

## **Draft Feedback to the consultation on**

### **'Technical aspects of the management of interest rate risk arising from non-trading activities under the supervisory review process-CP11'**

#### **Introduction**

1. In March 2006, CEBS published a consultation paper on 'Technical aspects of the management of interest rate risk arising from non-trading activities and concentration risk under the supervisory review process-CP11'. These guidelines aimed at providing some technical follow-up with regard to both concentration risk and 'interest rate risk arising from non-trading activities ('interest rate risk in the banking book' - IRRBB'), a risk that both supervisors and institutions need to address within Pillar 2.
2. The Consultation period ended on 23 June. All responses (11) submitted were published on the CEBS website.
3. This feedback document summarises the key points raised in these comments and highlights the changes CEBS has made in response to them with regard to IRRBB. CP 11 part on technical guidance on concentration risk will be treated in a separate document.
4. The final guidelines on 'technical aspects of the management of interest rate risk arising from non-trading activities under the supervisory review process' are now being published. A table setting out in more detail the comments made and CEBS' response to them is contained in this document.
5. The responses were generally supportive of the CEBS efforts to foster convergence in this area, while stressing out the over-prescriptiveness of the proposed guidelines. The main comments and CEBS responses are set out in the following paragraphs.

#### **The purpose of the guidelines**

6. The need of guidance on IRRBB was questioned. Respondents felt it was important, in order to avoid any potential for duplication or overlap or confusion with The Basel Committee's Principles for the Management and Supervision of Interest Rate Risk (IRR), to articulate more clearly what additional measures or clarification may be needed within the EU

specific context. CEBS agrees that there should be no unnecessary duplication of guidance in this field. As the paper acknowledges, the BCBS paper is an excellent starting point. However, CEBS considered it was still necessary to elaborate on this in the context of its efforts to promote convergence in practices with regard to Pillar 2 across Europe. Indeed, in the Comitology of context of Article 150(2)(a) of Directive 2006/48/EC, whereby the European Commission has been given the power to specify the size of sudden and unexpected changes in the interest rates referred to in Article 124(5), CEBS wishes to strive for convergence by issuing a guideline on this subject.

### **The level of detail**

7. A number of respondents advocated that the consultation paper was very detailed and prescriptive, running the risk of hampering the 'freedom in the management of IRBB' that institutions must have. Respondents called for a more principles-based approach which would better allow for the diversity of management practices. CEBS has addressed this comment by clarifying the wording used. For instance, in Principle IRRBB 1, the words 'institutions are required to' has been replaced by 'institutions should be able to demonstrate'.
8. Some concerns about supervisors being inclined to impose a standardised methodology have been raised. It is believed that such requirement would occur in specific circumstances e.g. when the institution's internal methodology is inadequate or does not exist or when national supervisors feel it necessary to test the results of how individual models work for benchmarking purposes. The principle IRRBB 1 has been clarified in this respect.

### **Institution's use of its internal methods**

9. A number of respondents criticised that the Consultation Paper did not make it clear the principle of own responsibility of the institution to choose the methods of measurement and management of IRRBB. CEBS wishes to reiterate that in relation to the Pillar 2 Supervisory Review Process, and the IRRBB in particular, it is indeed the full responsibility of the institution to choose, apply, and monitor their internal methodologies for risk assessment and management. This has been reflected in Principle IRRBB 1.

### **Economic value perspective versus earning perspective**

10. One respondent disagreed with CEBS assessment that 'the measurement of the impact of IRR on economic value, provides a more comprehensive view of the potential long term effects on an institution's overall exposures.
11. CEBS considers that economic value approach and the earning approaches are complementary. Accordingly, while the Directive 2006/48/EC refers to the measurement of IRR in relation to economic value, institutions are also expected, subject to considerations of

proportionality, to consider interest rate risk in relation to earnings as a supplementary measure. Such information may be requested by supervisors.

### **Scope of application**

12. A number of respondents pointed out that IRRBB is often managed on a centralised basis within a group, and as such the supervisory focus should be on how IRRBB risk is assessed at a consolidated level and how local parameters are taken into account.
13. IRRBB guidance should be read as a follow-up of GL03 and GL09. CEBS does not intend to interfere nor prescribe a way of managing the IRR, e.g. in a centralised or decentralised manner. The scope of application of the IRRBB assessment should be that of the SREP. Analysis of IRR at the solo or sub-consolidated level can for instance be necessary either when there are obstacles to transfer of funds between entities within a group or when it reflects the way the IRR is managed.
14. For cross-border banking groups, coordination in practical implementation should be sought by supervisors through effective operational networking under the aegis of the consolidating (home) supervisors. This coordination will especially take due account of the extent to which IRRBB management is centralised within the banking group.

### **Standard shock**

15. A few respondents pointed out that the proposed level of standard shock was inappropriate to their local circumstances. On the other hand, many other respondents appeared content with the proposed level of standard shock and their main concern was that they wanted a clearer commitment to adopt this across all CEBS members. It is difficult to see how these two arguments can be easily reconciled. CEBS keeps the stance that the existing proposal steers a middle path: the standard shock as recommended by CEBS is a starting point that should suit the majority of cases.
16. CEBS would like to emphasize that the standard shock as required by the CRD and as elaborated upon in the CEBS guidance should not be interpreted as requiring only a single measure of IRR. Moreover, irrespective of the level of the standard shock, the significance of having a standard shock is that supervisors apply a common standard shock which is calculated in a consistent manner. European coordination and cooperation in that respect – especially for cross border banking groups – will be important.
17. National competent authorities commit to discuss periodically the relevance of the 200 basis point as a starting point when considering at what level to set the shock and keep it under review in light of implementation.

18. In the context of such periodical review, and building on the experience gained, national competent authorities may further discuss the relevance of having a standard shock by currency.

### **Pillar 2 wider issues**

19. A few respondents took this opportunity to discuss Pillar 2 in general. For instance, it was highlighted that regulatory requirements should only regard to the total available capital and the total capital requirements, whereby diversification effects are taken into account in the determination of the latter. Another argument put forward was that there should be no regulatory requirements under P2 for specific risk purposes. A third one pointed out that capital add-on should be the last of the prudential measures envisaged by the supervisors.

20. As indicated in GL03, any regulatory capital requirement under Pillar 2 would have to be considered on the basis of an overall assessment taking into account individual risks. As a result of this overall assessment, and if relevant, supervisors have at hands a wide range of supervisory measures, among which capital add-ons.



## CEBS' analysis of responses to CP11- Interest rate risk in the banking book

Text CP11  (Cross reference to the related paragraph)	Received Comments  (summarised)	CEBS Analysis	New text  (Cross reference to the amended paragraph) N/R=change not required
Para 2 et 3 General consideration	<p>CEBS should undertake an examination of the effects that accounting standards and specifically IAS 39 and IFRS 7 will have on the reporting and management of interest rate risk. Some institutions may be limited in their capacity to reduce IRRBB due to IRFS constraints.</p> <p>CEBS should examine how current IFRS reporting and disclosure requirements can be used for the purpose of IRR management under Pillar 2 of the CRD.</p> <p>One respondent recommends that the procedures/analyses required for accounting should be recognised as far as possible for supervisory purposes.</p> <p>One respondent wishes to add at the end of para 3 that 'As far as derivatives are concerned, IFRS hedging relationships are based on gross basis analysis with hedged items either assets or liabilities, which cannot be non interest bearing items (demand deposits for instance). From a prudential perspective, the objective is to ensure that the interest rate risk of the whole banking book, with all its assets and liabilities, bearing or non bearing interest rate is well managed, measured, monitored and controlled.'</p>	<p>The consequences of IFRS for the reporting and management of interest rate risk, have not been captured in the present document. CEBS recognises however this need. It may be the subject of further work by CEBS in due course</p> <p>The comment is noted and will be addressed within the future work mentioned above .</p>	N/R
Para 6 , 17 and 18	<p>-one respondent disagrees with CEBS assessment that 'measurement of the impact of IRR on economic value provides a more comprehensive view of the potential long-term effects on an institution's overall exposures'. The respondent believes that this scenario is not typical and it provides a static situation rather than a more holistic picture over a statistically relevant period of time.</p>		<p>Para 6 now reads: Consideration of interest rate risk from the perspectives of both short-term earnings and economic</p>

	<p>Another respondent suggests to clarify that a P&amp;L based approach is not obligatory and that institutions can choose which of the two methods they wish to use. Another one suggests explaining briefly why institutions use the economic value perspective as a complement to the earnings perspective.</p> <p>One respondent put forward the following definition of Economic value = the value of the discounted cash flows of assets minus liabilities, adjusted for off-balance sheet cash flows.</p>	<p>CEBS does not intend to be prescriptive on how the economic value should be calculated. In general terms, and in accordance with the Basel wording, EV can be viewed as the present value of the bank's expected net cash flows'. Such definition as been inserted in para 6.</p>	<p>value is important. Volatility of earnings is an important focal point for interest rate analysis because significantly reduced earnings can pose a threat to capital adequacy. However, measurement of the impact on economic value (the present value of the bank's expected net cash flows) provides a more comprehensive view of the potential long-term effects on an institution's overall exposures. Therefore, the supervisory focus will primarily be on measuring interest rate risk in relation to economic value. However, and subject to proportionality considerations, but institutions are also expected to consider interest rate risk in relation to earnings as a supplementary measure.</p>
Para 6	<p>Two respondents suggested specifying that the economic value concerns the banking book only [and not the trading book]. This change should be made consistently throughout the document</p>	<p>Art 124(5) requires that the review and evaluation performed by the competent authorities shall include the exposures of institutions to the IRR arising from non-trading book activities.</p> <p>CEBS guidelines only address the IRR related to non-traded activities. IRR in the trading book is treated within Pillar 1.</p>	<p>Keep the wording as it is i.e. 'economic value'.</p>
Current market	<p>- use the nomenclature of the BCBS paper to list the 'family' of risks that</p>	<p>Agree with the comment.</p>	<p>The text has been aligned</p>

practices Para 9	contribute to IRRBB - clarify that the listed items are examples	Although the wording used is different, it does not imply that the assessment of the IRRBB is different. This list covers the primary forms of interest rate risk to which institutions are typically exposed.	with the BCBS categories, see para 9.
Monitoring and Management of IRRBB Para 10	-emphasise that not all institutions use all these techniques and the extent to which they do will be based on their own management's assessment of the degree of IRRBB they actually face. In this respect, one respondent proposed to simply delete the list; another to add a fourth bullet: "The choice of monitoring system and management technique used is determined by the banks' management to be most appropriate depending on the nature, scale and complexity of their business"	Agree with the comment.	The proposal has been added in para 10
Para 13	Need to clarify the paragraph	Agree with the comment	Para 13 now reads: based on these various tools, institutions use different types of hedges to mitigate the risks, set limits, usually on earnings or economic value. Some institutions set aside capital buffers.
Para 14	-Rephrase the para by stating that the IRRBB management in general has to comprise the strategic function, the operational function and an independent risk monitoring. The delegation of these functions should explicitly be left at the disposition of the individual institution. It should at least be clarified that the form of organisation described is only an example.  -Principle 3 of the Basel Consultative Document is more general and does not assume a specific organization to satisfy its objectives Besides, from institution to institution, Asset and Liability Management can have different role and attributions. Therefore, it is proposed not to specify a restrictive definition of Asset and Liability Management, or a of ALCO. As CP11 deals with technical aspects of the IRRBB and not with internal control that is addressed by another CP text, it is proposed to simply suppress this paragraph.	CEBS does not intend to specify 'the' internal organisation of the IRRBB management. Para 14 is there to illustrate, by way of example, internal IRRBB management organisation that are 'usually' , i.e. not always, in place.	Proposed rewording of Para 14: 'The management body sets out the IRRBB policy. Although the specific organisation established to put into effect the IRRBB policy may vary, in large or more complex institutions, measuring, monitoring and controlling IRRBB is usually vested in a "Asset and Liability Management" (ALM) function. It is usually assigned to an independent risk control unit. Some institutions also have a committee with powers delegated by the board,

			usually called "Asset and Liability Committee (ALCO)", responsible for major interest rate risk hedging and new asset and liability decisions.
Para 16 and 17	<p>-There is a need for greater detail on the procedures for calculating capital VAR/Sensitivity and a better definition of the assets classed in the banking book</p> <p>- The IRR assessment takes into account not only the sensitivity/relative decline but also the level of the banking book economic value/net value of the loan portfolio. A positive economic value of the banking book is the best protection against an IRRBB shock.</p> <p>-clarify the function of stress testing: it is a management tool. The general assumption of risk management is a situation of on going concern.</p>	<p>CEBS does not intend to be prescriptive.</p> <p>Agree that the IRR assessment should take both the sensitivity and the level of the economic value.</p> <p>Agree on the comment made on stress testing. Market participants are invited to refer to the CP12 currently under public consultation</p>	<p>N/R</p> <p>The following sentence has been added to IRRBB 9: Supervisors should take into account not only the decline on the economic value but also the current level of the economic value.</p>
Para 19	<p>-disagree with the assessment that supervisors can require additional regulatory capital for IRRBB on the basis of their own methods and not on the basis of those used by the institutions</p> <p>-make clear that the supervisory authority will not impose any further capital requirements if the IRRBB is quantitatively and qualitatively modelled in an ICAAP process to which no objections were raised. This should apply to all relevant risks of Pillar 2. It should be clarified that an accepted ICAAP covers all risks and keeps supervisors away from taking any more measures.</p> <p>-6<sup>th</sup> bullet: consider the absolute or relative size of non-trading activities in connection with the principle of proportionality and apply it to the type, size, complexity and riskiness of the activities.</p>	<p>Additional capital is one of the prudential measures that supervisors can take where considered necessary.</p> <p>As stated by GL03, SRP is an overall assessment that has to take into account the individual components of risk in order to arrive at an overall assessment.</p>	<p>See second bullet point of para 19</p> <p>The 6<sup>th</sup> bullet now reads: 'because the non-trading books of investment firms are usually (relatively) small, IRRBB guidelines are primarily relevant for the credit institutions. Consideration should be given to the absolute or relative size of the non-trading activities, in a way similar to the Pillar 1 market risk regulation for interest</p>



			rate risk in the trading book, with a view to implement these guidelines in a proportionate manner.
Para 20-23	<p>-ensure that no additional disclosure requirements arise from the requirements for IRRBB management.</p> <p>-Any standardised report runs the risk of reporting on risks that for good reasons are not used or recognised by an institution's senior management, failing the use test requirement and creating an extra regulatory burden.</p> <p>The requirement that additional standardised reporting formats be established for carrying out off-site supervision should be deleted. The internal reporting system specified in IRRBB 4 is sufficient for review purposes.</p> <p>-The Basel Committee does not require any parallel calculation of cash value and P&amp;L effects. A P&amp;L-based calculation should therefore not be compulsorily required.</p>	<p>Para 21 of 'supervisory considerations' already states that there are arguments both for and against standardised reporting of interest rate risk in the banking book, as well as for and against the possible middle ground of standardised reporting applied to less complex institutions and non-standardised reporting applied to complex institutions. This paper expresses no preferences in this respect.</p> <p>This point is raised in relation to the more general issue of the methods of monitoring IRBB addressed above. The information is not obligatory. It is simply indicated that some institutions may wish to adopt such approach along side the EV approach for internal management purposes. Such information may be relevant to supervisors who wished to ask for it.</p>	<p>New Para 22 now reads: in the context of Articles 123 and 124(5), institutions should at least be able to compute and report the effects of the standard shock described in IRRBB 2 and 5 on economic value as well as the amount of internal capital set aside for interest rate risk in the banking book. As noted in paragraph 6, and subject to proportionality considerations, institutions are also expected to consider interest rate risk against earnings, and should therefore consider the effect of instantaneous or gradual interest rate changes on short-term earnings. The results of such analysis may be requested, as additional information, by national</p>

			supervisors.
	Suggest treating all aspects of stress testing together in CP12 and delete references to stress testing in CP11	At this stage, such cross-references are required and will be maintained. In its work-programme 2006, CEBS indicates its intention to consolidate all guidelines in a single document. This would be the opportunity to reconsider the point raised.	N/R
IRRBB1	<p>A large number of respondents question the possibility for supervisors to require institutions to use a method of calculation defined by the supervisory authorities. One respondent hopes that such requirement will be the exception, not the rule. Supervisors could require an additional application of an standardised methodology only if an internal methodology fail to abide by IRRBB 4.</p> <p>Almost all respondents advocate that the calculation of a standard interest rate shock/calculation of economic capital within Pillar 2 should remain first the full responsibility of the institution. All Pillar 2 techniques should also be institution-specific and grounded in the way it actually runs its business.</p> <p>-2<sup>nd</sup> bullet point: clarify that the IRRBB must be calculable only on the basis of the scope of application used in the ICAAP. Any divergence of the scope of consolidation would mean considerable additional expense. –see below IRRBB 7</p>	<p>It is the responsibility of the institutions to develop and use their own methodologies in accordance with their risk profile and risk management policies. Supervisors may however reserve the right to require institutions to apply an additional standardised methodology, when for example the institution's internal methodology is inadequate or does not exist. The Annex 4 of the Basel document is an example of such methodology.</p> <p>As stated in IRRBB 7, the scope of application is that of the SRP. If however deemed necessary for supervisory, the scope of the IRRBB can be, on a case by case basis, different. There is no 'one fits all approach'.</p>	<p>New wording of the first bullet point of IRRBB 1 to be discussed:</p> <p>'It is the responsibility of the institutions to develop and use their own methodologies in accordance with their risk profile and risk management policies. Supervisors may however reserve the right to require institutions to apply an additional standardised methodology, <b>when for example the institution's internal methodology is inadequate or does not exist.</b>'</p>
IRRBB 2	One respondent suggests that the denominator 'own funds' referred to in the 20% drop be replaced by the 'risk coverage potential' which is larger than 'own funds'	the reference to 'own funds' is that used in the Capital Requirement Directive.	N/R
IRRBB 3	In line with the principle that institutions should use their own methods, one respondent highlighted that institutions should be allowed to use their own estimates when calculating their sensitivity to changes in the yield curve or changes between different market rates, their own estimates of customer	Agree with the comment. IRRBB 3 does not prevent institutions to use their own methods. IRRBB 3 states that besides the standard	IRRBB 3 has been clarified.

	behaviour and should be free to choose whether they will or will not do this by following the standardised approaches.	shock, institutions should be able to measure their exposure, <b>if material</b> , and sensitivity, to changes in the shape of the yield curve, changes between different market rates (i.e. basis risk) and changes to assumptions, for example those about customer behaviour.	
IRRBB 4	<p>-the list of technical issues may become a 'tick box'. Suggest to replace 'should' by 'could'. Or to at least be considerably shortened.</p> <p>-Replace 'treatment' by 'appropriate consideration' in bullet point 5 since 'treatment' suggests an explicit modelling of pipeline deals.</p> <p>-Bullet point 9 should be restricted to 'IR movements induced positions' only to exclude tax events</p>	<p>Institutions must apply this sensibly on a risk-based approach rather than ticking -the-box</p> <p>No strong objections.</p>	<p>New wording uses is: 'Without prejudice to the principle of proportionality, examples of such issues include'</p> <p>The bullet point now reads: 'The appropriate consideration of embedded options in assets or liabilities.'</p>
IRRBB 5	<p>A good deal of respondents support CEBS effort to provide a common understanding of the characteristics of a standard shock but pointed out that the guidelines are too detailed and it would be difficult, if at all possible, to define a standard shock as, among other things (i) the precise calculation of a standard shock is subject to several sometimes fast changing parameters, (ii) regulation cannot cover all individual parameters which have to be taken into account for this calculation, (iii) in case of emerging markets, this method could lead to very unstable and highly dispersed results.</p> <p>Alternative suggested approaches include:</p> <p>1) agree on a common approach to the standard shock by way of intensive and ongoing cooperation at the working level, between home and host,</p> <p>2) ensure that different standard shocks are not used by different supervisors for the same currency, leading to a duplication of efforts by banks</p> <p>e.g. define only internationally harmonised IR shocks for foreign currencies</p> <p>e.g. include in the standardised methodology analysis of the risk by currency or by currency "block" so that the dependency on correlation/diversification can be assessed. e.g. a single standard shock should be used for the Euro-zone. For the other currencies, The standard shock should be determined by the regulator of the</p>	<p>Acknowledges that it is difficult to define a standard shock. However, there is a need for a common approach by all supervisors of a group when it comes to define the different characteristics of the standard shock so as to avoid that institutions be obliged to follow different exercises and to ensure level playing field.</p> <p>The degree of coordination between supervisors is essential. CEBS guidelines intend to facilitate such coordination on the basis of the common understanding of IRRBB 5.</p> <p>National competent authorities commit to discuss periodically the</p>	<p>The 4<sup>th</sup> bullet of IRRBB 5 now reads:</p> <p>National competent authorities commit to discuss periodically the relevance of</p>

	<p>country of the currency concerned</p> <p>3) use of standard interest rate shocks in each currency in which the institution has material IRR,</p> <p><b>On the level of the standard shock:</b></p> <p>One respondent welcomes that the CEBS draft guidelines are proportionate and grounded in the Basel Principles.</p> <p>However, two respondents advise that the definition of the standard shock at 200 bp seems unsuitable. It is not consistent with the best practices in Italy and a simulation undertaken in Germany resulted in over 50% of German institutions being outliers i.e. the shock would have led to a majority of institutions' economic value decreasing by over 20% of own funds, implying that these institutions would potentially have had to set aside additional regulatory capital. Furthermore in light of current economic conditions and interest rates, such shock is not appropriate nor in line with current business practice.</p> <p>-Suggest amendment of the bullet 4 so that if the required 200 basis point shock implies a negative interest rate the rate should be subject to a 0% floor.</p> <p><b>On the observation interval:</b></p> <p>The respondent welcomes that supervisors review at regular intervals the extent to which the figure for the shock is equivalent to the results of historical simulation. Aspects such as the length of the observation interval (5y), the appropriateness of a parallel shift in the interest rate curve as well as the currency relation should be reviewed in this regard.</p> <p>- the standard shocks should be displayed on the CEBS website and subject to annual adjustment at the same time each year so that institutions can be sure they are incorporating the correct standard shocks into their ICAAPs. If a review to cater for market developments takes place and results in changes to the standard shock this should be notified to the industry. In normal circumstances regulators should ensure institutions have adequate notice of the introduction of new standard shocks. This notice period should be at least one month.</p>	<p>relevance of the 200 basis point as a starting point when considering at what level to set the shock and keep it under review in light of implementation. In the context of such periodical review, and building on the experience gained, national competent authorities may further discuss the relevance of having a standard shock by currency.</p> <p>The current wording does not forbid such treatment nor makes it compulsory. CEBS does not intend to be prescriptive in this respect. The current wording of bullet point 4 is sufficient in this respect i.e. national supervisor will make the necessary adjustments.</p> <p>Competent authorities commit to discuss periodically the relevance of the 200 basis point as a starting point when considering at what level to set the shock and keep it under review in light of implementation. In general, in accordance with Article 144(c) information regarding the methodologies and the criteria used in the review and evaluation referred to in Article 124 shall be disclosed by competent authorities. In this respect, CEBS has recommended to use a web-based supervisory disclosure</p>	<p>the 200 basis point as a starting point when considering at what level to set the shock and keep it under review in light of implementation</p>
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		framework.	
IRRBB 7	<p>The supervisory process must be streamlined in a cross- border context and requires appropriate regulatory cooperation to avoid duplication. Pillar 2 process, and therefore the calculation and management of IRBB need to be applied only at the group level as the necessary capital per legal entity is defined and allocated by this is done on the basis of the central calculation at the top consolidated level.</p> <p>For that purpose the CEBS guidelines should provide among other things the recognition by the <b>home</b> supervisor of local parameters for submarkets and the recognition of compensation effects between legal entities belonging to a single group. One respondent noted that currently estimates based upon local characteristics are not recognised by home supervisors.</p>	In a cross-border context, CEBS encourages home and host supervisors to coordinate as much as possible their approaches to IRRBB. That is why these guidelines have been elaborated.	See new first bullet point of para 19
IRRBB 8	<p>- IRRBB 8 should be re-written. The current wording seems to impose an obligation on institutions to undertake in depth analysis to facilitate the supervisors benchmarking. The supervisor, not the institution, should undertake the benchmarking work, based on the discussions it has had in the SREP. This work is not part of the institution's normal IRRBB management process.</p> <p>-supervisors should be able to automatically understand the institution's internal methods of the institutions that received regulatory approval for measuring and monitoring their market risk with an internal model and apply these model for market risks within the banking book.</p>	<p>Institutions must undertake an in-depth analysis of their own methods as a good practice of IRRBB risk management.</p> <p>Having received approval for an internal model on market risks does not imply such 'automatic understanding' by supervisor: it is the ultimate responsibility of the institution to ensure that an appropriate internal model is used for IRRBB in the context of complexity and scale.</p> <p>The point of IRRBB 8 is that, given that supervisors are not going to apply a standardised reporting approach, but rely on internal calculations/systems of the institutions. Supervisors will need to understand what is inside those internal systems –to be in a position to do benchmarking.</p>	IRRBB 8 now reads 'supervisors should understand the internal method used for calculating interest rate risk in the banking book, including underlying assumptions (e.g. yield curves used, treatment of optionality)

IRRBB 9	<p>- a well managed institution will take corrective actions on its own in the first place. Supervisors should act only in those cases when an institution fails to do so, and when the dialogue under the SREP process also fails. Respondents emphasise that a more important role should be given to the dialogue btw the institution and its consolidating supervisor.</p> <p>- support for the recognition, implicit in the ordering of the first four bullets, that requiring a institution to hold more capital is the last of a number of measures that supervisors can take in response to a 20% or more decline in economic value. This point was also made with regard to Para 19 with regard to the wording 'standard practice'</p> <p>-supervisory actions should be limited to the measures listed in IRBB 9.</p>	The guidance in Supervisory Review process already addresses these points and the IRRBB talks in terms of capital being required only where considered necessary.	N/R
Annex II	- Annex II should not be included it as it constraints the management of non-contractual deposits that have never been discussed with the industry and are at odds with common practices of (French) banks.	Annex II is merely an example that can be used by national supervisors. It is an extract from 'International convergence of Capital measurement and Capital standards' published by the Basel Committee on Banking supervision in June 2004.	N/R