# SIX WAYS BCBS 368 WILL AFFECT ALM

After nearly a decade of low interest rates, hampering both NII and NIM, BCBS 368 is set to take effect at the same time when banks' treasuries and risk departments need to decide how they want to position their balance sheets against rising interest rates. Any decision on the tenor mismatch strategy at the dawn of a new rate cycle is likely to shape NII, and its volatility, for the next decade or so. So how will BCBS 368 affect ALM?

## 1 COMPLEXITY

The standardized approach for the value effect of interest rate movements is an important benchmark for ALM practices in banks, which lends it normative power. Together with the mechanics of the ΔEVE formula and its maximum operator, this will make ALM more complex.

## 2 RISK DEFINITION

BCBS 368 lowers the outlier threshold from 20 percent to 15 percent of Tier 1 capital, while allowing banks to strip cashflows of commercial margins. This is a treasury view on IRRBB, which in combination with existing risk metrics is a very useful guide for balance sheet strategies.

## 3 BALANCE SHEET SIMULATIONS

ΔNII is merely a special case of a full balance sheet forecast under different balance sheet and rate scenarios, which in turn is required for many of BCBS 368's qualitative aspects. Based on such forecasts, the effect on future ΔEVE can be made transparent, too, which helps reducing complexity.

## 4 CREDIT SPREADS

CSRBB requires the analysis of how market perceptions about credit quality affect the balance sheet. Based on a simulation of IFRS NII into the future, banks can extend their existing ALM methodologies for full adjustment for credit losses.

## 5 STRATEGY

Apart from being a constraint on banks' risk-taking, the risk definition in BCBS 368 is ideally suited to making the right strategic decisions about hedging, overall balance sheet positioning, tenor mismatch strategies, and instrument choice. Additionally, the economics of these decisions can be made transparent, appropriately monitored and held against a benchmark.

## 6 ESSENTIAL

Unlike many other regulations more akin to a tax on certain lines of business, any constraints on IRRBB are likely to affect a bank's profitability at its very heart from day one, which makes getting it right a top priority.

**As regulatory change coincides with momentous decisions, banks need the right infrastructure to support their balance sheet strategies and ensure compliance with growing regulatory reporting demands.**

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