September 25, 2013

Comments on the European Banking Authority's Consultative paper: Revision of the 'Guidelines on Technical aspects of the management of interest rate risk arising from non trading activities in the context of the supervisory review process' from 3 October 2006, under Articles 123, 124 and Annex 5 of Directive 2006/48/EC of the European Parliament and the European Council

Japanese Bankers Association

We, the Japanese Bankers Association, would like to express our gratitude for this opportunity to comment on the consultative paper: *Revision of the 'Guidelines on Technical aspects of the management of interest rate risk arising from non trading activities in the context of the supervisory review process' from 3 October 2006, under Articles 123, 124 and Annex 5 of Directive 2006/48/EC of the European Parliament and the European Council* released on June 27, 2013 by the European Banking Authority.

We hope that our comments below will be of assistance and offer an additional point of reference as you work towards finalizing the framework.

General Comment

According to the Consultation Paper, the review of the original CEBS Guidelines was prompted by a lack of comparability resulting from differing practices across banks. The Basel Committee of Banking Supervision (BCBS) regards risk sensitivity as one of the important elements as well as a balance with comparability and simplicity.[1] The proposed amendments set out in the Consultation Paper overly focus on 'comparability' and sacrifice risk sensitivity by requiring the application of a uniform basis to all currencies regardless of differences of each volatility levels and limiting options for methods to evaluate portfolios with different risk profiles.

Further, it is doubtful that changes in economic value calculated are useful and implicative information for supervisory purposes to monitor the adequacy of bank's risk capital. We therefore do not consider that the proposed amendments are appropriate.

[1] BCBS Discussion Paper on The Regulatory Framework: Balancing Risk Sensitivity, Simplicity and Comparability, July 2013.

○ **Standard interest rate shock scenarios**

Under conventional interest rate volatility scenarios which are based on 1% and 99% confidence intervals, since variety of data used for estimation is limited and the estimation method is simple and easy, we believe differences in outcomes across estimators will not arise and consistency can be ensured.

However, regarding the proposed scenario applying a parallel shift of +/- 200 basis points to all currencies uniformly, we cannot support it due to its excessive approach which sacrifices risk sensitivity and effectiveness of the analysis and places too much emphasis on ensuring comparability of scenarios.

○ **Maximum average duration for liabilities**

The assumed duration for core deposits is a critical parameter in capturing interest rate risk arising from banking book, and it is necessary to take into account characteristics of liabilities including differences in the level of 'stickiness' of deposits arising from regional nature or deposit type, to maintain comparability of risk being held. This view is also supported by the BCBS's liquidity requirement framework.

In this regard, we cannot support the proposal to establish a maximum average duration uniformly, similar to the case of the abovementioned issue, since it overemphasizes consistency while compromising risk sensitivity.