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European Commission
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EBA-2023-D-4310

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Subject: Opinion of the European Banking Authority on European Commission's amendments relating to the final drat Regulatory Technical Standards specifying the 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 in accordance with Article 98(5a) of Directive 2013/36/EU ('RTS on supervisory outlier tests')

Dear Mr Berrigan,

On 14 March 2023, the European Commission sent a letter to the EBA informing of its intention to endorse with amendments the RTS on supervisory outlier tests and submitted on the same date to the EBA a modified version of the RTS. This notification opened a period of six weeks during which the EBA may amend the draft RTS on the basis of the Commission's proposed amendments and resubmit in the form of a formal opinion. It is my pleasure to submit to you today the EBA Opinion on the intended changes on the RTS.

The EBA shares the EU Commission's views that in the current interest rate environment the shock scenarios might create challenges for supervisors and institutions in the appreciation of what constitutes a large decline of the NII. When publishing its final IRRBB regulatory package in October 2022,[1] the EBA itself acknowledged the fact that the finalisation of the package was made in the context of an unprecedented interest rate risk environment justifying a close scrutiny around implementation and calibration aspects and a continuous dialogue with stakeholders.

That said, it is believed that the amendments to the methodology constituting a large decline as proposed by the EU Commission would create an undue burden to competent authorities in ranking all institutions considering business models and using their own expert and supervisory approaches while reducing the predictability for institutions as well as the harmonisation of the definition of a large decline across the Union.

[1] https://www.eba.europa.eu/regulation-and-policy/supervisory-review-and-evaluation-process-srep-and-pillar-2/regulatory-technical-standards-irrbb-supervisory-outlier-tests#pane-new-ed8f3c99-9589-454a-a87e-37f2578a1783.

In this regard, the proposed changes by the EBA, both for Recital 4 and Article 6 are deemed to address the concerns expressed by the EU Commission and institutions and to constitute, in particular with regard to the changes in Article 6, a simple and pragmatic approach to adjust the threshold to the current market conditions.

In substance, the enclosed Opinion proposes to retain the methodology for a large decline as originally defined in Article 6 of the draft RTS submitted by the EBA to the EU Commission on 19 October 2022 but to amend the level of what constitutes a large decline, replacing the original level of 2,5% of Tier 1 Capital with a level of 5% of Tier 1 Capital.

In addition, considering comments made by institutions, it needs to be stressed that the Supervisory Outlier Test on net interest income ('SOT NII') should be understood as an additional indicator for the supervisory review of the institutions' exposures to the interest rate risk in the banking book (IRRBB). In this regard, it is not meant to be associated with any automaticity in the exercise of supervisory measures when institutions exceed the proposed threshold. In the same way, while institutions are expected to integrate this threshold into their internal framework for the management of IRRBB as a complementary tool to closely assess and monitor the effects of the shock scenarios on their NII, it is not expected that this necessarily leads them to mechanically recalibrate their internal arrangements, processes or mechanisms and corresponding hedging strategies. In this regard, the EBA is suggesting making these expectations explicit in Recital 4 of the draft RTS.

The EBA current scrutiny plans on IRRBB will encompass reconsideration in the short term of the level of the threshold, which might need to be updated on a regular basis through time, and in the longer-term horizon a possible revision of the methodology, depending on more experience to be gathered, as well as reflections on additional harmonised indicators that competent authorities would be using to complement the SOT NII. In this context, the EBA will stand ready to propose further updates of the RTS as per Article 29(1)(d) of EBA founding Regulation, and as deemed needed.

Finally, given the recent events and market turmoil, which are also related to IRRBB aspects, the EBA urges the EU Commission to adopt without delay the RTS which constitutes a crucial piece of the EU regulatory framework for the harmonised assessment and monitoring of exposures of EU institutions to IRRBB.

Yours sincerely,

José Manuel Campa

CC: Irene Tinagli, Chair of the Committee on Economic and Monetary Affairs European Parliament
Elisabeth Svantesson, ECOFIN Chair, Minister of Finance, Presidency of the Council of the EU

Tuomas Saarenheimo, Chair of Economic and Finance Committee, Council of the European Union
Thérèse Blanchet, Secretary-General, Council of the European Union
Martin Merlin, Director Dir D, Banking, Insurance and Financial Crime, DG FISMA
Almorò Rubin de Cervin, Head of Unit D1, Bank regulation and supervision, DG FISMA

Encl: Opinion of the European Banking Authority on the EU Commission’s amendments on the RTS specifying supervisory shock scenarios