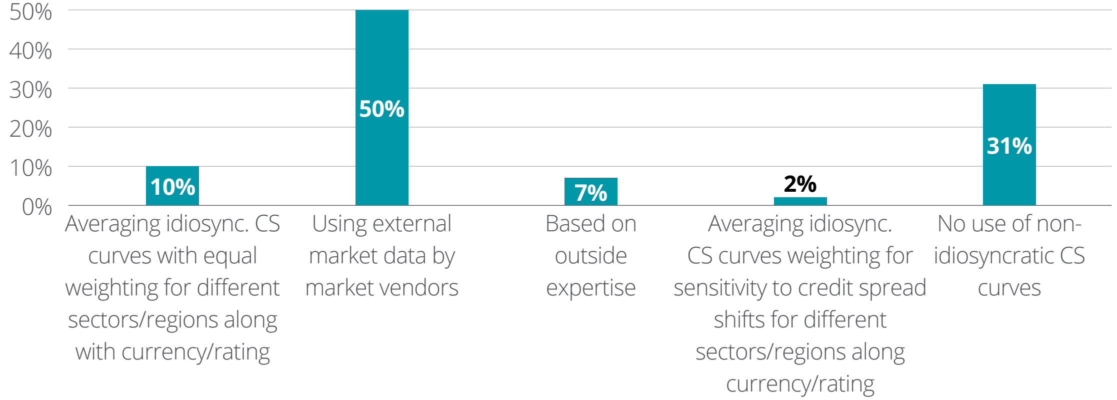
The majority of banks in our survey model shifts in CS based on historical analyses and a defined confidence level, and most rely on using external providers of market data to calculate the non-idiosyncratic credit spread curves.

How do you model CS shifts?



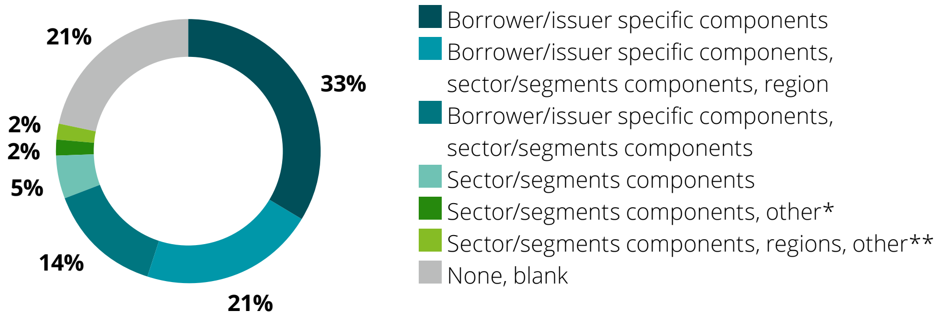
* Other: (i) based on historical and forward-looking analyses; (ii) Parallel shift; (iii) based only on sensitivity measurements

If you calculate non-idiosyncratic CS curves, which method do you use?



What do you consider as idiosyncratic components?

(Multiple answers possible)



Other: * countries, currency, rating
** Issue specific characteristics, such as collateral (for covered bonds) and capital bail-in waterfall (AT1, Tier 2, MREL)

Observations

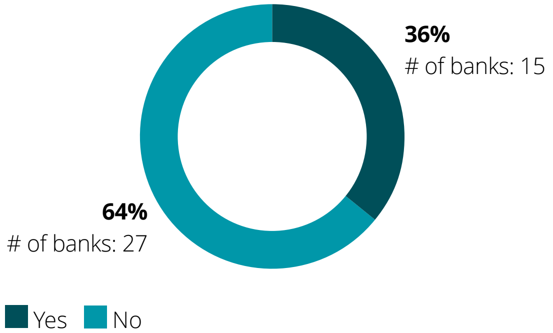
- The main method banks use to calculate CS shifts is historical analysis with a defined confidence level.
- Banks mainly use external market data to determine non-idiosyncratic CS curves.
- 31% of the banks in our survey do not use non-idiosyncratic CS curves.

Disentangling idiosyncratic component

Most of the banks in our survey have not disentangled the idiosyncratic components of the credit spread risk in (at least one) of their CS metrics, while a majority have so far not proved that their approach is conservative.

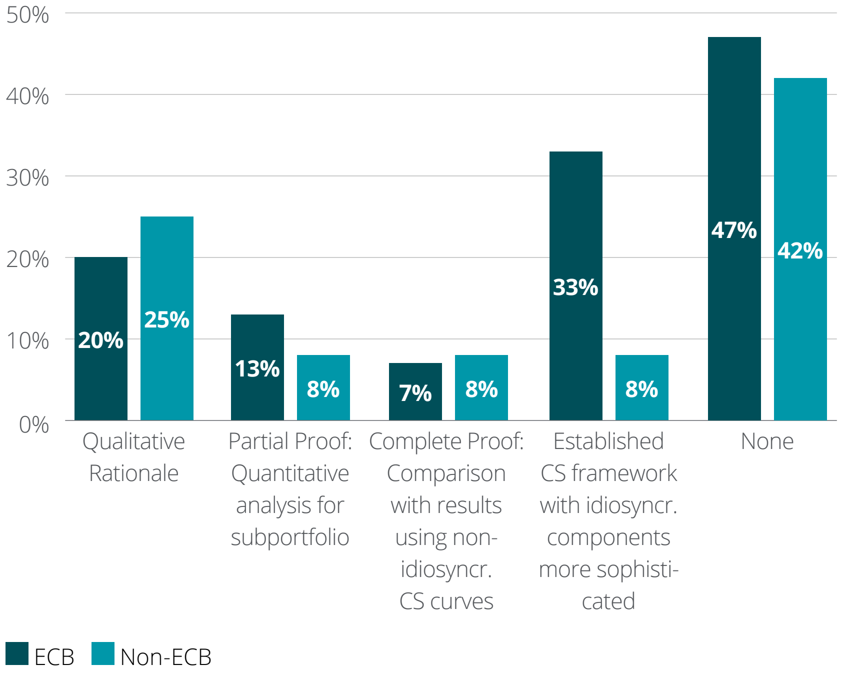
Have you disentangled the idiosyncratic elements* of the credit spread risk in (at least one) of the CS metrics?

No significant differences between ECB and Non-ECB



* Note: banks may have their own definitions of idiosyncratic risk which may not in all cases align with the definition of the EBA/GL/2022/14 on IRRBB and CSRBB

In case you have not excluded idiosyncratic components in any of those metrics, how do you provide proof of conservatism?
(Multiple answers possible. Only including banks that do not disentangle the idiosyncratic elements, #27)



Observations

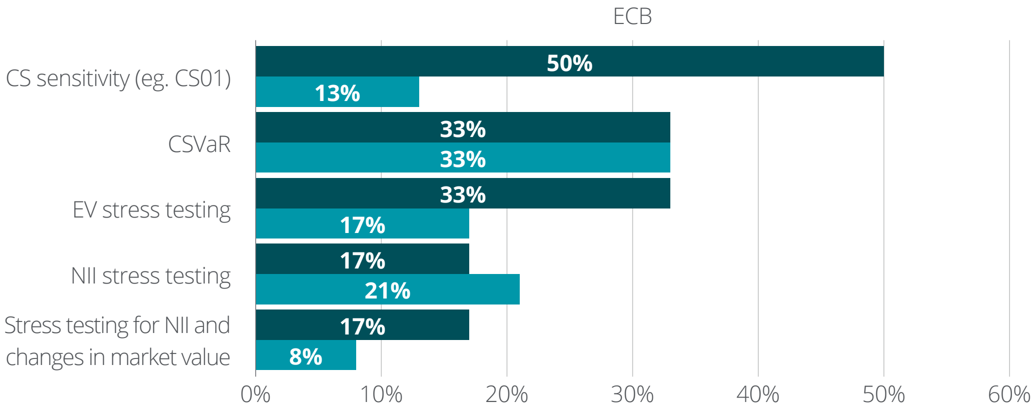
- Almost two thirds of the banks have not disentangled idiosyncratic elements of credit spread risk in one of their CS metrics.
- In case idiosyncratic effects are excluded, this is primarily done in EV stress testing and a scenario based NII.
- Most banks have not provided a sub-stantiation on the conservatism of their approach when idiosyncratic compo-nents are not excluded.

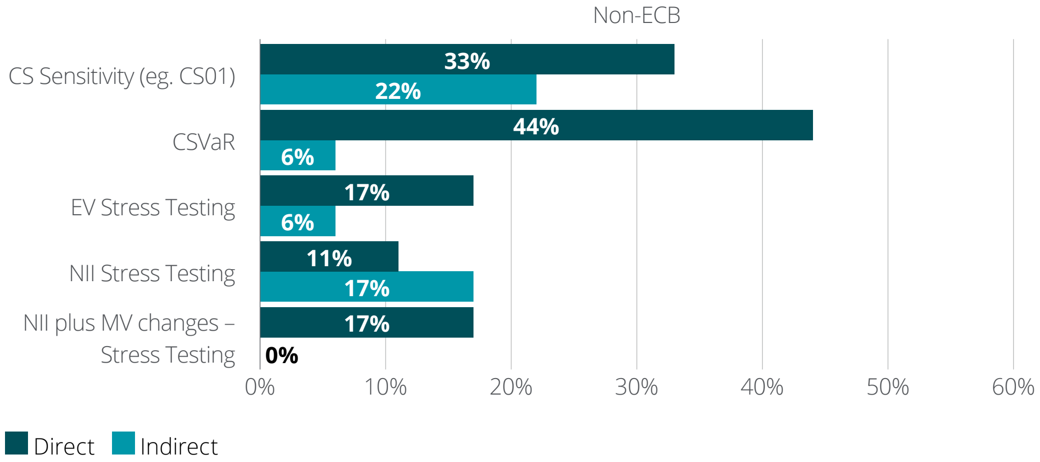
Limitation/Steering

Limitation and Steering of CSRBB Metrics

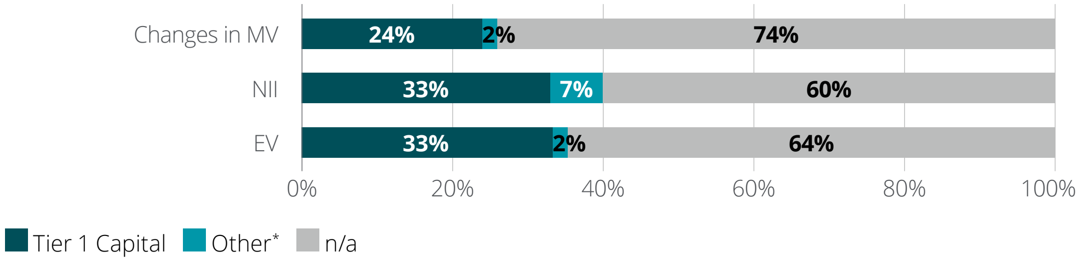
Banks mainly impose CSRBB limits for economic value metrics (EV), and to a lesser extent for earnings metrics (NII). The majority of the banks in our survey only monitor credit spread risk, but have not (yet) introduced policies for the active management and steering of CSRBB.

Do you have direct/indirect limits (thresholds) in place for the following metrics? (Multiple answers possible)



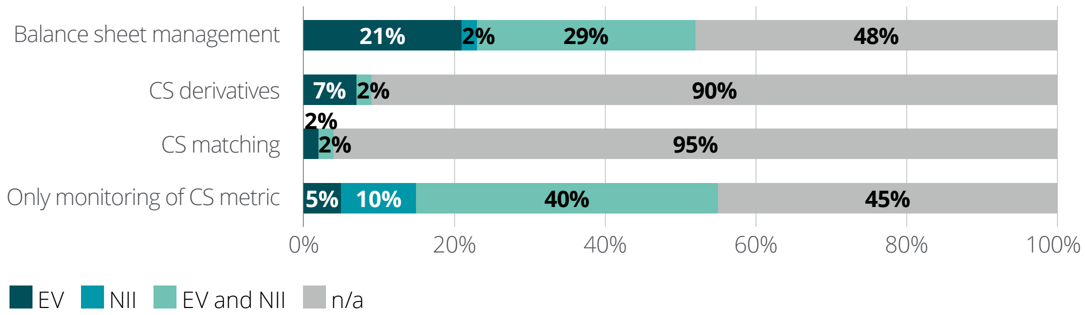


Which metrics do you use as a basis for CSRBB ratios (other than the limits calculated as part of ICAAP)? (Multiple answers possible)



* Other answers include: base case NII and base case EV

How do you manage/steer CSRBB? (Multiple answers possible)

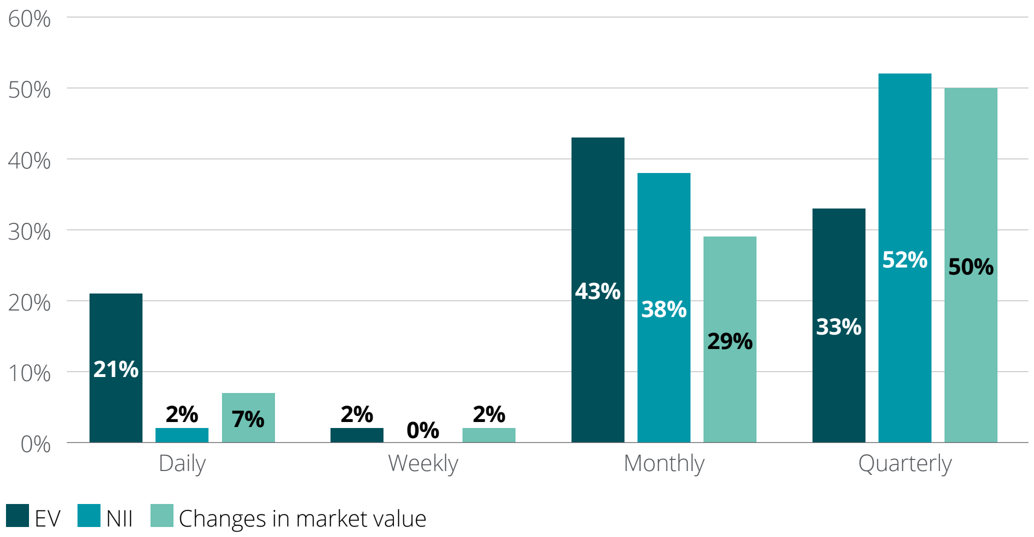


Internal Reporting

Internal reporting on CSRBB: How often does it occur, and who is responsible?

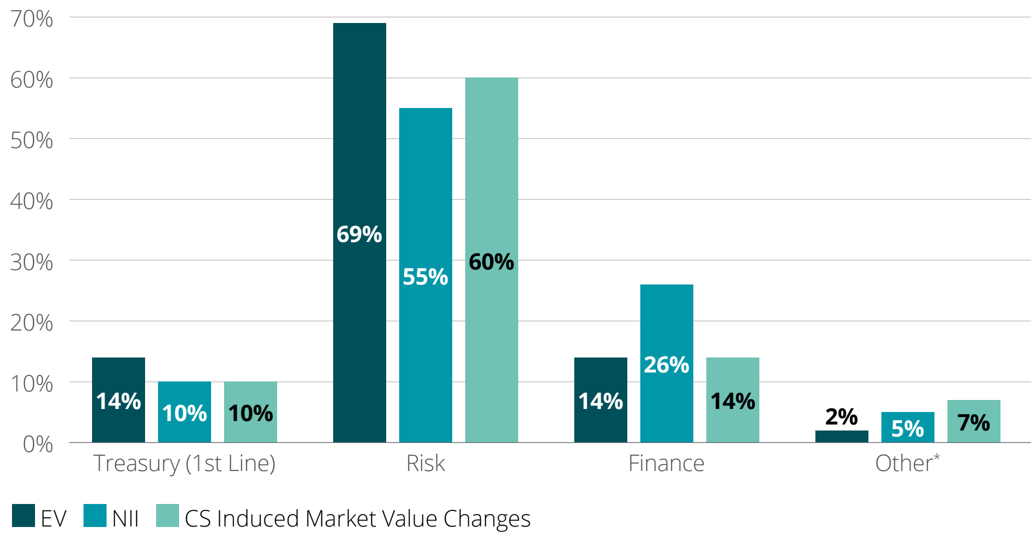
According to the EBA guidelines, banks should report internally on CSRBB exposures at least every quarter, though many banks have established a policy of monthly reporting.

How often do you issue internal CSRBB reports?



If results do not add up to 100% it is due to some banks not answering or rounding errors

Who calculates the CSRBB for your internal reports?



* Other: (i) Accounting; (ii) Balance sheet management
Results may not add up to 100% due to non-responses from some banks and rounding errors.

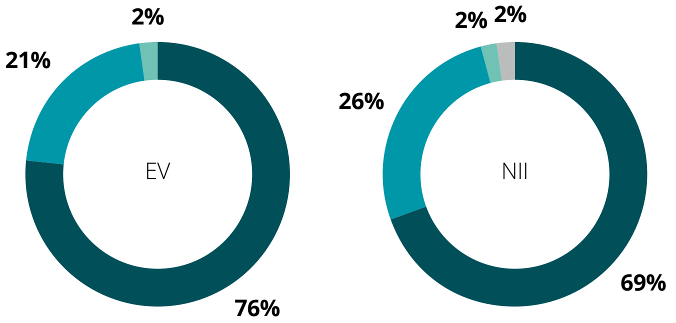
Observations

- Though banks are not currently required to submit regular reports to regulatory authorities, the EBA guidelines recommend at least quarterly reporting of CSRBB exposures.
- All of the banks in our survey meet this standard.
- More specifically, a large share of respondents report more frequently than required by regulation.
- In the majority of cases, the risk department is responsible for calculating and reporting on CSRBB exposures.

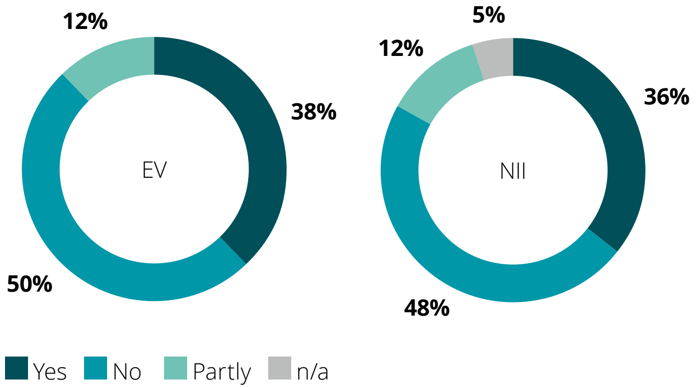
What is included in the internal reporting?

More than two-thirds of the banks in our survey do not include the impact of derivatives or the key modeling assumptions in their CSRBB reporting.

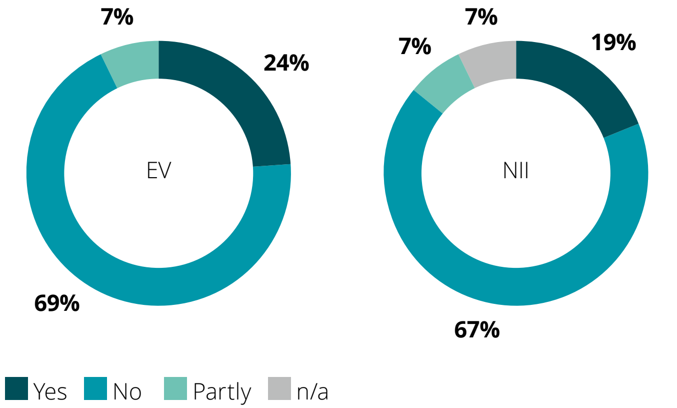
Do you include a breakdown of CSRBB by product/portfolio?



Do you include the key modeling assumptions and their impact on CSRBB?



Do you show the impact of derivatives on CSRBB?



Observations

- In terms of the impact of derivatives on CSRBB, some respondents say they include only certain types of derivatives in their reporting, while others issue a separate report on derivatives.
- Though the EBA guidelines recommend reporting key modeling assumptions, only one bank in our survey claims to provide a detailed report on its CSRBB model/methodology.
- In general, most banks include CSRBB modeling parameters in their stress test reporting.
- Key modeling assumptions are also required for model adequacy testing and model validation.

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