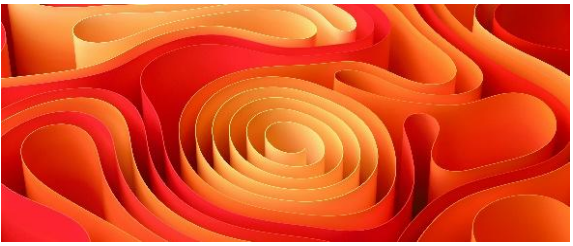
Pills

Regulatory/Supervisory Pills | N.172 November 2026

Author: Dario Esposito



TOPICS:

IRRBB

SOURCE:

Bank for International Settlements

BIS: Interest Rate Risk in the Banking Book – Additional Pillar 2 Guidance

- The Basel Committee on Banking Supervision (BCBS) proposes **additional Pillar 2 guidance to strengthen banks' management of Interest Rate Risk in the Banking Book** (IRRBB), addressing weaknesses highlighted by recent interest rate volatility. The Committee welcomes comments on the proposed changes set out in the consultative document by **9 February 2027**.
- The proposals enhance the existing Basel Framework (SRP31 and SRP98), focusing on **five key areas**. 1) **Model risk management**: Strengthened governance, independent validation, backtesting and ongoing monitoring of IRRBB models, particularly assumptions concerning non-maturity deposits (NMDs), loan prepayments and deposit pricing. Greater emphasis is placed on model documentation, recalibration and third-party data validation; 2) **Stress testing**: More comprehensive scenario and sensitivity analyses covering interest rate shocks, behavioural assumptions, balance-sheet concentrations and nonlinear exposures, including reverse stress testing; 3) **Risk controls and hedging**: Enhanced transparency regarding risk limits, hedging strategies, delegated responsibilities and IRRBB exposures before and after hedging; 4) **Embedded losses**: Improved monitoring of unrealised gains and losses, particularly on securities held at amortised cost, assessing their potential impact on economic value of equity (EVE) and capital headroom; 5) **Earnings indicators**: Greater emphasis on short- and medium-term net interest income (NII) sensitivity measures to complement EVE-based assessments and the Supervisory Outlier Test.
- Supervisory enhancements include **expanded qualitative and quantitative reporting and peer comparisons** to identify excessive exposures and weaknesses in risk management.
- Overall, **the consultation strengthens Pillar 2 expectations without fundamentally redesigning IRRBB capital requirements**, promoting more robust governance, risk measurement, supervisory transparency and integration of IRRBB into capital adequacy assessments.