Basel Committee
on Banking Supervision

Regulatory Consistency Assessment Programme (RCAP)

Assessment of Basel NSFR regulations – European Union

July 2022

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Glossary

ASF	Available stable funding
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
BTS	Binding Technical Standards
C	Compliant (grade)
CIU	Collective investment undertakings
CRD	Capital Requirements Directive
CRR	Capital Requirements Regulation
D-SIB	Domestic systemically important bank
EBA	European Banking Authority
EC	European Commission
ECB	European Central Bank
EU	European Union
EUR	Euro
G-SIB	Global systemically important bank
HQLA	High-quality liquid assets
ITS	Implementing technical standards
LC	Largely compliant (grade)
LCR	Liquidity Coverage Ratio
MDB	Multilateral development bank
MNC	Materially non-compliant (grade)
NC	Non-compliant (grade)
NDB	National development bank
NSFR	Net Stable Funding Ratio
OSFI	Office of the Superintendent of Financial Institutions
PSE	Public sector entity
RCAP	Regulatory Consistency Assessment Programme
RSF	Required stable funding
RTS	Regulatory Technical Standards
SSM	Single Supervisory Mechanism

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 of the Basel Net Stable Funding Ratio (NSFR) standard in the European Union (EU). The assessment focused on the completeness and consistency of the EU regulations with the Basel NSFR standard and relied on the information provided by the EU authorities.

The assessment began in September 2019 but was suspended in March 2020 due to Covid-19.[2] The assessment resumed in December 2021 with an Assessment Team led by Ben Gully, Assistant Superintendent of Regulation Sector of the Office of the Superintendent of Financial Institutions (OSFI), and comprising four technical experts, from Brazil, the Russian Federation (until February 2022), South Africa and the United States (see Annex 1). The main counterpart for the assessment was the European Commission (EC), which in turn coordinated with other EU and Member State authorities. The work was coordinated by the Basel Committee Secretariat with the support of staff from OSFI.

The assessment comprised (i) a self-assessment by the EU authorities; (ii) an assessment phase; and (iii) a review phase including a technical review of the Assessment Team's findings by a separate RCAP Review Team. The assessment report ultimately reflects the view of the Basel Committee.

The Assessment Team acknowledges the cooperation received from the EU authorities throughout the assessment process. In particular, the Assessment Team thanks (i) the staff from the EC, who ensured thorough cooperation during the assessment; (ii) the staff from the European Banking Authority (EBA) for handling the data aspects and contributing to the materiality tests; (iii) the European Central Bank (ECB) and the Single Supervisory Mechanism (SSM); and (iv) the Basel Committee members from the EU Member States (Belgium, France, Germany, Italy, Luxembourg, the Netherlands, Spain and Sweden) along with their respective banks that participated in the assessment.

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

[2] See www.bis.org/press/p200320.htm.

Executive summary

The EU NSFR framework was issued in June 2019 by means of Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019. The NSFR disclosure and supervisory reporting requirements were laid down through Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 and Commission Implementing Regulation (EU) 2021/451 of 17 December 2020. The above-mentioned NSFR regulations came into force on 28 June 2021 and apply to all credit institutions and systemic investment firms in the EU.

Overall, as of end-March 2022, the NSFR regulations in the EU are assessed as largely compliant with the Basel NSFR standard. This is one notch below the highest overall grade.

Three of the four components of the Basel NSFR standard (scope, minimum requirements and application issues; available stable funding (ASF); and disclosure requirements) are assessed as compliant. The remaining component, required stable funding (RSF), is assessed as largely compliant. This component grade is driven by the cumulative impact of nine not material findings.

In addition, this report identified an item for follow-up assessment (see Annex 5). It was noted that the RSF factors for certain types of transaction would be adjusted in aligning the EU regulations with the Basel NSFR standard by June 2025, which should be subject to review in a future RCAP assessment.

Response from the EU authorities

The European Commission and the European Banking Authority sincerely thank Mr Ben Gully and the Assessment Team for their work on the present [draft] report. We appreciate the thorough comparison of Basel standards and EU law and commend the professionalism and rigour that the whole Assessment Team demonstrated, which ensured constructive and thorough discussions on the implementation of the Basel NSFR standard in the EU context.

We welcome and share the assessment that the implementation of the NSFR in the EU is largely compliant with the Basel NSFR standard. The main findings included in the report relate to some RSF factors applicable in the EU. Those findings are correct and result from conscious choices in EU legislation.

In general, those choices cater for certain EU specificities, mirror the decisions taken under the EU implementation of the Basel LCR standard, or provide EU banks with sufficient time to comply with certain NSFR requirements. Although those choices deviate from the Basel NSFR standard, they do not have a material impact on the soundness of EU banks included in the sample, as this report confirms, and should not therefore raise any concern in terms of substantial compliance of the EU legislation with the Basel NSFR standard.

A particular case in point are the two findings related to RSF factors applicable to monies due from securities financing transactions with financial customers and the finding related to the RSF factor applicable to unencumbered loans to financial institutions: while the treatment laid down in EU legislation is currently more favourable compared with the one in the Basel NSFR standard, it will be fully aligned with the latter by June 2025.

As a final point, we would like to take this opportunity to reaffirm our commitment to the RCAP process, which provides us with the opportunity to benchmark ourselves against the global standards and our peers and further corroborates the robustness of EU legislation and the soundness of EU banks.

1 Assessment context

1.1 Regulatory system

The EU prudential framework for credit institutions[3] is laid down in two pieces of (Level 1) legislation, namely a Regulation and a Directive, as enacted by the European Parliament and the Council and legally enforceable in all EU Member States. The Capital Requirements Regulation (CRR, Regulation (EU) No 575/2013) establishes a "single rule book" containing Pillar 1 and Pillar 3 requirements for the entire banking system in the EU and is directly applicable and binding in their entirety. This means it does not have to be transposed into national law but applies directly. The fourth Capital Requirements Directive (CRD IV)[4] is legally binding and must be transposed into national law. It contains rules on authorisation, governance, risk management and buffer requirements. It also requires Member States to vest competent authorities with sufficient (Pillar 2) powers to address particular risks that are not well covered by the requirements contained in the CRR and to impose sanctions.

The CRR and CRD IV are complemented or implemented by (Level 2) Binding Technical Standards (BTS) that are drafted by the EBA based on mandates set out in the CRR and CRD IV, and adopted by the EC. BTS are divided into Regulatory Technical Standards (RTS) and Implementing Technical Standards (ITS). RTS, which are adopted by means of delegated acts, supplementing or amending certain non-essential elements of an EU legislative text (Regulation or Directive). ITS, which are adopted by means of implementing acts, aim at ensuring consistent implementation of a specific legislative acts. BTS are legally binding and directly applicable in all Member States.

The EBA also issues (Level 3) Guidelines and Recommendations that elaborate on how requirements set up by the EU law are to be applied by European regulators and supervisors. Although these Guidelines and Recommendations are not legally binding, supervisory authorities across the EU must make every effort to comply with them by incorporating them into supervisory practices as appropriate. Supervisory authorities are obliged to inform the EBA of their compliance or intention to comply with them and to also explain the reasons for any non-compliance ("comply or explain"). All non-compliance instances and the related reasons are placed in the public record.

The RCAP EU assessment relied upon the legal force of Directives and Regulations and BTS. It also took into account the Guidelines and Recommendations of the EBA to the extent that confirmations were received from the Member States that they comply with these Guidelines and Recommendations.

1.2 Status of NSFR implementation

Taking effect on 1 January 2014, the CRR and the CRD IV are the main regulatory texts on prudential banking regulation in the EU. By means of an amendment to the CRR, Regulation (EU) 2019/876 (CRR II) continued the EU's implementation of the Basel standards including the NSFR. The amendments were adopted on 20 May 2019 and published on 7 June 2019. The NSFR requirements became applicable as of 28 June 2021, while the RSF factors for certain types of transaction will be phased in by June 2025.[5]

The CRD IV contains general provisions on liquidity risk management and supervision. Certain provisions related to supervision of liquidity were amended by Directive (EU) 2019/878, which was adopted

[3] The same legislation also applied to systemic investment firms, which are required to be authorised as credit institutions.

[4] Directive 2013/36/EU.

[5] A consolidated version of CRR (including the subsequent amendments by Regulation (EU) 2019/876) is available at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02013R0575-20210930.

on 20 May 2019 and published on 7 June 2019. Member States had until 28 December 2020 to implement the amendments in national law.

Further, the CRR II provided a mandate for the EBA to develop ITS to specify uniform templates for disclosure and for supervisory reporting with regard to the NSFR. As such, Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 and Commission Implementing Regulation (EU) 2021/451 of 17 December 2020 were published, which outlined the detailed disclosure and supervisory reporting requirements, respectively. The standards became applicable on 28 June 2021 and the first reporting reference date was 30 June 2021.[6]

In the EU, the NSFR framework applies to all credit institutions,[7] on both an individual and consolidated basis, unless competent authorities do not apply supervision on an individual basis where they deem this appropriate. Authorities may permit small and non-complex institutions to use a simplified methodology for the calculation and supervisory reporting of the NSFR.

1.3 Scope of the assessment

The Assessment Team considered the NSFR requirements applicable to a sample of EU internationally active banks as of end-March 2022. The assessment had two dimensions:

- a comparison of EU regulations with the Basel NSFR standard to ascertain that all the required provisions have been adopted (*completeness* of the regulations); and
- whether there are any differences in substance between the EU 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 EU. 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 EU or the supervisory effectiveness of EU authorities.

The Assessment Team evaluated the materiality and potential materiality of identified deviations between the Basel NSFR standard and the EU regulations. The evaluation was made using a sample of 13 EU internationally active banks. Together, these banks comprise about 61% of the assets of internationally active banks in the EU. In addition, the Assessment Team reviewed the non-quantifiable impact of identified deviations and applied expert judgment as to whether the EU 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 outcome of the assessment is summarised using a four-grade scale, both at the level of each of the four key components of the Basel NSFR framework and of the overall assessment of compliance. The four grades are compliant (C), largely compliant (LC), materially non-compliant (MNC) and non-compliant (NC).

[6] A consolidated version (including the subsequent amendments by Directive (EU) 2019/878) is available at https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A02013L0036-20220101.

[7] Credit institutions also include Class 1 investment firms that remain subject to the prudential framework (as set out in the Directive (EU) 2019/2034 and Regulation (EU) 2019/2033 on the prudential requirements of investment firms).

2 Assessment findings

2.1 Assessment grades and summary of findings

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

The overall grade is assessed as largely compliant as some of the findings related to RSF factors will be corrected by June 2025 and the maximum impact of the quantifiable gaps on the NSFR for the sample banks is limited.

Assessment grades

Table 1

Component of the Basel NSFR framework	Grade
Overall grade	LC
Scope, minimum requirement and application issues	C
Available stable funding (numerator)	C
Required stable funding (denominator)	LC
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 standard. No findings were identified.

There is one observation that the implementation date for the NSFR in the EU is 28 June 2021, over three years after the Basel Committee's agreed implementation date of January 2018.

2.1.2 Available stable funding

This component is assessed as compliant with the Basel standard.

The Assessment Team identified one not material finding, which relates to the EU regulations allowing for credit unions to qualify for a 50% ASF factor which is not in line with the Basel NSFR standard since these are financial institutions under the Basel NSFR standard.

2.1.3 Required stable funding

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

The Assessment Team identified nine not material findings with respect to the allocation of RSF factors to assets and off-balance sheet exposures. Despite the number of findings, the component is assessed as largely compliant given their limited cumulative impact and the expectation that three of them will be corrected by June 2025, excluding the broader definition of Level 1 high-quality liquid assets (HQLA).

2.1.4 Disclosure requirements

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

There are two observations that relate to the "time buckets" used in the EU NSFR reporting template.

2.2 Detailed assessment findings

2.2.1 Scope, minimum requirement and application issues

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

2.2.2 Available stable funding

Section grade	**Compliant**
Basel paragraph number	24, liabilities receiving a 50% ASF factor
Reference in the domestic regulation	Article 428l of Consolidated text: Regulation (EU) No 575/2013[8]
Finding	According to the Basel NSFR standard, credit unions, as financial institutions, should receive a 0% ASF factor if the maturity is below six months. The EU regulations allow credit unions to qualify for the 50% ASF factor. Credit unions operate only in one EU Member State, where their size and business are negligible, amounting to EUR 27 million by total assets in 2020 with a penetration rate[9] of 0.0100% according to the credit union network data. The impact on the NSFR of the only affected sample bank is 0.2% and this may be overestimated given that this number also includes personal investment companies and deposit brokers.
Materiality	Not material

2.2.3 Required stable funding

Section grade	**Largely compliant**
Basel paragraph number	35, Calculation of derivative asset amounts
Reference in the domestic regulation	Articles 428k(4)(a) and 428ah(2)(a) of Consolidated text: Regulation (EU) No 575/2013
Finding	The Basel NSFR standard specifies that, in calculating NSFR derivative assets, collateral received in connection with derivative contracts may not offset the positive replacement cost amount, 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 variation margin. The EU regulations allow for deduction if the collateral received as variation margin qualifies as a Level 1 asset, excluding highly liquid covered bonds. Data received showed that, in the EU, cash accounts for about 87% of the collateral used as variation margin in derivatives transactions.
Materiality	Not material
Basel paragraph number	36, Assets assigned a 0% RSF factor
Reference in the domestic regulation	Article 428r(1)(a) of Consolidated text: Regulation (EU) No 575/2013
Finding	The EU regulations apply a 0% RSF factor to the following assets: (a) unencumbered assets that are eligible as level 1 HQLA pursuant to the delegated act referred to in Article 460(1), excluding extremely high-quality covered bonds and (b) unencumbered

[8] Consolidated text: Regulation (EU) No 575/2013 refers to Regulation (EU) No 575/2013 (CRR) as amended by Regulation (EU) 2019/876 (CRR II).

[9] Penetration rate is calculated by dividing the total number of reported credit union members by the economically active population.

	shares or units in collective investment undertakings (CIUs) that are eligible for a 0% haircut for the calculation of the Liquidity Coverage Ratio (LCR). Under the Basel NSFR standard, unencumbered assets that are eligible as Level 1 HQLA can be assigned a 0% RSF factor only if they are coins and banknotes, central bank reserves or claims on central banks with residual maturities of less than six months. All other unencumbered assets that are eligible as Level 1 HQLA are assigned a 5% RSF factor. Furthermore, under the Basel NSFR standard, those unencumbered assets that are recognised as Level 1 HQLA under the EU LCR rules, but not under the Basel LCR standard, 10 as well as unencumbered shares or units in collective investment undertakings, are assigned a RSF factor of 50% if their residual maturity is less than one year, and a RSF factor of 85% if their residual maturity is one year or more. The EU authorities explained that the definitions and RSF factors applied for the calculation of the NSFR reflect the definitions and haircuts applied for the calculation of the EU LCR. In particular, assets eligible as Level 1 HQLA, excluding extremely high-quality covered bonds, are subject to a 0% RSF factor to avoid negative impacts on the liquidity of sovereign bond markets. The average impact of this deviation on the NSFR across the sample banks is 0.9%, with the maximum impact of the most affected bank equal to 1.83% on the NSFR.
Materiality	Not material
Basel paragraph number	36, Assets assigned a 0% RSF factor
Reference in the domestic regulation	Articles 428r(1)(g) and 510(8) of Consolidated text: Regulation (EU) No 575/2013
Finding	The EU regulations apply a 0% RSF factor to monies due from securities financing transactions with financial customers, where those transactions have a residual maturity of less than six months, where those monies due are collateralised by assets that qualify as Level 1 assets pursuant to the delegated act referred to in Article 460(1), excluding extremely high-quality covered bonds specified therein, and where the institution would be legally entitled and operationally able to reuse those assets for the duration of the transaction. Under the Basel NSFR standard, these assets receive a 10% RSF factor if collateralised by assets that qualify as Level 1 HQLA under the Basel LCR standard, and a 15% RSF factor if collateralised by other assets. The EU authorities explained that the calibration of RSF factors could affect the liquidity of securities usually used as collateral in short-term transactions, as institutions could reduce the volume of their operations on repo markets. It could also undermine market-making activities, because repo markets facilitate the management of the necessary inventory, thereby going against the objectives of the Capital Markets Union. Therefore, it was deemed necessary to give sufficient time to institutions to progressively adapt to that conservative calibration. This was done via a transitional period, during which the RSF factors would be temporarily reduced. Article 510(8) states that the RSF factor will be increased to 10% by June 2025. Also, some assets that would not be assigned a 10% RSF factor under the Basel NSFR standard (ie assets collateralised by assets that qualify as Level 1 HQLA under the EU LCR rules but not under the Basel LCR standard) will continue to be assigned a 10% RSF factor beyond June 2025. However, since all other findings relating to the broader definition of HQLA 1 had minimum impact on the NSFR and the phase in of the RSF factor to 10% for these assets will further reduce the impact on the NSFR, the impact of this finding is considered to be not material.
Materiality	Not material
Basel paragraph number	37, Assets assigned a 5% RSF factor
Reference in the domestic regulation	Articles 428s(1)(a) of Consolidated text: Regulation (EU) No 575/2013

[10] For details on the differences in scope see the RCAP-LCR EU report at www.bis.org/bcbs/publ/d410.pdf.

Finding	The Basel NSFR standard states that assets assigned a 5% RSF factor comprise unencumbered Level 1 assets as defined in LCR, paragraph 50, excluding assets receiving a 0% RSF. CIUs are non-HQLA securities thus a 50–85% RSF factor should be applied depending on the residual term. The EU regulations prescribe a 5% RSF factor to unencumbered shares or units in CIUs that are eligible for a 5% haircut for the calculation of the LCR, which is not in line with the Basel NSFR standard. The EU authorities stated that the EU NSFR rules are broadly consistent with the preferential treatments granted in the EU LCR framework to some activities considered of very high prudential soundness. The average impact of this deviation on the NSFR across the sample banks is 0.04% with a maximum impact of 0.23% on the NSFR for the most affected bank.
Materiality	Not material
Basel paragraph number	37, Assets assigned a 5% RSF factor
Reference in the domestic regulation	Articles 428s(1)(b) and 510(8) of Consolidated text: Regulation (EU) No 575/2013
Finding	The EU regulations apply a 5% RSF factor for securities financing transactions with financial customers with a residual maturity below six months when not collateralised by Level 1 assets. Under the Basel NSFR standard, these assets should receive a 15% RSF factor. The EU authorities stated that the calibration of RSF factors could affect the liquidity of securities usually used as collateral in short-term transactions, as institutions could reduce the volume of their operations on repo markets. It could also undermine market-making activities because repo markets facilitate the management of the necessary inventory, thereby going against the objectives of the Capital Markets Union. Therefore, it was deemed necessary to give sufficient time to institutions to progressively adapt to that conservative calibration. This is to be done via a transitional period, during which the RSF factor will be temporarily reduced. Article 510(8) states that the RSF factor will be increased to 15% by June 2025. Also, some assets that would not be assigned a 15% RSF factor under the Basel NSFR standard (ie assets collateralised by assets that qualify as Level 1 HQLA under the EU LCR rules but not under the Basel LCR standard) will continue to be assigned a 15% RSF factor beyond June 2025. However, since all other findings relating to the broader definition of HQLA 1 had minimum impact on the NSFR and the phase-in of the RSF factor to 15% for these assets will further reduce the impact on the NSFR, the impact of this finding is considered to be not material.
Materiality	Not material
Basel paragraph number	38, Assets assigned a 10% RSF factor
Reference in the domestic regulation	Articles 428v(a) and 510(8) of Consolidated text: Regulation (EU) No 575/2013
Finding	Under the Basel NSFR standard, trade finance exposures to financial institutions with a residual maturity of less than six months will receive a RSF factor of 15% while trade finance exposures to non-financial corporates with a residual maturity of less than six months will receive a 50% RSF factor. In practice, the presence of financial counterparties is predominant in factoring, where EU institutions have a dominant position. The EU regulations apply a 10% RSF factor to trade finance on-balance sheet-related products with a residual maturity of less than six months. Article 510(8) states that the RSF factor will be increased to 15% by June 2025. The average impact of this deviation on the NSFR across the sample banks is 0.98%, with the maximum impact on the NSFR of 2.18% for the most affected bank.
Materiality	Not material
Basel paragraph number	39, assets assigned a 15% RSF factor
Reference in the domestic regulation	Article 428t of Consolidated text: Regulation (EU) No 575/2013
Finding	The EU regulations state that unencumbered covered bonds included in Level 1 HQLA as per the EU LCR framework are subject to a 7% RSF. These covered bonds are subject

	to a 15% RSF under the Basel NSFR Standard as they are classified as Level 2A HQLA for LCR purposes. The EU authorities indicated that as the EU LCR framework recognises the full liquidity of high-quality covered bonds included in HQLA, the RSF factor applied to unencumbered extremely high-quality covered bonds included in HQLA is set at 7%, instead of 15%. The average impact of this deviation on the NSFR across the sample banks is 0.04%, with a maximum impact on the NSFR of 0.81% for the most affected bank.
Materiality	Not material
Basel paragraph number	40, Assets assigned a 50% RSF factor, 43 Assets assigned a 100% RSF factor
Reference in the domestic regulation	Articles 428z, 428aa, 428ab, 428ad, 428w, 428y, 428ac and 428ae of Consolidated text: Regulation (EU) No 575/2013
Finding	The Basel NSFR standard assigns an RSF factor of either 50% or 100% to shares. The EU regulations assign various RSF factors below the Basel requirement to eligible shares depending on their characteristics. The EU authorities explained that the reason for assigning various RSF factors is to keep consistency with LCR haircuts, which is a key principle in the calibration of the NSFR. The average impact of this deviation on the NSFR across the sample banks regarding shares that should receive a RSF factor of 50% is 0.01% with a maximum impact of 0.08% on the NSFR and 0.02% average NSFR impact on the sample banks regarding the shares that should receive a RSF factor of 100% with a maximum impact of 0.12% for the most affected bank.
Materiality	Not material
Basel paragraph number	42, Assets assigned an 85% RSF factor
Reference in the domestic regulation	Article 428ag(h) of Consolidated text: Regulation (EU) No 575/2013
Finding	The EU regulations allow assets encumbered for a residual maturity of one year or more in a cover pool funded by covered bonds to qualify for a RSF factor of 85%, while the Basel NSFR standard assigns a RSF factor of 100%. The EU authorities explained that in some Member States there is a clear identification of assets in the cover pool that serve as a guarantee to their linked covered bonds which would allow the application of the relevant RSF and ASF factors depending on the duration of the liability and of the asset encumbrance (generally 50% up to one year and 100% above one year). However, other Member States follow a different approach and there is just a global link between all the covered bonds (with different maturities above and below one year) and the entire cover pool that serves as a whole guarantee to all the covered bonds (for example, loans below and above one year). In this case some covered bonds/loans might be repaid in the short term. A bond-by-bond (or loan-by-loan) analysis is thus not possible as there is not such a bilateral link. There would be cases where indeed the 85% RSF factor would be low (versus 100% RSF as per the Basel NSFR standard), only if these are loans maturing in the long term. However, it would be relatively high (versus 50% RSF as per the Basel NSFR standard), if it relates to loans maturing in the short term (if they together with a similar amount of covered bonds are expected to be repaid in the short term and leave the cover pool). The average impact of this deviation on the NSFR across the sample banks is 0.91% with a maximum impact of 1.68% on the NSFR for the most affected bank.
Materiality	Not material

2.2.4 Disclosure requirements

This component is assessed 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 EU. 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	Articles 3(3), 428r(1)(g) and 510(8) of Consolidated text: Regulation (EU) No 575/2013
Observation	The Basel Committee agreed that the Basel NSFR standard should become a minimum Basel requirement on 1 January 2018. The NSFR in the EU came into effect on 28 June 2021. The EU authorities indicated that the delay in the NSFR implementation was due to the introduction of the NSFR in EU law in conjunction with the amendment to the Capital Requirements Regulation (CRR II). The date of application of CRR II was set as 2021 as a result of the time required to complete the legislative procedure (political agreement on the CRR II was reached in December 2018) and the time required for implementation by regulators and industry.

2.3.2 Available stable funding

Basel paragraph number	22 liabilities receiving a 95% ASF factor
Reference in the domestic regulation	Articles 428m and 428n of Consolidated text: Regulation (EU) No 575/2013
Observation	The definition of “small business customers” in the Basel NSFR standard follows the definition used in the Basel LCR standard, which requires that deposits to small business customers be managed as retail deposits. The EU regulations do not require that deposits provided by small business customers be managed like retail deposits, but in practice, evidence shows that these deposits are managed like retail deposits.
Basel paragraph number	21(c), liabilities and capital instruments receiving a 100% ASF factor
Reference in the domestic regulation	Articles 428o(e) and 428o(c) of Consolidated text: Regulation (EU) No 575/2013
Observation	The Basel NSFR standard states that liabilities and capital instruments will receive a 100% ASF factor if the total amount of secured and unsecured borrowings and liabilities (including deposits) has an effective residual maturity of one year or more. According to Article 428o(e) of the Consolidated text: Regulation (EU) No 575/2013, a 100% ASF factor shall be applied to liabilities with a residual maturity of one year or more (without the word "effective"). Article 428o(c) uses the term "effective residual maturity". According to the EU authorities, Article 428o(c) refers to a specific situation where there is an explicit or embedded option that, if exercised, would reduce the effective residual maturity to less than one year. The term “effective” has been used deliberately here. Meetings with banks confirmed that they view the terms “effective residual maturity” and “residual maturity” as similar.
Basel paragraph number	25(a) footnote 10, Treatment of deposits between banks within the same cooperative network
Reference in the domestic regulation	Article 428g and 428ah of Consolidated text: Regulation (EU) No 575/2013

Observation	The Basel NSFR standard states that, at the discretion of national supervisors, deposits between banks within the same cooperative network may be assigned an ASF up to the RSF factor assigned by regulation for the same deposits to the depositing bank, not to exceed 85%. While the EU regulation does not state "not to exceed 85%", sight deposits are the only type of deposit that can benefit from this treatment (in accordance with Article 428g). Since sight deposits cannot fall under the 100% RSF category (in accordance with Article 428ah) and therefore cannot be assigned a RSF factor higher than 85%, the EU authorities deemed it was not necessary to introduce the 85% cap on ASF factor assigned to such deposits.

2.3.3 Required stable funding

Basel paragraph number	30, Definition of required stable funding for assets and off-balance sheet exposures
Reference in the domestic regulation	Articles 428p(9) and 428p(10) of Consolidated text: Regulation (EU) No 575/2013
Observation	The Basel NSFR standard states that, for the purpose of determining its required stable funding, an institution should include financial instruments, foreign currencies, and commodities for which a purchase order has been executed. The EU regulations do not include financial instruments for which a purchase order has been executed. However, Article 428p (10) empowers supervisors to require stable funding for any off-balance sheet exposures that are not explicitly listed in the EU regulations. With this, supervisors may require stable funding from purchase orders of financial instruments to ensure that there is sufficient available stable funding for its future settlement.
Basel paragraph number	45, Treatment of interdependent assets and liabilities
Reference in the domestic regulation	Article 428f of Consolidated text: Regulation (EU) No 575/2013
Observation	The Basel NSFR standard provides national supervisors with discretion to determine whether certain asset and liability items are interdependent. For interdependent items, the RSF and ASF factors could be both adjusted to 0% subject to a set of criteria. One of the criteria is "the maturity and principal amount of both the liability and its interdependent asset must be the same". The EU regulation requests that the asset and interdependent liability should have substantially matched maturities, with a maximum delay of 20 days between the maturity of the asset and the maturity of the liability. However, in practice, a shorter delay is observed.

2.3.4 Disclosure requirements

Basel paragraph number	Net Stable Funding Ratio disclosure standards
Reference in the domestic regulation	Commission Implementing Regulation (EU) 2021/637
Observation	According to the template "EU LIQ2: Net Stable Funding Ratio", physical traded commodities should be reported in the "≥ 1yr" time bucket, even though they should be reported to the "no maturity" time bucket under the Basel NSFR disclosure requirement. The EU stated that physical traded commodities being disclosed in the >one-year time bucket reflects the highest stable funding requirement on these assets together and consistently with other assets under this time bucket. The expected permanence and liquidity value of an asset is a key element to define its stable funding needs. In this case this is achieved by disclosing this element in the >one-year time bucket together with other elements of similar features.
Basel paragraph number	Net Stable Funding Ratio disclosure standards
Reference in the domestic regulation	Commission Implementing Regulation (EU) 2021/637

Observation	In the template “EU LIQ2: Net Stable Funding Ratio”, the “no maturity” time bucket is not available for a significant number of items (retail deposits, wholesale funding etc). The EU confirmed that no NSFR-related information is missing for external users and indicated that the “no maturity” column is more a matter of format in the presentation of the information than of substance. According to the data provided by the sample banks, the shares of “no maturity” in total funding are 92% for retail deposits and 72% for wholesale funding. However, as indicated by the EU authorities, there is no difference between the EU template and the Basel template as regards the information disclosed on stable funding in the NSFR context (which is the target of the table). All the elements that have no maturity and that will be disclosed in the “<six months” time bucket will receive the same ASF factor as if they were classified within the no-maturity time bucket. Thus, no NSFR-related information is missing for external users. The capability of these elements in the rows to provide stable funding is reflected accurately and in the same manner if included in the “no maturity” column or in the “<six months” column.

Annexes

Annex 1: RCAP Assessment Team and Review Team

Assessment Team Leader

Mr Ben Gully	Office of the Superintendent of Financial Institutions, Canada
Mr Vasily Pozdyshev	Central Bank of Russia (until March 2020)

Assessment Team members

Ms Cristel Bakker	South African Reserve Bank
Ms Carolina dos Santos Barbosa	Central Bank of Brazil
Ms Kimberly Jameson	Office of the Comptroller of the Currency, United States
Mr Alexey Novikov	Central Bank of Russia (until February 2022)
Ms Soojung Park	Financial Supervisory Service, Korea (until March 2020)
Ms Joy Wann	Basel Committee Secretariat (until March 2020)

Supporting members

Ms Catherine Girouard	Office of the Superintendent of Financial Institutions, Canada
Ms Yuka Kanai	Basel Committee Secretariat
Ms Bingzhe Zhao	Basel Committee Secretariat
Mr Masaya Hatoma	Basel Committee Secretariat (until March 2020)
Mr Olivier Prato	Basel Committee Secretariat

Review Team members

Mr Andrew Tan	Monetary Authority of Singapore
Mr Jorge Luis Garcia Ramirez	Bank of Mexico
Mr Toshio Tsuiki	Basel Committee Secretariat

Annex 2: List of Basel standards and implementing regulations issued by the EU authorities

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*

Table A.1 lists the regulations issued by EU authorities to implement the NSFR in the EU. Previous RCAP assessments of EU's implementation of the Basel standards considered the binding nature of regulatory documents in the EU.[11] This RCAP Assessment Team did not repeat that assessment, but instead relied on the previous assessments' findings. Those assessments concluded that the types of instrument described in Table A.1 could be considered as binding on banks and supervisors for the purposes of an RCAP assessment.

Overview of relevant liquidity regulations in the EU

Table A.1

Domestic regulations	Type, version and date
Consolidated text: Regulation (EU) No 575/2013 of the European Parliament and of the Council of 26 June 2013 on prudential requirements for credit institutions and investment firms and amending Regulation (EU) No 648/2012.	Level 1 Regulation. The latest version of Regulation (EU) No 575/2013, amended by Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019, came into effect from 28 June 2021.
Consolidated text: Directive 2013/36/EU of the European Parliament and of the Council of 26 June 2013 on access to the activity of credit institutions and the prudential supervision of credit institutions and investment firms, amending Directive 2002/87/EC and repealing Directives 2006/48/EC and 2006/49/EC.	Level 1 Directive. The latest version of Directive 2013/36/EU, amended by Directive (EU) 2019/878 of the European Parliament and of the Council of 20 May 2019, was published on 7 June 2019 and requested to be transposed into national law by Member States before 28 December 2020.
Commission Implementing Regulation (EU) 2021/637 of 15 March 2021 laying down implementing technical standards with regard to public disclosures by institutions of the information referred to in Titles II and III of Part Eight of Regulation (EU) No 575/2013.	Level 2 implementing act laying down, among others, the disclosure requirements related to liquidity requirements, in force from 28 June 2021.
Commission Implementing Regulation (EU) 2021/451 of 17 December 2020 laying down implementing technical standards for the application of Regulation (EU) No 575/2013 of the European Parliament and of the Council with regard to supervisory reporting of institutions and repealing Implementing Regulation (EU) No 680/2014.	Level 2 implementing act laying down, among others, the reporting requirements related to liquidity requirements, in force from 28 June 2021.

Source: EU authorities.

[11] See Annex 6 of the RCAP assessment of the Basel III LCR regulations in the EU, www.bis.org/bcbs/publ/d410.pdf.

Annex 3: Key liquidity indicators of the EU banking system

Overview of EU banking sector liquidity as of end-June 2021

Table A.2

Size of banking sector (millions of euros)		
Total exposures of all banks operating in the EU (including off-balance sheet exposures)	26,783,176	
Total assets of all locally incorporated internationally active banks	25,792,275	
Total assets of locally incorporated banks to which liquidity standards under the Basel framework are applied	26,783,176	
Number of banks		
Number of banks operating in the EU (excluding local representative offices)	5171	
Number of global systemically important banks (G-SIBs)	8	
Number of D-SIBs	165	
Number of banks which are internationally active	173	
Number of banks required to implement Basel III liquidity standards	All banks in the EU	
Number of banks required to implement domestic liquidity standards	None	
Breakdown of NSFR for 13 RCAP sample banks (millions of euros)	Unweighted	Weighted
Capital	995,080	991,022
Stable deposits from retail and small business customers	2,838,559	2,697,851
Less stable deposits from retail and small business customers	1,340,230	1,211,812
Funding from non-financial corporates	1,936,360	982,390
Funding from central banks, sovereigns, PSEs, MDBs and NDBs	1,686,413	1,282,058
Funding from financials (other legal entities)	3,786,391	1,442,792
Other liabilities	1,360,361	223,766
Total available stable funding	13,943,393	8,831,692
Cash and central bank reserves	2,187,692	14,281
Loans to financial institutions	1,583,950	338,013
Securities eligible as Level 1 HQLA	1,218,000	143,933
Securities eligible as Level 2A HQLA	87,917	19,992
Securities eligible as Level 2B HQLA	233,913	119,296
All residential mortgages	1,974,220	1,456,494
Loans, <1 year	1,244,735	663,309
Other loans, >1 year, risk weight<=35%	384,847	280,981
Loans, risk weight>35%	2,564,918	2,271,396
Derivatives	486,054	90,461
All other assets	2,238,800	1,580,715
Off-balance sheet	2,675,403	125,717
Total required stable funding	16,880,450	7,104,587
NSFR		124%

Source: EU authorities.

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.3. 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.4.

Number of deviations by component

Table A.3

Component	Not material	Potentially material	Material
Scope, minimum requirement and application issues	0	0	0
Available stable funding (numerator)	1	0	0
Required stable funding (denominator)	9	0	0
NSFR disclosure requirements	0	0	0

RCAP sample banks

Table A.4

Banking group	Share of banks' assets in the total assets of the internationally active banks in the EU banking system (percent)
BNP Paribas	10.9
Crédit Agricole	7.7
BPCE	5.2
Société Générale	5.4
Commerzbank	2.5
Deutsche Bank	4.7
Unicredit	4.1
Intesa Sanpaolo	3.5
ING	4.1
Rabobank	2.4
Santander	6.7
BBVA	2.9
SEB	1.5
TOTAL	61.4

Source: EU authorities. 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.

Annex 5: Issues for follow-up RCAP assessments

The Assessment Team identified the following issues for future RCAP assessments for the EU:

- Article 510(8) of Consolidated text: Regulation (EU) No 575/2013 states: "By 28 June 2025, the required stable funding factors applied to the transactions referred to in point (g) of Article 428r(1), point (b) of Article 428s(1) and in point (a) of Article 428v, shall be raised from 0% to 10%, from 5% to 15% and from 10% to 15% respectively, unless otherwise specified in a legislative act adopted on the basis of a proposal by the Commission, in accordance with paragraph 7 of this Article."

Annex 6: Elements of the NSFR subject to national discretion

Implementation of national discretions by the EU authorities — Table A.5

Basel paragraph	Description	National implementation
25(a)	Treatment of deposits between banks within the same cooperative network	Article 428g of Consolidated text: Regulation (EU) No 575/2013 specifies the treatment of deposits in cooperative networks or institutional protection schemes. Such deposits shall be assigned an ASF symmetric to the RSF factor assigned by regulation for the same deposits to the depositing bank.
31	Treatment of excess collateral in a covered bond collateral pool allowing for multiple issuance	Article 428p(6)(c) of Consolidated text: Regulation (EU) No 575/2013 requires that assets attached as non-mandatory overcollateralisation to a covered bond issuance be considered as unencumbered. Therefore, assets attached as non-mandatory overcollateralisation represent excess issuance capacity and are treated as unencumbered for the purpose of the NSFR. Article 411(6) of Consolidated text: Regulation (EU) No 575/2013 defines "non-mandatory overcollateralization" as any amount of assets that the institution is not obliged to attach to a covered bond issuance by virtue of legal or regulatory requirements, contractual commitments or for reasons of market discipline.
31, 36	Treatment of central bank operations	Article 428p (7) of Consolidated text: Regulation (EU) No 575/2013 gives power to competent authorities in agreement with the central bank to determine reduced RSF factors for assets encumbered for at least six months in the case of non-standard, temporary operations conducted by the central bank in order to fulfil its mandate in a period of market-wide financial stress or in exceptional macroeconomic circumstances. The reduced factors shall not be lower than the RSF factor applied to the equivalent asset that is unencumbered. Competent authorities shall closely monitor the impact of that reduced factor on institutions' stable funding positions and shall take appropriate supervisory measures where necessary.
43	RSF factor for derivative liabilities	Article 428s(2) of Consolidated text: Regulation (EU) No 575/2013 requires institutions to apply a 5% RSF factor to the absolute fair value, gross of any collateral posted, of all netting sets of derivative contracts that have a negative fair value. The same paragraph specifies that the fair value is to be determined as gross of any collateral posted or settlement payments and receipts related to market valuation changes of such contracts.
45	Treatment of interdependent assets and liabilities	Article 428f(1) of Consolidated text: Regulation (EU) No 575/2013 allows institutions to treat an asset and a liability as interdependent (ie to apply 0% ASF/RSF factors) subject to prior approval of their competent authorities and to the fulfilment of a number of conditions. Also, the second paragraph of that Article provides that assets and liabilities directly linked to a predefined list of products or services provided for in that paragraph are considered to meet the conditions provided for in Article 428f, first paragraph and are considered as interdependent.
47	RSF factors for other contingent funding obligations	Article 428c of Consolidated text: Regulation (EU) No 575/2013 requires institutions to take into account off balance sheet items for the calculation of the NSFR. Article 428p(10) provides an option for supervisory authorities to determine the RSF factors to be applied to off-balance sheet exposures that are not referred to in the CRR. The purpose of this national discretion available for supervisory authorities is to ensure that credit institutions hold an appropriate amount of ASF

		for the portion of those exposures that are expected to require funding over the one-year horizon of the NSFR ratio.
50	Scope of application of NSFR and scope of consolidation of entities within a banking group	The NSFR applies at individual (Article 6(4) of Consolidated text: Regulation (EU) No 575/2013 and at consolidated level (Article 11(4) of Consolidated text: Regulation (EU) No 575/2013). The entities included in the scope of consolidation within a banking group are credit institutions and financial institutions (as defined in Article 4(1)(20) of Consolidated text: Regulation (EU) No 575/2013).

Source: EU authorities.