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European Union**

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COVER NOTE

From:	Secretary-General of the European Commission, signed by Ms Martine DEPREZ, Director
To:	Ms Thérèse BLANCHET, Secretary-General of the Council of the European Union
No. Cion doc.:	C(2023) 8121 final
Subject:	COMMISSION DELEGATED REGULATION (EU) …/... of 1.12.2023 supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying a standardised methodology and a simplified standardised methodology to evaluate the risks arising from potential changes in interest rates that affect both the economic value of equity and the net interest income of an institution's non-trading book activities

Delegations will find attached document C(2023) 8121 final.

Encl.: C(2023) 8121 final

Brussels, 1.12.2023
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COMMISSION DELEGATED REGULATION (EU) …/...

of 1.12.2023

supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying a standardised methodology and a simplified standardised methodology to evaluate the risks arising from potential changes in interest rates that affect both the economic value of equity and the net interest income of an institution's non-trading book activities

(Text with EEA relevance)

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EXPLANATORY MEMORANDUM

1.   CONTEXT OF THE DELEGATED ACT

Article 84(5) of Directive 2013/36/EU ('the Directive') empowers the Commission to adopt, following the submission of draft regulatory technical standards (RTS) by the European Banking Authority (EBA), and in accordance with Articles 10 to 14 of Regulation (EU) No 1093/2010, delegated acts to specify standardised and simplified standardised methodologies to evaluate the risks arising from potential changes in interest rates that affect both the economic value of equity and the net interest income of an institution's non-trading book activities.

In accordance with Article 10(1) of Regulation (EU) No 1093/2010 establishing the EBA, the Commission must decide within 3 months of receiving the draft standards whether to endorse the drafts submitted. The Commission may also endorse the draft standards in part only, or with amendments, where the EU's interests so require, having regard to the specific procedure laid down in those Articles.

2.   CONSULTATIONS PRIOR TO THE ADOPTION OF THE ACT

In accordance with the third subparagraph of Article 10(1) of Regulation (EU) No 1093/2010, the EBA has carried out a public consultation on the draft RTS submitted to the Commission in accordance with Article 84(5) of the Directive. A consultation paper was published on the EBA website on 2 December 2021, and the consultation closed on 4 April 2022. In addition, the EBA asked the Banking Stakeholder Group, set up in accordance with Article 37 of Regulation (EU) No 1093/2010, to provide advice on these draft RTS. Together with the draft RTS, the EBA has submitted an explanation of how the outcome of these consultations was taken into account in the development of the final draft RTS submitted to the Commission.

Together with the draft RTS, and in accordance with the third subparagraph of Article 10(1) of Regulation (EU) No 1093/2010, the EBA has submitted its impact assessment, including its analysis of the costs and benefits, of the draft RTS submitted to the Commission.

3.   LEGAL ELEMENTS OF THE DELEGATED ACT

The provisions of this delegated act specify standardised and simplified standardised methodologies to evaluate the risks arising from potential changes in interest rates that affect both the economic value of equity and the net interest income of an institution's non-trading book activities.

These draft RTS ensure continuity and compliance with the relevant international standards. The definitions, elements, and steps of the methodology set out in these draft RTS are built upon those set out in the EBA guidelines on the management of interest-rate risk arising from non-trading book activities and those set out in the standardised methodology of the Basel Committee on Banking Supervision of April 2016.

These draft RTS aim to facilitate implementation by institutions. Having regard to the fact that both the economic value of equity and the net-interest-income estimations can be based on repricing cash flows, both approaches have been based on the same rules regarding slotting in time buckets, with the exception of some cases in which the calculation of net interest income requires additional slotting.

When laying down the simplified standardised methodology, these draft RTS ensure proportionality, thereby providing a framework that is appropriate for the lower risk-

assessment capacities of small and non-complex institutions. To that end, in that simplified standardised methodology, a number of elements are set out, including certain simplifications and conservative measures, such as: (i) a prescriptive, linear slotting of non-maturity deposit cash flows applying scenario-dependent scalars to the core component; (ii) a simplified calculation of automatic optionality based on pay-outs; and (iii) for the purpose of net interest income, a calculation of interest rates based on an average reference term per product type, an average commercial margin per product type, and an interest rate up to the repricing date of the instruments calculated with estimates of average interest rates.

COMMISSION DELEGATED REGULATION (EU) …/...

of 1.12.2023

supplementing Directive 2013/36/EU of the European Parliament and of the Council with regard to regulatory technical standards specifying a standardised methodology and a simplified standardised methodology to evaluate the risks arising from potential changes in interest rates that affect both the economic value of equity and the net interest income of an institution's non-trading book activities

(Text with EEA relevance)

THE EUROPEAN COMMISSION,

Having regard to the Treaty on the Functioning of the European Union,

Having regard to Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC[1], and in particular Article 84(5), third subparagraph, thereof,

Whereas:

(1)   To foster harmonisation of practices when laying out the standardised methodology for the calculation of reliable estimates of the interest rate risk in the non-trading book, it is necessary to provide institutions with the key technical elements for the evaluation of risks, including rules on the slotting of cash flows, calculations for automatic options, calculations for instruments valued at fair value, and the rules for discounting and projection of cash flows.

(2)   To ensure continuity and compliance with the relevant international standards, the definitions, elements and steps of the standardised methodology should build upon those established in the guidelines of the European Banking Authority on the management of interest rate risk arising from non-trading book activities[2] and those established in the standardised methodology of the Basel Committee on Banking Supervision of April 2016[3].

(3)   To ensure harmonisation in identification, evaluation, management, and mitigation of interest rate risk in the non-trading book, it is appropriate to lay down standardised assumptions, where possible, in particular with regard to automatic options. When laying down such assumptions, it is necessary to take into account that professional counterparties generally trigger options to their benefit. There may be situations where prescriptive assumptions cannot be made because such assumptions could lead to risk assessments that lack accuracy, as in the case of retail client behaviour to interest rate shocks in the context of specific instruments. For those situations, it is necessary to lay

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[1]   OJ L 176, 27.6.2013, p. 338.
[2]   EBA/GL/2018/02 of 19 July 2018.
[3]   Basel Committee on Banking Supervision 'Interest rate risk in the banking book' of April 2016.

down as much as possible the steps, definitions, and restrictions to estimations that institutions should have regard to.

(4)   To facilitate the implementation of the standardised methodology by institutions and having regard to the fact that both the economic value of equity and the net interest income estimations should be based on repricing cash flows, the approaches for the estimation of those two metrics should be based on the same rules regarding slotting in time buckets. However, to calculate correctly the contribution of the projected risk free interest rate to the reinvestment or refinancing of repricing cash flows, the net interest income metric requires additional slotting of cash flows into the reference term time bucket.

(5)   Furthermore, given that the instruments in scope of the calculation of the economic value of equity and net interest income have different characteristics, including fixed or floating interest rates, and embedded behavioural assumptions, and to ensure a consistent implementation of that calculation, it is necessary to consider those characteristics when laying down specific allocation rules for each type of instrument .

(6)   To strike the right balance between, on the one hand, ensuring comparability of the calculation results and, on the other hand, providing the flexibility necessary due to the long-term horizon and the inherent operational complexity, commercial margins and spread components should be included in the calculation of the net interest income. However, for the calculation of the economic value of equity, institutions should proceed in accordance with their internal management and measurement approach for interest rate risk in the non-trading book.

(7)   To enhance risk sensitivity and to take into account institution-specific conditions regarding behavioural cash flows, the assumptions underlying the cash flow slotting of non-maturity deposits, the loans subject to prepayment risk, and the term deposits subject to the risk of early redemption should primarily be based on estimations of the institutions in a way that is consistently applied over time. However, to underline the standardised nature of the methodology, the conservatism of those behavioural flows should be enhanced by the multiplication by fixed scalars depending on the applicable scenario. In addition, regarding non-maturity deposits, conservatism should be ensured by implementing standardised caps on the proportion and the average maturity of the core component, depending on the counterparty category.

(8)   To ensure proportionality in cash flow slotting, where the materiality of certain exposures falls below pre-defined thresholds institutions should be exempted from certain estimations in the context of non-maturity deposits, loans subject to prepayment risk, term deposits subject to the risk of early redemption, non-performing exposures, fixed rate retail lines, and basis risk.

(9)   To facilitate the implementation of the standardised methodology, institutions should determine the relevant rate for each repricing time bucket, or for the combination of the repricing and the reference term time bucket, instead of determining that rate for each repricing cash flow.

(10)   To determine commercial margins for the projection of new business in the calculation of net interest income and to generate up-to-date estimates, institutions should use recent observations per relevant product type, counterparty category, and geographic location. Those observations should therefore generally be based on transactions observed in the last year, or on observable market prices for the instrument with available market quotes.

(11)   The outcomes of the standardised methodology on net interest income provide the highest informational value where the net interest income time horizon is set at 1 year. However, the calculation of the interest sensitivity of net interest income over a longer time horizon can often provide additional useful information for institutions with significant concentrations of maturities around or beyond the 1-year time horizon. Against that background, and to complement the economic value of equity metric, the 1-year time horizon for the net interest income calculation should be a minimum.

(12)   Basis risk can influence net interest income in a material way. Against that background, and building on existing practice established by the European Banking Authority, it is necessary to provide for a methodology for institutions to estimate the impact of basis risk.

(13)   When laying down the simplified standardised methodology, it is necessary to ensure both proportionality and conservatism. To that end, a number of elements should be set out in that simplified standardised methodology, including certain simplifications, which provide a framework that is appropriate for the lower risk assessment capacities of small and non-complex institutions, and conservative measures which ensure the robustness of the approach. Such simplifications and conservative measures should include a prescriptive, linear slotting of non-maturity deposit cash flows, including the application of scenario-dependant scalars to the core component, and a simplified calculation of automatic optionality based on pay-outs. Moreover, for the same purpose of simplification and conservativeness, the net interest income measure should rely on a calculation of interest rates based both on an average reference term per product type and an average commercial margin per product type, and on an interest rate up to the repricing date of the instruments, calculated with estimates of average interest rates.

(14)   This Regulation is based on the draft regulatory technical standards submitted to the Commission by the European Banking Authority.

(15)   The European Banking Authority has conducted an open public consultation on the draft regulatory technical standards on which this Regulation is based, analysed the potential related costs and benefits and requested the advice of the Banking Stakeholder Group established in accordance with Article 37 of Regulation (EU) No 1093/2010 of the European Parliament and of the Council[4],

HAS ADOPTED THIS REGULATION:

Chapter I
GENERAL PROVISIONS

Article 1
Definitions

1.   For the purposes of this Regulation, the following definitions apply:

(1)   'notional repricing cash flow' means any of the following:

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[4]   Regulation (EU) No 1093/2010 of the European Parliament and of the Council of 24 November 2010 establishing a European Supervisory Authority (European Banking Authority), amending Decision No 716/2009/EC and repealing Commission Decision 2009/78/EC (OJ L 331, 15.12.2010, p. 12).

(a) the amount of principal at the time of its repricing, whereby such repricing is deemed to occur on the earlier of the following dates:

(i) the date on which the institution or its counterparty is entitled to unilaterally change the interest rate;

(ii) the date on which the interest rate of a floating rate instrument changes automatically in response to a change in an interest rate benchmark as defined in Article 3(1), point (22), of Regulation (EU) 2016/1011 of the European Parliament and of the Council[5];

(b) in the absence of a repricing as referred to in point (a), the amount of principal at the time of repayment of the principal or part of it;

(c) an interest payment on that part of the principal that has not yet been repaid or repriced;

(2) 'repricing date' means the date at which a notional repricing cash flow occurs;

(3) 'risk free interest rate' means, for a given currency, the interest rate which corresponds to a maturity on a yield curve that does not include instrument-specific or entity-specific credit spreads or liquidity spreads;

(4) 'fixed rate instrument' means an instrument that generates cash flows of interest payments that are pre-determined based on a fixed interest rate until the point of its contractual maturity;

(5) 'floating rate instrument' means an instrument the interest rate of which is reset at pre-determined dates, either in response to a change in an interest rate benchmark as defined in Article 3(1), point (22), of Regulation (EU) 2016/1011, or in an institution's internally managed index;

(6) 'automatic interest rate option' means an explicit or implicit option as referred to in Article 325e(2), second subparagraph, of Regulation (EU) No 575/2013 of the European Parliament and of the Council[6], including an option under which the institution is likely to provide its counterparty with a pay-out irrespective of a contractual obligation, that complies with all of the following:

(a) the pay-out of the option is interest rate sensitive;

(b) the exercise of the option is purely driven by the monetary incentives of the option holder;

(7) 'behavioural interest rate option' means an option as referred to in Article 325e(2), second subparagraph, of Regulation (EU) No 575/2013, including an option under which the institution is likely to provide its counterparty with a pay-out irrespective of a contractual obligation, and that complies with all of the following:

(a) the pay-outs of the options are interest rate sensitive;

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[5] Regulation (EU) 2016/1011 of the European Parliament and of the Council of 8 June 2016 on indices used as benchmarks in financial instruments and financial contracts or to measure the performance of investment funds and amending Directives 2008/48/EC and 2014/17/EU and Regulation (EU) No 596/2014 (OJ L 171, 29.6.2016, p.1).

[6] Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and amending Regulation (EU) No 648/2012 (OJ L 176, 27.6.2013, p.1).

(b) the exercise of the option is not purely driven by the monetary incentive of the counterparty but is dependent on that counterparty's behaviour;

(8) 'non-maturity deposit' means a liability without a maturity date, in which the depositor is free to withdraw the deposit at any point in time;

(9) 'retail deposit' means a retail deposit as defined in Article 411, point (2), of Regulation (EU) No 575/2013;

(10) 'retail transactional deposit' means either of the following:

(a) a retail non-maturity deposit in a transactional account, which is an account in which salaries, income or expenses ('transactions') are regularly credited and debited;

(b) a retail non-maturity deposit which bears no interest, even in a high interest rate environment;

(11) 'retail non-transactional deposit' means a retail non-maturity deposit that is not held in a transactional account or that does bear interest;

(12) 'wholesale deposit' means a deposit which is not a retail deposit;

(13) 'stable non-maturity deposit' means the part of the non-maturity deposit that is likely to remain undrawn under the interest rates prevailing at the time of applying the standardised methodology for the slotting of the notional repricing cash flows;

(14) 'pass-through rate' means the percentage of change of the market interest rate that an institution assigns to a deposit to maintain the same level of stable deposits under the interest rates prevailing at the time of applying the standardised methodology for the slotting of the notional repricing cash flows;

(15) 'core component' means the part of a stable non-maturity deposit that is unlikely to reprice, even under significant changes in the interest rate environment;

(16) 'non-core component' means the part of the non-maturity deposit other than its core component;

(17) 'geographical location' means the country of incorporation of those debtors or depositors that are legal persons, or the country of residence of those debtors or depositors that are natural persons;

(18) 'reference term' means the period in reference to which an instrument reprices.

Article 2
Non-trading book positions included in the evaluation

1. Institutions shall, for the purposes of the standardised methodology and the simplified standardised methodology referred to in Article 84(1) of Directive 2013/36/EU, for each currency in which the institution has a position that is material as referred to in Article 3, evaluate all non-trading book positions. Those non-trading book positions shall include the following:

(a) non-trading book positions in financial assets;

(b) non-trading book positions in liabilities;

(c) non-trading book positions in off-balance sheet items.

2.   The non-trading book positions referred to in paragraph 1 shall include all of the following:

(a)   interest rate derivatives;

(b)   non-interest rate derivatives for which the cash flows are determined in total or in part by referencing an interest rate;

(c)   pension obligations and pension plan assets, except where their interest rate risk is captured in another risk measure;

(d)   interest rate-sensitive assets, other than those referred to in points (a), (b) and (c), and that are not deducted from Common Equity Tier 1 capital;

(e)   interest rate-sensitive liabilities, other than those referred to in points (a), (b) and (c), that are neither Common Equity Tier 1 instruments as referred to in Article 28 of Regulation (EU) No 575/2013, nor other perpetual instruments without any call dates;

(f)   interest rate sensitive off-balance sheet items, other than those referred to in points (a), (b) and (c);

(g)   small trading book positions as referred to in Article 94 of Regulation (EU) No 575/2013, except where their interest rate risk is captured in another risk measure.

For the purposes of point (e), interest rate-sensitive liabilities shall include non-remunerated deposits.

Article 3
Materiality of non-trading book positions

Institutions shall consider a non-trading book position to be material in either of the following cases:

(a)   the accounting value of assets or liabilities denominated in a currency amounts to at least 5% of the total non-trading book financial assets or liabilities;

(b)   the accounting value of assets or liabilities denominated in a currency amounts to less than 5% of the total non-trading book financial assets or liabilities where the sum of financial assets or liabilities included in the calculation is lower than 90% of the total non-trading book financial assets, excluding tangible assets, or liabilities.

Article 4
Classification of the scenarios

For the purposes of the identification, evaluation, management and mitigation of the risks arising from potential changes in interest rates that affect both the economic value of equity and the net interest income of an institution's non-trading book activities, institutions shall classify the scenarios, including the supervisory shock scenarios referred to in Article 1 of Commission Delegated Regulation [*Publications office, please insert number, and footnote with full reference*] into one of the following types based on the movement of the interest rate:

(a)   parallel shocks, which shall be either of the following:

(i)   a shock of increased interest rates in parallel across all maturities;

        (ii)   a shock of decreased interest rates in parallel across all maturities;

(b)   shocks involving rotations to the term structure, which shall be either of the following:

        (i)   a decrease of the interest rate at long-term maturities and increase of the interest rate at short-term maturities, leading to a flattening of the interest rate curve;

        (ii)   an increase of the interest rate at long-term maturities and decrease of the interest rate at short-term maturities, leading to a steepening of the interest rate curve;

(c)   uneven shocks, which shall be either of the following:

        (i)   a shock of increased interest rates that is greater at short-term maturities;

        (ii)   a shock of decreased interest rates that is greater at short-term maturities.

Chapter II
STANDARDISED METHODOLOGY FOR EVALUATING THE RISKS FOR THE ECONOMIC VALUE OF EQUITY OF AN INSTITUTION'S NON-TRADING BOOK ACTIVITIES

SECTION 1
ALLOCATION OF REPRICING CASHFLOWS

Article 5
General requirements for allocating notional repricing cash flows

1.   When using the standardised methodology for evaluating the risks arising from potential changes in interest rates that affect the economic value of equity of their non-trading book positions, institutions shall allocate the notional repricing cash flows of their non-trading book positions to the relevant repricing time buckets referred to in point 1 of the Annex, as follows:

(a)   for fixed rate instruments, in accordance with Article 6;

(b)   for floating rate instruments, in accordance with Article 7;

(c)   for non-maturity deposits, in accordance with Article 8;

(d)   for fixed rate loans subject to the risk of early repayment, in accordance with Article 9;

(e)   for fixed rate term deposits subject to the risk of early redemption, in accordance with Article 10;

(f)   for derivative instruments without optionality, in accordance with Article 11;

(g)   for instruments other than those referred to in points (a) to (f), in accordance with Article 12.

2.   Institutions shall treat commercial margins and other spread components in interest payments, in terms of their exclusion from or inclusion in the notional repricing cash flows, in accordance with their internal risk management and measurement approach for interest rate risk in the non-trading book.

Institutions that exclude commercial margins and other spread components from the notional repricing cash flows shall perform all of the following:

(a) use a transparent methodology to identify the risk-free interest rate at origination of each instrument, and apply that methodology consistently across business units;

(b) ensure that the exclusion of commercial margins and other spread components from the notional repricing cash flows is consistent with how the institution manages and hedges interest rate risk in the non-trading book;

(c) notify the exclusion of commercial margins and other spread components to the competent authority.

3. When allocating the notional repricing cash flows of their non-trading book positions as referred to in paragraph 1, institutions shall:

(a) not take into account the impact of an embedded optionality of an automatic interest rate option on notional repricing cash flows;

(b) take into account the impact of an embedded optionality of a behavioural interest rate option on notional repricing cash flows.

Article 6
Fixed rate instruments

1. Institutions shall allocate the notional repricing cash flows deriving from interest payments of non-trading book positions in fixed rate instruments to the relevant repricing time buckets referred to in point 1 of the Annex by repricing date, thereby taking into account any of the exclusions referred to in Article 5(2), second subparagraph.

2. Institutions shall allocate cash flows deriving from the intermediate and final repayments of the principal of non-trading book positions in fixed rate instruments to the relevant repricing time buckets referred to in point 1 of the Annex by repricing date.

Article 7
Floating rate instruments

Institutions shall allocate the notional repricing cash flows deriving from non-trading book positions in floating rate instruments to the relevant repricing time buckets referred to in point 1 of the Annex by repricing date, as follows:

(a) cash flows deriving from interest payments other than payments of the spread component up to the next repricing date, as per the contractual agreement;

(b) the remaining principal amount, as per the contractual agreement;

(c) spread components up to the final contractual maturity, irrespective of any repricing of the non-amortised principal, except where those spread components are excluded in accordance with Article 5(2), second subparagraph.

Article 8
Non-maturity deposits

1.   Institutions shall classify non-maturity deposits, depending on the type of counterparty, into the following categories:

    (a)   retail non-maturity deposits, further classified into the following:

        (i)   retail transactional deposits;

        (ii)   retail non-transactional deposits;

    (b)   wholesale non-maturity deposits, further classified into the following:

        (i)   wholesale deposits of financial customers;

        (ii)   wholesale non-financial deposits.

2.   Institutions shall distinguish:

    (a)   the stable from the non-stable part of the deposits referred to in paragraph 1, points (a)(i), (a)(ii), and (b)(ii) using observed changes of the volume of the deposits due to upward and downward movements of the risk-free interest rate for a period of at least the preceding 10 years;

    (b)   the core and the non-core component of the stable part of the non-maturity deposits referred to in paragraph 1.

To determine the amount of the non-core component of the stable part of the non-maturity deposits as referred to in point (b), institutions shall multiply the amount of all stable non-maturity deposits by the pass-through rate.

3.   When assessing the pass-through rate referred to in paragraph 2, second subparagraph, institutions shall consider the following elements, having also regard to non-trading book positions with similar characteristics:

    (a)   the current level of interest rates;

    (b)   the spread between the institution's offer rate and market rate;

    (c)   competition from other firms;

    (d)   the institution's geographical location;

    (e)   demographic and other relevant characteristics of the institution's customer base;

    (f)   the unlikely repricing of the core component of the stable part of the non-maturity deposits, even under significant changes in the interest rate environment.

4.   In shock scenarios prescribing an increase of short-term interest rates as referred to in Article 4, points (a)(i), (b)(i), and (c)(i), institutions shall multiply by 0,8 the core component of the stable part of the non-maturity deposits, calculated in accordance with paragraphs 2 and 3, and shall increase the non-core component accordingly.

5.   In shock scenarios prescribing a decrease of short-term interest rates as referred to in Article 4, points (a)(ii), (b)(ii), and (c)(ii), institutions shall multiply by 1,2 the core component of the stable part of the non-maturity deposits, calculated in accordance with paragraphs 2 and 3, and shall decrease the non-core component accordingly.

6. When applying paragraphs 2 to 5, institutions shall apply the following caps on the proportion of the core component of the stable part of the non-maturity deposits, calculated in accordance with paragraphs 2 and 3:

   (a) 90% for retail transactional deposits as referred to in paragraph 1, point (a)(i);

   (b) 70% for retail non-transactional deposits as referred to in paragraph 1, point (a)(ii);

   (c) 50% for wholesale non-financial deposits as referred to in paragraph 1, point (b)(ii).

7. Institutions shall treat all wholesale deposits of financial customers, as referred to in paragraph 1, point (b)(i), as non-core non-maturity deposits.

8. Institutions shall allocate the non-core component of the non-maturity deposits to the repricing time bucket referred to in point 1(a) of the Annex.

9. Institutions shall allocate the core components of the non-maturity deposits consistently over time to the relevant repricing time buckets referred to in point 1 of the Annex, based on observed internal data and subject to the following maturity restrictions calculated on a weighted average basis:

   (a) 5 years, for the non-maturity deposits referred to in paragraph 1, point (a)(i);

   (b) 4,5 years, for the non-maturity deposits referred to in paragraph 1, point (a)(ii);

   (c) 4 years, for the non-maturity deposits referred to in paragraph 1, point (b)(ii).

10. Institutions shall identify non-maturity deposits as non-core non-maturity deposits where the total of non-maturity deposits is smaller than 2% of the non-trading book positions that are accounted for as a liability in accordance with the applicable accounting framework.

Article 9
Fixed rate loans that are subject to the risk of early repayment

1. Institutions shall consider fixed rate loans to retail customers as subject to the risk of early repayment where the borrower is able to repay part or all of the outstanding principal before the contractually agreed repayment date or the contractual maturity date of the principal either:

   (a) without bearing the economic costs for such repayment; or

   (b) bearing the economic costs only above a prepayment threshold.

2. Institutions shall, for the non-trading book positions referred to in paragraphs 1 and 7, estimate the baseline annual conditional prepayment rate per currency, in a way that is consistent over time and appropriate for an average prepayment rate. Institutions shall estimate that average prepayment rate separately for each portfolio of homogeneous non-trading book positions and under the prevailing term structure of interest rates, based on all available internal observations.

   For the purposes of the first subparagraph, institutions may set the prepayment rate at 0 where the total of both the fixed rate loans referred to in paragraph 1 and of the fixed rate assets referred to in paragraph 7 is less than 5% of the non-trading book positions that are accounted for as assets in accordance with the applicable accounting framework.

3.   Institutions shall adjust the conditional prepayment rate estimated in accordance with paragraph 2 as follows:

(a)   in scenarios that prescribe an increase in interest rates as referred to in Article 4, points (a)(i), (b)(ii), and (c)(i), institutions shall multiply the conditional prepayment rate by 0,8;

(b)   in scenarios that prescribe a decrease in interest rates as referred to in Article 4, points (a)(ii), (b)(i), and (c)(ii), institutions shall multiply the conditional prepayment rate by 1,2.

4.   For each repricing time bucket as referred to in point 1 of the Annex, institutions shall estimate the expected amount of prepaid loans per repricing time bucket as the product of:

(a)   the outstanding amount of the fixed rate loans referred to in paragraph 1 of a certain homogeneous product type denominated in a certain currency;

(b)   the conditional prepayment rate determined in accordance with paragraph 2, multiplied by the length of the applicable repricing time bucket referred to in point 2 of the Annex and adjusted in accordance with paragraph 3.

For the purposes of point (a), institutions shall not regard amounts matured or prepaid at a time earlier than the lower limit of the repricing time bucket as outstanding amounts.

5.   Institutions shall allocate the prepaid amount of the fixed rate loans referred to in paragraph 1, including penalty fees on the prepaid amount that retail customers pay in the applicable scenario, to the relevant repricing time buckets referred to in point 1 of the Annex. Institutions shall allocate any part of the notional repricing cash flows of those fixed rate loans that they do not expect to be prepaid to the relevant repricing time buckets referred to in point 1 of the Annex on the basis of the contractual repayment schedule for the duration of contractual maturity of those loans.

6.   Institutions shall treat fixed rate loans to wholesale customers, where the borrower is able to prepay part or all of the outstanding principal before the contractually agreed repayment date or the contractual maturity date of the principal, in accordance with Articles 6 and 13.

7.   Where the institution is exposed to assets in the form of securities with underlying instruments in the form of fixed rate loans as referred to in paragraph 1 ('fixed rate assets'), and the issuer of those fixed rate assets has no obligation to replace the fixed rate loans in the case of their early repayment, that institution shall apply a look-through approach and shall evaluate the non-trading book positions in those assets in accordance with paragraph 1, irrespective of whether the counterparty of that institution is a wholesale or retail customer.

Article 10
Fixed rate term deposits that are subject to the risk of early redemption

1.   Institutions shall consider fixed rate term deposits as fixed rate term deposits subject to the risk of early redemption where both of the following applies:

(a)   those fixed rate term deposits constitute retail deposits;

(b)   the depositor holds the option to redeem any outstanding amount of the fixed rate term deposits before the contractual maturity date of the deposit.

2.   By way of derogation from paragraph 1, institutions may treat fixed rate term deposits in accordance with Article 6 where the early withdrawal of those deposits would result in a penalty for the depositor compensating both for the loss of interest between the date of the deposit's redemption and the date of its contractual maturity and for the economic cost of redeeming the deposit.

3.   Institutions shall treat fixed rate term deposits that are wholesale deposits in accordance with Article 6.

Where the wholesale depositor holds the option to redeem any outstanding amount of the deposit before its contractual maturity date and the conditions set out in paragraph 2 are not met, institutions shall treat that option as an embedded automatic option in accordance with Article 13.

4.   Institutions shall estimate the baseline cumulative term deposit redemption rate for the fixed rate term deposits referred to in paragraph 1 in a way that is consistent over time and which is suitable for an average early redemption rate. Institutions shall estimate that baseline cumulative term deposit redemption rate separately for each portfolio of homogeneous products denominated in a currency and under the prevailing term structure of interest rates, based on all available internal observations.

For the purposes of the first subparagraph, institutions may set the baseline cumulative term deposit redemption rate at 0 where the total of the fixed rate term deposits referred to in paragraph 1 is smaller than 5% of the non-trading book positions that are accounted for as liabilities in accordance with the applicable accounting framework.

5.   Institutions shall adjust the baseline cumulative term deposit redemption rate for the fixed rate term deposits estimated in accordance with paragraph 4 to the applicable scenarios as follows:

(a)   in scenarios that prescribe a decrease of the short-term interest rates as referred to in Article 4, points (a)(ii), (b)(ii), and (c)(ii), institutions shall multiply the redemption rate by 0,8;

(b)   in scenarios that prescribe an increase of the short-term interest rates as referred to in Article 4, points (a)(i), (b)(i), and (c)(i), institutions shall multiply the redemption rate by 1,2.

6.   For each repricing time bucket as referred to in point 1 of the Annex, institutions shall obtain the expected amount of early redeemed fixed rate term deposits by multiplying the fixed rate term deposits referred to in paragraph 1 of a certain homogeneous product type denominated in a certain currency by the applicable baseline cumulative term deposit redemption rate for the fixed rate term deposits adjusted in accordance with paragraph 5.

7.   Institutions shall, for all repricing time buckets and sets of homogeneous product types, obtain the total amount of the early redeemed fixed rate term deposits by aggregating the early redemption amounts referred to in paragraph 6. Institutions shall allocate the aggregated early redeemed amounts in the repricing time bucket referred to in point 1(a) of the Annex. Institutions shall allocate the parts of the notional repricing cash flows of the fixed rate term deposits referred to in paragraph

1 that they do not expect to be redeemed early to the relevant repricing time buckets referred to in point 1 of the Annex according to their contractual maturity.

Article 11
Derivative instruments without optionality

1.   Institutions shall separate derivative instruments without optionality into a paying and a receiving leg.

2.   Institutions shall treat the receiving leg of a derivative instrument without optionality as an incoming cash flow and the paying leg as an outgoing cash flow.

      Institutions shall allocate the notional repricing cash flows to the relevant repricing time buckets referred to in point 1 of the Annex.

3.   Institutions shall treat cross-currency interest rate swaps involving swapping principal or interest in different currencies separately for each leg in each currency.

4.   Institutions shall treat the interest income and expenses of derivative instruments used for hedging separately from the income and expenses deriving from the hedged position.

Article 12
Non-performing exposures and fixed rate loan commitments to retail counterparties

1.   Institutions with a non-performing exposure ratio of 2 % or more shall allocate the notional repricing cash flows of their non-performing exposures to the relevant repricing time buckets referred to in point 1 of the Annex. They shall allocate those expected cash flows net of provisions, taking into account their timing and in a way that it is consistently applied over time.

      For the purposes of the first subparagraph, institutions shall calculate the non-performing exposures ratio by dividing the amount of non-performing debt securities, loans and advances, as referred to in Article 47a(3) of Regulation (EU) No 575/2013, by the total amount of gross debt securities, loans and advances.

2.   Where the sum of notional amounts of fixed rate loan commitments to retail counterparties exceeds 2 % of the non-trading book positions that are accounted for as an asset in accordance with the applicable accounting framework, institutions shall estimate the drawn amount, in both the baseline scenario and the applicable scenarios referred to in Article 4, based on:

      (a)   historical internal observations of drawings on fixed rate loan commitments by the type of the counterparty under similar conditions;

      (b)   the value of the contract for the counterparty in the baseline scenario;

      (c)   the value of the contract for the counterparty in the shock scenario.

      Institutions shall allocate the estimated drawn amounts to the relevant repricing time buckets referred to in point 1 of the Annex in accordance with the estimated time of the drawing.

Article 13
Economic value of equity add-on for automatic interest rate options

1. Institutions shall calculate the economic value of equity add-ons for automatic interest rate options of their non-trading book positions referred to in Article 5(3), point (a).

2. In the case of a bought automatic interest rate option, institutions shall calculate the change in the value of that option between its value in the applicable scenario, taking into account a relative increase in the implicit interest rate volatility of 25%, and its value in the baseline scenario.

3. In the case of a sold automatic interest rate option, institutions shall calculate the change in the value of that option between its value in the applicable scenario and its value in the baseline scenario.

    For the purposes of the first subparagraph, the change in the value shall be the difference between the following points (a) and (b):

    (a) an estimate of the value of the option for the option holder, given:

    (i) a risk-free yield curve in the applicable currency under the applicable scenario;

    (ii) a relative increase in the implicit interest rate volatility of 25 %;

    (b) the value of the interest rate option for the option holder, calculated using the non-shock yield curve and the implicit interest rate volatility in the applicable currency at the valuation date.

4. Institutions shall calculate the economic value of equity add-on for automatic interest rate option risk as the difference between the values of all bought options calculated in accordance with paragraphs 2 and the values of all sold options calculated in accordance with paragraph 3, after having applied the scenario in a currency.

5. For the calculation referred to in paragraphs 2 and 3, institutions shall use their applicable internal valuation methods.

Chapter III
STANDARDISED METHODOLOGY FOR EVALUATING THE RISKS FOR THE NET INTEREST INCOME OF AN INSTITUTION'S NON-TRADING BOOK ACTIVITIES

Article 14
Requirements for allocating notional repricing cash flows

1. When using the standardised methodology for evaluating the risks arising from potential changes in interest rates that affect the net interest income of their non-trading book activities, institutions shall allocate the notional repricing cash flows of their non-trading book positions to the relevant repricing time buckets referred to in point 1 of the Annex.

2. Articles 5 to 12 shall apply to the allocation of the notional repricing cash flows as referred to in paragraph 1, subject to the derogations set out in paragraphs 3 to 6 of this Article.

3. By way of derogation from Article 5(2), first subparagraph, institutions shall include the commercial margins and other spread components in interest payments in the notional repricing cash flows.

4. In addition to the allocation of the notional repricing cash flows referred to in Article 6, Article 9(5), Article 10(7) and Article 12 to the relevant repricing time buckets referred to in point 1 of the Annex, institutions shall allocate those notional repricing cash flows to the reference term time buckets referred to in point 3 of the Annex. Notional repricing cash flows that are interest payments shall assume the reference term of the instrument that generated them.

5. In addition to the allocation of the notional repricing cash flows referred to in Article 7 and Article 8 to the relevant repricing time buckets referred to in point 1 of the Annex, institutions shall allocate those notional repricing cash flows to the reference term time bucket referred to in point 3(a) of the Annex.

6. Institutions shall treat fixed legs of the derivative instruments referred to in Article 11 in accordance with paragraph 4 of this Article.

Institutions shall treat floating legs of the derivative instruments referred to in Article 11 in accordance with paragraph 5 of this Article.

Article 15
Net interest income add-on for automatic interest rate options up to the net interest income time horizon

1. Institutions shall calculate the net interest income add-ons for automatic interest rate options of their non-trading book positions as referred to in Article 5 (3), point (a), up to the net interest income time horizon.

2. For the purposes of paragraph 1, Article 13 shall apply *mutatis mutandis*, subject to the derogations set out in paragraphs 3 to 6 of this Article.

3. Institutions shall exclude from the calculation of the net interest income add-ons referred to in paragraph 1 automatic interest rate options that can only be exercised beyond the net interest income time horizon.

4. When calculating the net interest income add-ons referred to in paragraph 1, institutions shall disregard the relative increase in implicit volatility.

5. Institutions shall calculate the value referred to in Article 13(2) and (3) on the basis of pay-outs expected in the baseline scenario and the applicable scenarios.

6. Institutions shall assume that the instruments the optionality or non-linearity of which is automatically activated are rolled over with comparable characteristics up to the end of the net interest income time horizon.

Article 16
Market value changes for automatic interest rate options held at fair value and maturing beyond the net interest income time horizon

Institutions shall calculate, in accordance with Article 13, the market value changes for automatic interest rate options held at fair value and maturing beyond the net interest income time horizon.

Chapter IV
CALCULATION OF THE STANDARDISED ECONOMIC VALUE OF EQUITY RISK MEASURE

Article 17
Calculation of the economic value of equity and changes in the economic value of equity

1.   Institutions shall calculate the economic value of equity for the baseline scenario and the applicable shock scenarios in each currency in accordance with paragraphs 2, 3 and 4. Institutions shall calculate the changes in the economic value of equity in accordance with paragraphs 5 and 6.

2.   Institutions shall allocate the notional repricing cash flows referred to in Articles 6, 7 and 8, Article 9(5), Article 10(7), Article 11(2), and Article 12, to the repricing time buckets referred to in those Articles in the following manner:

   (a)   all positive and negative notional repricing cash flows within a repricing time bucket shall be netted, forming a net long or net short position for each repricing time bucket;

   (b)   incoming cash flows shall have a positive sign and outgoing cash flows shall have a negative sign.

3.   Institutions shall discount net notional repricing cash flows towards a present value by using a discount factor. Institutions shall calculate that discount factor $DF_{i,c}(t_k)$ from the spot zero interest rate $R_{i,c}(t_k)$ at the bucket midpoint for the respective scenario i and currency c multiplied by the bucket midpoint t_k as follows:

$$DF_{i,c}(t_k) = \exp(-R_{i,c}(t_k) * t_k)$$

4.   Institutions shall sum up the discounted net repricing cash flows across all repricing time buckets to determine the economic value of equity for the baseline scenario and the applicable scenarios, for each currency.

5.   Institutions shall calculate the change in the economic value of equity by subtracting the economic value of equity in the baseline scenario from the economic value of equity in the applicable scenario, and by adding the change of the value of the automatic interest rate option calculated in accordance with Article 13.

6.   When calculating the aggregate change for each scenario, institutions shall add together any negative and positive changes occurring in each currency. In that calculation, institutions shall convert currencies, other than the reporting currency, to the reporting currency at the ECB spot FX rate on the reference date. Positive changes shall be weighted by a factor of 50 % or by a factor of 80 % in the case of Exchange Rate Mechanism ('ERMII') currencies with a formally agreed fluctuation band narrower than the standard band of +/- 15 %.

   Institutions shall recognise weighted gains up to the greater of either of the following values:

   (a)   the absolute value of negative changes in EUR or ERM II currencies;

   (b)   the result of applying a factor of 50% to the positive changes of ERM II currencies or EUR.

Chapter V
CALCULATION OF THE STANDARDISED NET INTEREST INCOME RISK MEASURE

Article 18
Time horizon

Institutions shall calculate the net interest income of their non-trading book activities over a minimum time horizon of 1 year ("net interest income time horizon").

The remaining time up to the end of a net interest income time horizon shall be the net interest rate horizon minus the repricing midpoint of the repricing time buckets concerned referred to in point 1 of the Annex ("remaining time").

Article 19
Calculation of the contribution of the projected risk-free interest rate on the reinvestment or refinancing of notional repricing cash flows

1. To calculate the contribution of the projected risk-free yield on the reinvestment or refinancing of notional repricing cash flows to the net interest income as referred to in paragraph 4, institutions shall, for each currency and each scenario, calculate forward rates that reflect the risk-free component of interest rates that is expected to be applied to risk-free loans starting at the repricing midpoints of the repricing time buckets referred to in point 4 of the Annex and with maturities that correspond to the reference term time bucket midpoints referred to in point 3 of the Annex.

2. Institutions shall calculate the forward rates referred to in paragraph 1 in accordance with the following formula:

$$FWD_{i,c}\left(t_k, t_k + REF_j\right) = -\frac{\ln[DF_{i,c}\left(t_k + REF_j\right)/DF_{i,c}(t_k)]}{REF_j}$$

    where:

    t_k is the midpoint of repricing time bucket k;

    REF_j is the midpoint of reference term time bucket j;

    $FWD_{i,c}\left(t_k k, t_k + REF_j\right)$ is the forward rate for the respective scenario i and for currency c for a risk-free loan starting at the midpoint of repricing time bucket k and maturing at the midpoint of reference term time bucket j;

    $DF_{i,c}(t_k)$ is the discounting factor for the respective scenario i and for currency c and time t_k as referred to Article 17(3).

3. Institutions shall calculate the applicable risk-free interest rate, for each combination of a repricing time bucket midpoint with a reference term time bucket midpoint, by multiplying the forward rates referred to in paragraph 1 with the remaining time horizon referred to in Article 18, second subparagraph.

4. Institutions shall calculate the contribution of the projected risk-free interest rate on the reinvestment or refinancing of notional repricing cash flows to the net interest income as the product of the following points (a) and (b):

(a) the notional repricing cash flows referred to in Articles 6, 7 and 8, Article 9(5), Article 10(7), Article 11(2), second subparagraph, and Article 12, allocated in accordance with Article 14(4) and (5);

(b) the contribution of the corresponding applicable risk-free interest rate calculated in accordance with paragraph 3 of this Article.

Article 20

Calculation of the contribution of the projected commercial margin on the reinvestment or refinancing of notional repricing cash flows

1. Institutions shall calculate the contribution of the projected commercial margin on the reinvestment or refinancing of notional repricing cash flows to the net interest income by multiplying the notional repricing cash flows calculated in accordance with paragraph 2 by the applicable commercial margin yield referred to in paragraph 4.

2. For the purposes of the calculation referred to in paragraph 1, institutions shall:

(a) allocate, at the reset of commercial margins, the notional repricing cash flows of the instruments referred to in Articles 6 to 12 to the repricing time buckets referred to in point 4 of the Annex;

(b) estimate:

(i) the applicable commercial margin rate, in accordance with paragraph 3 of this Article;

(ii) the remaining time referred to in Article 18, second subparagraph;

For the purposes of point (a), Articles 6 to 12 shall apply *mutatis mutandis*. However, in the case of floating rate instruments, institutions shall allocate the part of notional repricing cash flows that constitutes a principal amount in accordance with the final contractual maturity date of those floating rate instruments.

3. For the purposes of paragraph 1, institutions shall allocate the non-trading book positions to the product types of financial assets and financial liabilities, divided by geographical location and currency denomination.

The product types of financial assets referred to in the first subparagraph shall be the following:

(a) debt securities;

(b) loans and advances – non-financial corporates;

(c) loans and advances - households – mortgages;

(d) loans and advances - households – credit (non-mortgage);

(e) loans and advances – other counterparties;

(f) other products in the non-trading book.

The product types of financial liabilities referred to in the first subparagraph shall be the following:

(a) deposits – non-financial corporates;

(b) deposits – households;

(c) deposits – other counterparties;

(d)   debt securities;

(e)   other liabilities in the non-trading book.

4.   In the case of instruments traded in deep and active liquid markets where the value of those instruments can be determined on the basis of widely disseminated and easily available market prices, institutions shall estimate the applicable commercial margin rate referred to in paragraph 2, point (b), on the basis of the market price, the interest payments of those instruments and the deduction of the risk-free interest rate.

In the case of other instruments than those referred to in the first subparagraph, institutions shall estimate the applicable commercial margin rate referred to in paragraph 2, point (b), on the basis of the weighted average of commercial margins received or paid in transactions during the preceding 360 days, having regard to the product type, the geographical location, and the currency denomination, referred to in paragraph 2. In the absence of such transactions, institutions shall estimate the applicable commercial margin rate on the basis of assumptions relying on margins received or paid in comparable portfolios.

5.   The applicable commercial margin rate in the baseline scenario, estimated in accordance with paragraph 3, shall also apply in the applicable scenario.

6.   To take into account the remaining time referred to in Article 18, second subparagraph, institutions shall calculate the percentage of commercial margin yield by multiplying the applicable commercial margin rate estimated in accordance with paragraph 3 of this Article by that remaining time.

Article 21
Calculation of interest payments or part of interest payments that occur up to and including their reset date

1.   Institutions shall calculate the contribution of interest payments occurring up to the repricing date, including that date, to the net interest income, by allocating to the repricing time buckets referred to in point 4 of the Annex, in addition to the allocation referred to in Articles 19 and 20, the interest payments of the instruments referred to in Articles 6 to 12, provided that those interest payments meet the following conditions:

(a)   the size of the interest payment is known and fixed, with no possibility for the payment to change due to a movement in interest rates;

(b)   the interest payment is expected to be paid within the net interest income time horizon referred to in Article 18, first subparagraph.

2.   For floating rate instruments, where the interest payment occurs after the repricing date, institutions shall apply paragraph 1 of this Article only to the part of the interest payment that represents the commercial margin.

Article 22
Market value changes for instruments held at fair value maturing beyond the net interest income time horizon

1.   Institutions shall calculate the market value changes beyond the net interest income time horizon for instruments held at fair value by applying Article 17(3), (4) and (5) *mutatis mutandis* to the allocation performed in accordance with paragraph 2.

2.   For the allocation referred to in paragraph 1, institutions shall apply Article 17(2) *mutatis mutandis*, and shall include the commercial margins and other spread components in interest payments in the notional repricing cash flows, and with the following derogations:

(a)   institutions shall exclude notional repricing cash flows related to instruments not held at fair value;

(b)   institutions shall exclude the notional cash flows repricing in the net interest income time horizon by setting those cash flows to zero in the repricing time buckets referred to in point 4 of the Annex.

Article 23
Net interest income add-on for basis risk

1.   In addition to the allocation referred to in Article 7, institutions shall allocate the notional repricing cash flows of floating rate instruments, for each currency, by their repricing date, to the repricing time buckets referred to in point 4 of the Annex, where the sum of those floating rate instruments, other than those in the reference term 'overnight' referred to in paragraph 2, point (a), of this Article exceeds 5% of the non-trading book positions that are accounted for as an asset in accordance with the applicable accounting framework.

For the purposes of the first subparagraph, institutions shall exclude embedded interest rate options and shall treat those options in accordance with paragraph 8.

2.   When allocating the notional repricing cash flows referred to in paragraph 1, institutions shall assign those cash flows to the following reference terms, to which the floating rate instrument refers:

(a)   overnight;

(b)   1 month;

(c)   3 months;

(d)   6 months;

(e)   12 months.

3.   In the absence of a corresponding reference term, institutions shall assign the notional repricing cash flows to either of the following categories:

(a)   'policy rate', where the floating rate instrument refers to a central bank policy rate;

(b)   'other', where the floating rate instrument refers to any other benchmark.

Institutions shall assign incoming notional repricing cash flows with a positive sign, and outgoing notional repricing cash flows with a negative sign.

4.   Institutions shall, for a given currency, on the basis of historic observations of movements in the interest rates of the instruments and for each reference term referred to in paragraph 2 and category referred to in paragraph 3, estimate tightening shocks and widening shocks in a way that is consistently applied over time.

5.   Institutions shall estimate the tightening and widening shocks referred to in paragraph 4 by comparing interest rates in the reference term "overnight" referred to

in paragraph 2, point (a), with the other reference terms referred to in paragraph 2, points (b) to (e), and categories referred to in paragraph 3.

6. Institutions shall, for each currency, apply the tightening and widening shocks referred to in paragraph 4, multiplied by the remaining time referred to in Article 18, second subparagraph, to the notional repricing cash flows.

7. Institutions shall aggregate, but separately for the tightening and widening shocks referred to in paragraph 4, the results from the calculations referred to in paragraph 6.

8. Institutions shall calculate, both for the tightening and the widening shocks referred to in paragraph 4, the pay-outs from automatic interest rate options in floating rate instruments, and shall compare those pay-outs with the pay-outs calculated under the baseline scenario.

   Institutions shall add the difference in the pay-outs that results from the comparison referred to in the first subparagraph to the aggregated result referred to in paragraph 7, but separately for the tightening and the widening shock. They shall assign a positive sign to incoming pay-outs and a negative sign to outgoing pay-outs. Institutions shall not discount pay-outs and shall not make any assumptions regarding changes in volatility.

9. The net interest income add-on for basis risk shall be the lower result calculated in accordance with paragraphs 1 to 8 for tightening and the widening shocks.

Article 24
Calculation of the net interest income and changes in the net interest income

1. Institutions shall calculate the net interest income by adding all of the following, with the exclusion of automatic interest rate options, up to the net interest income time horizon:

   (a) the projected risk-free yields on the reinvestment or refinancing of notional repricing cash flows, calculated in accordance with Article 19;

   (b) the projected commercial margin on the reinvestment or refinancing of notional repricing cash flows of the instruments referred to in Articles 6 to 12, calculated in accordance with Article 20;

   (c) the sum of interest payments occurring up to the repricing date, including that date, calculated in accordance with Article 21, reduced by any material interest accrued at t=0.

2. For the purposes of the calculation referred to in paragraph 1, institutions shall assign a positive sign to incoming cash flows and a negative sign to outgoing cash flows.

3. Institutions shall calculate the impact of a scenario on net interest income by adding all of the following:

   (a) the difference between:

      (i) the calculation referred to in paragraph 1 relating to the applicable scenario;

      (ii) the calculation referred to in paragraph 1 relating to the baseline scenario.

   (b) the net interest income add-on for automatic options within the net interest income time horizon, calculated in accordance with Article 15.

(c)   the net interest income add-on for basis risk referred to in Article 23.

For the purposes of the first subparagraph, points (a) and (b), institutions shall use the same scenarios.

For the purposes of the first subparagraph, point (c), institutions shall calculate the net interest income add-on for basis risk for the tightening or widening shocks, as referred to in Article 23(9), that has the largest negative impact on the net interest income.

4.   When calculating the aggregate change for each scenario, institutions shall add together any negative and positive changes occurring in each currency. In that calculation, institutions shall convert currencies, other than the reporting currency, to the reporting currency at the ECB spot FX rate on the reference date. Positive changes shall be weighted by a factor of 50 % or by a factor of 80 % in the case of ERMII currencies with a formally agreed fluctuation band narrower than the standard band of +/- 15 %.

Institutions shall recognise weighted gains up to the greater of either of the following values:

(a)   the absolute value of negative changes in EUR or ERM II currencies;

(b)   the result of applying a factor of 50% to the positive changes of ERM II currencies or EUR.

Chapter VI
SIMPLIFIED STANDARDISED METHODOLOGY FOR THE CALCULATION OF THE ECONOMIC VALUE OF EQUITY AND THE NET INTEREST INCOME

Article 25
Simplified standardised methodology for the calculation of the economic value of equity and changes in the economic value of equity

1.   For the calculation of the economic value of equity and the changes in the economic value of equity under the simplified standardised methodology, institutions shall apply Articles 5 to 13, subject to the derogations set out in paragraphs 2 to 5 of this Article.

2.   In the baseline scenario, the following shall apply:

(a)   by way of derogation from Article 8(2) to (6), institutions shall set the amount of the core component of non-maturity deposits taking the following proportions:

(i)   69,23 %, for the retail transactional non-maturity deposits referred to in Article 8(1), point (a)(i);

(ii)   53,85 %, for the retail non-transactional non-maturity deposits referred to in Article 8(1), point (a)(ii);

(iii)   38,46 %, for the wholesale non-financial non-maturity deposits referred to in Article 8(1), point (b)(ii);

(b)	by way of derogation from Article 8(9), institutions shall allocate the core component of non-maturity deposits evenly over time as set out in point 5(a) of the Annex.

3.	In scenarios prescribing a decrease of short-term interest rate, as referred to in Article 4, points (a)(ii), (b)(ii), and (c)(ii), the following shall apply:

(a)	by way of derogation from Article 8(2) to (6), institutions shall set the amount of the core component of non-maturity deposits taking the following proportions:

(i)	90 %, for the retail transactional non-maturity deposits referred to in Article 8(1), point (a)(i);

(ii)	70 %, for the retail non-transactional non-maturity deposits referred to in Article 8(1), point (a)(ii);

(iii)	50 %, for the wholesale non-financial non-maturity deposits referred to in Article 8(1), point (b)(ii);

(b)	by way of derogation from Article 8(9), institutions shall allocate the core component of non-maturity deposits evenly over time as set out in point 5(b) of the Annex.

4.	In scenarios prescribing an increase of short-term interest rate, as referred to in Article 4, points (a)(i), (b)(i), and (c)(i), the following shall apply:

(a)	by way of derogation from Article 8(2) to (6), institutions shall set the amount of the core component of non-maturity deposits taking the following proportions:

(i)	48,46 %, for the retail transactional non-maturity deposits referred to in Article 8(1), point (a)(i);

(ii)	37,69 %, for the retail non-transactional non-maturity deposits referred in Article 8(1), point (a)(ii);

(iii)	26,92 %, for the wholesale non-financial non-maturity deposits referred to in Article 8(1), point (b)(ii);

(b)	by way of derogation from Article 8(9), institutions shall allocate the core component of non-maturity deposits evenly over time as set out in point 5(c) of the Annex.

5.	Institutions shall calculate the change in value referred to in Article 13(2) and (3) as the difference between the sum of the pay-outs in the baseline scenario and the sum of the pay-outs in the applicable scenario, discounted by the applicable risk-free interest rates. Institutions shall disregard any effect of increased volatility and multiply the pay-outs of automatic options under the applicable scenario by 1,10.

Article 26
Simplified standardised methodology for the calculation of the net interest income and changes in the net interest income

1.	For the calculation of the net interest income and the changes in the net interest income under the simplified standardised methodology, institutions shall apply Articles 14 to 16, subject to the derogations set out in paragraphs 2 to 7 of this Article.

2.   Article 25 shall also apply to the calculation referred to in paragraph 1.

3.   Article 14(4) shall not apply to the calculation referred to in paragraph 1. Institutions shall, for each product type referred to in Article 20(3), calculate:

(a)   an average reference term for all fixed rate interest rate sensitive non-trading book assets;

(b)   an average reference term for all fixed rate interest rate sensitive non-trading book liabilities.

4.   By way of derogation from Article 19, institutions shall apply the calculated average reference terms instead of the midpoints of the reference term time buckets laid down in point 3 of the Annex.

5.   By way of derogation from Article 20(2), institutions shall separate, when applying Article 20(3), third subparagraph, the non-trading book positions referred to in Article 20(2) only by product types and not by geographical location.

6.   By way of derogation from Article 21, institutions shall calculate interest payments or part of interest payments occurring up to the repricing date, including that date, by multiplying the following:

(a)   the amount of principal of all instruments outstanding;

(b)   the institutions' estimates of average interest rates on instruments on the asset or liability side, as applicable;

(c)   the net interest income time horizon, or, in case an instrument is repricing before the net interest income time horizon, the midpoint of the applicable repricing time buckets laid down in point 1 of the Annex applicable to the outstanding instrument.

7.   Institutions shall calculate the change in value referred to in Article 15 as the difference between the sum of the pay-outs in the baseline scenario and the sum of the pay-outs in the applicable scenario, discounted by the applicable risk-free interest rates. Institutions shall disregard any effect of increased volatility and multiply the pay-outs under the applicable scenario by 1,10.

Chapter VII

FINAL PROVISION

Article 27
Entry into force

This Regulation shall enter into force on the twentieth day following that of its publication in the *Official Journal of the European Union*.

This Regulation shall be binding in its entirety and directly applicable in all Member States.

Done at Brussels, 1.12.2023

For the Commission
The President
Ursula VON DER LEYEN