# PART VII: RULES REGARDING APPLICABLE RATES

## Reference And Discount Rates[1]

Within the framework of State aid control, the Authority makes use of reference and discount rates. The reference and discount rates are applied as a proxy for the market rate and to measure the grant equivalent of aid, in particular when it is disbursed in several instalments and to calculate the aid element resulting from interest subsidy schemes. They are also used to check compliance with the *de minimis* rule and block exemption regulations.

The Authority adopts the following methodology for setting the reference rates:

— Calculation basis: 1-year IBOR

The base rate is based on 1-year money market rates. The Authority is reserving the right to use shorter or longer maturities adapted to certain cases.

Where those rates are not available, the 3-month money market rate will be used.

In the absence of reliable or equivalent data or in exceptional circumstances the Authority may, in close cooperation with the EFTA State(s) concerned and in principle based on data from the relevant Central Bank, determine another calculation basis.

— Margins

The following margins are to be applied in principle depending on the rating of the undertaking concerned and the collateral[2] offered.

---

1 This chapter corresponds to the Commission's Communication on the revision of the method for setting the reference and discount rates, OJ C 14, 19.1.2008, p.6; http://eur-lex.europa.eu/LexUriServ/LexUriServ.do?uri=OJ:C:2008:014:0006:0009:EN:PDF

2 Normal collateral should be understood as the level of collateral normally required by financial institutions as a guarantee for their loan. The level of collaterals can be measured as the Loss Given Default (LGD), which is the expected loss in percentage of the debtor's exposure taking into account recoverable amounts from collateral and the bankruptcy assets; as a consequence the LGD is inversely proportional to the validity of collaterals. For the present communication it is assumed that 'High' collateralisation implies an LGD below or equal to 30 %, 'Normal' collateralisation an LGD between 31 % and 59 %, and 'Low' collateralisation an LGD above or equal to 60 %. For more details, on the notion LGD, see Basel II: International Convergence of Capital Measurement and Capital Standards: A Revised Framework — Comprehensive Version, available on: http://www.bis.org/publ/bcbs128.pdf

| Loan margins in basis points | | | |
|---|---|---|---|
| Rating category | Collateralisation | | |
| | High | Normal | Low |
| Strong (AAA-A) | 60 | 75 | 100 |
| Good (BBB) | 75 | 100 | 220 |
| Satisfactory (BB) | 100 | 220 | 400 |
| Weak (B) | 220 | 400 | 650 |
| Bad/Financial difficulties (CCC and below) | 400 | 650 | 1000(1) |

(1) Subject to the application of the specific provisions for rescue and restructuring aid, as currently laid down in the Guidelines on State aid for rescuing and restructuring firms in difficulty (OJ L 097, 15.4.2005, p. 41) and in particular point 24(a), which refers to 'an interest rate at least comparable to those observed for loans to healthy firms, and in particular the reference rates adopted by the Authority'. Hence, for rescue aid cases, the 1-year IBOR increased with at least 100 basis points shall be applied.

Normally, 100 basis points are added to the base rate. This assumes (i) loans to undertakings with satisfactory rating and high collateral; or (ii) loans to undertakings with good rating and normal collateral.

For borrowers that do not have a credit history or a rating based on a balance sheet approach, such as certain special-purpose companies or start-up companies, the base rate should be increased by at least 400 basis points (depending on the available collaterals) and the margin can never be lower than the one which would be applicable to the parent company.

Ratings do not need to be obtained from specific rating agencies — national rating systems or rating systems used by banks to reflect default rates are equally acceptable ([3]).

The above margins may be revised from time to time to take account of the market situation.

— Update

An update of the reference rate will be carried out every year. The base rate will thus be calculated on the basis of the 1-year IBOR recorded in September, October and November of the previous year. The then fixed base rate will be in force as from the first of January. In addition, to take account of significant and sudden variations, an update will be made each time the average rate, calculated over the previous three months, deviates by more than 15 % from the rate in force. This new rate will enter into force on the first day of the second month following the months used for the calculation.

[3] For a comparison between the most commonly used credit rating mechanisms, see e.g. Table 1 in Working Paper No 207 of the Bank for International Settlements: http://www.bis.org/publ/work207.pdf

— Discount rate: Calculation of net present value

The reference rate is also to be used as a discount rate, for calculating present values. To that end, in principle, the base rate increased by a fixed margin of 100 basis points will be used.

— The present methodology will enter into force as of 1 January 2009.