Fitch Ratings

Secretariat of the Basel Committee on Banking Supervision
Bank for International Settlements
CH-4002 Basel
Switzerland

10 March 2015

Dear Sirs,

Basel Committee on Banking Supervision
Consultative document
Net Stable Funding Ratio disclosure

We appreciate the opportunity to comment on the Basel Committee on Banking Supervision's Consultative document for the Net Stable Funding Ratio disclosure standards published in December 2014. Fitch Ratings has been a strong advocate for greater disclosure around bank regulatory capital and welcomes efforts to ensure that disclosure on the net stable funding ratio is also made in a consistent manner across jurisdictions.

Comparing key metrics of banks across jurisdictions is of paramount importance to bank analysts. For debt investors and analysts at credit rating agencies such as Fitch, understanding the resources available to repay long-term liabilities when they become due is of particular importance. While Fitch obtains the additional information we need for our analysis privately from issuers, improved public disclosure would mean analysts could appraise financial institutions more efficiently. More granular mandatory disclosure would save time in adjusting published information to make this comparable across banks. The Committee's proposal to ensure that banks comply with detailed disclosure, and in particular that this information be reported in a consistent manner, would therefore be helpful.

General considerations

Section 1: Scope of application, implementation date and frequency of reporting

Scope of application: The disclosure requirements set out in the Consultative Document are applicable to internationally active banks on a consolidated basis. While Fitch understands that internationally active banks are the primary focus of the Committee, the requirements would also be relevant for most banks and helpful to counterparties and investors in their debt.

In addition to consolidated disclosure, we would find it helpful to have the disclosure shown separately for parent banks and significant operational subsidiaries. When possible and relevant, Fitch looks to evaluate funding on a significant legal entity basis, including analysis of intragroup funding. This is because in times of stress the ability to allow funds to move freely between regulated entities is often reduced and because, going forward, the resolution strategy will play an important role in determining creditor prospects. Better still would be additional disclosure based on the groupings of legal entities whose funding and liquidity are managed together, with no realistic regulatory or other impediments or constraints on movement. This would enable banks to be combined with funding vehicles where appropriate. We would, of course, need some disclosure around the rationale for the groups shown in order to understand the relevance of the disclosure for our analysis. Examples could include separately resolvable parts of a bank operating under a multiple point of entry strategy, or a 'ring-fenced' retail bank.

It is important for funding analysis to understand the refinancing needs by currency. Therefore, we would like to see disclosure by major operating and/or funding currency. Shortage of foreign currency funding is most common for banks based in emerging markets, but shortage of US dollars also became a risk to some international banks based in the euro area during the Euro crisis. Where open currency positions are hedged, we would like information disclosed to tell us how they are hedged so we can assess, for example, a euro area bank's vulnerability to rolling over two year currency swaps to cover five year US dollar funding.

Disclosure publication: The consultative document envisages that banks must include the net stable funding disclosure in their published financial reports, provide a link on their websites or include it in publicly available regulatory reports. While our preference would be to be able to find all regulatory information in the same place, such as the Pillar 3 report, the sooner we get the information the better, as long as we can easily find it. Given that Pillar 3 reporting is still only on an annual basis for most banks and often is not available until sometime after the annual report, linking publication to financial reporting would also be helpful.

Section 2: Disclosure requirements

Maturity buckets: In the template, unweighted values of the NSFR components are to be presented in four maturity buckets: Fitch would recommend extending the maturity disclosure out to 2 years to include additional 12m-18m and 18-24m time buckets, and also consider the benefit of adding more granularity at the longer end of the funding profile (for example, 2-3 years, 3-5 years, 5-10 years, more than 10 years). This could promote market stability by incentivising banks toward longer (and hence more stable) funding and would provide clarity on any optimisation and/or window dressing. Lack of granularity in the 1-2 year range benefits any banks looking to temporarily improve their NSFR just prior to a reporting date.

Average as well as point-in-time values: We agree with the proposed requirement for quarterly disclosure of this data, but once this is in place, we would like the Committee to go one step further and require additional disclosure of quarterly averages as well as point-in-time quarter end values. This is to iron out any temporary distortions that might have occurred naturally within the market, or from deliberate bank actions around reporting dates. While period end values are useful if they can be reconciled to financial reporting (which we would like to see as a required disclosure), we believe that the bigger picture, ie of the banks' funding profile and strategy, will more easily be seen and tracked by using average values, assuming the data are reported quarterly as proposed.

Additional granularity: Given that the proposed template includes both weighted and un-weighted values it will be possible to calculate the average weighting applied to each. However, these will be blended weights in some cases as items contain several undisclosed sub-categories. We would prefer sufficient granularity to identify separately items in the distinct risk buckets.

It would be helpful to our understanding of funding stability to have disclosure on the following:

- Insured and uninsured deposits (under retail and wholesale)
- Liabilities with matching interdependent assets broken down by funding type
- Secured liabilities not included under Liabilities with matching interdependent assets
- Required and excess central bank reserves
- Assets with matching interdependent liabilities by type of asset/collateral
- Encumbered assets not included under Assets with matching interdependent liabilities
- Non-performing loans
- Contingent liabilities

In addition, it would also be helpful if the committee requirements include the following information to be provided at least annually:

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- A reconciliation of total ASF and total RSF to financial reporting balance sheet totals
- A brief explanation/definition of what the bank includes under 'small business customers' for the purpose of this disclosure (eg companies with fewer than 10 employees/turnover below EUR100,000/deposits with the bank below EUR100,000).

To assist our ability to compare banks' NSFRs, we would like to have disclosure of the effect of national discretions. Where national discretions have been applied it would be useful not only to have these highlighted via explanatory text but also to disclose the quantifiable amount involved and the effect on the final ratio of each discretion applied. For example,

- Interdependent assets and liabilities may be given a 0% weighting subject to national discretion but if the volumes are large (eg banks that use covered bonds or similar funding markets) the weighting applied may make a significant difference to the NSFR. The net cashflow effect is zero but the inclusion or exclusion in the numerator and denominator can distort the calculation.
- Off balance sheet items appear in the RSF calculation but the weighting factor is determined by the national regulator, which can produce a fairly large bucket of variability in terms of what may be included.

Paragraph 15 on page 4 of the Consultative Document asks banks to provide "sufficient qualitative discussion around the NSFR to facilitate an understanding of the results and accompanying data". We would prefer to see each of the example areas that banks "could" discuss as required disclosures.

It would also be useful for the qualitative disclosure to include an assessment of sensitivities ie what happens to the numbers in an alternative scenario and what is the vulnerability to plausible stress.

Again, thank you for the opportunity to provide our comments. Should you wish to discuss any of the above, please do not hesitate to contact either of the undersigned.

Yours faithfully

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