Mr Andrea ENRIA
Chairperson
European Banking Authority

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21 October 2016

EBF_023797

Subject: Implementation of the Basel Committee on Banking Supervision's standards on Interest Rate Risk in the Banking Book in the EU

Dear Mr Enria,
Dear Andrea,

In April 2016, the Basel Committee on Banking Supervision (BCBS) published Standards on Interest Rate Risk in the Banking Book (IRRBB). After several years of in-depth discussions amongst regulators as well as with the industry, the BCBS re-affirmed its previous, long-standing position that IRRBB is more appropriately captured in a Pillar 2 framework.

The BCBS also concluded that IRRBB is heterogeneous by nature and that the complexities involved in formulating a standardised measure for IRRBB would not be sufficiently accurate and risk-sensitive to be used as a tool for setting regulatory capital requirements. The BCBS conclusions are particularly pertinent for Europe given the heterogeneity of the IRRBB of European banks due to the different business models and environments they operate in.

The BCBS Standards are largely consistent with the current Guidelines on the Management of Interest Rate Risk arising from non-Trading Activities published by the European Banking Authority (EBA) in May 2015. The BCBS Standards update the principles for the management of IRRBB, notably the definition as well as the threshold applicable to the Standard Outlier Test (SOT) whose role is to identify banks' with IRRBB exposures that require supervisory engagement and possibly corrective measures.

We understood from the recently published EBA 2017 work programme that the EBA will revise its current Guidelines to incorporate the Basel Standards. To ensure consistent application in the EU, we believe the EBA Guidelines should be clear on the following principles:

- A Pillar II IRRBB capital charge should only be required when the bank is exposed to a risk of loss as opposed to variability risk due to IRRBB. The risk that exclusively creates variability in P&L or economic value (for example IRRBB due to investments of non-interest bearing liabilities and non-interest bearing equity) should not be subject to capital charges given the absence of loss risk;

- No standardised IRRBB measure would be sufficiently accurate and risk-sensitive to be used as a tool for setting capital requirements directly or indirectly (through comparing internal calculation to a standardised measure) given the differences in products, jurisdictions and client behaviours as well as IRR management practices within Europe. It follows that no element of the standardised framework set out in section IV should be written into the Guidelines;

- The SOT should only be used by supervisors to identify banks whose IRRBB exposure warrants supervisory engagement and possibly corrective action. It should not play a role in the calculation of capital (a point clearly made in the current EBA Guidelines).

The impact of any proposed changes to the outlier test on European banks' business models should in our view be carefully analysed. We also believe that some adjustments to the BCBS Standards disclosure requirements should be made to ensure the provision of valuable public information.

The EBF would welcome the opportunity to contribute to the considerations of how to incorporate the BCBS IRRBB Standards in the European regulation. We would very much appreciate to meet with you or your services to provide our views on the implementation of the Basel standards in the EU in more details.

Yours sincerely,

Wim Mijs
Chief Executive

Cc: Mr Lars Overby, Head of Unit, Credit, Market & Operational Risk Policy, EBA
Ms Slavka Eley, Head of Unit, Supervisory Convergence, EBA