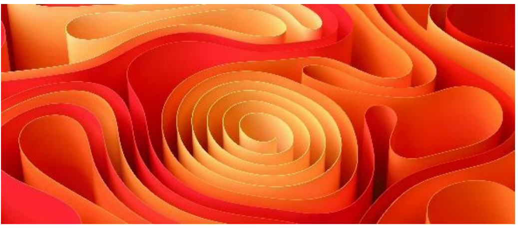
Pills

Regulatory/Supervisory Pills | N.28 February 2025



TOPICS:

IRRBB & Liquidity risk

SOURCE

European Banking Authority

EBA Reflects on the Short/Medium Term Objectives of its Interest Rate Risk in the Banking Book Heatmap

- EBA published this report as part of its **short- and medium-term action plan** for implementing the **Interest Rate Risk in the Banking Book (IRRBB) Heatmap**. The report provides **observations and recommendations** for institutions and supervisors, without introducing new requirements but rather suggesting best practices for IRRBB risk assessment.
- **Non-Maturity Deposits (NMD) Behavioral Assumptions:** NMDs constitute a major share of EU institutions' liabilities (often exceeding **50%**); Modeling their behavior is complex due to repricing uncertainties; **Recommendations** include: segmenting deposits, benchmarking against peers, and using stress testing; Supervisors are provided with a toolkit for analyzing NMD models.
- **Supervisory Outlier Test (SOT) for Net Interest Income (NII):** SOTs identify institutions **exceeding risk thresholds**; however, supervisory measures are not automatic; The report introduces **additional assessment metrics (Market value changes** of fair-value instruments; **Sensitivity of fees and expenses** to interest rates; **Embedded gains/losses** due to interest rate changes). These elements provide a holistic perspective on IRRBB exposure.
- **Modeling Commercial Margins of NMD in SOT on NII**: Institutions should **apply the same margin assumptions** in the SOT as in their internal risk model; Where models are absent, **constant margins** should be assumed; Institutions should consider factors like **spread compression, pass-through lags, and the interest rate environment.**
- **Hedging Strategies**: Institutions primarily use **interest rate swaps** for hedging IRRBB risk; As of **Q4 2023**, no institution was flagged as an **SOT outlier** for Economic Value of Equity (EVE), but 40% would be if derivatives hedges were ignored; Supervisory recommendations include ensuring that derivatives are used **for hedging, not speculation**, and treating NMD repricing independently from asset behavior.