Consultation Fact Sheet

Interest Rate Risk in the Banking Book Additional Pillar 2 Guidance

Body	
Basel Committee on Banking Supervision (BCBS)	
Published 2026-11-09	**Consultation deadline** 2027-02-09
Scope of application Banks' management and supervisors' assessment of interest rate risk in the banking book under the Basel Framework	**Impacted / targeted stakeholders** Banks, including their governing bodies, senior management, treasury, asset and liability management, risk and model validation functions; Banking supervisory authorities

Synthesis

The Basel Committee on Banking Supervision (BCBS) is consulting on additional Pillar 2 guidance to strengthen banks' management of interest rate risk in the banking book (IRRBB) and supervisory oversight. The proposals address model validation and behavioural assumptions, particularly for non-maturity deposits; stress testing; hedging controls; embedded gains and losses in securities portfolios; and short- and medium-term earnings indicators. They introduce "supervisory information" to improve reporting, support peer comparisons and identify potentially excessive IRRBB earlier. The guidance would complement the existing framework through targeted amendments to SRP31 and standalone guidance replacing existing SRP98 application guidance. Incorporation into MIR20 of the consolidated guidelines is proposed under the separate consultation on consequential amendments. Implementation would retain flexibility to reflect individual banks' characteristics and jurisdictional circumstances.

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Purpose & rationale

The Committee's analytical work identified shortcomings in banks' management of basic banking risks, including IRRBB. Accelerating inflation, sharp interest rate increases and heightened rate volatility exposed weaknesses in risk measurement, behavioural assumptions and controls. Building on the 2016 IRRBB standard, the proposals seek to improve the functioning of the existing Pillar 2 framework by providing practical guidance for banks and supervisors, strengthening oversight and streamlining reporting while preserving proportionality.

Specific policy objectives:

- Improve model reliability and ensure behavioural assumptions reflect banks' own portfolios, customers and changing market conditions.
- Assess interest rate shocks through both economic value and earnings measures, including embedded losses and their implications for capital headroom.
- Close supervisory data gaps and strengthen independent validation, senior management involvement and accountability.
- Support earlier identification of excessive IRRBB through peer comparisons, trend analysis and more effective supervisory review.

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Key proposals

The draft proposes more detailed guidance on how banks validate IRRBB models, test behavioural assumptions, assess earnings and capital sensitivity, and evaluate hedging and embedded losses. It also outlines the information supervisors could collect and use for peer comparisons and trend analysis to identify weaknesses and potentially excessive exposures earlier, with application proportionate to banks' risk profiles and jurisdictional circumstances.

Area	Proposed guidance
Additional guidance for banks	
Model validation and governance	▪ Backtest and/or otherwise independently validate key models and material assumptions, as appropriate, including deposit forecasts, mortgage prepayments and deposit pricing; monitor performance and investigate underperformance ▪ Review rate floors, discount curves, scenario severity, assumption changes and management overlays. Assess recalibration or redevelopment needs when backtesting shows material predictive deterioration; use compensating controls for exceptional circumstances until model revision or those circumstances cease ▪ Validate vendor inputs against the bank's risk profile and customer base; consider challenger models as an additional validation tool
Behavioural assumptions and data	▪ Tailor assumptions to markets, products and customer groups, using relevant segmentation factors and macroeconomic variables ▪ Banks may consider historical coverage spanning at least one full interest rate cycle or a sufficiently long, representative period, supplemented where necessary by forward-looking analysis ▪ Assess whether digitalisation, competition and changing rate regimes make historical data less representative; document and rigorously test the resulting assumptions
Non-maturity deposit modelling	▪ Segment deposits using empirical evidence on customer and product characteristics, balances, insurance coverage and remuneration, rather than assuming uniform depositor behaviour ▪ Reflect concentration, competitive conditions, deposit migration and non-linear pass-through under stress; keep pricing and deposit-volume assumptions consistent ▪ Test sensitivity to pass-through rates and modelled durations for both economic value and earnings measures. Do not rely exclusively on standardised framework caps

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Area	Proposed guidance
Stress testing	▪ Cover major on- and off-balance-sheet components through scenario analysis and sensitivity tests of changes in economic value of equity (EVE) and net interest income (NII) at multiple shock levels. ▪ Assess key assumptions, non-linear impacts and reliance on particular deposit segments; include non-parallel changes and consider negative rate scenarios where relevant. Use results to inform risk controls. ▪ Repeat testing regularly and more frequently when market conditions, portfolio changes or exposures warrant ▪ Communicate scenarios and results to senior management and supervisors.
IRRBB controls and hedging	▪ Supervisory information may include limits, authorised hedging instruments, delegated powers and lines of responsibility. ▪ Clearly define limits and corresponding management actions, documenting their rationale. ▪ It may also include exposures with and without hedging and analysis of hedges' impact on IRRBB measures; assessments of hedging effectiveness may be included when requested by supervisors.
Embedded losses and capital headroom	▪ Monitor embedded gains and losses, particularly on securities held at amortised cost, and their implications for capital headroom as part of the Internal Capital Adequacy Assessment Process (ICAAP). ▪ Supervisory information and senior-management reports may include current amounts, projections under rate shocks, hedging coverage and stress-test impacts on EVE and capital headroom. ▪ For significant securities holdings, consider breakdowns by asset class, maturity and fixed or floating rate; provide senior management and supervisors with greater visibility of the associated EVE sensitivity.
Earnings indicators	▪ Supplement economic value measures and the Supervisory Outlier Test with short- and medium-term earnings indicators tailored to the bank and jurisdiction. ▪ Examples include shocked-minus-baseline net interest income (NII) relative to Tier 1 capital, shocked-minus-realised NII relative to realised NII, and changes in NII relative to three-year average core operating profit. ▪ Earnings analysis may include baseline and shocked NII by balance sheet item, with and without hedging; repricing assumptions; fair-value effects; and reverse stress-test results, where applicable.
Additional guidance for supervisors	
Supervisory information	▪ Collect information through ongoing monitoring or examinations on modelling practices, stress tests, controls, embedded losses and earnings indicators. ▪ Illustrative information includes validation frequency, threshold breaches, model calibration decisions, overlays, limitations and remediation measures, alongside the relevant governing-body reports. ▪ Senior management should receive and examine relevant information before submission to supervisors, improving transparency over the basis of decisions and supporting independent validation.

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Area	Proposed guidance
Peer comparisons and follow-up	▪ Build reference groups using static characteristics such as size and business model, operational factors such as cross-border and currency exposures, or specific risk drivers such as duration gaps, deposit behaviour and embedded losses. ▪ Compare quantitative and qualitative information and analyse trends across rate cycles to identify deterioration, emerging outliers and changes in assumptions or hedging. ▪ Use supervisory tools to assess model robustness; evaluate embedded losses' effects on capital and liquidity under stress, and consider additional stress tests, closer monitoring and management engagement where vulnerabilities are material.

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