

## Circular

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## **Guidelines on sound management practices and reporting concerning interest rate risk and credit spread risk arising from non-trading book activities**

### Scope

This circular applies to credit institutions governed by Belgian law, approved or designated (mixed) financial holding companies governed by Belgian law, large stockbroking firms as defined in Article 3(5) of the Law on the supervision of stockbroking firms<sup>1</sup>, investment holding companies and mixed financial holding companies governed by Belgian law that fall under the Bank's supervision on a consolidated basis of a group of investment firms, where this group includes a large stockbroking firm. These institutions are hereinafter collectively referred to as "the institutions".

The principles and criteria mentioned herein with regard to the supervisory review and evaluation process essentially apply on a consolidated as well as on a non-consolidated basis.

### Summary/Objectives

This circular, which replaces Circular NBB\_2019\_18 of 19 July 2019 on sound management practices and reporting concerning interest rate risk arising from non-trading activities with effect from 30 June 2023, transposes into the Belgian prudential framework the Guidelines of the European Banking Authority (EBA) of 20 October 2022 specifying criteria for the identification, evaluation, management and mitigation of the risks arising from potential changes in interest rates and of the assessment and monitoring of credit spread risk, of institutions' non-trading book activities.

<sup>1</sup> Law of 20 July 2022 on the legal status and supervision of stockbroking firms and containing miscellaneous provisions.

Dear Sir,  
Dear Madam,

In accordance with Articles 142 and 143 of the Law of 25 April 2014 on the legal status and supervision of credit institutions (hereinafter "the Banking Law") and with Article 6 of Annex I to the said law, the Bank in this circular clarifies the principles and criteria on which it bases its review and evaluation of the management and hedging of interest rate risk and credit spread risk arising from institutions' non-trading book activities (hereinafter "IRRBB" and "CSRBB"). This circular replaces Circular NBB\_2019\_18 of 19 July 2019 on sound management practices and reporting concerning interest rate risk arising from non-trading activities.

The Bank's review and evaluation takes into account both qualitative aspects (adequacy of institutions' risk management) and quantitative aspects (level of risk actually incurred) of IRRBB and CSRBB.

Its evaluation of IRRBB on the basis of the reporting described in this circular will therefore serve as the basis for its supervisory review and evaluation process (SREP) for institutions considered less significant under the Single Supervisory Mechanism (SSM), and will also contribute to the ECB's SREP for significant institutions, which are subject to the ECB's direct supervision since 4 November 2014. Moreover, the reporting described in this circular serves as the basis for the evaluation of the interest rate risk in the Belgian banking sector carried out by the Bank in its capacity as macroprudential authority.

In this respect, the Bank adopts the entirety of the Guidelines of the European Banking Authority (EBA) of 20 October 2022 specifying criteria for the identification, evaluation, management and mitigation of the risks arising from potential changes in interest rates and of the assessment and monitoring of credit spread risk, of institutions' non-trading book activities (EBA/GL/2022/14) (hereinafter "the EBA Guidelines"), as included in Annex 1 to this circular, and specifies the requirements with regard to the reporting obligations.

It should be stressed that IRRBB is still regarded as a Pillar 2 risk and as such should be adequately managed, evaluated and capitalised internally. Meanwhile, prudential reporting aims to compare IRRBB across different institutions and, by doing so, to detect any prudential outliers. Consequently, the prudential reporting is but one of multiple elements which the Bank uses to assess IRRBB in its SREP and to determine a possible Pillar 2 capital surcharge or to take other prudential action where appropriate (see Articles 149 to 152 of the Banking Law).

## 1. EBA Guidelines on the management of IRRBB and CSRBB

When reviewing and evaluating the efficiency of the management of interest rate risk and credit spread risk arising from non-trading book activities, the Bank mainly monitors compliance with the EBA Guidelines and the relevant Basel Committee standards<sup>2</sup>.

To this end, the Bank adopts the entirety of the EBA Guidelines.

These guidelines consist of 6 main components:

- 1) Subject matter, scope, definitions and implementation (chapters 2 and 3).
- 2) General requirements for the management of IRRBB and CSRBB (section 4.1).

The guidelines specify that institutions should assess and monitor CSRBB exposures explicitly and comprehensively in their risk management and internal capital assessment processes, in terms of both economic value and net interest income measures plus market value changes.

- 3) Identification and management of IRRBB (section 4.2).

Based upon the assessment of their existing and prospective exposure to IRRBB, institutions should consider the criteria and guidance set out in the sections on capital identification, calculation and allocation (section 4.2.2), internal governance strategy (section 4.2.3), risk management framework and responsibilities of the management body (section 4.2.4), risk appetite framework (section 4.2.5), and implementation of risk policies, processes and controls (section 4.2.6).

- 4) Measurement of IRRBB by an institution's internal system (sections 4.3 and 4.4).

With regard to the modelling assumptions that institutions must take into account in implementing any internal measurement system, the guidelines impose certain restrictions on the behavioural modelling of non-maturity deposits. The assumed repricing date for all non-maturity deposits, with the exception of financial customer deposits that should not be subject to behavioural modelling and deposits with material economic or fiscal constraints in case of withdrawal, is limited to a maximum weighted average repricing date of 5 years.

In the event that the Bank assesses an institution's internal measurement system as non-satisfactory, it is entitled to require the institution to use the standardised methodology, in accordance with the provisions of Article 6 of Annex I to the Banking Law. The guidelines set out the main principles for the Bank's assessment of internal measurement systems. As a minimum, satisfactory internal systems should be implemented in compliance with the EBA Guidelines, taking into account the principle of proportionality.

- 5) Identification and management of CSRBB (section 4.5).

Based upon the assessment of their existing and prospective exposure to CSRBB, institutions should consider the criteria and guidance set out in the sections on internal governance strategy (section 4.5.2), risk management framework and responsibilities of the management body (section 4.5.3), and implementation of risk policies, processes and controls (section 4.5.4).

- 6) Monitoring of CSRBB (section 4.6).

Using their own assumptions and calculation methods, institutions should develop and implement robust internal measurement systems that capture all components and sources of CSRBB. The choice of measurement methodology should be adequate for the complexity of the institution.

The date of application of the criteria and guidance for the identification, management and monitoring of CSRBB is delayed to 31 December 2023.

<sup>2</sup> Basel Committee on Banking Supervision, *Standards, Interest rate risk in the banking book*, April 2016.

## 2. Reporting obligations

### **2.1. Reporting of internal calculations**

Institutions should be able to provide the Bank with a description and the necessary documents regarding the indicators they use and report on internally for the management of IRRBB and CSRBB, as calculated according to internally defined methods, scenarios and assumptions, for economic value sensitivity on the one hand and earnings sensitivity on the other.

They should also make the periodic results of these indicators available to the Bank. Where appropriate, the Bank may ask individual institutions to report these results to it on a regular basis, outside the usual periodic reporting.

### **2.2. Periodic prudential reporting requirements**

#### **2.2.1. Institutions considered significant under the SSM**

Institutions considered significant under the SSM are not required to submit the reporting tables 90.30.a, 90.30.b and 90.30.c. to the Bank. Instead, the Bank relies on the ECB reporting tables, which these institutions are required to report on a quarterly basis for IRRBB in the context of the ECB's Short-Term Exercise (STE).

#### National reporting

To be able to form an adequate view of the interest rate risk of all institutions within the scope of this circular that have been identified as significant under the SSM, all these institutions (including Belgian subsidiaries of institutions that are identified as significant within the SSM<sup>3</sup>) are requested, for the purpose of national requirements, to provide the ECB STE reporting on IRRBB (including all underlying positions) on a quarterly basis to the Bank.

The reporting should be prepared on a (sub-)consolidated basis. Institutions that are not subject to consolidated supervision (as a parent company) should report on a non-consolidated basis. The reporting deadline has been harmonised with the deadlines set by the ECB.

The reporting must be made available to the Bank in XML format, using OneGate. To that effect, the full STE reporting table (the so-called STE IRRBB table) should be used, together with the corresponding instructions annexed to this circular (annexes 4 and 5).

The accredited statutory auditor is required to report on reporting for that table.

#### STE reporting in respect of the ECB

Institutions that also report the Short Term Exercise (STE) at the request of the ECB should continue to provide these STE tables, including information on the interest rate risk in the banking book (STE IRRBB table), in accordance with the existing arrangements and the current process. The aim is to continue to comply with the specific provisions of the ECB STE process.

Such institutions should at all times ensure that the data they provide in their reports to both the Bank and the ECB are identical.

<sup>3</sup> Including Belgian subsidiaries of institutions that are identified as significant within the SSM, and which to date have not had to submit any reporting or have had to submit only limited STE reporting to the ECB

## 2.2.2. Institutions considered less significant under the SSM

Institutions considered less significant under the SSM are subject to the periodic reporting requirements described in point 2.2.3 and Annexes 2 (reporting tables 90.30.a, 90.30.b and 90.30.c) and 3 (explanatory notes to reporting tables 90.30.a, 90.30.b and 90.30.c) of this circular.

The accredited statutory auditor is required to report on reporting for these tables.

## 2.2.3. General requirements

- 1) Institutions should calculate the data to be reported on the basis of a series of prudential rate movement scenarios established in accordance with the provisions of Article 143 §1(12) of the Banking Law and taking into account the requirements set out in the EBA's technical standards. They should apply either their own measurement system, defined internally taking into account the criteria laid down in the EBA guidelines, or the standardised approach or simplified standardised approach, in accordance with the provisions of Article 6 of Annex I to the Banking Law.
- 2) Reporting tables 90.30.a, 90.30.b and 90.30.c should be prepared on a (sub-)consolidated basis. All bank subsidiaries and branches falling within the prudential consolidation scope should also be included in the consolidated prudential reporting on IRRBB, except for those entities that are insurance companies. Institutions with a material banking book that are not subject to consolidated supervision should report on a non-consolidated basis. Institutions that prepare reporting tables 90.30.a, 90.30.b and 90.30.c on a consolidated basis are not required to report them on a non-consolidated basis, except at the explicit request of the Bank.
- 3) The reporting frequency is quarterly, with reference dates 31 March, 30 June, 30 September and 31 December. The first reporting according to this circular should relate to the situation on 30 September 2023. The reporting with reference date 30 June 2023 should be carried out in accordance with Circular NBB\_2019\_18. The periodic reporting should be submitted as soon as possible and, at the latest:

For reporting on a non-consolidated basis: on the first working day of the second calendar month following the reporting date. When the reporting date coincides with the balance sheet date, the reporting should relate to the situation after the management's proposals to the board of directors or the managers have been processed.

For reporting on a consolidated basis: two months and 15 days from the reporting date. Reporting statements at the end of the financial year should be submitted no later than when the (accredited) auditor(s) in charge of auditing the consolidated annual accounts are or should be aware of the statements needed to prepare their written report, and no later than three months from the reporting date.

Also for this reporting requirement, an XML protocol will be used for the reporting tables 90.30.a, 90.30.b and 90.30.c. The technical information and the test environment in OneGate will be made available by the end of August 2023 at the latest. For more technical information on the OneGate reporting in XML format, please visit the Bank's website: <http://www.nbb.be/OneGate>, "Documentation", "Domain MBS - XML reporting".

The data reported will enable the Bank to calculate additional indicators relating, in particular, to other profitability data of the institution.

A copy of this circular is being sent to your institution's accredited auditor(s).

Yours faithfully,

A handwritten signature in black ink, appearing to be 'PW' or similar initials, enclosed in a large, loopy flourish.

Pierre Wunsch

Governor

Annexes – available only on [www.nbb.be](http://www.nbb.be):

- 1 EBA Guidelines of 20 October 2022 specifying criteria for the identification, evaluation, management and mitigation of the risks arising from potential changes in interest rates and of the assessment and monitoring of credit spread risk, of institutions' non-trading book activities.
- 2 Reporting tables 90.30.a, 90.30.b and 90.30.c
- 3 Explanatory notes to reporting tables 90.30.a, 90.30.b and 90.30.c
- 4 Explanatory notes to the ECB reporting tables (STE IRRBB Reporting Template)
- 5 ECB reporting tables (STE IRRBB Reporting Template)