Set up in 1990, the Czech Banking Association (CBA) is the voice of the Czech banking sector. The CBA represents the interests of 37 banks operating in the Czech Republic: large and small, wholesale and retail institutions. The CBA is committed to supporting quality regulation and supervision and consequently the stability of the banking sector. It advocates free and fair competition and supports the banks' efforts to increase their efficiency and competitiveness.

We appreciate the opportunity to comment on Basel Committee on Banking Supervision Consultative Document **INTEREST RATE RISK IN THE BANKING BOOK.**

1. Average allowed maturity of NMDs (non-maturity deposits)

Basel Committee on banking Supervision (BCBS) proposes split of NMDs into core and non-core part. BCBS then defines caps and floors to ensure certain amount is allocated to the non-core NMDs. Furthermore, BCBS proposes that non-core NMDs should reprice immediately, which means an over-night liquidity profile. Concerning core NMDs, BCBS proposes that core NMDs must be slotted into time buckets of no longer than six years, which means that an average maturity of core NMDs would be three years and banks would be allowed to roll-over NMDs only into six years reinvestments at maximum.

First, these requirements imply that the maximum average maturity of the most stable transactional retail demand deposits would be 1.8 years. However, it is the common fact that, especially in banks that are mainly funded through retail deposits and where a major part of retail deposits is constituted by transactional accounts, maturity and duration of NMDs is much larger than 1.8 year. We question the usage of 1.8 year as average maximum allowed maturity of demand deposits as it is too restrictive and even under an assumption that pricing of NMDs would be interest-rate non-sensitive, the maximum average allowed duration would be 1.8 year and it would not correctly reflect the true interest rate risk of NMDs, or in other words, it would underestimate the sensitivity of NMDs liabilities to changes in interest rates. The internal time series analysis of demand deposit in many banks (insights from conferences) shows that NMDs have liquidity profile longer than 10 years.

Second, the maximum allowed tenor of reinvestment equal to six years is questionable as well. Currently, the maximum allowed tenor of reinvestment for NMDs is ten years. Decreasing it to six years would mean that the value of demand deposits would decrease a lot, which would influence bank´s willingness to provide higher yield bearing deposits like savings accounts to clients, destroying so clients´ possibility to save. Furthermore, in sectors that are largely funded through retail NMDs, the one off decrease in value of these could have a large impact on the stability of banking sector as banks would face a need to invest into max. 6 years tenors to be compliant with BCBS while on the other hand the "true" value (and interest rate risk) of deposits would be much larger, creating so discrepancies between regulatory value and "true" value.

2. Standardized scenario multipliers for constant prepayment ratios (CPR), pull-through ratios (PTR) and term deposit redemption rates (TDRR)

BCBS defines standardized multipliers for CPR, PTR ad TDRR ratios to ensure that prepayments from assets, withdrawals from non-maturing assets and earlier termination of term deposits are sensitive to changes in interest rates.

We argue that proposed scenario multipliers are too restrictive. For example, in case a portfolio is having an early termination of loans equal to 1% per month (CPR = 1%), i.e. 12% per annum, then in case of a parallel down shock, CPR would increase to 24%. However, this is not applicable in reality as prepayments are not as interest rate sensitive as proposed multipliers show, especially in case of consumer credit where prepayments also highly depend on the fact whether the client gets some extra money or not (for example, from special rewards and so on), which is mostly random even. In other words, the interest rate sensitivity of prepayment ratios is not as high as standardized CPR multipliers tend to forecast. This means that these proposed multipliers would highly over-estimate the prepayments, especially for some type of assets. The same applies to multipliers proposed for pull-through ratios (PRT) and term deposit redemption rates (TDRR).

3. Public disclosure

BCBS states that underlying assumption for IRRBB measure like behavioural assumptions for NMDs, prepayments, early termination of term deposits and increases/decreases in economic value and earnings should be made public on an annual basis.

Underlying assumptions about behaviour of embedded option products like loans subject to prepayments and NMDs and internal models used to capture them are an internal know-how of each bank and it is up to a supervisor to assess its validity and impact into IRRBB, not to public and (competitors). The public disclosure of assumptions behind internal models might have negative impact on banks´ competitiveness and fair competition on the local level.

4. Economic value

BIS proposes to use risk-free yield curve for discounting factors used in calculation of a value of BB (banking book).

Using risk-free yield curve is not appropriate for assets due to high credit spreads, especially in case of retail assets like consumer credit and credit cards/overdrafts. In case we exclude spreads from the calculation of value of bank´s assets, we highly increase their value, which might consequently lead to an overestimation of IRRBB of a particular bank as only the value with spreads is the "true" one. In fact, the interest rate sensitivity as a % measure is closely the same for both risk-free and non-risk-free yield curve, only the absolute value changes. This combined with a maximum average duration of NMDs equal to 1.8 year will highly distort IRRBB positioning of many banks. In general the concept of risk-free yield curve is OK, but its combination with restrictive model for NMDs is questionable.

We hope that our response to the Consultative Document is sufficiently clear and our views are helpful.

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