Industry Management Survey on FTP / IRRBB

Introduction

Thank you for participating in Asian Bankers Association/ Oliver Wyman’s industry survey on the management of FTP and IRRBB. The aim of this survey is to understand the current state of FTP/ IRRBB management practices at a granular level across governance, strategy, limits and control, metrics, analytics, reporting, and systems.

We will conduct this survey with strict confidentiality, with sanitization of all participant responses. At the end of the survey, we will provide a summary of our findings with all participants on an anonymous basis and believe that these findings will provide you with insights into the industry practices surrounding IRRBB. The questionnaire is structured around three categories:

1. Overall Approach
2. Measurement and methodologies
3. Governance, reporting and organization

For each section, we have laid out a number of questions and corresponding answer choices (or indicated a request for a free form entry in a number of instances). Note that each question has allocated comment boxes for comments that are not fully captured by the answer choices.

We expect survey completion in two weeks. The results will be analyzed, and a report will be generated quickly thereafter.

This survey should take between 30 – 45 minutes to complete.

# **FTP**

## Overall Approach

### Which of the following do you see as the key purposes of Funds Transfer pricing? (Tick all that apply)

| Insulate businesses from interest rate risk |  |
| --- | --- |
| Insulate businesses from liquidity risk |  |
| Insulate businesses from other risks |  |
| Reflect true economics of funding structure |  |
| Directly affect customer pricing decisions |  |
| Incentivize behavior in branches/ RMs |  |
| Subsidize certain business areas |  |
| Other (please explain in *Comments*) |  |

Comments:

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| --- |
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### How is funding allocated/ charged within the Group’s FTP framework? (Banking divisions only)

|  |  |
| --- | --- |
| All assets and liabilities are charged or credited by Group Treasury |  |
| All banking assets and liabilities charged or credited by Group Treasury **with the exception of Markets division** |  |
| Deposits and other funding retained within the Business Units – BUs pay for loan-deposit gap only |  |
| Other (please explain in *Comments*) |  |

Comments:

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### How mature/ established is your overall FTP framework (methodology and implementation)?

|  |  |
| --- | --- |
| Our FTP framework has been implemented for over a year in its current shape and we have no plans to significantly change it |  |
| We have upgraded our capabilities in the last 12 months and are now content with the framework with no plans to change it |  |
| We are in the process of upgrading our FTP framework significantly |  |
| We are planning to upgrade our FTP framework |  |
| Other (please explain in *Comments*) |  |

Comments:

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### Do you include any explicit subsidies in the FTP (if yes, please comment)?

|  |  |
| --- | --- |
| Yes |  |
| No |  |

Comments:

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## Measurement and methodologies

### Curves – do you differentiate funding ‘curves’[[1]](#footnote-1) (please tick all that apply)?

|  |  |
| --- | --- |
| Single curve applied to all assets and liabilities in each currency |  |
| Separate asset and liability curves are to reflect bid-ask spread |  |
| Different curves applied to different legal entities |  |
| Different curves applied to different business units (e.g. Markets business vs. lending) |  |
| Separate secured and unsecured curves applied to eligible assets (e.g. Mortgages) |  |
| If a separate secured curve is used – is the secured benefit held centrally or allocated to the business originating assets for the secured funding pool |  |
| Other (please explain in *Comments*) |  |

Comments:

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### Durations – How do you assess the repricing period of your products for FTP pricing purposes

| Approach | Markets securities | Corporate loans | Mortgages | Other lending | Current deposits | Term deposits | Other deposits |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Contractual repricing |  |  |  |  |  |  |  |
| Behavioral repricing under normal conditions |  |  |  |  |  |  |  |
| Expert judgement/ other |  |  |  |  |  |  |  |

Comments:

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### Durations – How do you assess the maturity period of your products for FTP pricing purposes

| Approach | Markets securities | Corporate loans | Mortgages | Other lending | Current deposits | Term deposits | Other deposits |
| --- | --- | --- | --- | --- | --- | --- | --- |
| Contractual maturity |  |  |  |  |  |  |  |
| Behavioral maturity |  |  |  |  |  |  |  |
| Expert judgement/ other |  |  |  |  |  |  |  |

Comments:

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### How do you charge for the liquidity buffer?

|  |  |
| --- | --- |
| Liquidity buffer cost not charged |  |
| Liquidity buffer cost allocated to on-balance sheet liabilities or assets |  |
| Liquidity buffer cost allocated to off-balance liabilities and assets through contingent liquidity analysis |  |
| Other (please explain in *Comments*) |  |

Comments:

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### What do you consider the key strengths and weaknesses of your current FTP framework?

Strengths:

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| --- |
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Weaknesses:

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## Governance and Organization

### How frequently are key FTP inputs changed?

|  |  |  |
| --- | --- | --- |
| Frequency | Curves | Durations |
| Daily |  |  |
| Weekly |  |  |
| Monthly |  |  |
| Quarterly |  |  |
| Annually |  |  |
| Other (please explain in *Comments*) |  |  |

Comments:

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# **IRRBB**

## Overall Approach

### What is your primary focus in managing IRRBB? Please rank order all those that apply in order of importance (1= most important, 10 = least important)

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| --- | --- |
| NIM |  |
| Accounting earnings |  |
| Value |  |
| Mixed |  |
| Other (please explain in *Comments*) |  |

Comments:

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### Is ALM/ Treasury a cost center or a profit center?

|  |  |
| --- | --- |
| Profit center (within risk constraints) |  |
| Cost center (purely prudential mandate) |  |
| Other (please explain in *Comments*) |  |

Comments:

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### What types of risks in IRRBB are actively hedged? Tick all that apply

|  |  |
| --- | --- |
| No hedging |  |
| Duration mismatch |  |
| Basis |  |
| Convexity |  |
| FX exposures |  |
| Other (please explain in *Comments*) |  |

Comments:

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## Measurement and methodologies

### What type of scenarios do you use for NII sensitivity analysis? Tick all that apply

|  |  |
| --- | --- |
| Scenarios prescribed by regulator |  |
| Historical Scenarios (e.g. 1994 interest rate spike, negatives rates in Denmark) |  |
| Hypothetical scenarios |  |
| Tail Risk Scenarios (e.g. driven by Principle Component Analysis) |  |
| Parallel shock (+/-50, 100, 200, 400 bps) |  |
| Deterministic simple paths (e.g. ramp up/down) |  |
| Other (please explain in *Comments*) |  |

Comments:

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### How do you measure changes in NII and EVE under different scenarios?

|  |  |
| --- | --- |
| Based on regulatory prescribed percentages for each maturity gap |  |
| Based on internally developed NII / EVE models |  |
| Other (please explain in *Comments*) |  |

Comments:

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### What is the ratio between your delta EVE with a +200 bps shock and your current EVE?

Please approximate number:

|  |
| --- |
|  |

Please elaborate:

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### What is the ratio of your NII under a +100 bps immediate shock relative to your current NII?

Please approximate number:

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Please elaborate:

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### Do you backtest IRRBB models and underlying assumptions (including behavioral characterization models)?

|  |  |
| --- | --- |
| Yes, yearly validation of models carried out by independent body, with detailed report and remediation steps circulated to management |  |
| Yes, yearly validation of models carried out |  |
| Yes, by model owners more frequently than yearly |  |
| Partially, on-going testing of models by model users |  |
| No |  |
| Other (please explain in *Comments*) |  |

Comments:

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### What vendor models or platforms are used for IRRBB quantification and analysis? Please select all relevant models/platforms

|  |  |
| --- | --- |
| QRM |  |
| Focus ALM |  |
| ALMonde |  |
| Algo |  |
| Moody’s |  |
| Other (please explain in *Comments*) |  |

Comments:

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### How satisfied are you with your ALM system?

|  |  |
| --- | --- |
| Very satisfied |  |
| Slightly satisfied |  |
| Relatively dissatisfied |  |
| Very dissatisfied |  |
| Other (please explain in *Comments*) |  |

Comments:

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* 1. A

## Governance and Organization

### How many FTEs are dedicated to managing IRRBB within Treasury/ALM?

Please enter number of FTEs:

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| --- |
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### Besides ALCO, what committees review IRRBB, and its policies, processes, or methodologies?

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| --- | --- |
| Risk Management Committee (or RMC subcommittee) |  |
| Formal subcommittees within ALCO (e.g. for particular technical aspects) |  |
| Working groups within Treasury and/or Risk |  |
| Model Risk Committee |  |
| Other (please explain in *Comments*) |  |

Comments:

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### What are your current areas of focus for enhancement for IRRBB in the next year?

Please elaborate:

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1. For the purposes of this question, a ‘curve’ reflects the cost/ benefit attached to a liability at each maturity/ duration. For institutions that apply less granular duration assumptions (e.g. single average cost or ST/ LT split) this question should be treated on the basis of the differentiation (if it exists) of those averages. [↑](#footnote-ref-1)