

## The Net Stable Funding Ratio: frequently asked questions

1. What RSF factor should be assigned to non-operational deposits held at other financial institutions?

**Answer:** *Non-operational deposits held at other financial institutions should have the same treatment as loans to financial institutions, taking into account the term of the operation. That is, demand deposits and term deposits with residual maturities of less than six months will be assigned a 15% RSF factor; and term deposits with residual maturity of between six months and less than one year will have a 50% RSF factor or 100% if the maturity is beyond one year.*

2. How does the meaning of the term "claims" differ from the meaning of the term "loans"? More specifically, does paragraph 26.3 referring to "claims on central banks" capture a broader range of instruments than paragraphs 26.6 referring to "loans to financial institutions"?

**Answer:** *Yes, the term "claims" is broader than loans. The term "claims" in paragraph 26.3, for example, also includes central bank bills and the asset account created on banks' balance sheets by entering into repo transactions with central banks.*

3. What is the treatment in terms of encumbrance for collateral pledged in a repo operation with remaining maturity of one year or greater but where the collateral pledged matures in less than one year?

**Answer:** *In this case, for the purpose of computing the NSFR, the collateral should be considered encumbered for the term of the repo or secured transaction, even if the actual maturity of the collateral is shorter than one year, as the collateral will have to be replaced once it matures. Thus, the collateral pledged under a transaction maturing beyond one year should be subject to a RSF factor of 100%, regardless of its maturity.*

4. Under what circumstances can positions arising from securities financing transactions (such as repo or reverse repo) be reported on a net basis in the NSFR?

**Answer:** *Amounts receivables and payable under these securities financing transactions should generally be reported on a gross basis, specifically that the gross amount of such receivables and payables should be reported on the RSF side and ASF side, respectively. The only exception, as per paragraph 26.29 in the NSFR guidance, is that "securities financing transactions with a single counterparty may be measured net when calculating the NSFR, provided that the netting conditions set out in Paragraph 26.30 are met.*

5. Some loans are only partially secured and are therefore separated into secured and unsecured portions with different risk weights under Basel II. How should these portions be treated for the calculation of the NSFR?

**Answer:** *The specific characteristics of these portions of loans should be taken into account for the calculation of the NSFR: the secured and unsecured portions of a loan should each be treated according to its characteristics and assigned the corresponding RSF factor. If it is not possible to draw the distinction between the secured and unsecured part of the loan, the higher RSF factor should apply to the whole loan.*

6. What is the adequate period for a non-maturity reverse repo (also known as open reverse repo)? Would that be categorised under “loans with residual maturities of less than six months”?

**Answer:** Paragraph 26.35 states that assets should be allocated to the appropriate RSF factor based on their residual maturity or liquidity value. When determining the maturity of an instrument, investors should be assumed to exercise any option to extend maturity. For assets with options exercisable at the bank's discretion, supervisors should take into account reputational factors that may limit a bank's ability not to exercise the option. In particular, where the market expects certain assets to be extended in their maturity, banks and supervisors should assume such behaviour for the purpose of the NSFR and include these assets in the corresponding RSF category. In the case of a non-maturity reverse repo, they should be assigned as RSF=100% (to continue over the one-year term), unless banks can demonstrate to supervisors that the non-maturity reverse repo would effectively mature in a different period.

7. Does the existence of minimum thresholds of transfer amounts for exchange of collateral in derivative contracts automatically preclude such contracts from being considered for the condition of paragraph 24.17 of the NSFR guidance to allow an offsetting of collateral received (in particular regarding the daily calculation and exchange of variation margins)?

**Answer:** No. Paragraph 24.17 of the NSFR standard refers to paragraph 26.31 in the NSFR standard which states in subsection (c) that “variation margin exchanged is the full amount that would be necessary to fully extinguish the mark-to-market exposure of the derivative subject to the threshold and minimum transfer amounts applicable to the counterparty”. The requirement on frequency of calculation and exchange of margins is stipulated in paragraph 26.31, which states “Variation margin is calculated and exchanged on a daily basis based on mark-to-market valuation of derivatives positions”.

8. If an on-balance sheet asset is associated with collateral posted as initial margin for purposes of the NSFR, should it be treated as encumbered?

**Answer:** To the extent that the bank's accounting framework reflects on balance sheet, in connection with a derivative contract, an asset associated with collateral posted as initial margin for purposes of the NSFR, that asset should not be counted as an encumbered asset in the calculation of a bank's RSF to avoid any double-counting.

9. What maturity – and consequently what RSF factor – is applied to a floating rate unencumbered loan without a stated final maturity where the borrower may repay the loan in full and without penalty charges at the next rate reset date?

**Answer:** According to paragraph 26.35 of the NSFR guidance, “investors should be assumed to exercise any option to extend maturity”. Thus, these loans are deemed to have an effective residual maturity period of more than one year, and should be given either a 65% or 85% RSF factor depending on their risk weights under the Basel II standardised approach for credit risk.

10. Should assets be allocated to the NSFR maturity buckets based on their contractual or behavioural/expected maturities?

**Answer:** Unless explicitly stated otherwise in the NSFR standard, assets should be allocated to maturity buckets according to their contractual residual maturity. However, this should take into account embedded optionality, such as put or call options, which may affect the actual maturity date as described in paragraphs 24.18 and 26.35 of the NSFR guidance.

11. Some non-maturity loans may be subject to periodic (e.g. annual) review, following which banks may decide to renew or not to renew them for a further term. An example of such a loan is an overdraft facility provided to a business customer. How should such loans be allocated to the NSFR maturity buckets? Should these loans be modelled as maturing at their next review date?

**Answer:** Paragraph 26.35 of the NSFR guidance, states that "for assets with options exercisable at the bank's discretion, supervisors should take into account reputational factors that may limit a bank's ability not to exercise the option". If there is a contractual provision with a review date to determine whether a given facility or loan is renewed or not, supervisors may authorise, on a case by case basis, banks to use the next review date as the maturity date. In doing so, supervisors must consider the incentives created and the actual likelihood that such facilities/loans will not be renewed. In particular, options by a bank not to renew a given facility should generally be assumed not to be exercised when there may be reputational concerns.

12. How should retail term deposits that are subject to a residual maturity greater than 30 days or withdrawal notice period of more than 30 days be treated in the calculation of the NSFR and reported in the NSFR template?

**Answer:** In line with the treatment for the LCR, but with a different relevant horizon, deposits maturing below one year, or which can be withdrawn early without a significant penalty, that are classified as retail term deposits in the LCR should, for purposes of the NSFR, be classified according to their characteristics (e.g. insured, held in transactional account etc.) as stable or less stable. Retail term deposits maturing over one year and which cannot be withdrawn early without significant penalty are subject to a 100% ASF.

13. How should assets be treated in the NSFR that are owned by banks, but segregated to satisfy statutory requirements for the protection of customer equity in margined trading accounts?

**Answer:** Those assets should be reported in accordance with the underlying exposure, whether or not the segregation requirement is separately classified on a bank's balance sheet. However, those assets should also be treated according to paragraph 26.26 of the NSFR guidance. That is, they could be subject to a higher RSF depending on (the term of) encumbrance. The (term of) encumbrance should be determined by authorities, taking into account whether the institution can freely dispose or exchange such assets and the term of the liability to the bank's customer(s) that generates the segregation requirement.