BDO RISK EXCELLENCE COMPASS
IRRBB: Manage interest rate risk effectively and avoid supervisory findings

Horizontal Insights

BDO Financial Services

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BDO Risk Excellence Compass

IRRBB: Manage interest rate risk effectively and avoid supervisory findings

A changing environment: Interest rate volatility, geopolitical uncertainty, and new regulatory requirements have elevated interest rate risk management to a key supervisory priority. Since the 8th amendment to the MaRisk and the publication of the EBA Guidelines (EBA/GL/2022/14), institutions have faced the challenge of integrating complex requirements sustainably into their processes. In practice, this has resulted in recurring supervisory findings across different institutions.

Challenges

Many institutions have underestimated the complexity of the new requirements. On-Site Inspections regularly result in significant findings at both SIs and LSIs across the IRRBB framework.

Insights

While supervisors are requesting greater transparency, a deeper understanding of risk drivers and robust risk management and steering, banks are advocating for greater proportionality. Weaknesses have been particularly evident in models, data and reporting.

Best Practices

Leading institutions rely on granular frameworks, clearly defined responsibilities, closer alignment between the NII and EVE perspectives, and ongoing integration through limit systems and ICAAP linkages.

Conclusion: *Even four years after the publication of the EBA Guidelines and with the publication of the 9th MaRisk amendment, IRRBB remains a key supervisory focus and continues to result in recurring findings across institutions. Although the challenges and weaknesses observed are often similar, they must be assessed by institutions and auditors in light of each institution's specific circumstances and addressed where relevant.*

Horizontal Insights - Recurring Findings in IRRBB

Hot Topics from Audit Practice

The webinar will focus in particular on the key audit areas “Strategy and Objectives”, “Independence and Involvement”, “Behavioral Modelling”, “IRRBB Measurement and Scenario Design” and “Measurement of the Earnings Perspective”:

Strategy and Objectives

- Definition of specific and transparent objectives and their ongoing review
- Consideration of the gap risk profile, as well as objectives relating to option and basis risks
- Definition of a consistent hedging strategy

IRRBB Measurement and Scenario Design

- Historical and/or institution-specific hypothetical interest rate shocks are not adequately considered
- Option risks are not adequately reflected under both baseline and stress conditions

Independence and Involvement

- Consistent segregation of duties, including within deputy arrangements and voting rights
- Risk metrics are not sufficiently specified and/or consistently integrated into reporting

Behavioral Modelling

- Definition of homogeneous and sufficiently granular product clusters
- Consideration of concentrations
- Representativeness of the underlying data
- Scenario-based modelling of assumptions and parameters

Measurement of the Earnings Perspective

- Consideration of changes in market values
- Interest rate sensitivity of balance sheet growth and composition
- Static versus dynamic balance sheet perspective
- Scenario-dependent pass-through rates and margin assumptions