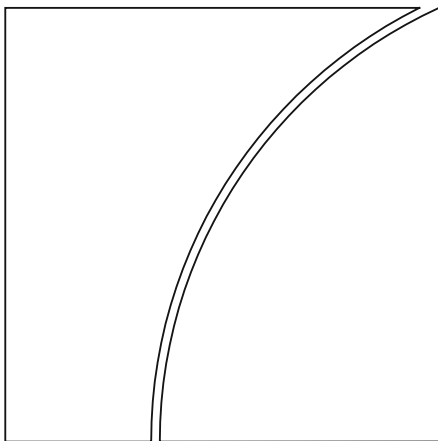


Basel Committee on Banking Supervision



Regulatory Consistency Assessment Programme (RCAP)

Assessment of Basel NSFR regulations – South Africa

April 2023



Note that this report refers to the RCAP grades prior to October 2025. The grade 'materially non-compliant (MNC)', ie one notch above the lowest grade, has since been renamed to 'partially non-compliant (PNC)' for greater clarity

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Glossary

ASF	Available stable funding
BCBS	Basel Committee on Banking Supervision
BIS	Bank for International Settlements
C	Compliant (grade)
D-SIB	Domestic systemically important bank
G-SIB	Global systemically important bank
HQLA	High-quality liquid assets
LC	Largely compliant (grade)
MDB	Multilateral development bank
MNC	Materially non-compliant (grade)
NC	Non-compliant (grade)
NDB	National development bank
NSFR	Net Stable Funding Ratio
PA	Prudential Authority
PSE	Public sector entity
RCAP	Regulatory Consistency Assessment Programme
RSF	Required stable funding
SARB	South African Reserve Bank
ZAR	South African rand

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 South Africa. The assessment focused on the completeness and consistency of the South African regulations with the Basel NSFR standard and relied on the information provided by the Prudential Authority (PA) within the South African Reserve Bank (SARB).²

The Assessment Team was led by Mr Jean Hilgers, Executive Director of the National Bank of Belgium (NBB). It comprised four technical experts, from the Canadian Office of the Superintendent of Financial Institutions (OSFI), the Central Bank of Brazil (BCB), the Central Bank of Sweden (Riksbank) and the Bank of Spain (see Annex 1). The main counterpart for the assessment was the PA. The work was coordinated by the Basel Committee Secretariat with support from NBB staff.

The assessment comprised (i) a self-assessment by the PA; (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 PA throughout the assessment process.

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

² The PA is a juristic person operating within the administration of the SARB.

Executive summary

The NSFR was implemented by the PA via amended Regulations relating to Banks and the issuance of Directive 8/2017. Subsequently, the respective components of the NSFR standard were incorporated into the specific amendments published in Government Gazette No 44003 on 18 December 2020. The NSFR applies to all banking entities in South Africa, effective as of 1 January 2018.

As of 31 January 2023, the NSFR regulations in South Africa are assessed as largely compliant with the Basel NSFR standard. This is one notch below the highest grade.

Three of the four components of the Basel NSFR standard (scope, minimum requirements and application issues; required stable funding (RSF); and disclosure requirements) are assessed as compliant. The remaining component, available stable funding (ASF), is assessed as largely compliant. This component grade is driven by one material finding. The deviation underlying this finding is being rectified by the PA and full compliance is expected to be reached by 1 January 2028 (see Annex 5). Without this rectification, the assessment would have generated a lower grade. The report also contains one observation relating to the RSF component of the standard.

Response from the South African authorities

The Prudential Authority and South African Reserve Bank wish to thank Mr Jean Hilgers and the Assessment Team for their work on the RCAP. We would like to commend the professionalism and rigour that was demonstrated by the Assessment Team throughout the RCAP, to ensure constructive and thorough discussions on the implementation of the NSFR standard in the South African context. We also extend our appreciation to the Basel Committee Secretariat for coordinating an efficient and constructive RCAP engagement. We welcome and share the view of the assessment that the implementation of the NSFR in South Africa is largely compliant with the Basel NSFR standard.

1 Assessment context

1.1 Regulatory system

With the publication of the Financial Sector Regulation Act in 2017, South Africa has implemented a “Twin Peaks” model of regulation and supervision. The PA is a separate juristic person operating within the SARB, and is responsible for the regulation and prudential supervision of financial institutions, while the Financial Sector Conduct Authority (FSCA) regulates and supervises the conduct of financial institutions.

South Africa has implemented the Basel Framework using the following three-tier regulatory structure:

- (i) Tier 1: The Tier 1 legislation consists of a parliamentary Act, the “Banks Act, 1990”, which contains the enduring principles and constitutes the overarching enabling framework. Only the South African Parliament is empowered to amend this primary legislation.
- (ii) Tier 2: The Tier 2 legislation contains the operational details that transpose the bulk of the Basel Framework into domestic regulations, the “Regulations relating to Banks” (the Regulations). The Regulations are issued by the Minister of Finance and constitute enforceable secondary legislation. They are published in the “Government Gazette”. The Banks Act and the Regulations framed thereunder are administered by the PA. The Banks Act provides enabling legislation that allows the PA to prescribe the minimum requirements and selected supervisory review and evaluation process (SREP) in the Regulations and Directives, Circulars and Guidance Notes issued in terms of the Banks Act. The Regulations specify the internationally agreed minimum prudential and other requirements necessary to implement and comply with the Basel Framework.
- (iii) Tier 3: Other major regulatory instruments used to implement the Basel standards in South Africa include Directives, Circulars and Guidance Notes issued by the PA. These are generally referred to as Tier 3 legislation and their purpose is to provide further direction, interpretation, guidance or clarification, and information on best practices. The Directives and Circulars are binding in nature, while Guidance Notes do not constitute enforceable legislation.

Being an act passed by the Parliament, the Banks Act is the primary binding act, along with the Regulations framed under this Act. The Directives and Circulars are issued by the PA under the powers available under the Banks Act and are therefore binding in nature. The objective of the Guidance Notes is to provide detailed guidance on more technical matters to facilitate and ensure accurate and consistent implementation of the Regulations across all banks in the country. Though the Guidance Notes do not constitute enforceable legislation, the PA and banking associations confirmed that these are normally adhered to by the banks. Annex 2 lists the relevant regulatory instruments implementing the Basel standards in South Africa. All these instruments are henceforth collectively referred to as “South African regulations”.

1.2 Status of NSFR implementation

South Africa implemented the Basel NSFR via amended Regulations relating to Banks and the issuance of Directive 8/2017 with application as of 1 January 2018. Subsequently, the respective components of the NSFR standard were incorporated into the specific amendments published in Government Gazette No 44003 on 18 December 2020.

Under South African regulations, the NSFR is applied to all banking entities within a group, on an aggregated basis. Accordingly, the Banks Act and the Regulations apply uniformly to all 31 banks and/or banking groups in South Africa.

1.3 Scope of the assessment

The Assessment Team considered the NSFR requirements applicable to internationally active banks in South Africa as of 31 January 2023. The assessment had two dimensions:

- a comparison of South African 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 South African regulations and the Basel NSFR standard and, if so, their significance (*consistency* of the regulations).

In its assessment, the RCAP Assessment Team considered all binding documents that effectively implement the Basel NSFR standard in South Africa. 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 South Africa or the supervisory effectiveness of the PA.

The Assessment Team evaluated the materiality and potential materiality of identified deviations between the Basel NSFR standard and South African regulations. The evaluation was conducted using a sample of six South African banks, five of which are the internationally active banks. Together, these banks comprise about 94% of the assets in the banking sector in South Africa. Annex 3 lists the key liquidity indicators of the South African banking system and the sample of banks. In addition, the Assessment Team reviewed the non-quantifiable impact of identified deviations and applied expert judgment as to whether the South African 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 two areas, the South African rules go beyond the minimum Basel standards. Although these elements (described in Annex 6) provide for a more rigorous implementation of the Basel framework, 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 South Africa 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)	C
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. No findings were identified.

2.1.2 Available stable funding

This component is assessed as largely compliant with the Basel NSFR standard. One finding was identified.

The South African regulation assigns an available stable funding (ASF) factor of 35% to funding received in rand (ZAR) from financial institutions, excluding banks, with a residual maturity of less than six months. Basel standards assign an ASF factor of 0% for this type of funding. This finding was assessed as material while the PA amended its regulation in order to phase out this deviation starting in June 2023 and reaching full compliance with the Basel NSFR standard in 2028.

2.1.3 Required stable funding

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

There is one observation. Despite the provision of a 15% required stable funding (RSF) factor for covered bonds in the South African regulation, the regulation does not include a definition of covered bonds. However, there are other provisions according to which banks are not allowed to issue covered bonds or engage in any synthetic or other structured transactions that in substance are equivalent to a covered bond structure.

2.1.4 Disclosure requirements

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

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

This component is assessed as largely compliant with the Basel standard. One material finding was identified.

Section grade	Largely compliant
Basel paragraph number	25: Liabilities receiving a 0% ASF factor
Reference in the domestic regulation	Directive 8 of 2017, § 2.1.2.4.
Finding	<p>The Basel NSFR standard assigns an ASF factor of 0% to funding with a residual maturity of less than six months from financial institutions.</p> <p>The South African regulation assigns an ASF factor of 35% to funding received in rand (ZAR) from financial institutions, excluding banks, with a residual maturity of less than six months.</p> <p>For the six largest banks in South Africa, this deviation results in an increase of ASF by 5.1% in total and of the NSFR by 5.9 percentage points in total according to NSFR data as of June 2022. The corresponding numbers for the largest single deviation on an individual bank are 12.1% and 12.3 percentage points respectively. The deviation was introduced to facilitate the initial NSFR standard implementation across all banks. For the six sample banks, representing 94% of total bank assets, the NSFR requirement is currently satisfied without the deviation.</p>

	<p>The PA amended Directive 8 of 2017 by means of Directive 1 of 2023, issued on 25 January 2023, in order to phase out the ASF factor of 35% based on the following schedule:</p> <ul style="list-style-type: none"> • From 1 June to 31 December 2023: 30% ASF; • From 1 January to 31 December 2024: 20% ASF; • From 1 January 2025 to 31 December 2027: 10% ASF; • From 1 January 2028 onwards: 0% ASF. <p>This rectification will gradually further align the South African regulation with the Basel NSFR standard. During the transition phase, the materiality of the deviation would imply a materially non-compliant grade until 31 December 2024. From 1 January 2025, the impact would decrease and imply a largely compliant grade before achieving full compliance in 2028.</p> <p>When assessing the materiality of deviations, both quantitative thresholds and expert judgment are applied. The former suggests a materially non-compliant grade. However, by the cutoff date of the assessment, South Africa had a Directive in force to completely phase out the deviation. Therefore, in a relatively short period (ie one year and eight months), the South African regulation will be largely compliant with the Basel standard. With this short period in mind and considering the effort made by the PA to strive for full compliance with the Basel standards, the Assessment Team concluded that the most appropriate component grade is largely compliant. The overall grade reflects this component grade since this is the only finding identified and assessed as material.</p>
Materiality	Material

2.2.3 Required stable funding

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

2.2.4 Disclosure requirements

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

2.3 Observations

The following observation highlights a special feature of the regulatory implementation of the Basel NSFR standard in South Africa. It is 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 Required stable funding

Basel paragraph number	39: Assets assigned a 15% RSF factor
Reference in the domestic regulation	Regulation 26(14)(c)(iv) Table 1
Observation	<p>The Basel NSFR standard assigns a 15% RSF factor to level 2A HQLA, including covered bonds.</p> <p>The South African regulation also assigns an RSF factor of 15% to unencumbered level 2A HQLA as defined in Section 1(1) of the Banks Act and subregulation 12, including covered bonds with a credit rating equal or equivalent to at least AA–.</p> <p>However, the referred section of the Act does not include any definition of covered bonds; it only specifies general matters related to level 2A HQLA. Moreover, subregulation 12 specifies that assets issued by a financial institution or any of its associated affiliated entities cannot be considered level 2A HQLA. This clearly disqualifies covered bonds as level 2 HQLA, and the RSF factor of 15% assigned to covered bonds cannot be applied.</p> <p>In addition, according to Guidance Note 3 of 2011, a covered bond structure will subordinate the interests of depositors to the interests of the covered bond holders. Consequently, banks or branches in South Africa are not allowed to issue covered bonds or engage in any synthetic or other structured transaction that in substance is equivalent to a covered bond structure.</p>

Annexes

Annex 1: RCAP Assessment Team and Review Team

Assessment Team Leader

Mr Jean Hilgers	National Bank of Belgium
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Assessment Team members

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Mr Tobias Lindqvist	Central Bank of Sweden
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Supporting members

Ms Sabina Bernardo	National Bank of Belgium
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Mr Saif Chaibi	National Bank of Belgium
Mr Gaëtan Doucet	National Bank of Belgium
Ms Irina Barakova	Basel Committee Secretariat
Mr Carsten Folkertsma	Basel Committee Secretariat
Mr Olivier Prato	Basel Committee Secretariat

Review Team members

Mr Saurav Sinha	Reserve Bank of India
Ms Sandra Wesseling	De Nederlandsche Bank
Ms Joanne Marsden	Basel Committee Secretariat

Annex 2: List of Basel standards and implementing regulations issued by the South African 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 the PA to implement the NSFR standard in South Africa. Previous RCAP assessments of the South African implementation of the Basel standards considered the binding nature of regulatory documents in South Africa.³ 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.

Overview of relevant liquidity regulations in South Africa

Table A.1

Domestic regulations	Type, version and date
Regulations relating to Banks, issued in terms of Section 90 of the Banks Act, 1990 Amended by Government Notice No 724, published in Government Gazette No 44003 of 18 December 2020 to incorporate the BCBS Basel III NSFR framework Primarily regulation 26(14) of the Regulations relating to Banks, read with regulation 26(12) of the Regulations	The requirements in the Regulations that incorporate the BCBS Basel III NSFR standard were published in Government Notice R1029 in Government Gazette No 35950 of 12 December 2012, and amended by Government Gazette No 44003, of 18 December 2020. South Africa implemented the NSFR requirements with effect from 1 January 2018. The Regulations constitute secondary enforceable legislation.
Directive 8 of 2017 (published 13 December 2017) Directive 1 of 2019 (published 23 May 2019); replaced Directive 1 of 2018 (published 20 April 2018) – essentially covering matters related to NSFR disclosure Directive 1 of 2023 (published 25 January 2023)	
Guidance Note 3 of 2011 – Covered bonds	Guidance Notes are issued to furnish banks, controlling companies, representative offices, eligible institutions and auditors of banks or controlling companies with information related to market practices or market or industry developments within or outside the Republic, and do not constitute enforceable legislation.

Source: PA.

³ See Annex 7 of the RCAP Assessment of Basel III risk-based capital regulations in South Africa, www.bis.org/bcbs/publ/d322.pdf and Annex 6 of the RCAP Assessment of Basel III LCR regulations in South Africa, www.bis.org/bcbs/publ/d323.pdf.

Annex 3: Key liquidity indicators of the South African banking system

Overview of South African banking sector liquidity as of end-June 2022

Table A.2

Size of banking sector (ZAR, billions)		
Total exposures of all banks operating in South Africa (including off-balance sheet exposures)	9,385	
Total assets of all locally incorporated banks	9,158	
Total assets of locally incorporated banks to which liquidity standards under the Basel Framework are applied	9,158	
Number of banks		
Number of banks operating in South Africa (excluding local representative offices)	31	
Number of G-SIBs	None	
Number of D-SIBs	6	
Number of banks which are internationally active	5	
Number of banks required to implement Basel III liquidity standards	31	
Number of banks required to implement domestic liquidity standards	31	
Breakdown of NSFR for six RCAP sample banks (ZAR, billions)	Unweighted	Weighted
Capital	720	720
Stable deposits from retail and small business customers	136	130
Less stable deposits from retail and small business customers	2,060	1,864
Unsecured funding from non-financial corporates	1,369	700
Unsecured funding from central banks, sovereigns, PSEs, MDBs and NDBs	676	343
Unsecured funding from financials (other legal entities)	2,336	1,117
Secured funding (all counterparties)	193	50
Other liabilities	388	129
Total available stable funding	7,879	5,054
Cash and central bank reserves	267	10
Loans to financial institutions	1,386	551
Securities eligible as Level 1 HQLA	1,301	72
Securities eligible as Level 2A HQLA	71	11
Securities eligible as Level 2B HQLA	59	30
All residential mortgages	1,140	755
Loans, <1 year	704	353
Other loans, > 1 year, risk weight <=35%	33	21
Loans, risk weight>35%	2,166	1,781
Derivatives	96	23
All other assets	697	577
Off-balance sheet	1,910	88
Total required stable funding	9,829	4,272
NSFR		118.3%

Source: PA.

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. There is only one finding but it is a material one.

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)	0	0	1
Required stable funding (denominator)	0	0	0
NSFR disclosure requirements	0	0	0

RCAP sample banks ⁴		Table A.4
Banking group	Share of banks' assets in the total assets of the active banks in the South African banking system as of June 2022 (in per cent)	
Absa Group Limited	19.1	
Standard Bank Group Limited	30.8	
Nedbank Group Limited	13.7	
Investec Limited	6.2	
Capitec Holdings	2.1	
FirstRand Limited	21.9	
Total	93.8	

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: PA.

⁴ RCAP sample banks based on the six designated South African D-SIBs, five of which are the internationally active banks.

Annex 5: Rectifications made by the PA

List of rectifications by the PA		Table A.5
Basel paragraph	Reference in South African regulations	Description of rectification
25	Directive 8 of 2017, § 2.1.2.4.	<p>The PA amended Directive 8 of 2017 by means of Directive 1 of 2023, issued on 25 January 2023, in order to phase out the ASF factor of 35% assigned to funding with a residual maturity of less than six months from financial institutions based on the following schedule:</p> <ul style="list-style-type: none"> • From 1 June to 31 December 2023: 30% ASF; • From 1 January to 31 December 2024: 20% ASF; • From 1 January 2025 to 31 December 2027: 10% ASF; • From 1 January 2028 onwards: 0% ASF.
Source: PA.		

Annex 6: Areas where South African rules are stricter than the Basel standards

In two areas, the South African authorities 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.

- The Basel NSFR standard is applicable to internationally active banks. The South African NSFR regulation, however, is applicable to all banking entities incorporated in South Africa. The Banks Act and the Regulations apply uniformly to all 31 banks and/or banking groups in South Africa.
- In order not to create an environment in which the South African banks rely on the SARB or another central bank as a source of funding, South African Regulation 26(14)(a)(iii)(G) states that any extended borrowing from central bank lending facilities, outside regular open market operations, falls outside the scope of the calculation of the banks' NSFR. This source of funding also fell outside the scope of the NSFR according to §126 of the *Basel III International framework for liquidity risk measurement, standards and monitoring*, issued by the BCBS in December 2010, which is now superseded. This paragraph has not been included in the final version of the Basel NSFR standard.

Annex 7: Elements of the NSFR subject to national discretion

Implementation of national discretions by the PA			Table A.6
Basel paragraph	Description	National implementation	
25(a)	Treatment of deposits between banks within the same cooperative network	Discretion not exercised, as there are no such banks operating in the jurisdiction.	
31	Treatment of excess collateral in a covered bond collateral pool allowing for multiple issuance	Discretion not exercised, as covered bonds are not allowed in the regulatory framework.	
31, 36	Treatment of central bank operations	Discretion not exercised for exceptional central bank operations. Required cash reserves are assigned an RSF factor of 5%.	
43	RSF factor for derivative liabilities	10% of derivative liabilities are assigned an RSF factor of 100%.	
45	Treatment of interdependent assets and liabilities	The PA allows banks to apply to the authority to classify assets and liabilities as interdependent.	
47	RSF factors for other contingent funding obligations	Unconditionally revocable credit and liquidity facilities are assigned an RSF factor of 5%; Trade finance-related obligations (including guarantees and letters of credit) are assigned an RSF factor of 5%; Guarantees and letters of credit unrelated to trade finance obligations are assigned an RSF factor of 5%; Non-contractual obligations do not require stable funding.	
50	Scope of application of NSFR and scope of consolidation of entities within a banking group	Scope of application is defined in regulations 26(3) and 37(7) and follows the same scope of application as the capital framework.	
Source: PA.			