Dear Mr Campa,

On 19 October 2022, the EBA submitted to the Commission the draft regulatory technical standards (RTS) on supervisory shock scenarios, common modelling and parametric assumptions and on specifying a large decline for the calculation of the economic value of equity (EVE) and of the net interest income under Article 98(5) of Directive 2013/36/EU. Based on the feedback received on these draft RTS from supervisory authorities, banks, and industry associations regarding the proposed specification of the large decline under the supervisory outlier test for the net interest income as a 2.5% of Tier 1 Capital threshold, the Commission has considered necessary to re-examine the approach suggested in the RTS. This re-examination is put forward after interactions with your services and with competent authorities.

While the Commission agrees with the overall substance of the submitted draft RTS, it believes that the approach proposed to determine the notion of a large decline under the supervisory outlier test for the net interest income would not adequately reflect the current different interest rate environment and could therefore result in the identification of a disproportionate number of outliers in the context of the supervisory review and evaluation process.

One key concern raised by stakeholders, and shared by the Commission, relates to the risk that the specific threshold would be interpreted in practice as a hard limit, triggering from the...
institutions sizeable corrective actions to remain below such threshold and avoid possible supervisory actions that being an outlier may bring about. In turn, if a large number of institutions face the prospect of being identified as an outlier and react in a similar fashion, the risk of an unduly significant market correction could materialize.

I note that the EBA itself is carrying out further calibration and monitoring exercises to delineate an appropriate measure of a large decline in this environment. Therefore, in the meantime, an alternative method should be implemented, in accordance with the international BCBS standards, at least as stringent as the one applied to the EVE outlier test. In this perspective and taking into account the calibration already conducted by the EBA, a large decline would need to meet both of the following conditions: (a) reflect a sample of institutions that should be proportionate to the sample resulting from the EVE outlier test and (b) be subject to a floor based on the metric initially proposed by the EBA. Such methodology would maintain a supervisory expectation for institutions to closely monitor the effects of interest rate risk shocks resulting from exposures in the non-trading book on their net interest income superior to a 2.5% decline of their Tier 1 capital, while allowing for a more proportionate approach which can be adapted over time.

To give effect to this alternative approach, in accordance with the procedure set out in Article 10(1) of Regulation (EU) No 1093/2010, the Commission intends to endorse the draft RTS with amendments reflecting the necessary technical adjustments. These adjustments, which the Commission believes to remain fully in line with the objectives and the mandate of the draft RTS, have been discussed with your services.

Yours sincerely,

(e-signed)

John BERRIGAN

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Enclosure: Amended draft regulatory technical standards (RTS) on supervisory shock scenarios, common modelling and parametric assumptions and what constitutes a large decline for the calculation of the economic value of equity and of the net interest income under Article 98(5) of Directive 2013/36/EU.