

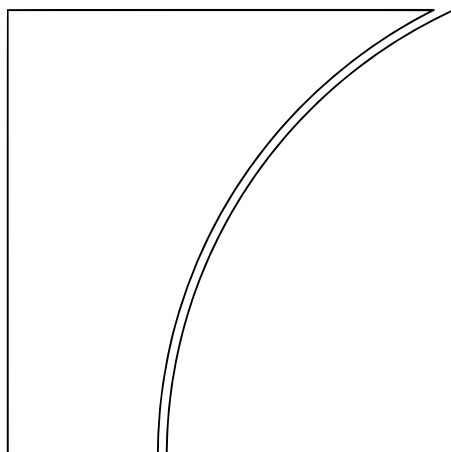
Basel Committee on Banking Supervision

NSF

Net stable funding ratio

NSF30

Available and required stable funding



This chapter describes how to calculate the amount of available stable funding provided by a bank's liabilities and equity and how to calculate the amount of required stable funding for a bank's assets and off-balance-sheet activities.

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BANK FOR INTERNATIONAL SETTLEMENTS

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Introduction

30.1

The amounts of available stable funding (ASF) and required stable funding (RSF) specified in the standard are calibrated to reflect the presumed degree of stability of liabilities and liquidity of assets.

30.2

The calibration reflects the stability of liabilities across two dimensions:

1. Funding tenor: the net stable funding ratio (NSFR) is generally calibrated such that longer-term liabilities are assumed to be more stable than short-term liabilities.
2. Funding type and counterparty: the NSFR is calibrated under the assumption that short-term (maturing in less than one year) deposits provided by retail customers and funding provided by small business customers are behaviourally more stable than wholesale funding of the same maturity from other counterparties.

30.3

In determining the appropriate amounts of required stable funding for various assets, the following criteria were taken into consideration, recognising the potential trade-offs between these criteria:

1. Resilient credit creation: the NSFR requires stable funding for some proportion of lending to the real economy in order to ensure the continuity of this type of intermediation.
2. Bank behaviour: the NSFR is calibrated under the assumption that banks may seek to roll over a significant proportion of maturing loans to preserve customer relationships.
3. Asset tenor: the NSFR assumes that some short-dated assets (maturing in less than one year) require a smaller proportion of stable funding because banks would be able to allow some proportion of those assets to mature instead of rolling them over.
4. Asset quality and liquidity value: the NSFR assumes that unencumbered, high-quality assets that can be securitised or traded, and thus can be readily used as collateral to secure additional funding or sold in the market, do not need to be wholly financed with stable funding.

30.4

Additional stable funding sources are also required to support at least a small portion of the potential calls on liquidity arising from off-balance sheet commitments and contingent funding obligations.

Definition of available stable funding

30.5

The amount of ASF is measured based on the broad characteristics of the relative stability of an institution's funding sources, including the contractual maturity of its liabilities and the differences in the propensity of different types of funding providers to withdraw their funding.

30.6

The amount of ASF must be calculated by first assigning the carrying value of an institution's capital and liabilities to one of five categories as presented below. The amount assigned to each category is then multiplied by an ASF factor, and the total ASF is the sum of the weighted amounts. Carrying value represents the amount at which a liability or equity instrument is recorded before the application of any regulatory deductions, filters or other adjustments. As noted in [NSF10.2](#), definitions mirror those outlined in the [LCR](#) standard, unless otherwise specified.

30.7

When determining the maturity of an equity or liability instrument, the bank must assume investors redeem call options at the earliest possible date. For funding with options exercisable at the bank's discretion, supervisors should take into account reputational factors that may limit a bank's ability not to exercise the option. In particular, where the market expects certain liabilities to be redeemed before their legal final maturity date, banks and supervisors should assume such behaviour for the purpose of the NSFR and include these liabilities in the corresponding ASF category. Along the same lines, when calculating the NSFR, options by a bank to extend funding maturity of its obligations (eg soft-bullet structures) should generally be assumed not to be exercised when there may be reputational concerns. For long-dated liabilities, only the portion of cash flows falling at or beyond the six-month and one-year time horizons should be treated as having an effective residual maturity of six months or more and one year or more, respectively.

30.8

Derivative liabilities are calculated first based on the replacement cost for derivative contracts (obtained by marking to market) where the contract has a negative value. When an eligible bilateral netting contract is in place that meets the conditions as specified in [CRE52.7](#), the replacement cost for the set of derivative exposures covered by the contract must be the net replacement cost.

30.9

In calculating NSFR derivative liabilities, collateral posted in the form of variation margin in connection with derivative contracts, regardless of the asset type, must be deducted from the negative replacement cost amount.

30.10

Liabilities and capital instruments receiving a 100% ASF factor comprise:

1. the total amount of regulatory capital, before the application of capital deductions, as defined in [CAP10](#), excluding the proportion of Tier 2 instruments with residual maturity of less than one year;
2. the total amount of any capital instrument not included in [NSF30.10](#)(1) that has an effective residual maturity of one year or more, but excluding any instruments with explicit or embedded options that, if exercised, would reduce the expected maturity to less than one year;
3. 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 liabilities with a final maturity greater than one year do not qualify for the 100% ASF factor; and
4. retail term deposits maturing over one year that cannot be withdrawn early without significant penalty.

30.11

Liabilities receiving a 95% ASF factor comprise “stable” (as defined in [LCR40.7](#) to [LCR40.12](#)) non-maturity (demand) deposits and/or term deposits with residual maturities of less than one year, and/or term deposits with residual maturities greater than one year that can be withdrawn early without a significant penalty, provided by retail and small business customers.

30.12

Liabilities receiving a 90% ASF factor comprise “less stable” (as defined in [LCR40.13](#) to [LCR40.15](#)) non-maturity (demand) deposits and/or term deposits with residual maturities of less than one year, and/or term deposits with residual maturities greater than one year that can be withdrawn early without a significant penalty, provided by retail and small business customers.

30.13

Liabilities receiving a 50% ASF factor comprise:

1. funding (secured and unsecured) with a residual maturity of less than one year provided by non-financial corporate customers;
2. operational deposits (as defined in [LCR40.26](#) to [LCR40.36](#));
3. funding with residual maturity of less than one year from sovereigns, public sector entities (PSEs), and multilateral and national development banks; and
4. other funding (secured and unsecured) not included in the categories above with residual maturity between six months to less than one year, including funding from central banks and financial institutions.

30.14

Liabilities receiving a 0% ASF factor comprise:

1. all other liabilities and equity categories not included in the above categories, including other funding with residual maturity of less than six months from central banks and financial institutions;
2. other liabilities without a stated maturity. This category must include short positions and open maturity positions that are not otherwise captured under [NSF30.10](#) to [NSF30.13](#). Two exceptions may be recognised for liabilities without a stated maturity, which would then be assigned either a 100% ASF factor if the effective maturity is one year or greater, or 50%, if the effective maturity is between six months and less than one year:
 1. first, deferred tax liabilities, which should be treated according to the nearest possible date on which such liabilities could be realised; and
 2. second, minority interest, which should be treated according to the term of the instrument, usually in perpetuity.
3. NSFR derivative liabilities as calculated according to [NSF30.8](#) and [NSF30.9](#) net of NSFR derivative assets as calculated according to [NSF30.23](#) and [NSF30.24](#), if NSFR derivative liabilities are greater than NSFR derivative assets; and
4. “trade date” payables arising from purchases of financial instruments, foreign currencies and commodities that
 1. are expected to settle within the standard settlement cycle or period that is customary for the relevant exchange or type of transaction, or
 2. have failed to, but are still expected to, settle.

Definition of required stable funding for assets and off-balance sheet exposures

30.15

The amount of RSF is measured based on the broad characteristics of the liquidity risk profile of an institution's assets and off-balance-sheet exposures. The amount of RSF is calculated by first assigning the carrying value of an institution's assets to the categories listed below. The carrying value of an asset item should generally be recorded by following its accounting value, ie net of specific provisions, in line with [CRE20.1](#) and the requirements for on-balance sheet, non-derivative assets in [LEV30](#). The amount assigned to each category is then multiplied by its associated RSF factor, and the total RSF is the sum of the weighted amounts added to the amount of off-balance-sheet activity (or potential liquidity exposure) multiplied by its associated RSF factor. As noted in [NSF10.2](#), definitions mirror those outlined in the [LCR](#) standard, unless otherwise specified. Regardless of whether a bank uses the internal ratings-based (IRB) approach, the standardised approach risk weights in [CRE20](#) must be used to determine the NSFR treatment.

30.16

Unless explicitly stated otherwise in the NSFR standard, assets must be allocated to maturity buckets according to their contractual residual maturity. However, this should take into account embedded optionality, such as put or call options, which may affect the actual maturity date as described in [NSF30.7](#) and [NSF30.17](#). The RSF factors assigned to various types of assets are intended to approximate the amount of a particular asset that would have to be funded, either because it will be rolled over, or because it could not be monetised through sale or used as collateral in a secured borrowing transaction over the course of one year without significant expense. Under the standard, such amounts must be supported by stable funding.

30.17

Assets must be allocated to the appropriate RSF factor based on their residual maturity or liquidity value. When determining the maturity of an instrument, the bank must assume investors exercise any option to extend maturity. For assets with options to extend exercisable at the bank's discretion, supervisors should take into account reputational factors that may limit a bank's ability not to exercise the option. In particular, where the market expects certain assets to be extended in their maturity, banks and supervisors should assume such behaviour for the purpose of the NSFR and include these assets in the corresponding RSF category. For amortising loans (or other principal repayment claims), the portion that comes due within the one-year horizon may be treated in the less-than-one-year residual maturity category. Unencumbered loans without a stated final maturity, even where the borrower may repay the loan in full and without penalty charges at the next rate reset date, are deemed to have an effective residual maturity period of more than one year and must be given either a 65% or 85% RSF factor depending on their risk weights under the standardised approach for credit risk. If there is a contractual provision with a review date at which the bank may determine whether a given facility or loan is renewed or not, supervisors may authorise, on a case by case basis, banks to use the next review date as the maturity date. In doing so, supervisors must consider the incentives created and the actual likelihood that such facilities/loans will not be renewed. In particular, options by a bank not to renew a given facility should generally be assumed not to be exercised when there may be reputational concerns.

30.18

In the case of exceptional central bank liquidity absorbing operations, claims on central banks

may receive a reduced RSF factor. For those operations with a residual maturity equal to or greater than six months, the RSF factor must not be lower than 5%. When applying a reduced RSF factor, supervisors need to closely monitor the ongoing impact on banks' stable funding positions arising from the reduced requirement and take appropriate measures as needed. Also, as further specified in [NSF30.20](#), assets that are provided as collateral for exceptional central bank liquidity providing operations may receive a reduced RSF factor which must not be lower than the RSF factor applied to the equivalent asset that is unencumbered. In both cases, supervisors should discuss and agree on the appropriate RSF factor with the relevant central bank.

30.19

For purposes of determining its required stable funding, an institution must include financial instruments, foreign currencies and commodities for which a purchase order has been executed, and exclude financial instruments, foreign currencies and commodities for which a sales order has been executed, even if such transactions have not been reflected in the balance sheet under a settlement-date accounting model, provided that:

1. such transactions are not reflected as derivatives or secured financing transactions in the institution's balance sheet, and
2. the effects of such transactions will be reflected in the institution's balance sheet when settled.

30.20

Assets on the balance sheet that are encumbered for one year or more must receive a 100% RSF factor. Assets encumbered for a period of between six months and less than one year that would, if unencumbered, receive an RSF factor lower than or equal to 50% must receive a 50% RSF factor. Assets encumbered for between six months and less than one year that would, if unencumbered, receive an RSF factor higher than 50% must retain that higher RSF factor. Where assets have less than six months remaining in the encumbrance period, those assets may receive the same RSF factor as an equivalent asset that is unencumbered. In addition, for the purposes of calculating the NSFR, assets that are encumbered for exceptional central bank liquidity operations may receive a reduced RSF factor. Supervisors should discuss and agree on the appropriate RSF factor with the relevant central bank, which must not be lower than the RSF factor applied to the equivalent asset that is unencumbered.

30.21

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. In contrast, banks must include securities they have lent in securities financing transactions where they retain beneficial ownership. Banks should also not include any securities they have received through collateral swaps if those securities do not appear on their balance sheets. Where banks have encumbered securities in repos or other securities financing transactions, but have retained beneficial ownership and those assets remain on the bank's balance sheet, the bank must allocate such securities to the appropriate RSF category.

30.22

Amounts receivable and payable under these securities financing transactions should generally be reported on a gross basis, meaning that the gross amount of such receivables and payables

should be reported on the RSF side and ASF side, respectively. The only exception is that securities financing transactions with a single counterparty may be measured on a net basis when calculating the NSFR, provided that the netting conditions for securities financing transactions set out in [LEV30](#) are met.

30.23

Derivative assets are calculated first based on the replacement cost for derivative contracts (obtained by marking to market) where the contract has a positive value. When an eligible bilateral netting contract is in place that meets the conditions as specified in [CRE52.7](#), the replacement cost for the set of derivative exposures covered by the contract must be the net replacement cost.

30.24

In calculating NSFR derivative assets, collateral received in connection with derivative contracts must not offset the positive replacement cost amount, regardless of whether or not netting is permitted under the bank's operative accounting or risk-based framework, unless it is received in the form of cash variation margin and meets the conditions as specified in [LEV30](#) for the cash portion of variation margin exchanged between counterparties to be viewed as a form of pre-settlement payment. Any remaining balance sheet liability associated with variation margin received that does not meet the criteria above or initial margin received may not offset derivative assets and should be assigned a 0% ASF factor.

30.25

Assets assigned a 0% RSF factor comprise:

1. coins and banknotes immediately available to meet obligations;
2. all central bank reserves (including required reserves and excess reserves);
3. all claims on central banks with residual maturities of less than six months; and
4. "trade date" receivables arising from sales of financial instruments, foreign currencies and commodities that
 1. are expected to settle within the standard settlement cycle or period that is customary for the relevant exchange or type of transaction, or
 2. have failed to, but are still expected to, settle.

30.26

Assets assigned a 5% RSF factor comprise unencumbered Level 1 assets as defined in [LCR30.41](#), excluding assets receiving a 0% RSF as specified above, and including:

1. marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs, the Bank for International Settlements, the International Monetary Fund, the European Central Bank and the European Community, or multilateral development banks that are assigned a 0% risk weight under [CRE20](#); and
2. certain non-0% risk-weighted sovereign or central bank debt securities (excluding claims on central banks with maturities of less than six months, which must receive a 0% RSF) as specified in the [LCR](#) standard.

30.27

Assets assigned a 10% RSF factor comprise unencumbered loans to financial institutions with

residual maturities of less than six months, where the loan is secured against Level 1 assets as defined in [LCR30.41](#), and where the bank has the ability to freely rehypothecate the received collateral for the life of the loan.

30.28

Assets assigned a 15% RSF factor comprise:

1. unencumbered Level 2A assets as defined in [LCR30.43](#), including:
 1. marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs or multilateral development banks that are assigned a 20% risk weight under [CRE20](#); and
 2. corporate debt securities (including commercial paper) and covered bonds with a credit rating equal or equivalent to at least AA-;
2. all other unencumbered loans to financial institutions with residual maturities of less than six months not included in [NSF30.27](#).

30.29

Assets assigned a 50% RSF factor comprise:

1. unencumbered Level 2B assets as defined and subject to the conditions set forth in [LCR30.45](#), including:
 1. residential mortgage-backed securities with a credit rating of at least AA;
 2. corporate debt securities (including commercial paper) with a credit rating of between A+ and BBB-; and
 3. exchange-traded common equity shares not issued by financial institutions or their affiliates;
2. any HQLA as defined in the LCR that are encumbered for a period of between six months and less than one year;
3. all loans to financial institutions and central banks with residual maturity of between six months and less than one year;
4. deposits held at other financial institutions for operational purposes, as outlined in [LCR40.26](#) to [LCR40.36](#), that are subject to the 50% ASF factor in [NSF30.13](#)(2); and
5. all other non-HQLA not included in the above categories that have a residual maturity of less than one year, for example, loans to non-financial corporate clients, loans to retail customers (ie natural persons) and small business customers, and loans to sovereigns, national development banks and PSEs.

30.30

Assets assigned a 65% RSF factor comprise:

1. unencumbered residential mortgages with a residual maturity of one year or more that would qualify for a 35% or lower risk weight under [CRE20](#); and
2. other unencumbered loans, including loans to sovereigns, multilateral development banks, PSEs and national development banks, not included in the above categories, excluding loans to financial institutions, with a residual maturity of one year or more that would qualify for a 35% or lower risk weight under [CRE20](#).

30.31

Assets assigned an 85% RSF factor comprise:

1. cash, securities or other assets posted as initial margin for derivative contracts and cash or other assets provided to contribute to the default fund of a central counterparty (CCP), in both cases regardless of whether recorded on or off the balance sheet. Where securities or other assets posted as initial margin for derivative contracts would otherwise receive a higher RSF factor, they should retain that higher factor.
2. other unencumbered performing loans that do not qualify for the 35% or lower risk weight under [CRE20](#) and have residual maturities of one year or more, excluding loans to financial institutions;
3. unencumbered securities with a remaining maturity of one year or more and exchange-traded equities, that are not in default and do not qualify as HQLA according to the [LCR](#) standard; and
4. physical traded commodities, including gold.

30.32

Assets assigned a 100% RSF factor comprise:

1. all assets that are encumbered for a period of one year or more;
2. NSFR derivative assets as calculated according to [NSF30.23](#) and [NSF30.24](#) net of NSFR derivative liabilities as calculated according to [NSF30.8](#) and [NSF30.9](#), if NSFR derivative assets are greater than NSFR derivative liabilities;
3. assets without a stated maturity not included in [NSF30.32](#)(1) and [NSF30.32](#)(2) (including non-maturity reverse repos unless banks can demonstrate to supervisors that the non-maturity reverse repo would effectively mature in less than one year);
4. all other assets not included in the above categories, including non-performing loans, loans to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities; and
5. 5% to 20% (depending on national discretion) of all derivative liabilities (ie negative replacement cost amounts) as calculated according to [NSF30.8](#) to [NSF30.9](#) (before deducting variation margin posted).

30.33

Many potential off-balance sheet liquidity exposures require little direct or immediate funding but can lead to significant liquidity drains over a longer time horizon. The NSFR assigns an RSF factor to various off-balance sheet activities in order to ensure that institutions hold stable funding for the portion of off-balance sheet exposures that may be expected to require funding within a one-year horizon.

30.34

Consistent with the LCR, the NSFR identifies off-balance-sheet exposure categories based broadly on whether the commitment is a credit or liquidity facility or some other contingent funding obligation. Table 1 identifies the specific types of off-balance-sheet exposures to be assigned to each off-balance sheet category and their associated RSF factor.

Off-balance sheet categories and associated RSF factors	Table 1
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RSF factor	RSF category
5% of the currently undrawn portion	Irrevocable and conditionally revocable credit and liquidity facilities to any client
National supervisors may specify the RSF factors based on their national circumstances	Other contingent funding obligations, including products and instruments such as unconditionally revocable credit and liquidity facilities; trade finance-related obligations (including guarantees and letters of credit); guarantees and letters of credit unrelated to trade finance obligations; and non-contractual obligations (such as potential requests for debt repurchases of the bank's own debt or that of related conduits, securities investment vehicles and other such financing facilities, structured products where customers anticipate ready marketability, such as adjustable rate notes and variable rate demand notes or managed funds that are marketed with the objective of maintaining a stable value).

Interdependent assets and liabilities

30.35

National supervisors have discretion in limited circumstances to determine whether certain asset and liability items, on the basis of contractual arrangements, are interdependent such that the liability cannot fall due while the asset remains on the balance sheet, the principal payment flows from the asset cannot be used for something other than repaying the liability, and the liability cannot be used to fund other assets. For interdependent items, supervisors may adjust RSF and ASF factors so that they are both 0%, subject to the following criteria:

1. The individual interdependent asset and liability items must be clearly identifiable.
2. The maturity and principal amount of both the liability and its interdependent asset must be the same.
3. The bank is acting solely as a pass-through unit to channel the funding received (the interdependent liability) into the corresponding interdependent asset.
4. The counterparties for each pair of interdependent liabilities and assets must not be the same.

30.36

Before exercising this discretion, supervisors should consider whether perverse incentives or unintended consequences are being created.

30.37

The instances where supervisors will exercise the discretion to apply this exceptional treatment should be transparent, explicit and clearly outlined in the regulations of each jurisdiction, to provide clarity both within the jurisdiction and internationally.