Specific point: Using forward rates in the standardised approach

In article 17 "*Projected yield of risk free component*" the Draft RTS proposes to use the calculated risk free forward rate "for the purposes of calculating the contribution to net interest income of the projected risk free yield".

This approach is not consistent with the usual methodology banks use for internal models to calculate the NII nor with the methodology used in supervisory stress tests like the current German LSI stress test 2022 published by BaFin and Deutsche Bundesbank.

Usually, banks use a baseline scenario projecting the actual interest rate (per evaluation date) as constant on the entire given horizon. Considering shock scenarios, there is an interest rate shock applied to the actual interest rate ad hoc on the evaluation date or gradually over the given horizon. These rates are then used for the purposes of calculating the contribution to net interest income of the projected risk free yield. Usually, there are no forward rates involved in this calculation.

Therefore, we would propose applying the same methodology in the standardised approach instead of using forward rates.

Furthermore, regarding the past, we think that the assumption of an interest rate staying constant over the horizon has given a more suited baseline scenario than using forward rates.

Question 6: Do respondents find that the required slotting of repricing cash flows in accordance with the second dimension of original maturity/reference term as described in Article 13 is operationally implementable?

We find this feature operationally implementable, but we would prefer an approach that is more consistent with the margin approach: The commercial margin of new business is based on the commercial margin of instruments originated in the last year.

In a similar way, the reference term of new business should be based on the reference term of similar business in the last year. We would suggest using a segmentation by product, counterparty and geographic category in order to derive an average reference term per product type from historical observation of the last year.

This would lead to a more consistent and simpler standardised approach close to the proposed simplified standardised approach.