Chapter 1

Commission Delegated Regulation (EU) 2016/2251

ANNEX IV Standardised Method for the calculation of initial margin for the purposes of Articles 9 and 11

(1) The notional amounts or underlying values, as applicable, of the |OTC derivative contracts in a netting set shall be multiplied by the percentages in the following Table 1:

Table 1

Category	Add-on factor
Credit: 0-2 year residual maturity	2 %
Credit: 2-5 year residual maturity	5 %
Credit: 5+ year residual maturity	10 %
Commodity	15 %
Equity	15 %
Foreign exchange	6 %
Interest rate and inflation: 0-2 year residual maturity	1 %
Interest rate and inflation: 2-5 year residual maturity	2 %
Interest rate and inflation: 5+ year residual maturity	4 %
Other	15 %

(2) The gross initial margin of a netting set shall be calculated as the sum of the products referred to in paragraph 1 for all OTC derivative contracts in the netting set.

(3) The following treatment shall be applied to contracts which fall within more than one category:

(a) where a relevant risk factor for an OTC derivative contract can be clearly identified, contracts shall be assigned to the category corresponding to that risk factor;

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(b) where the condition referred to in point (a) is not met, contracts shall be assigned to the category with the highest add-on factor among the relevant categories;

(c) the initial margin requirements for a netting set shall be calculated in accordance with the following formula:

Net initial margin = 0,4 * Gross initial margin + 0,6 * NGR * Gross initial margin.

where:

(i) net initial margin refers to the reduced figure for initial margin requirements for all OTC derivative contracts with a given counterparty included in a netting set;

(ii) NGR refers to the net-to-gross ratio calculated as the quotient of the net replacement cost of a netting set with a given counterparty in the numerator, and the gross replacement cost of that netting set in the denominator;

(d) for the purposes of point (c), the net replacement cost of a netting set shall be the bigger between zero and the sum of current market values of all OTC derivative contracts in the netting set;

(e) for the purposes of point (c), the gross replacement cost of a netting set shall be the sum of the current market values of all OTC derivative contracts calculated in accordance with Article 11(2) of Regulation (EU) No 648/2012 and Articles 16 and 17 of Delegated Regulation (EU) No 149/2013 with positive values in the netting set;

(f) the notional amount referred to in paragraph 1 may be calculated by netting the notional amounts of contracts that are of opposite direction and are otherwise identical in all contractual features except their notional amounts.