German Banking Industry Committee

Die Deutsche Kreditwirtschaft

Comments

Comments on the “ITS new IRRBB reporting” EBA/CP/2023/01

Lobby Register No R001459
EU Transparency Register No 52646912360-95

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Berlin, 2023-05-02

The **German Banking Industry Committee** is the joint committee operated by the central associations of the German banking industry. These associations are the Bundesverband der Deutschen Volksbanken und Raiffeisenbanken (BVR), for the cooperative banks, the Bundesverband deutscher Banken (BdB), for the private commercial banks, the Bundesverband Öffentlicher Banken Deutschlands (VÖB), for the public-sector banks, the Deutscher Sparkassen- und Giroverband (DSGV), for the savings banks finance group, and the Verband deutscher Pfandbriefbanken (vdp), for the Pfandbrief banks.

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General remarks
Our understanding is that the new IRRBB reporting requirements completely replace the previous IRRBB reporting requirements of the national competent authorities (NCAs) in order to ensure a standardised and harmonised IRRBB reporting system. This applies to both existing national reporting requirements and the ECB's extensive IRRBB-related reporting requirements for SIs under the Short Term Exercise (STE). **It is therefore particularly important for the EBA to explicitly emphasise that the previous IRRBB-related reporting requirements of the NCAs and the ECB (the CAs) must cease to apply at the first reporting date of the amended ITS on reporting**. According to the EBA statement during the hearing on 15 March 2023, the CAs had committed to eliminate their existing IRRBB reporting requirements (including the IRRBB part of the ECB STE) without replacement. The EBA should explicitly include this commitment in the final draft.

Implementation of the new requirements entails considerable challenges and expenses for all three groups of institutions identified by the EBA. This applies equally to large institutions, to SNCIs as defined by the CRR and to institutions referred to as "other institutions". In principle, it should be highlighted that the EBA defined targets for reducing reporting costs and expanding proportionality as part of the EBA **Cost Of Compliance study** conducted in 2020. For every proposed regulation, this requires an assessment of whether the **reporting costs incurred are proportional to the benefits**.

When it comes to proportionality, the draft ITS provides for simplifications for **SNCIs** that we welcome in principle. **However, in light of the scope of the new reporting requirements, these simplifications are inadequate** – especially in comparison to the existing reporting requirements and the corresponding workload at national level. For example, the values to be reported, i. e. scenario outcomes, cash flows, modelling results and parameters, are identical to the reporting requirements for large institutions. This runs counter to the EBA's goal and the statutory mandate established by CRR II to expand proportionality and reduce reporting costs (see Article 430(8) of the CRR and the EBA's Cost Of Compliance study report).

The situation is by no means better for large institutions. These institutions – to the extent that they are supervised by the ECB – have to date complied with the IRRBB-related requirements of the STE, with more than 5,000 data points (out of a total of more than 9,000 of the STE). The new requirements call for approximately 6,000 data fields for non-SNCIs and approximately 4,300 for SNCIs, with the largest number resulting from templates J 03.00 and J 06.00 on repricing cash flows, which are required to be reported each quarter. **Although the requirements seem similar to the STE at first glance, they are not comparable when it comes to details because of new and extended breakdowns.** Overall, the reporting requirements are far too granular and even more granular than the STE. This means that even the large institutions are effectively on the verge of a completely new implementation. From our perspective, the vast scope of reporting is not matched by any corresponding benefits for the supervisory authorities.

To date, there are no proportionate arrangements governing the group of other institutions. Balanced simplified requirements, for example in line with the option discussed in 1b, and with an additional reduction in the level of disaggregation, are essential also for these institutions. Overall, **any**

extension of the reporting requirements for other institutions and large institutions should take place only step by step – based on further simplified requirements for SNCIs.

In addition to the insufficient proportionality, the **high degree of detail and the specification** of a certain product mix would mean a **new dimension in the management of interest rate risk** for most institutions. Further – even if this dimension is already present, in our view, it does not yet exist in the specified form in any institution in Europe and that also does not lead to any improvements in the interest rate risk management. Furthermore, not even the Guidelines (EBA/GL/2022/14) and Draft RTS (EBA/RTS/2022/10) dated October 2022 specifically describe such a level of detail. This conveys the impression that the requirements of the Guidelines have been extended retrospectively through the Draft ITS with regard to IRRBB reporting. The level of detail of these templates would mean that the institutions would have to develop a revised interest rate risk management system without any need for it from a business perspective. **This runs counter to the principle of proportionality and undermines methodological freedom.**

In our opinion, **some of the planned requirements can only be implemented using best efforts approaches.** A fundamentally **more flexible wording** of the requirements would significantly reduce the implementation effort. Crucial aspects include the disaggregation of all customer transactions on an individual transaction basis, which may have a behavioural component, as well as a requirement to take into account hedge accounting and to map new business based on the class criteria of the upstream business in earnings-based risk management. Implementing these requirements would entail time-consuming data collection, recalculations, and adjustments to established methods.

Overall, we would like to stress that **the implementation on the proposed basis is not possible (not even on an alternative technical basis e. g. Microsoft Excel)**, considering the fixed IT release cycles until the planned and communicated entry into force. Implementing a reporting regime like this would result in high resource consumption, and it could only be **achieved in the long run accompanied by several serious software adaptations as well as procedural changes**. This requires several intermediate solutions and additional manual activities on the part of those persons responsible for reporting. In particular, the synchronisation or technical merging of the accounting and risk management data at the granular level depicted appears to be particularly challenging and, moreover, unnecessary from the viewpoint of established risk management procedures. For example, "weighted average yield" and "weighted average maturity" are currently not generally required for risk management purposes. They would have to be determined from scratch and solely for reporting purposes, although they are not required in the underlying framework (Guidelines). Combining carrying amounts and exposure values would also not be possible for many institutions without massive changes in the data architecture. Likewise, the need to separate optionalities to determine PVO1 would be very time-consuming.

To the best of our knowledge, the EBA is also planning an **ad hoc data query on IRRBB** in the format of the future EBA reporting requirements or possibly over and above this (Advanced Data Collection) as at the **31 December 2023** reporting date. This will effectively bring forward the first reporting date for the institutions by at least six months. This further **drastically reduces the time for the already impossible IT implementation** of the new requirements planned first reporting date of 30 June 2024. It would contradict the third recommendation from the EBA report on the Cost of Compliance study, according to which **all necessary materials and documents should be made available at least 12 months before initial application**. It is already predictable that the DPM, including the XBRL taxonomy

for IRRBB reporting, will not be published 12 months before the reporting date. No appropriate implementation of the extensive requirements will be possible neither for large institutions nor for “other institutions”, and especially not for SNCIs, before this reporting date. **We therefore strongly oppose a mandatory ad hoc survey.**

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Specific comments on the templates and answers to the questions

5.2.1 General questions

Question 1: Are the instructions and templates clear to the respondents? More specifically, do respondents consider that all definitions are unambiguous and accurate (e.g. linear and non-linear derivatives, contingent assets and liabilities, total assets/liabilities with impact on MV, etc)?
In principle, the definitions and instructions under Part 1 (general instructions) of the annex and the specific parts concerning the reporting templates are clear and understandable. Examples for the different product clusters are explicitly mentioned (for example linear derivatives -> futures, forwards, swaps).
But questions remain regarding specific aspects of NII/EVE simulation. For example, there is no clear definition as to whether revenues from investment fund (CIU) positions must be broken down and reported separately in debt securities and derivatives, or if the interest-related components should be reported as a whole in "other".
Furthermore, the question arises as to how the statutory termination option could be mapped in the case of a 10-year fixed interest rate. Additionally, the mapping of loan commitments is not clear, e. g. the split between short and long positions.

Question 2: Do the respondents identify any discrepancies between these templates and instructions and the calculation of the requirements set out in the underlying regulation?
From our point of view, the content of the templates by far exceeds the calculation requirements contained in the underlying regulatory regime for IRRBB. The templates contain position breakdown requirements unrelated the IRRBB Guidelines, e. g. breakdown of derivatives by collateralisation, a differentiation between behavioural and contractual cash flows as well as stating carrying amounts and fair values. Such information should be out of scope of the ITS and hence the relevant rows removed from the templates. In general, a commitment to use a uniform classification of reporting positions / type of values for any IRRBB survey, reporting and stress testing would help to reduce additional, partly manual reconciliation efforts.

Question 3: Do the respondents agree that the amended ITS fits the purpose of the underlying regulation?
Although essential parts of the reporting requirements defined in the ITS are indeed derived consistently from underlying regulation standards as described in the RTS and the implementation of the Guidelines, the scope of the templates by far exceeds their purpose (please also refer to our answer to question 2). Especially the breakdown structures developed in reporting templates (J 02.00, J 03.00, J 04.00) that must be applied by large institutions deviate from the STE and exceed the requirements of the RTS and the Guidelines to a significant extent. The granularity and the different segmentation compared with what is currently used in NII/EVE simulation will cause high implementation costs (see question 5).

Question 4: How many full-time equivalent (FTE) employees does your institution expect to involve in the implementation for how many months in order to report in a compliant way? Please provide indications for specific templates and options relevant for your institution. Please also indicate whether the same implementation will be used by many reporting institutions such that costs are shared among them.

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The German banking sector consists of a wide range of institutions in terms of e. g. size, business model and complexity. The proposed reporting requirements will be burdensome for all of them. Most of the reporting requirements go beyond the actual concepts for managing interest rate risk and will have to be implemented over time. A technical rollout is to be expected to take several years. See also answer to question 5.

Question 5: What technical and procedural dependencies does the implementation of the ITS imply for your institution? How do they affect the time schedule of the implementation?
Implementation of the IRRBB reporting requirements is very ambitious – if at all possible – in relation to timeline and costs. Since the following aspects are generally not compatible with existing management mechanisms and systems architectures, they will prove particularly burdensome to implement and might even lead to unintended changes in IRRBB management (fundamental gaps):

- the breakdown structure (J 02.00, J 03.00, J 04.00) differs from actual risk management implementation, which is based on individually defined balance sheet structures. Additional data must be (pre-)processed, and a new COREP segmentation view will have to be established. It is not clear whether all relevant data is available in the core banking and reporting systems.
- a detailed split of NII/EVE into contractual and optional components for all relevant products/contracts
- add-on behavioural modelling, time series approaches, automatic optionalities
- new split of derivatives into long/short, interest and currency positions (legs), and segmentation in the corresponding asset/liability structures
- implementation rules for hedge accounting (as required under treatment of derivatives and definition of NII)

These are only some particularly eye-catching examples. It is very likely that there are many more. Implementation requirements for each institution under the available software applications will lead to a very challenging – if at all possible – effort to map the current product structure, which is individually chosen by each institution, to fulfil the stated reporting structure requirements. Supporting information from central IT services and other product service providers will require an equally challenging effort to incorporate these individually chosen product structures.

5.2.2 Proportionality

Question 6: Do respondents agree that the decision to simplify reporting templates is the best approach in implementing proportionality? In case you do not agree, what other proposal would be more efficient to reduce costs?
Generally, each simplification of the reporting templates is a valuable effort to support the proportionality of these regulatory requirements. To support simplification of the requirements, the complexity of the required reporting should be better targeted to the current reporting schemes.

The suggested reporting requirements include a level of detail that is not common among SNCIs and not used in managing interest rate risk. Therefore, even with the suggested simplification, the resulting reporting requirements are still a tremendous effort and burden for SNCIs, which run counter to efforts to promote proportionality (see EBA's Cost of Compliance study).

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Moreover, there should be a proportionate approach for the group of "other institutions" as well, in particular concerning the (granularity of) breakdowns.

A phase-in approach for all templates with breakdowns should also be considered. We also suggest additional simplifications for banks that do not significantly rely on liabilities with optional or variable features.

Question 7: Do respondents perceive that the reporting requirements are proportionate for small and non-complex institutions?
How could proportionality be further improved for these institutions? Particularly, does template J 08.00 on qualitative information add substantial reporting costs to these institutions? Is there some quantitative information contained in Templates J 05.00, J 06.00 and J 07.00 that is overly burdensome? Is the expected frequency for templates J 05.00, J 06.00, J 07.00 and J 08.00 feasible and proportionate?
As already mentioned in our answers to questions 3 and 5, the requirements contain a level of detail that is currently not used by most SNCIs as well as "other institutions". To improve proportionality, a less detailed scheme of assets in the reporting requirements is needed.
Regarding the information given in J 08.00, the general information concerned with the methodology is typically standardised and therefore not especially burdensome for institutions to report once the supporting information and the software solutions are in place. The qualitative information to changes in the reported figures is an additional effort for all institutions, as the current risk management approach may not cover all of the required reporting information.

We suggest SNCIs should report only templates J 01.00, J 05.00 and J 08.00.

Question 8: Do respondents perceive that the reporting requirements are proportionate for institutions other than large institutions and small and non-complex institutions ('other' institutions)? Is there some quantitative information contained in Templates J 02.00, J 03.00 and J 04.00 that is overly burdensome? Is the expected frequency for templates J 02.00, J 03.00, J 04.00 and J 08.00 feasible and proportionate? How could proportionality be further improved for these institutions?
"Other institutions" should at most follow the reporting standards currently proposed for SNCIs but with downsized breakdowns, while requirements for SNCIs should be significantly reduced. In addition to templates J 01.00.and J 08.00, we suggest that other institutions should report templates J 05.00, J 06.00 and J 07.00 (but J 06.00 and J 07.00 with downsized breakdowns) and SNCIs should only report template J 05.00 (see question 12 for exposure value).

Question 9: Do respondents agree that the number of currencies requested in this reporting package is proportionate? Particularly for templates J 02.00 to J 08.00, do these amended ITS request right amount of information for currencies that have a limited/marginal contribution to the IRRBB?
The given definition is in line with the currently used definitions for materiality for currencies with only a marginal contribution to interest rate risk and is therefore proportionate.

Question 10: Do respondents currently compute their IRRBB figures, such as those in panels 03.00 and J 06.00, broken down by fixed/floating, for internal monitoring and/or supervisory

reporting? If not, do respondents perceive that the reporting of templates J 03.00 and J 06.00 by fixed and floating rate instrument as a different dimension (i.e., in the Z axis) add substantial reporting costs with respect to different kind of solution? Would respondents propose a different approach to reduce the reporting costs (e.g. breakdown in rows by fixed/floating rate instrument, or instead of having it in a different dimension duplicate the columns of the panel to fit fixed and floating in different columns)? Please elaborate.
No, this is not the case and the implementation of IRRBB figures, such as those in templates J 03.00 and J 06.00, would result in substantial costs. The calculation/simulation of net interest income and interest rate risk is based on product structures defined at the individual bank level. The aggregation is based on contracts with similar properties. Within these structures, it might be possible to differentiate between fixed and floating-rate instruments. But it is not possible to do this systematically in a standardised way so that the result of this differentiation could be used directly in a common reporting framework.

Implementing this new dimension in the reporting templates J 03.00 and J 06.00 would cause high additional cost, because the individual product structures must be transferred in this standardised view. Moreover, this transformation does not entail any valuable additional information, neither for supervisors nor for the banks' internal interest rate risk management.

The implementation cost will occur independently of the option that will be chosen for visualisation in the report (duplication of templates, new dimension, duplication of rows or columns).

5.2.3 J 01.00 template - IRRBB sensitivity estimates: Economic Value of Equity (EVE)/Net Interest Income (NII) Supervisory Outlier Tests (SOT) and Market Value (MV) changes

Question 11: Do respondents currently compute the figures in column 0020 for internal monitoring and/or supervisory reporting? If not, do respondents perceive that column 0020 adds considerable reporting costs in order to calculate these figures (please consider that it would only be reported for the aggregate of all currencies)? Would respondents propose a different approach to reduce the reporting costs? Please elaborate.
No, the figures in column 0020 are not monitored or reported at the moment.
From a technical point of view, it is not possible (and not economically necessary) to calculate NII/EVE and MV changes only taking into account legal features (including automatic options and legal caps/floors) and disregarding effects of behavioural and/or conditional modelling (excluding effects from termination rights, prepayments, and early redemptions).
To do this, new scenario sets/calculation runs must be parameterised, executed and analysed on a regular basis. This will lead to significant additional process-related effort merely to fulfil reporting requirements. Furthermore, the separation of optional/behavioural components from calculated NII and interest rate risk in existing reporting views/structures will cause additional technical effort.

For some business models (e. g. German Bausparkassen), there are no legal cash flows in the traditional sense at all. Cash flows can only be simulated with assumptions about customer behaviour, because the basis of the business model is the multi-optionality of the contract. Calculation and separate reporting of legal cash flows is therefore not possible or makes no sense for these business models. Hence, the law governing German Bausparkassen (in §8) requires these institutions to implement a simulation model to forecast the cash flows resulting from both Bauspar deposits and Bauspar loans.

5.2.4 J 03.00 / J 06.00 template: Repricing cash flows

Question 12: Does the inclusion of carrying amount and credit risk exposure amount cause implementation challenges? If yes, please describe the challenges.
Firstly, we would like to highlight the fact that the carrying amount of total assets for the counterparties is already reported via FINREP. Thus, this represents an overlap which must be avoided (see EBA results on Cost of Compliance study; recommendation 8). Secondly, we do not understand why the exposure value is included at all. Thirdly, these templates ask for three calculations: the carrying amount, the exposure value and the accounting value (threshold purposes only). It is not comprehensible why institutions need to compute three different types of values for these templates. This request appears unnecessary.
The carrying amount that is reported in the balance sheet after depreciation charges and accrued interest is already calculated in the integrated P&L simulation.
The exposure value (as defined in Article 111 of the CRR) is not available as result of any NII/EVE simulation. The implementation of additional credit risk adjustments will cause technical implementation effort. The credit risk exposure amount does not convey any valuable additional information for the bank’s interest rate risk management and would only be used for reporting requirements. We suggest not requiring any information based on the exposure value.
The reporting of nominal amounts should be considered as being less burdensome.

5.2.5 J 08.00 template – Qualitative information
Question 13: What other types of methodologies for NII could be reported in row 0030?
None.

Question 14: What other types of methodologies for EVE could be reported in row 0070?
None.

Question 15: What other risk-free yield curves used for discounting could be reported in rows 0320 and 0330?
We are missing the standard discounting curve types of OIS (e. g. €STR swaps) and IRS (e. g. 3M Euribor swaps). Plain vanilla swaps (against €STR and 3M Euribor) should be added as a minimum to the selection.

Question 16: Since it is necessary to collect qualitative information to complement the quantitative to get a full overview of the IRRBB risks from a supervisory perspective, do respondents see other IRRBB related aspects that might be necessary to cover?
None.

Question 17: Do respondents see any issue about reporting the qualitative information in J 08.00? How do respondents consider this information in terms of usefulness and practicability?
Regarding the information given in J 08.00, the general information concerned with the methodology is typically standardised and therefore not especially burdensome for institutions to report once the supporting information and the software solutions are in place. The qualitative information to changes in

the reported figures is an additional burden for all institutions, as the current risk management approach may not cover the required information. In our understanding, there will be a dropdown menu providing the options "yes" and "no". We suggest adding a "not relevant" option to prevent misunderstandings.

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