Basel Committee
on Banking
Supervision

Technical Amendment

Basel III: Treatment of extraordinary monetary policy operations in the Net Stable Funding Ratio

Issued for comment by 5 February 2018

December 2017

BANK FOR INTERNATIONAL SETTLEMENTS

This publication is available on the BIS website (www.bis.org).

ISBN 978-92-9259-127-4 (online)

Introduction

To promote a consistent global implementation of the Basel framework, the Committee regularly monitors and reviews issues that arise from the implementation of its standards. Where necessary, it publishes clarifications and interpretative guidance. In some instances, implementation issues can be clarified in the form of answers to frequently asked questions (FAQs), without any changes to the standard. On other occasions, the issue, though minor in effect, cannot be resolved unambiguously without an amendment to the text of the standard itself. In these cases, the Committee has decided to publish the clarification as a proposed technical amendment. Such amendments will be published for a short consultation period, typically for 45 calendar days.

The following technical amendment to the rules text is related to the treatment of extraordinary monetary policy operations in the Net Stable Funding Ratio framework. The Committee invites comments on the proposed amendment by 5 February 2018.

Technical amendment to the NSFR standard

At present, paragraph 31 of the NSFR standard refers to central bank liquidity-providing operations and, more specifically, to the treatment of the encumbered collateral for the term of the transaction. However, it is silent about central bank liquidity-absorbing operations and the required stable funding (RSF) factor for receivables (or claims) vis-à-vis the central bank. Under certain circumstances, the current treatment may negatively impact the ability or readiness of banks to participate in liquidity absorbing operations by central banks in the form of secured transactions with maturities longer than 6 months.

To introduce greater flexibility in the treatment of extraordinary central bank liquidity-absorbing monetary policy operations and ensure a balanced treatment of all central bank operations under the NSFR, the Committee proposes a technical amendment to the NSFR standard to allow for reduced RSF factors for central bank claims with maturity of more than 6 months. The following text would be added to paragraph 29 and applies to extraordinary liquidity-absorbing monetary policy operations:

"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 paragraph 31, 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."