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Subject:	Comments submitted for "Interest rate risk in the banking book - consultative document"
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BCBS Comment Upload

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Consultative document:	Interest rate risk in the banking book - consultative document(/bcbs/publ/d319.pdf)
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Comments:

The trade-off between optimal duration of equity and earnings stability is due to the fact that earnings is a poor measure of performance because it does not include a cost of equity. If one uses economic profit (EP) as a correct measure of performance (earnings minus a cost of equity), the trade-off disappears. This is due to the fact that the cost of equity (current risk-free bond rate plus a risk premium) is interest rate sensitive. As an example, when equity is invested in short-term financial assets, the bank is immunized from both an economic value of equity and an economic profit perspective (see J. Dermine, Bank Valuation and Value-based Management, McGraw Hill, NY, 2015, p. 277).