THE ASSOCIATION OF RUSSIAN BANKS
(Moscow, Russia)
URL: http://arb.ru/

April 10, 2014

The Basel Committee on Banking Supervision
Email: baselcommittee@bis.org

Dear Sirs,

The Basel Committee on Banking Supervision
Consultative Document « Basel III: the Net Stable Funding Ratio»

On behalf of the Association of Russian Banks (the ARB), and particularly the ARB Committee on standards of Basel II and Risk Management, we would like to thank the Basel Committee on Banking Supervision for the opportunity to deliver our opinion on the Consultative Document «Basel III: the Net Stable Funding Ratio» published by the Basel Committee on Banking Supervision on January 12, 2014 at http://www.bis.org/publ/bcbs271.pdf

We would like to notice that the results of this Review result in necessity of significant changes for banks related to model development and IT infrastructure for support. We hope our comments would be of use for further development of the prudent international regulatory framework and stimulate its implementation.

We would like to thank Alejandro Garcia-Monterde and Darya Solovieva, members of the ARB Committee on standards of Basel II and Risk Management, for their considerable contribution to preparing these comments enclosed (annex on 4 pages).

In case of further questions, please, do not hesitate to get in touch with us through e-mail (z.adam@arb.ru or arb@arb.ru), telephone (+7.495.690.30.00) or fax (+7.495.690.31.38).

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№	Section	Consultative question / suggestion
1	§ 8, p.2 This ratio should be equal to at least 100% on an on-going basis.	We suggest linking NSFR, buckets and factor weights to yield curve slope. Current approach is sufficient for a positive one, but not for a negative (e.g. the case of Japan) as liquidity gap profile would be opposite for the two mentioned cases.
2	§10, p.2 Supervisors may require an individual bank to adopt more stringent standards to reflect its funding risk profile and the supervisor's assessment of its compliance with the Sound Principles.	Please, define the term «funding risk profile». Would welcome clarification on its differences to liquidity gap profile.
3	§12, p.2 Funding tenor – The NSFR is generally calibrated such that longer-term liabilities are assumed to be more stable than short-term liabilities.	Could you, please, comment on the foundation of your assumption that «longer-term liabilities are assumed to the more stable»? In terms of longer funds availability this is correct, but given higher duration longer term funds are less stable in terms of ricing
4	§18, p.4 The total amount of secured and unsecured borrowings and liabilities (including term deposits) with effective residual maturities of one year or more. Cash flows falling below the one-year horizon but arising from	We recommend to link ASF to maturity buckets given buckets are explicit for all banks for comparability. E.g. 5y and 1.1y funds are drastically different, but just receive 100% ASF both.

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	liabilities with a final maturity greater than one year should not qualify for the 100% ASF factor.	
5	§18 (a) , footnote 5 Capital instruments reported here should meet all requirements outlined in, Basel III: A global regulatory framework for more resilient banks and banking systems, www.bis.org/publ/bcbs189.pdf, and should only include amounts after transitional arrangements have expired under fully implemented Basel III standards (ie as in 2022)	Please, explain more what it means «after transitional arrangements have expired». Does it mean instruments can be recognized only after 2022?
6	§ 26, p. 6 Assets should be allocated to the appropriate RSF factor based on their residual maturity or liquidity value.	We recommend BCBS offers a data point model (DPM) for NSFR as EBA did for LCR (http://www.eba.europa.eu/-/consultation-on-the-data-point-model-related-to-the-technical-standards-on-supervisory-reporting-requirements-for-liquidity-coverage-and-stable-fundin)
7	§ 28, p. 6 For secured funding arrangements, use of balance sheet and accounting treatments should generally result in banks excluding, from their assets, securities which they have borrowed in securities financing transactions (such as reverse repos and collateral swaps) where they do not have beneficial ownership.	It is mentioned that banks «should result in banks excluding». Please write more explicit whether banks may at their own discretion exclude or definitely must exclude.
8	§ 30 (first), p. 7 Assets assigned a 5% RSF factor comprise unencumbered Level	Please, confirm that new EU facility ESFR being allowed for RW=0% (http://www.bis.org/publ/bcbs_nl17.htm) also receives 5% RSF.

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	1 assets as defined in LCR paragraph 50, excluding assets receiving a 0% RSF as specified above…	
9	§ 34 (c), p. 8 Assets assigned an 85% RSF factor comprise: Physical traded commodities, including gold	Advised to assign «physical traded commodities, including gold» an RSF of 0% as for reserves as gold and reserves are equally treated in IFRS as non-monetary items and have No maturity.
10	§ 9, p. 2 In these cases, national discretion should be explicit and clearly outlined in the regulations of each jurisdiction.	Technical comment: a word seems to be missed between «agreed» and «upon».
11	§ 22 (c), p. 5 Liabilities receiving a 0% ASF factor comprise:	RSF abbreviation not explained before (done only in § 24, p.6.) Recommend to introduce it in § 22 (c)
12	§ 27, p. 6 Assets encumbered for a period of six months or more and less than one year that would, if unencumbered, receive an RSF factor lower than or equal to 50%, receive a 50% RSF factor.	Seems a technical replication to have occurred when said receive an RSF factor lower than or equal to 50%. Receive a 50% RSF factor». Please, explain.
13	Overall remark	Overall we would say that banks should anticipate not so much the regulatory ratios and liquidity requirements as being focused primarily on strengthening the capital position through the NSFR but rather anticipate the impact they would have to a bank’s business model. These could be broken down into 3 categories:
13.1.	The regulatory compliance costs in the short term	Although the NSFR will not come into force for some time in the future, the market pressure among peers is causing banks to adjust their funding profile to meet the basic NSFR requirements ahead of schedule and, as discussed further below, often at significant cost to certain business. Compliance is likely to be particularly challenging in jurisdictions with relatively small retail deposit markets which therefore lack a significant potential source of long-term stable funding.
13.2.	Long term lending may be discouraged as a product	Many significant players in long term lending markets, such as aircraft finance, shipping finance and project finance, have announced an intention to withdraw from long-term lending due to increased costs

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	characteristic	as a result of the NSFR. Liquidity profiles are often adversely impacted by long term, illiquid debt. In project finance, for example, banks who continue to lend in the sector often wish to ensure that loan facilities are transferable without borrower consent, and that transactions are structured to take into account liquidity requirements. As a result of the NSFR, loan tenors have significantly shortened. It is also becoming increasingly common to enter into “mini perm” facilities, which assume a repayment of debt after a limited period of time (typically, five to seven years) through refinancing, but with an amortization profile extending beyond maturity. Other solutions and trends are likely to emerge as a result of the NSFR, noting the impact on long term lending is abated somewhat by the entry of new lenders into the market (including “shadow-banking” entities), filling the gap left by those who have had to curtail their lending activity as a result of the NSFR.
13.3.	Opportunities for arbitrage	Legal implementation of the NSFR is likely to differ between different central banks. The Basel Committee recognizes that certain national discretions may be permitted subject to these being explicitly and clearly outlined in local rules. Within the EU for example, the Capital Requirements Regulation (“CRR”) also permits certain national divergences although the extent to which EU Member States will seek to do so is currently unclear. For example, the Consultation notes that in the calibration of off balance sheet assets, national supervisors are free to specify the relevant weightings for a broad range of products and instruments including: (i) unconditionally revocable credit and liquidity facilities (ii) trade finance related obligations (including guarantees and letters of credit) (iii) certain non-contractual obligations such as potential requests for debt repurchases of the bank’s own debt, and managed funds that are marketed with the objective of maintaining a stable value.