Basel Committee
on Banking Supervision

# Regulatory Consistency Assessment Programme (RCAP)

# Assessment of Basel NSFR regulations – United States

July 2023

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# Glossary

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| ASF | Available stable funding |
| BCBS | Basel Committee on Banking Supervision |
| BIS | Bank for International Settlements |
| C | Compliant (grade) |
| D-SIB | Domestic systemically important bank |
| FDIC | Federal Deposit Insurance Corporation |
| FHLB | Federal Home Loan Bank |
| FINMA | Swiss Financial Market Supervisory Authority |
| FR | Federal Register |
| FRB | Board of Governors of the Federal Reserve System |
| FRBNY | Federal Reserve Bank of New York |
| GAAP | Generally accepted accounting principles |
| GSE | Government-sponsored enterprise |
| G-SIB | Global systemically important bank |
| HQLA | High-quality liquid assets |
| LC | Largely compliant (grade) |
| LCR | Liquidity Coverage Ratio |
| MDB | Multilateral development bank |
| MMLF | Money Market Mutual Fund Liquidity Facility |
| MNC | Materially non-compliant (grade) |
| NC | Non-compliant (grade) |
| NDB | National development bank |
| NSFR | Net Stable Funding Ratio |
| OCC | Office of the Comptroller of the Currency |
| PSE | Public sector entity |
| PPPLF | Paycheck Protection Program Liquidity Facility |
| QMNA | Qualifying master netting agreement |
| RCAP | Regulatory Consistency Assessment Programme |
| RSF | Required stable funding |
| US | United States |
| USD | US dollar |
| VM | Variation margin |

# Preface

The Basel Committee on Banking Supervision (Basel Committee) places a high priority on the implementation of regulatory standards underpinning the Basel III framework. The prudential benefits from adopting Basel standards can only fully accrue if these are implemented in a full, timely and consistent manner by all member jurisdictions. The Committee established the Regulatory Consistency Assessment Programme (RCAP) to monitor, assess and evaluate its members' implementation of the Basel III framework.[1]

This report presents the findings of an RCAP Assessment Team (Assessment Team) on the adoption status of the Basel Net Stable Funding Ratio (NSFR) standard in the United States (US) on 15 March 2023. The assessment focused on the completeness and consistency of the US regulations with the Basel NSFR standard and relied on the information provided by the US agencies named below.

The Assessment Team was led by Mr Thomas Hirschi, Head of the Banks division and Member of the Executive Board of the Swiss Financial Market Supervisory Authority (FINMA), and comprised four technical experts, from the French Prudential Supervision and Resolution Authority (ACPR), the Reserve Bank of India (RBI), the German Federal Financial Supervisory Authority (BaFin) and the Bank of England (BOE) (see Annex 1). The main counterparts for the assessment were the Board of Governors of the Federal Reserve System (FRB), the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC) and the Federal Reserve Bank of New York (FRBNY). The work was coordinated by the Basel Committee Secretariat with the support of staff from FINMA.

The assessment began in June 2022 and comprised: (i) a self-assessment by the US agencies (June to September 2022); (ii) an assessment phase (September 2022 to March 2023); and (iii) a review phase (March to June 2023) including a technical review of the Assessment Team's findings by a separate RCAP Review Team and the Basel Committee. The assessment report ultimately reflects the view of the Basel Committee.

The Assessment Team acknowledges the cooperation received from the US agencies throughout the assessment process.

1 See www.bis.org/bcbs/implementation.htm.

# Executive summary

The US NSFR regulation was finalised and published in February 2021 with an effective date of 1 July 2021. The US NSFR public disclosure requirements become effective at the end of the second quarter of 2023.

As of 15 March 2023, the NSFR regulations in the US are assessed as largely compliant with the Basel NSFR standards. This is one notch below the highest grade.

Two of the four components of the Basel NSFR standard – scope, minimum requirements and application issues; and disclosure requirements – are assessed as compliant. The other two components – available stable funding (ASF) and required stable funding (RSF) – are assessed as largely compliant and materially non-compliant, respectively. The ASF component grade is driven mainly by one potentially material finding and the RSF component grade is driven mainly by one material and one potentially material finding.

In addition, this report identified an item for follow-up assessment relating to the calculation of derivative asset amounts (see Annex 5).

# Response from the US authorities

The US federal banking agencies thank the Assessment Team led by Mr Thomas Hirschi for the team's insightful comments and collaborative approach during the review of the implementation of the Net Stable Funding Ratio (NSFR) in the US. We appreciate the Assessment Team's diligent work and effort to acknowledge the key features of the funding and capital markets that are unique to the US.

We share the assessment that the implementation of the NSFR in the US is largely compliant with the Basel NSFR standard. We strongly support the implementation of a globally consistent NSFR standard and welcome the Basel Committee's efforts to accomplish this goal.

The main findings included in the report relate to required stable funding factors applicable to certain exposures under the US NSFR rule. The rule provides a favourable treatment related to Level 1 high-quality liquid asset securities when held on balance sheet, backing certain short-term secured lending transactions, and pledged as collateral to offset derivative asset amounts. This treatment was an outcome of the US rulemaking process.

We would also note that the walkaway clause requirement was incorporated into the US rules but does not currently appear in the Code of Federal Regulations due to a technical issue that the agencies expect to address at the next opportunity.

Our view differs from the Assessment Team's view that the US NSFR rule's treatment of certain trust deposits as retail deposits is a deviation. The US NSFR rule's definition of retail counterparty includes living and testamentary trusts that are solely for the benefit of natural persons, have natural person trustees, and terminate within the applicable time limit. The agencies view the treatment of these trust deposits as retail deposits to be consistent with the Basel standard's definition of retail deposits as "deposits placed with a bank by a natural person". The trust deposits in question are "placed" and controlled by a natural person, and exhibit risk characteristics similar to other retail deposits. Accordingly, these trust deposits have historically been treated as retail deposits for regulatory and reporting purposes in the US.

We would like to reiterate our commitment to the RCAP process. Assessment of the implementation of global standards across jurisdictions is a valuable exercise of accountability and transparency.

# 1 Assessment context

## 1.1 Regulatory system

The US has a dual banking system in which a bank may choose to be chartered by the federal government or by a state. Banks chartered at the state level are supervised by both federal and state supervisors. Every US bank is regulated, supervised and examined by a primary federal banking supervisor: the Office of the Comptroller of the Currency (OCC), the Federal Deposit Insurance Corporation (FDIC), or the Board of Governors of the Federal Reserve System (FRB), collectively the US federal banking agencies (the US agencies). The US agencies have the authority to regulate and supervise banks and bank holding companies subject to their jurisdiction. Annex 2 describes the structure and hierarchy of prudential regulation in the US and relevant regulations to implement the NSFR regulation.

In applying capital and liquidity requirements to large domestic and foreign banks, the US agencies have established a framework that classifies banks with USD 100 billion or more in total assets into four different categories based on several factors, including asset size and cross-jurisdictional activity.[2] Under this tiered approach, Category I consists of the US global systemically important banks (G-SIBs), which are the largest, most complex, internationally active banks in the US market. Category II includes all other internationally active US banks (ie banks with USD 700 billion or more in total consolidated assets or banks with USD 75 billion or more in cross-jurisdictional activity). Category III includes banks with total consolidated assets of USD 250 billion or more or USD 75 billion or more in weighted short-term wholesale funding, non-bank assets or off-balance sheet exposure. Banks with total consolidated assets of USD 100 billion or more that do not meet the thresholds for one of the other three categories fall into Category IV. Category I and II banks are generally subject to the full US capital and liquidity requirements, while Category III and IV banks meeting certain criteria are subject to reduced or simpler capital and liquidity requirements (see Section 2.3.1).

## 1.2 Status of NSFR implementation

A proposal to implement the NSFR regulation was first published in June 2016 for public comment. The public comment period closed on 5 August 2016. The US NSFR regulation was finalised in 2021 with the final regulation published in the Federal Register in February 2021 with an effective date of 1 July 2021. The NSFR final regulation implements the tiered approach described above, differentiating the NSFR requirements across bank categories. The US NSFR public disclosure requirements become effective at the end of the second quarter of 2023 to allow banks sufficient time to modify their reporting and compliance systems. US banking organisations subject to the NSFR regulation are required to begin making public disclosures for the first and second quarters of 2023 approximately 45 days after the end of the second quarter of 2023.

## 1.3 Scope of the assessment

The Assessment Team considered the NSFR requirements applicable to a sample of internationally active banks in the US as of 15 March 2023. The assessment had two dimensions:

- a comparison of US regulations with the Basel NSFR standard to ascertain that all the required provisions have been adopted (*completeness* of the regulations); and

[2] See Board of Governors of the Federal Reserve System, *Changes to applicability thresholds for regulatory capital and liquidity requirements*, November 2019, www.federalregister.gov/documents/2019/11/01/2019-23800/changes-to-applicability-thresholds-for-regulatory-capital-and-liquidity-requirements.

- whether there are any differences in substance between the US regulations and the Basel NSFR standard and, if so, their significance (*consistency* of the regulations).

In its assessment, the Assessment Team considered all binding documents that effectively implement the Basel NSFR standard in the US. Annex 2 lists the Basel standards used as the basis for the assessment. The assessment did not evaluate the adequacy of liquidity or the resilience of the banking system in the US or the supervisory effectiveness of the US agencies.

The Assessment Team evaluated the materiality and potential materiality of identified deviations between the Basel NSFR standard and the US regulations. The evaluation was made using a sample of eight internationally active US banks. Together, these banks comprise about 99% of the assets of internationally active banks in the US. In addition, the Assessment Team reviewed the non-quantifiable impact of identified deviations and applied expert judgment as to whether the US regulations meet the Basel NSFR standard in letter and in spirit. The materiality assessment is summarised in Annex 4, which also lists the sample of banks.

The Assessment Team noted that, in some areas, the US regulation goes beyond the minimum Basel requirements. Although these elements (listed in Annex 6) provide for a more rigorous implementation of the Basel NSFR standard, they have not been taken into account for the assessment of compliance.

The outcome of the assessment is summarised using a four-grade scale, both for each of the four key components of the Basel NSFR standard and for the overall assessment of compliance. The four grades are compliant (C), largely compliant (LC), materially non-compliant (MNC) and non-compliant (NC).

# 2 Assessment findings

## 2.1 Assessment grades and summary of findings

Overall, the Assessment Team finds the implementation of the NSFR in the US to be largely compliant with the Basel standard. This grade is based on the materiality assessment as summarised in Annex 4.

Assessment grades

Table 1

| Component of the Basel NSFR standard | Grade |
|---|---|
| Overall grade | LC |
| Scope, minimum requirement and application issues | C |
| Available stable funding (numerator) | LC |
| Required stable funding (denominator) | MNC |
| NSFR disclosure requirements | C |

Assessment scale: C (compliant), LC (largely compliant), MNC (materially non-compliant) and NC (non-compliant).

### 2.1.1 Scope, minimum requirement and application issues

This component is assessed as compliant with the Basel NSFR standard.

The Assessment Team identified one non-material finding in respect of the treatment of certain retail deposits made by trusts.

Further, the Assessment Team made three observations. The first relates to the implementation of the NSFR in the US as of 1 July 2021, over three years after the Basel Committee's agreed implementation date of January 2018. The second concerns the tiering approach in applying the NSFR standard to US banks, and the third relates to the treatment of excess ASF trapped at subsidiaries when determining the NSFR at consolidated level.

### 2.1.2 Available stable funding (ASF)

This component is assessed as largely compliant with the Basel NSFR standard.

The Assessment Team identified one potentially material finding that relates to the application of a 50% ASF factor to a liability owed to a retail customer or counterparty that is not a deposit or a security issued by a bank. Further, the Assessment Team identified one non-material finding and made one observation that relates to the definition of ASF.

### 2.1.3 Required stable funding (RSF)

This component is assessed as materially non-compliant with the Basel NSFR standard.

The Assessment Team identified one material finding that relates to the application of a 0% RSF factor to certain assets. It also identified a potentially material finding that relates to the treatment of the collateral received in the form of non-cash variation margin (VM) to offset the positive replacement cost amount of derivative exposures. Further, the Assessment Team identified one non-material finding and made four observations.

### 2.1.4 Disclosure requirements

This component is assessed as compliant with the Basel NSFR standard. No findings were identified.

The Assessment Team made two observations. The first relates to the implementation date of disclosure standards and the second to the disclosure requirements being based on daily average data rather than using quarter-end data.

## 2.2 Detailed assessment findings

### 2.2.1 Scope, minimum requirement and application issues

| **Section grade** | **Compliant** |
|---|---|
| Basel paragraph number | 16: Definition and minimum requirements and FAQ 2: Insurance companies and investment companies |
| Reference in the domestic regulation | _.104(c) and FR 2052a |
| Finding | Beneficiaries are specifically distinguished from retail counterparties in the Basel Liquidity Coverage Ratio (LCR) standard and assimilated to wholesale counterparties (see Basel Committee on Banking Supervision, *Basel III: The Liquidity Coverage Ratio and liquidity risk monitoring tools*, January 2013). The LCR standard defines retail deposits as ''deposits placed with a bank by a natural person'' and sets out that ''Deposits from legal entities, sole proprietorships or partnerships are captured in wholesale deposit categories'' (paragraph 73). Consistently, it further states in paragraph 109 that deposits from beneficiaries and fiduciaries, as well as other deposits ''not included in the prior three categories'' have to be treated as wholesale funding. A beneficiary is "a legal entity that receives, or may become eligible to receive, benefits under a will, insurance policy, retirement plan, annuity, trust, or other contract" (see LCR standard, footnote 44) and a fiduciary is a ''legal entity that is authorised to manage assets on behalf of a third party. Fiduciaries include asset management entities such as pension funds and other collective investment vehicles'' (LCR standard, footnote 43). Usually, a trust is understood as a legal entity with separate and distinct rights, similar to a person or corporation. In a trust, a party known as a trustor gives another party, the trustee, the |

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|---|---|
| | right to hold title to and manage property or assets for the benefit of a third party, the beneficiary.<br>The Basel NSFR standard mirrors the LCR definition of retail/non-retail counterparties (see paragraph 16), and NSFR FAQ 2 reinforces the point, stating that ''beneficiaries (defined in this context as a legal entity that receives, or may become eligible to receive, benefits under a will, insurance policy, retirement plan, annuity, trust, or other contract) are considered as financial institutions for the application of the NSFR standard''.<br>Under the US NSFR regulation, some deposits placed by a trust are treated as retail deposits, as it is considered that these deposits are "placed" and controlled by a natural person and exhibit risk characteristics similar to other retail deposits, as the trusts are long term arrangements, where a deposit account is placed in a trust with the grantor's deposits generally insured up to USD 250,000 per beneficiary. The US rule ensures that the risks of these deposits are comparable to other retail deposits, as the beneficiaries must be natural persons and the accounts cannot have a corporate trustee (eg an investment adviser). The US rule only extends retail counterparty treatment to trusts where the beneficiaries are solely individuals, not legal entities.<br>The US agencies pointed out that the location of the beneficiary definition in the wholesale section of the Basel standard and the usage of the term "legal entity" suggests that this treatment was meant to apply to beneficiaries that are wholesale entities, and not to accounts that are controlled by and maintained for the benefit of natural persons. They indicated that the treatment of trusts as non-retail counterparties could have sweeping and unintended consequences for other US retail deposits and would significantly overstate the liquidity and funding risk of these otherwise standard retail deposits. Last, they explained that reporting instructions would not provide granular enough data to assess the impact on NSFR if deposits by trusts were not treated as retail counterparties. Therefore, it was not possible for them to collect more targeted information from the banks in a timely manner.<br>The Assessment Team is of the view that the Basel LCR standard does not permit deposits by a legal entity to be treated as retail deposits, which includes by design trusts, irrespective of the beneficiary being itself a legal or a natural person. This extends to the treatment of deposits under the Basel NSFR standard. The look-through approach (LTA) is not set out in the Basel NSFR standard. In this case, the retail deposit definition in the US law ensures that the depositor ultimately retains control over the deposits. Failure to comply with this condition would render the deposits as coming from a financial institution that attracts lower ASF factors, as ASF factors of 95% and 90% are applied to deposits provided by retail and small business customers whereas ASF factors of 0%, 50% and 100% are applied to deposits provided by financial institutions depending on their residual maturity (0% in the absence of residual maturity and where residual maturity is below six months, 50% where the residual maturity is between six and 12 months, and 100% where the residual maturity is above 12 months). After discussing with sample banks and taking into account the treatment of trapped excess liquidity described in Section 2.3.1, this deviation is assessed as not material.<br>More specifically, lower ASF at subsidiaries may not result in lower ASF at the consolidated bank holding company (the top-tier entity in scope for the application of the Basel standards in the US) after the excess ASF being trapped at subsidiaries given that deposits are mainly held by subsidiaries, and not the bank holding company. |
| Materiality | Not material |

### 2.2.2 Available stable funding

| Section grade | Largely compliant |
|---|---|
| Basel paragraph number | 22: Liabilities receiving a 95% ASF factor |
| Reference in the domestic regulation | _.104(b), _.104(c), _.3 |
| Finding | The Basel NSFR standard assigns a 95% ASF factor to "stable" non-maturity (demand) deposits and/or term deposits with residual maturities of less than one year provided by retail and small business customers.<br>The US NSFR regulation expands the scope of deposits that are assigned a 95% ASF factor by including certain fully insured affiliate sweep deposits with demonstrated stability. More specifically, certain sweep deposits of retail customers are considered as having stabilising liquidity attributes similar to stable deposits from retail customers. Sweep deposits are typically transacted at the bank subsidiary level and their treatment has an impact on the NSFR calculation at both the subsidiary and consolidated level. Within a waterfall structure, affiliates tend to be the first to receive deposits and the last from which deposits are withdrawn. As a result of this priority relationship for affiliated sweep deposits, a banking organisation is more likely to receive and maintain a steady stream of affiliated sweep deposits provided by retail customers across a range of market conditions. This affiliate relationship, combined with the presence of full insurance coverage and the additional requirement that the banking organisation demonstrate that withdrawal is highly unlikely to occur during a liquidity stress event, results in these deposits generally exhibiting an equivalent funding stability profile to a stable deposit of a retail customer or counterparty.<br>The Assessment Team does not find strong evidence that such deposits are akin to stable demand/term deposits and that withdrawal of such deposits is highly unlikely to occur during a liquidity stress event.<br>The Assessment Team considers that sweep deposit clients are more responsive to financial conditions than regular retail clients and their deposits more volatile and less trapped, and hence, that sweep deposits may not have all the attributes mentioned in paragraph 22 of the Basel NSFR standard. More specifically, as the withdrawal of such deposits could be caused not only by the customer but also by changes in the affiliate relationship between the bank and other banks, these deposits may not fulfil the requirement of an established relationship, which the customer has only with the affiliated bank. The Assessment Team also notes that a reasonable period of time has not yet elapsed to share firm conclusions about the deposit balance patterns of stable affiliate sweep deposits.<br>As of Q2 2022, average impact on the sample banks is nil on the NSFR and no bank is affected when taking into account the correction for trapped excess liquidity described in Section 2.3.1. Therefore, the deviation is assessed as not material. |
| Materiality | Not material |
| Basel paragraph number | 25: Liabilities receiving a 0% ASF factor |
| Reference in the domestic regulation | _.104(d)(9), _.104(e) |
| Finding | The Basel NSFR standard assigns a 0% ASF factor to all other liabilities and equity categories not included in the 100%, 95%, 90% or 50% category, including other funding with residual maturity of less than six months from central banks and financial institutions.<br>The US NSFR regulation assigns a 50% ASF factor to a liability owed to a retail customer/counterparty that is not a deposit or a security issued by a bank. Non-deposit retail liabilities including retail brokerage payables (cash awaiting investment, free credit balances, float, etc) and prepaid cards, travellers' checks, and customer rewards programmes are considered as a stable funding source during both stressed and normal times. The transactional and relationship attributes of these non-deposit retail accounts would result in a stability similar to other liabilities assigned a 50% ASF factor.<br>The Assessment Team is of the view that a liability owed to a retail customer/counterparty that is not a deposit or a security issued by a bank should |

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|---|---|
| | receive a 0% ASF factor, as such a liability does not fall into any other ASF factor category in the Basel NSFR standard. Further, after discussing this with the US banks, it emerged that during a financial crisis, like the Great Financial Crisis, some of these liabilities may not be stable due to the risk aversion behaviour of customers. Although the impact on the NSFR of sample banks caused by this deviation is 0.7 percentage points on average, the impacts on the two most impacted banks are 2.2 and 2.1 percentage points respectively. Hence, this deviation is assessed as potentially material. |
| Materiality | Potentially material |

### 2.2.3 Required stable funding

| **Section grade** | **Materially non-compliant** |
|---|---|
| Basel paragraph number | 34: Calculation of derivative asset amounts |
| Reference in the domestic regulation | _.107, _.107(a), _.107(b), _107.(f)(1) |
| Finding | The Basel NSFR standard specifies that derivative assets are calculated first based on the replacement cost for derivative contracts (obtained by marking to market) where the contract has a positive value. When an eligible bilateral netting contract is in place that meets the conditions as specified in paragraphs 8 and 9 of the annex of the *Basel III leverage ratio framework and disclosure requirements*, the replacement cost for the set of derivative exposures covered by the contract will be the net replacement cost. According to paragraph 9 of the annex, contracts containing walkaway clauses[3] are not eligible for netting for the purpose of calculating the leverage ratio requirements.<br>The US regulation does not include this requirement.<br>According to the US agencies, the conditions specified in the Basel NSFR standard were incorporated in paragraphs (3) and (4) of the definition of a qualifying master netting agreement (QMNA) in 12 CFR 217.2 but do not currently appear in the Code of Federal Regulations due to a technical issue which the US agencies assured to address at the next opportunity. In the interim, the US agencies do not expect to alter their approach with respect to the QMNA definition. The Assessment Team assessed this deviation as not material and included it as an item for follow-up assessments. |
| Materiality | Not material |
| Basel paragraph number | 35: Calculation of derivative asset amounts |
| Reference in the domestic regulation | _.107(a), _.107(b), _.107(f) |
| Finding | The Basel NSFR standard specifies that the collateral received in connection with derivative contracts may not offset the positive replacement cost amount, regardless of whether or not netting is permitted under the bank's operative accounting or risk-based framework, unless it is received in the form of cash VM and meets the conditions as specified in paragraph 25 of the *Basel III leverage ratio framework and disclosure requirements*. Any remaining balance sheet liability associated with (a) VM received that does not meet the criteria above or (b) initial margin received may not offset derivative assets and should be assigned a 0% ASF factor.<br>The US NSFR regulation allows the collateral received in the form of non-cash VM to offset the positive replacement cost amount. More specifically, rehypothecatable Level 1 high-quality liquid asset (HQLA) securities received as VM are allowed to offset the replacement cost of derivative assets because those securities are deemed have very stable value and reliable liquidity across market conditions. In addition, allowing netting of VM in the form of Level 1 HQLA securities aligns with the US agencies' swap margin rule. The US agencies note however that, when measured by total volume, a significant |

[3] A walkaway clause is a provision that permits a non-defaulting counterparty to make only limited payments, or no payment at all, to the estate of a defaulter, even if the defaulter is a net creditor.

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|---|---|
| | majority of VM exchanged with swap dealers continues to be comprised of cash, with the majority of the remaining VM comprised of government securities.<br>The Assessment Team is of the view that under stressed conditions: (a) gilts (and other forms of non-cash VM) can also come under pressure and this may fuel further liquidity stress; and (b) monetary policy compulsions, especially during the quantitative tightening phase, may increase the prevalence of non-cash VM.<br>The impact of the findings on NSFR of sample banks is 0.6 percentage points on average and 2.2 percentage points for the most affected bank. However, as this impact may increase in stressed times, the deviation is assessed as potentially material. |
| Materiality | Potentially material |
| Basel paragraph number | 36: Assets assigned a 0% RSF factor |
| Reference in the domestic regulation | _.106(a)(1), _.20(a) |
| Finding | The Basel NSFR standard assigns a 0% RSF factor to certain assets.<br>The US NSFR regulation expands the scope of assets that receive a 0% RSF factor to assets such as unencumbered Level 1 assets and unencumbered loans to financial institutions with a residual maturity of less than six months, where the loan is secured against Level 1 assets. Under the Basel NSFR standard, such assets should receive a 5% and 10% RSF factor, respectively.<br>The US agencies argued that this 0% RSF factor assignment was made based on the determination that Level 1 HQLA pose minimal liquidity risk and contribute importantly to the good functioning of short-term funding markets, ie that a non-zero RSF factor on Level 1 HQLA could discourage intermediation in US Treasury and repo markets.<br>The overall impact of this deviation on the NSFR of the sample banks is 2.0 percentage points on average and 4.3, 3.5 and 3.2 percentage points for the three most affected banks. As such, the deviation is assessed as material. |
| Materiality | Material |

### 2.2.4 Disclosure requirements

This component is assessed as compliant with the Basel standard. No findings were identified.

## 2.3 Observations

The following observations highlight certain special features of the regulatory implementation of the Basel NSFR standard in the US. These are presented to provide additional context and information. Observations are considered compliant with the Basel standards and do not have a bearing on the assessment outcome.

### 2.3.1 Scope, minimum requirement and application issues

| Basel paragraph number | 8: Introduction |
|---|---|
| Reference in the domestic regulation | _.120(a); 86 FR 9120 |
| Observation | The Basel NSFR standard became a minimum Basel requirement on 1 January 2018.<br>The US NSFR regulation came into effect on 1 July 2021. The US agencies indicated that the delay in the NSFR implementation was due to external circumstances, including the necessity to respond to legislative requirements. In response to the passage of the Economic Growth, Regulatory Relief, and Consumer Protection Act (EGRRCPA), specifically Section 401, the US agencies revised the prudential framework that applies to both capital and liquidity (see Changes to Applicability Thresholds for Regulatory Capital and Liquidity Requirements, 84 FR 59230–59283, 1 November 2019). The revised prudential framework applies a tiered approach based on a set of risk-based criteria to regulations including the NSFR. |

| Basel paragraph number | 50: Scope of application – tiering approach |
|---|---|
| Reference in the domestic regulation | _.1(b); _.3; _.105(b) |
| Observation | The Basel NSFR standard should be applied to all internationally active banks on a consolidated basis and may be used for other banks or any subset of entities of internationally active banks to ensure greater consistency and a level playing field between domestic and cross-border banks.<br>The US regulations apply the NSFR in a tiered approach consistent with the LCR as follows:<br>- The largest and most complex banking organisations – banking organisations subject to Category I and II standards, as well as those subject to Category III standards with USD 75 billion or more in average weighted short-term wholesale funding – have to comply with an NSFR ratio of at least 100%.<br>- Banking organisations subject to Category III standards with less than USD 75 billion in average weighted short-term wholesale funding have to comply with a reduced NSFR ratio of at least 85%.<br>- Finally, banking organisations subject to Category IV standards with more than USD 50 billion in average weighted short-term wholesale funding have to comply with a reduced NSFR ratio of at least 70%.<br>These reduced calibrations reflect the difference in risk profiles of these banking organisations as compared to those subject to the full NSFR requirement.<br>The requirements of the NSFR do not apply to foreign banking organisations or intermediate holding companies that are not otherwise covered companies. |
| Basel paragraph number | 51: Scope of application – limitation to recognition of ASF from subsidiaries |
| Reference in the domestic regulation | _.109 |
| Observation | The Basel NSFR standard should be applied to all internationally active banks on a consolidated basis and banks should actively monitor and control liquidity risk exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries, and the group as a whole, taking into account legal, regulatory and operational limitations to the transferability of liquidity. However, the standard does not prescribe how to take into account such limitations to the ASF at the consolidated group.<br>The US NSFR regulations implement this requirement by developing an approach that limits the extent to which ASF maintained at a subsidiary entity can be included in the consolidated NSFR calculation. As per _.109, the US NSFR requires banks to take into account restrictions on the availability of stable funding at a consolidated subsidiary to support assets, derivative exposures, and commitments of the covered company held at entities other than the subsidiary. These restrictions relate to statutory, regulatory, contractual, or supervisory restrictions, such as Sections 23A and 23B of the Federal Reserve Act (12 USC 371c and 12 USC 371c-1) and Regulation W. This approach does not necessarily result in stricter requirements under all circumstances but never results in less rigorous requirements than the Basel standard. Under this approach, the US NSFR rule limits the extent to which ASF maintained at a subsidiary entity can be included in the consolidated bank holding company NSFR. This limitation is calculated by comparing the ASF amount raised from third-party liabilities with the RSF amount attributable to third-party assets at each subsidiary of the bank holding company.[4] |

[4] For instance, consider a typical case of a group with total ASF of 120 and total RSF of 100 and comprised of a parent company and two subsidiaries, the first with 80 ASF and 70 RSF (thus excess ASF on RSF) and the second without excess ASF on RSF. Without the limitation on the subsidiary's ASF, the group NSFR would be 120/100 = 120%. With the limitation on the subsidiary's ASF, the group NSFR is (120–10)/100 = 110%. If the ASF in the first subsidiary is lowered by 5, the group NSFR without the limitation on the subsidiary's ASF would be directly impacted, as the ASF will change to 115 (120–5) and thus the total NSFR would be 115%, whereas with the limitation on the subsidiary's ASF, the group NSFR would remain unchanged at 110% (only the unrecognised ASF excess is reduced from 10 to 5). This is why, up to a certain extent, the ''trapped mechanism'' on ASF excess at subsidiary level is absorbing the reduction in ASF or the increase in RSF that may result in this assessment.

| | |
|---|---|
| | As the NSFR at consolidated level is highly dependent on the localisation in the group of ASF and RSF due to this treatment of trapped excess ASF, and this treatment is intrinsically part of the US NSFR implementation, the materiality assessment of the findings identified by the Assessment Team took into account this trap mechanism. The US agencies, however, provided the Assessment Team with impact data determined at the consolidated level of groups before and after applying the treatment for trapped excess ASF. The average NSFR for the groups in the sample is 140.4% without applying the treatment for trapped excess ASF and 124.6% after such application as of end-June 2022. Trapped excess ASF as per end-June 2022 was distributed amongst banks in the sample, ranging from 6% to 16% of ASF. As a consequence, the materiality reported for findings in Section 2.2 is lower than the hypothetical impact without applying the treatment for the trapped excess ASF where the decrease in ASF or the increase in RSF impacts a subsidiary with trapped ASF. |

### 2.3.2 Available stable funding

| Basel paragraph number | 18: Definition of ASF |
|---|---|
| Reference in the domestic regulation | _.101, _.101(a), _.101(c), _.101(d), _.101(e) |
| Observation | The Basel NSFR standard states that when determining the maturity of an equity or liability instrument, investors are assumed to redeem a call option at the earliest possible date. It specifies that for funding 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 liabilities to be redeemed before their legal final maturity date, the Basel NSFR standard requires banks and supervisors to assume such behaviour for the purpose of the NSFR and include these liabilities in the corresponding ASF category.<br>The US NSFR regulation does not assume such behaviour for funding from sovereigns, public sector entities (PSEs) and US government-sponsored enterprises (GSEs). The US agencies do not find market expectations to redeem such liabilities before their legal final maturity date or reputational factors that may limit a bank's ability not to exercise its option, as may be the case for funding from other types of counterparties. For example, US banks have funding exposures from the Federal Home Loan Banks (FHLBs), which are US GSEs, in the form of advances during both stressed and normal times. US banks typically do not redeem FHLB advances prior to their final maturity and generally face no pressure or market expectations to exercise their option to redeem.<br>As of end-June 2022, the only funding exposures from sovereigns, PSEs and US GSEs that mature in one year or more and banks disclosed as having embedded optionality were FHLB advances. As of end-November 2022, one bank reported a total of USD 4.2 billion in repo transactions with these features with sovereigns and PSEs. |

### 2.3.3 Required stable funding

| Basel paragraph number | 29: Definition of required stable funding for assets and off-balance sheet exposures; and FAQ 7: Non-maturity reverse repo |
|---|---|
| Reference in the domestic regulation | _.101(d) |
| Observation | The Basel NSFR standard requires that assets 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, and for assets with options exercisable at the bank's discretion, supervisors should take into account reputational factors that may limit 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. FAQ 7 clarifies the application of the paragraph to the non-maturity or open reverse repo – that these should be assigned an RSF factor of 100% unless banks can demonstrate to supervisors that the non-maturity reverse repo would effectively mature in a different period because these |

| | |
|---|---|
| | operations usually do not enshrine maturity dates and can be terminated on request of both counterparties, with variable contractually agreed notice periods.<br>The US NSFR regulation requires perpetual instruments to be classified in the over 12 months maturity bucket and considers open maturity secured lending transactions as Day + 1 maturity assets. Consequently, the RSF factor applied to open maturity secured lending transactions against HQLA Level 1 assets with financial institutions is 0% (see finding related to para 36) and 15% for other collateral quality. The RSF factor applied to open maturity secured lending transactions with non-financial counterparties is 50%. Under the Basel NSFR standard, the RSF factor to be applied to transactions with an effective maturity of one year or more should be 100% for financial institutions and 65%, 85% or 100% for other counterparties as long as it is not demonstrated that the non-maturity reverse repo would effectively mature in a shorter period.<br>The US regulation considers the effective maturity of open maturity secured lending transactions as Day+1 both in LCR and NSFR as, similar to the approach described in Section 2.3.2, the US agencies apply some discretion to judge whether there are reputational risk factors associated with such transactions and to assess the market's expectation when deciding on their effective maturity. More specifically, they consider most open maturity secured lending transactions as short-term by design and not subject to reputational risk factors, and so do not require banks to demonstrate that such transactions effectively mature within a shorter period as requested by FAQ 7. The Assessment Team noted that the US agencies do not monitor the actual maturity of these transactions, while some sample banks indicated that some transactions are maintained for more than six months. This finding is reported as an observation since, according to the RCAP Handbook and consistent with the assessment of NSFR regulations in other jurisdictions, an FAQ cannot be cited as the sole source of a deviation. |
| Basel paragraph number | 30: Definition of required stable funding for assets and off-balance sheet exposures |
| Reference in the domestic regulation | _.105(a)(1), _.102 |
| Observation | The Basel NSFR standard requires banks, for purposes of determining their required stable funding, to (i) include financial instruments, foreign currencies and commodities for which a purchase order has been executed, and (ii) exclude financial instruments, foreign currencies and commodities for which a sales order has been executed, even if such transactions have not been reflected in the balance sheet under a settlement-date accounting model, provided that (i) such transactions are not reflected as derivatives or secured financing transactions in the institution's balance sheet, and (ii) the effects of such transactions will be reflected in the institution's balance sheet when settled.<br>The US regulations require that the NSFR components be calculated based on the carrying value of assets, NSFR regulatory capital elements and liabilities as determined under US generally accepted accounting principles (GAAP). Under US GAAP, transactions are reflected on the balance sheet based on the type of transaction. Financial instruments, foreign currencies and commodities are typically reflected on the bank's balance sheet at the trade date (ie purchase/sale order date); hence, these transactions are incorporated into the bank's NSFR as of the trade execution date. |
| Basel paragraph number | 31: Encumbered assets; 36: Assets assigned a 0% RSF factor; 37: Assets assigned a 5% RSF factor |
| Reference in the domestic regulation | _.108 |
| Observation | The Basel NSFR standard provides for a possible preferential treatment (reduction of RSF factor) of assets that are encumbered for exceptional central bank liquidity operations under the condition that the RSF factor applied to these assets is not lower than that applied to equivalent unencumbered assets. This treatment is conditional on discussion with and agreement by the supervisors. Claims on or guaranteed by central banks receiving a 0% risk weight under the Basel standardised approach for credit risk are assigned a 5% RSF under Basel paragraph 37, whereas claims on central banks with residual maturity of less than six months are assigned a 0% RSF factor under Basel paragraph 36. |

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| | The US NSFR regulations allow certain liability and asset amounts associated with non-recourse loans to be excluded from the NSFR calculation. This exemption was used through two facilities established by the FRB to stabilise funding markets and support the flow of credit to households and businesses during the Covid-19 period, namely the Money Market Mutual Fund Liquidity Facility (MMLF) and the Paycheck Protection Program Liquidity Facility (PPPLF). Both facilities ceased extending new loans in 2021.<br>Under the MMLF, the Federal Reserve Bank of Boston extended non-recourse loans to eligible financial institutions (including certain banking organisations subject to the US LCR and NSFR rules) to purchase certain assets (including securities) from money market mutual funds. Assets purchased from money market mutual funds were posted as collateral to secure the loan from the MMLF. Under the terms of the MMLF, the loans were made in the full amount of the market value of eligible collateral (ie without haircut or overcollateralisation) and their maturity date was generally equal to the maturity of the eligible collateral. In addition, because the loans were also non-recourse to the borrowing financial institution, the MMLF would only receive repayment of the loan through the maturing proceeds of the collateral. Given these terms, the borrowing financial institution was not exposed to any credit or market risks associated with the collateral pledged to the MMLF and the associated loans drawn from it.<br>The PPPLF was structured with similar characteristics to support the effectiveness of the Paycheck Protection Program, a Covid-19 relief measure established by the US Federal Government. Under the PPPLF, each of the Federal Reserve Banks may extend non-recourse loans to institutions that are eligible to make Paycheck Protection Program (PPP) covered loans. Only PPP covered loans that are guaranteed by the Small Business Administration (SBA) with respect to both principal and accrued interest and that are originated by an eligible institution may be pledged as collateral to the Federal Reserve Banks.<br>The US agencies indicated that this exemption neutralises the impact on the NSFR of a firm's participation in these temporary Federal Reserve liquidity facilities, better aligns the treatment of these loans and their collateral with the liquidity risks associated with these facilities, and ensures consistent and predictable treatment of firms' participation in the facilities under the NSFR rule.<br>The Assessment Team observes that the US regulation does not explicitly limit this treatment to the Covid-related MMLF and PPPLF. However, this treatment aims at facilitating the continued operation of, and banks' participation in, such facilities in stressed times and, as of June 2022, there are no amounts outstanding loans under MMLF and PPPLF made by firms subject to the US NSFR regulation. |
| Basel paragraph number | 41, 42: Assets assigned a 65% and 85% RSF factor |
| Reference in the domestic regulation | _.106(a)(5), _.106(a)(6), _.107(b)(6), _.107(b)(7) |
| Observation | The Basel NSFR standard assigns a 65% RSF factor to: (a) unencumbered residential mortgages with a residual maturity of one year or more that would qualify for a 35% or lower risk weight under the Basel standardised approach for credit risk; and (b) other unencumbered loans not included in the above categories, excluding loans to financial institutions, with a residual maturity of one year or more that would qualify for a 35% or lower risk weight under the Basel standardised approach for credit risk.<br>Similarly, the Basel NSFR standard assigns an 85% RSF factor to assets including other unencumbered performing loans that do not qualify for the 35% or lower risk weight under the Basel standardised approach for credit risk and have residual maturities of one year or more, excluding loans to financial institutions.<br>Under the US regulation, mortgages are assigned either a 50% or 100% risk weight. A residential mortgage for prudently underwritten first-lien exposures that are performing according to their original terms receive a 50% risk weight. For other residential mortgage exposures, a 100% risk weight is applied. A mortgage that does not qualify for a 50% risk weight is assigned a 100% risk weight. Risk weights for other unencumbered performing loans are: 100% risk weight for most commercial real estate (CRE) loans and a 150% risk weight for high-volatility commercial real estate (HVCRE) loans. |

| | |
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| | The reference in the US NSFR regulation is aligned with the US risk-based capital rules that assign a 50% risk weight to residential mortgage exposures that meet the same criteria as those that receive a 35% risk weight under the Basel standardised approach for credit risk. |

### 2.3.4 Disclosure requirements

| Basel paragraph number | 8: Implementation date (NSFR disclosure standards) |
|---|---|
| Reference in the domestic regulation | 12 CFR 249.130(b) |
| Observation | The Basel NSFR disclosure standards became a minimum requirement on 1 January 2018.<br>The US NSFR disclosure requirements became effective at the end of the second quarter of 2023. The US agencies explained that the required public disclosure started 18 months after the US NSFR rule effective date (1 July 2021) to allow sufficient time for banks to update their internal liquidity management, reporting systems and processes and was driven by feedback received during the US public consultation on the NSFR rule.<br>The US NSFR public disclosure requirement is established in the Federal Reserve regulation that only applies to covered bank holding companies and US intermediate holding companies on a consolidated basis. There is no public disclosure regulation issued by the FDIC or OCC, and no public disclosure requirement applies to the depository institution itself. |
| Basel paragraph number | Template LIQ2 content: quarter-end observations (NSFR disclosure standards) |
| Reference in the domestic regulation | 12 CFR 249.131(b)(1)(i)(B) |
| Observation | The Basel NSFR templates specify quarter-end observations while the US NSFR disclosure requirements prescribe using daily averages data. The US agencies consider that using daily averages might reduce the possibility of "window dressing" and reflect the banks' long-term funding profile more accurately. The Assessment Team notes, however, that using daily averages may result in disclosing either higher or lower NSFR compared to using quarter-end observations. |

# Annexes

## Annex 1: RCAP Assessment Team and Review Team

### Assessment Team Leader

| | |
|---|---|
| Mr Thomas Hirschi | Swiss Financial Market Supervisory Authority |

### Assessment Team members

| | |
|---|---|
| Ms Florence Keller-Charrier | French Prudential Supervision and Resolution Authority |
| Mr Puneet Pancholy | Reserve Bank of India |
| Mr Thomas Kotz | German Federal Financial Supervisory Authority |
| Ms Lynnette Withfield | Bank of England |

### Supporting members

| | |
|---|---|
| Mr Michael Pohl | Swiss Financial Market Supervisory Authority |
| Mr Uwe Steinhauser | Swiss Financial Market Supervisory Authority |
| Mr Carsten Folkertsma | Basel Committee Secretariat |
| Ms Yuka Kanai | Basel Committee Secretariat |
| Mr Olivier Prato | Basel Committee Secretariat |

### Review Team members

| | |
|---|---|
| Mr Daryl Ho | Hong Kong Monetary Authority |
| Mr João Luis Resende | Central Bank of Brazil |
| Mr Luca Serafini | Bank of Italy |
| Mr Toshio Tsuiki | Basel Committee Secretariat |

## Annex 2: List of Basel standards and implementing regulations issued by the US agencies

The following Basel standards were used as the basis of this RCAP assessment:

- *Basel III: the Net Stable Funding Ratio*, October 2014
- *Basel III – The Net Stable Funding Ratio: frequently asked questions*, February 2017
- *Pillar 3 disclosure requirements – consolidated and enhanced framework*, March 2017
- *Implementation of Net Stable Funding Ratio and treatment of derivative liabilities*, October 2017
- *Treatment of extraordinary monetary policy operations in the Net Stable Funding Ratio*, June 2018

The structure and hierarchy of prudential regulation in the US is set out in Tables A.1 and A.2. Table A.3 lists the regulations issued by the US agencies to implement the NSFR in the US. Previous RCAP assessments of US implementation of the Basel standards considered the binding nature of regulatory documents in the US.[5] This RCAP Assessment Team did not repeat that assessment, but instead relied on the previous assessments' findings, which concluded that the types of instruments described in Table A.1 could be considered as binding on banks and supervisors for the purposes of an RCAP assessment.

**Structure of US laws and regulatory instruments** — Table A.1

| | |
|---|---|
| Laws that empower the US agencies as banking supervisors | Federal statutes and legislative mandates authorise the US agencies to establish minimum prudential requirements. |
| Supervisory regulatory instruments issued by the US agencies derived from the above laws | Regulations and reporting requirements set out the NSFR requirements. |
| | Policy statements, interpretations, supervisory guidance and manuals address significant prudential policy and procedural matters. |

Source: US agencies.

**Hierarchy of US laws and regulatory instruments** — Table A.2

| Level of rules (in legal terms) | Type |
|---|---|
| Federal statutes and legislative mandates | Enacted by US Congress |
| Regulations | Issued by US agencies |
| Reporting requirements | Issued by US agencies |
| Policy statements | Issued by US agencies |
| Interpretations | Issued by US agencies |
| Supervisory guidance | Issued by US agencies |
| Supervisory manuals | Issued by US agencies |

Source: US agencies.

5 See Section 1.2 and Annex 2 of Basel Committee on Banking Supervision, *Regulatory Consistency Assessment Programme* (*RCAP) Assessment of Basel III LCR regulations – United States of America*, July 2017, www.bis.org/bcbs/publ/d409.pdf and Annex 7 of Basel Committee on Banking Supervision, *Regulatory Consistency Assessment Programme (RCAP) Assessment of Basel III regulations – United States of America*, December 2014, www.bis.org/bcbs/publ/d301.pdf.

## Overview of relevant liquidity regulations in the US

Table A.3

| Domestic regulations | Type, version and date |
|---|---|
| United States Net Stable Funding Ratio (NSFR) implemented as:<br>• Liquidity Risk Measurement Standards<br>• Office of the Comptroller of the Currency 12 CFR Part 50<br>• Federal Reserve System 12 CFR Part 249 (Regulation WW)<br>• Federal Deposit Insurance Corporation 12 CFR Part 329 | Final version of inter-agency rule published in Federal Register vol 86 no 27, 9120–9221, Thursday 11 February 2021 |
| NSFR disclosure requirements implemented as:<br>• Federal Reserve System 12 CFR Part 249.130 and 249.131 (Regulation WW) | Federal Register vol 86 no 27, 9213–9218, Thursday 11 February 2021 |
| NSFR scope/applicability:<br>• Changes to Applicability Thresholds for Regulatory Capital and Liquidity Requirements | Federal Register vol 84 no 212, 59230–59283, Friday 1 November 2019 |
| Liquidity risk management:<br>• Liquidity risk management requirements implemented through Board Regulation YY 12 CFR Part 252<br>• Interagency Policy Statement on Funding and Liquidity Risk Management | 79 FR 17240–17338, 27 March 2014<br>75 FR 13656–13666, 22 March 2010 |

Source: US agencies.

# Annex 3: Key liquidity indicators of the US banking system

Overview of US banking sector liquidity as of end-June 2022 — Table A.4

| Size of banking sector (USD billions) | | |
|---|---|---|
| Total exposures of all banks operating in the US (including off-balance sheet exposures) | 33,400 | |
| Total assets of all locally incorporated internationally active banks | 14,900 | |
| Total assets of locally incorporated banks to which liquidity standards under the Basel framework are applied | 14,900 | |
| **Number of banks** | | |
| Number of banks operating in the US (excluding local representative offices) | 4,771 | |
| Number of G-SIBs | 8 | |
| Number of D-SIBs | N/A | |
| Number of banks which are internationally active | 9 | |
| Number of banks required to implement Basel III liquidity standards | 9 | |
| Number of banks required to implement domestic liquidity standards | 41 | |
| **Breakdown of NSFR for 8 RCAP sample banks (USD billions)** | **Unweighted** | **Weighted** |
| Capital | 1,358 | 1,358 |
| Stable deposits from retail and small business customers | 2,356 | 2,238 |
| Less stable deposits from retail and small business customers | 2,218 | 1,918 |
| Unsecured funding from non-financial corporates | 2,209 | 1,106 |
| Unsecured funding from central banks, sovereigns, PSEs, MDBs and NDBs | 292 | 138 |
| Unsecured funding from financials (other legal entities) | 1,919 | 480 |
| Secured funding (all counterparties) | 1,423 | 86 |
| Other liabilities | 3,749 | 1,472 |
| Total available stable funding | 15,525 | 7,694 |
| Cash and central bank reserves | 1,725 | 0 |
| Loans to financial institutions | 2,481 | 533 |
| Securities eligible as Level 1 HQLA | 1,624 | 0 |
| Securities eligible as Level 2A HQLA | 1,098 | 165 |
| Securities eligible as Level 2B HQLA | 98 | 49 |
| All residential mortgages | 581 | 381 |
| Loans, <1 year | 1,041 | 520 |
| Other loans, >1 year, risk weight<=35% | 101 | 65 |
| Loans, risk weight>35% | 2,064 | 1,755 |
| Derivatives | 884 | 343 |
| All other assets | 2,916 | 2,422 |
| Off-balance sheet | 2,454 | 128 |
| Total required stable funding | 17,066 | 6,361 |
| NSFR | | 121% |

Note that weighted 'total available stable funding' is not the sum of its components due to the limited recognition in the US of ASF from subsidiaries (see Section 2.3.1).

Source: US agencies.

## Annex 4: Materiality assessment

The outcome of the RCAP assessment is based on the materiality of the findings described in Section 2.2 and summarised in Table A.5. Assessment teams evaluate the materiality of findings quantitatively where possible, or using expert judgment when the impact cannot be quantified.

The materiality assessment for quantifiable gaps is based on the cumulative impact of the identified deviations on the reported NSFRs of banks in the RCAP sample. These banks are listed in Table A.6.

Number of deviations by component — Table A.5

| Component | Not material | Potentially material | Material |
|---|---|---|---|
| Scope, minimum requirement and application issues | 1 | 0 | 0 |
| Available stable funding (numerator) | 1 | 1 | 0 |
| Required stable funding (denominator) | 1 | 1 | 1 |
| NSFR disclosure requirements | 0 | 0 | 0 |

RCAP sample banks — Table A.6

| Banking group | Share of banks' assets in the total banking assets of the internationally active banks in the US (per cent) |
|---|---|
| Bank of America | 21 |
| Bank of New York Mellon | 3 |
| Citigroup | 16 |
| Goldman Sachs | 10 |
| JPMorgan Chase | 25 |
| Morgan Stanley | 8 |
| State Street | 2 |
| Wells Fargo | 13 |

For this purpose, banking assets are based on the measure of total exposures used in the leverage ratio, which includes both on- and off-balance sheet exposures.

Source: US agencies.

## Annex 5: Issues for follow-up RCAP assessments

The Assessment Team identified the following issue for future RCAP assessments of the US:

- Paragraph 34: For calculating derivative asset amounts, the NSFR standard refers to the annex of *Basel III leverage ratio framework and disclosure requirements* where stipulates that contracts containing walkaway clauses are not eligible for netting. The US regulation does not include this requirement. According to the US agencies, the conditions specified in the Basel Framework were incorporated in paragraphs (3) and (4) of the definition of QMNA in 12 CFR 217.2 but do not currently appear in the Code of Federal Regulations due to a technical issue which the US agencies assured to address at the next opportunity.

# Annex 6: Areas where US rules are stricter than the Basel standards

In some areas, the US agencies have adopted a stricter approach than the minimum standards prescribed by the Basel Committee. These are listed below for information. The stricter rules have not been taken into account as mitigants for the overall or component-level assessment of compliance.

- Paragraphs 16 and 36, 39 and 40: Both the US LCR and NSFR rules apply more stringent definitions for HQLA, including for Level 1, Level 2A and Level 2B HQLA. Cash and banknotes are not Level 1 HQLA under the US rule. Corporate debt securities and covered bonds are not Level 2A HQLA under the US rule and corporate bonds are defined as Level 2B HQLA and receive a 50% RSF factor.
- Paragraph 40: The US NSFR rules have a more limited set of Level 2B HQLA. Residential mortgage-backed securities and commercial paper are not eligible as Level 2B HQLA.
- Paragraph 21: The US NSFR rules apply a lower ASF factor (95% or 90%) to deposits with maturity over one year, rather than the 100% ASF factor applied under the Basel standard.
- Paragraph 24: The US NSFR rules apply a more conservative treatment to securities issued by a bank to non-financial corporate customers, sovereigns, PSEs and multilateral and national development banks. The Basel NSFR standards would assign a 50% ASF factor to these securities if they had a maturity of less than one year. The US NSFR only applies a 50% ASF factor if the securities have a maturity of more than six months remaining. The US NSFR rules also apply a more conservative treatment of operational deposits. Only short-term (under six months) operational deposits receive the 50% ASF factor.

# Annex 7: Elements of the NSFR subject to national discretion

Implementation of national discretions by the US agencies — Table A.7

| Basel paragraph | Description | National implementation |
|---|---|---|
| 25(a) | Treatment of deposits between banks within the same cooperative network | No treatment provided. |
| 31 | Treatment of excess collateral in a covered bond collateral pool allowing for multiple issuance | No treatment provided for covered bonds, not relevant to US market. |
| 31, 36 | Treatment of central bank operations | The US NSFR rules have provisions for two special purpose central bank facilities.<br>Section _.108 (Funding Related to Covered Federal Reserve Facility Funding) specifies treatment for usage of the central bank Money Market Mutual Fund Liquidity Facility (MMLF) and Paycheck Protection Program Liquidity Facility (PPPLF). These two facilities were implemented by the FRB during the initial stages of the Covid-19 pandemic to support the US economy. |
| 43 | RSF factor for derivative liabilities | The US regulations have assigned a 5% RSF factor for gross derivative liabilities as per the Basel Committee's October 2017 press release *Implementation of Net Stable Funding Ratio and treatment of derivative liabilities*. |
| 45 | Treatment of interdependent assets and liabilities | No assets or liabilities are eligible for interdependent treatment. |
| 47 | RSF factors for other contingent funding obligations | No other contingent funding obligations are specified. |
| 50 | Scope of application of NSFR and scope of consolidation of entities within a banking group | The NSFR is applied to consolidated entities as well as subsidiary banks with total consolidated assets of USD 10 billion or more. |

Source: US agencies.