NSFR – An Update

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Overview of NSFR requirements

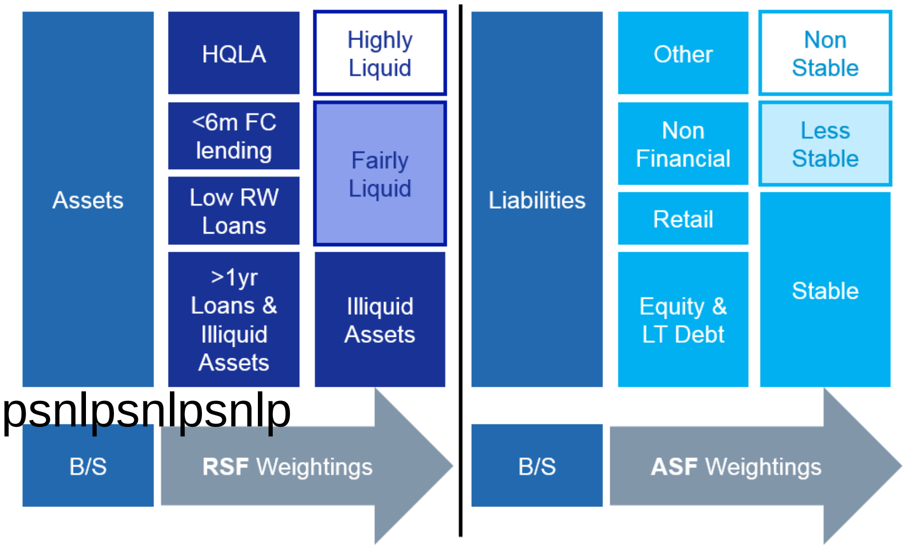
Background

- The Basel Committee finalised the design of the NSFR in **October 2014**
- The EU implemented the NSFR via the Capital Requirements Regulation II, which was **published** in the EU Official Journal on 7 June, 2019
- CRR II will enter into force on 27 June 2019 and NSFR will become a binding minimum regulatory metric two years later, i.e. **27 June 2021**

Deep dive…

- The NSFR uses a balance sheet approach to calculate '*available stable funding*', which must be **at least equal to or greater than** '*required stable funding*'
- ASF/RSF based on bank's accounting balance sheet, with the exception of:
  - Derivatives: which uses fair value with permissible netting sets
  - Secured Financing Transactions which follows leverage netting
- Categorization of liabilities partly draws from LCR (short-term liquidity) standard
- ASF weights assigned to each bucket reflect:
  - maturity and relative stability of funding sources
  - counterparty e.g. retail considered more stable than wholesale
- Assignment to RSF buckets is reflective of asset's residual maturity, encumbrance and liquidity value
- RSF weights assigned to each bucket reflect amount of an asset that must be funded, because either:
  - the transaction will be rolled over, or
  - it cannot be monetized through sale or a securities financing transaction within one year without significant expense

NSFR Balance Sheet Approach



$$\frac{\text{Available Stable Funding (ASF)}}{\text{Required Stable Funding (RSF)}} > 100\%$$

Mismatch Money Market Treatment

Inconsistent ASF/RSF weightings

…What is the treatment of money market deposits?

Final CRR weightings in line with Basel, giving no value to short dated money market deposits

	ASF factor < 6 months	ASF factor ≥ 6 months to < 1 year	ASF factor ≥ 1 year
Liabilities from non-financial customers*			
Which meet the operational deposit criteria (as defined in the LCR)	*Art 428l(a)* 0.50	*Art 428l(b)* 0.50	*Art 428o(e)* 1.00
All other liabilities	*Art 428l(b)* 0.50	*Art 428l(b)* 0.50	*Art 428o(e)* 1.00
Liabilities from central banks and financial customers			
Which meet the operational deposit criteria (as defined in the LCR)	*Art 428l(a)* 0.50	*Art 428l(c)* 0.50	*Art 428o(e)* 1.00
All other liabilities	*Art 428k.3(c)* 0.00	*Art 428l(c)* 0.50	*Art 428o(e)* 1.00

…What is the treatment of money market loans?

Final CRR weightings different to Basel but still create a market asymmetry

10% mismatch

	RSF factor < 6 months	RSF factor ≥ 6 months to < 1 year	RSF factor ≥ 1 year
	Art 428b(a)	*Art 428ad(d)*	*Art 428ah(b)*
Monies due from transactions with financial customers other than secured financing transactions (e.g. unsecured)	0.10	0.50	1.00

EBA report on appropriateness of unsecured transactions with financial customer due 28 June 2023

BCBS assigns 15% RSF

Mismatch between ASF and RSF for short term money markets

The rules give banks the following weightings for funding from financial customers and central banks (unless classified as an operational deposit):

- 0% for <6 months
- 50% for >6m to <1y
- 100% for >1y

This implies that banks, particularly those constrained by the NSFR, would have to move to longer term funding (e.g. >6m)

For banks that are both a receiver and provider, there is an additional penalty from the RSF on short term (<6m) unsecured loans to financial customers of 10% (vs 15% in BCBS)

Potential consequence: less demand and supply in short dated money markets

*Non financial customers as defined in Article 411 of the CRR, includes: central governments, regional governments, public sector entities, multilateral development banks, non-financial corporate customers, and credit unions

Mismatch in Treatment of Repo Transactions

Inconsistent approach across maturity buckets

…What is the treatment of repo?

Both Basel and CRR give no value to short term repo with financial customers, regardless of collateral quality

	ASF Factor < 6 months	ASF Factor ≥ 6 months to < 1 year	ASF Factor ≥ 1 year
Liabilities from non-financial customers*	*Art 428l(b)* 0.50	*Art 428l(b)* 0.50	*Art 428o(e)* 1.00
Liabilities from central banks	*Art 428k.3(c)* 0.00	*Art 428l(b)* 0.50	*Art 428o(e)* 1.00
Liabilities from financial customers	*Art 428k.3(c)* 0.00	*Art 428l(c)* 0.50	*Art 428o(e)* 1.00

…What is the treatment of reverse repo and loans?

CRR significantly diverges from Basel by -5% RSF in each repo category, subject to a four year review period

	RSF factor < 6 months	RSF factor ≥ 6 months to < 1 year	RSF factor ≥ 1 year
Monies due from secured financing transactions with financial customers:			
Collateralized by assets that qualify as Level 1 HQLA	*Art 418r.1(g)* 0.00	*Art 428ad(d)* 0.50	*Art 428ah(b)* 1.00
All other secured financing transactions	*Art 428s.1(b)* 0.05	*Art 428ad(d)* 0.50	*Art 428ah(b)* 1.00
Monies due from transactions with financial customers other than secured financing transactions (e.g. unsecured)	*Art 428b(a)* 0.10	*Art 428ad(d)* 0.50	*Art 428ah(b)* 1.00

5% mismatch

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EBA report on appropriateness of the stable funding factors assigned to securities financing and unsecured transactions with financial customer due 28 June 2023

BCBS assigns 10-15% RSF

Mismatch between ASF and RSF for repos

- *Secured* funding from financial customer receive the same stable funding value (0%/50%/100% for the maturity buckets) as *unsecured* funding
- Reverse repos have a different treatment for the <6m maturity bucket, as follows:
- Level 1 HQLA: 0% RSF (10% in Basel)
- All other: 5% RSF (10% in Basel)

Despite the more favourable weightings in the CRR, an asymmetry in the repo market will exist for non Level 1 HQLA repo.

Potential consequence: reduction in short-dated repo market activity on non Level 1 HQLA collateral.

*Non financial customers as defined in Article 411 of the CRR, including: central governments, regional governments, public sector entities, multilateral development banks, non-financial corporate customers, and credit unions