

# BCBS recalibration of interest rate shocks for IRRBB

May 2026



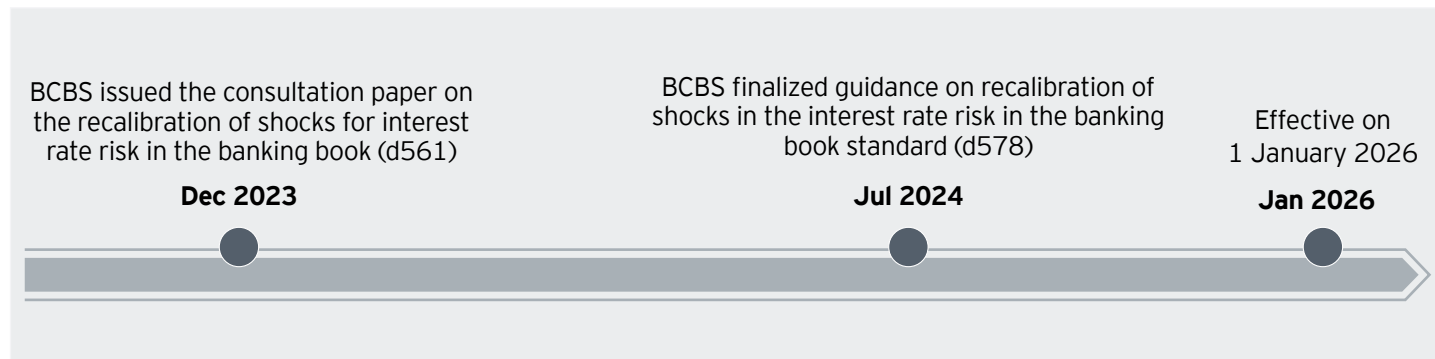
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## Background

In July 2024, the Basel Committee on Banking Supervision (BCBS) issued the finalized paper (d578) on the recalibration of interest rate shocks for the Interest Rate Risk in the Banking Book (IRRBB), replacing the interest rate shocks section in the existing standard (d368). These targeted adjustments aim to enhance the calibration methodology and address issues arising from the extended period of low interest rates observed across various jurisdictions. The revised interest rate shocks became effective on **1 January 2026** and were incorporated into the consolidated Basel framework.



This brief paper summarizes the key changes, the potential impacts of the recalibration on banks and our response strategies to assist banks in complying with the regulatory requirements.

## Interest rate shocks calculation methodology adjustments

The methodology adjustments for interest rate shocks proposed by the BCBS are summarized below:

Area	Current methodology (d368)	New methodology (d578)
Interest rate historical data period	January 2000 to December 2015	January 2000 to December 2023
Rounding of interest rate shocks	A multiple of 50 basis points	A multiple of 25 basis points
Localized interest rate shock factors	Global shock factors such as Inter-bank Offered Rate (IBOR) with relative changes	Local shock factors with absolute changes
Percentile value in determining the shock factor	99th percentile value	99.9th percentile value

## BCBS's new interest rate shock scenarios

Currency	ARS	AUD	BRL	CAD	CHF	CNY	EUR	GBP	HKD	IDR
Parallel	400	350	400	200	175	225	225	275	225	400
Short	500	425	500	275	250	300	350	425	375	500
Long	300	300	300	175	200	150	200	250	200	300

Currency	INR	JPY	KRW	MXN	RUB	SAR	SEK	SGD	TRY	USD	ZAR
	325	100	225	400	400	275	275	175	400	200	325
	475	100	350	500	500	375	425	250	500	300	500
	225	100	225	200	300	250	200	225	300	225	300

Colour guide  
(compared with the d368)

Increase
  Decrease
  Unchanged

We performed a deep-dive analysis of the changes to the USD interest rate shocks. Historical USD interest rate data shows that the extreme long shock occurred in 2008 even with the consideration of the extended 2016 - 2023 data period. This suggests that the increase in the long shock is primarily due to the percentile adjustment from the 99th to the 99.9th percentile rather than the extension of the data period.

## Potential impact on banks

- **Economic Value of Equity (EVE) and Net Interest Income (NII):** Larger interest rate shocks across most major currencies require banks to account for more extreme rate movements. **In certain scenarios, the higher shock magnitudes will result in a greater decline in EVE, thereby increasing  $\Delta$ EVE.** Similarly, NII projections will become more sensitive to rate changes, as larger shocks may amplify repricing mismatches and behavioral assumptions.
- **Behavioral models:** The enlarged shock magnitudes mainly affect banks that employ scenario-specific behavioral modeling. Additional sensitivity testing on the behavioral models should be performed accordingly
- **IRRBB management:** Significant adverse changes in  $\Delta$ NII and  $\Delta$ EVE can trigger business strategy adjustments, e.g., reducing embedded options in products or shifting away from fixed-term deposit funding. Additionally, the banks need to evaluate the impact of the shock changes on their internal limit setting, hedging and asset-liability management.

### What it means to you?

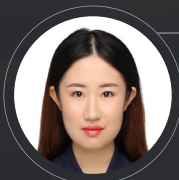
- Consider whether internal EVE/NII limits should be recalibrated in light of the higher shock magnitudes
- Review whether the changes in shock sizes alter the interest rate hedging strategies or risk appetite settings
- Evaluate whether the revised shocks necessitate a review or recalibration of the behavioral models

## How EY teams can help

EY is at the forefront of helping clients implement IRRBB standards. We are committed to closely monitoring any updates to the BCBS standards and their local adoption. Meanwhile, we provide a broad range of services to assist you in navigating the implementation of the revised standard:

Services	Service descriptions
Impact assessment & framework review	We will assess the appropriateness of the bank's existing behavioral model methodologies and evaluate whether updates are necessary in light of the new calibration of shock factors. Additionally, to enhance the bank's interest rate risk management framework and ensure compliance with the updated BCBS requirements, we will conduct an independent review of the bank's current IRRBB policies and procedures, along with the calculations of NII, EVE and basis risk exposures.
Expansion of interest rate shocks for additional currencies	Following the approach stipulated in d578, we have calibrated new interest rate shocks for additional currencies beyond those specified by the BCBS, such as the Malaysian ringgit (MYR) and the New Taiwan dollar (TWD). Therefore, we can customize interest rate shocks for banks to ensure complete coverage of their major currencies.
Internal interest rate shock scenarios design	Leveraging our experience, we will design bank-specific interest rate stress scenarios that complement the standardized shocks, align with Internal Capital Adequacy Assessment Process (ICAAP) expectations and use historical market episodes as key calibration benchmarks.

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