NSFR – An Update

ECB MMCG – 25 June 2019
Juergen Sklarczyk
Overview of NSFR requirements

Background
- The Basel Committee finalised the design of the NSFR in **October 2014**
- The EU implemented the NSFR via the Capital Requirements Regulation II, which was published in the EU Official Journal on 7 June, 2019
- CRR II will enter into force on 27 June 2019 and NSFR will become a binding minimum regulatory metric two years later, i.e. **27 June 2021**

Deep dive...
- The NSFR uses a balance sheet approach to calculate ‘available stable funding’, which must be **at least equal to or greater than ‘required stable funding’**
- ASF/RSF based on bank’s accounting balance sheet, with the exception of:
  - Derivatives: which uses fair value with permissible netting sets
  - Secured Financing Transactions which follows leverage netting
- Categorization of liabilities partly draws from LCR (short-term liquidity) standard
- ASF weights assigned to each bucket reflect:
  - maturity and relative stability of funding sources
  - counterparty e.g. retail considered more stable than wholesale
- Assignment to RSF buckets is reflective of asset’s residual maturity, encumbrance and liquidity value
- RSF weights assigned to each bucket reflect amount of an asset that must be funded, because either:
  - the transaction will be rolled over, or
  - it cannot be monetized through sale or a securities financing transaction within one year without significant expense

![NSFR Balance Sheet Approach](image)
MISMATCH MONEY MARKET TREATMENT
INCONSISTENT ASF/RSF WEIGHTINGS

WHAT IS THE TREATMENT OF MONEY MARKET DEPOSITS?

Final CRR weightings in line with Basel, giving no value to short dated money market deposits

<table>
<thead>
<tr>
<th>ASF factor</th>
<th>&lt; 6 months</th>
<th>≥ 6 months to &lt; 1 year</th>
<th>≥ 1 year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Liabilities from non-financial customers*</td>
<td>Art 428l(a)</td>
<td>Art 428l(b)</td>
<td>Art 428o(e)</td>
</tr>
<tr>
<td>0.50</td>
<td>0.50</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>Art 428l(b)</td>
<td>Art 428l(c)</td>
<td>Art 428o(e)</td>
<td></td>
</tr>
<tr>
<td>0.50</td>
<td>0.50</td>
<td>1.00</td>
<td></td>
</tr>
<tr>
<td>Art 428k 3(c)</td>
<td>Art 428o(e)</td>
<td></td>
<td></td>
</tr>
<tr>
<td>0.00</td>
<td>0.50</td>
<td>1.00</td>
<td></td>
</tr>
</tbody>
</table>

Liabilities from central banks and financial customers

Which meet the operational deposit criteria (as defined in the LCR)

All other liabilities

What is the treatment of money market loans?

Final CRR weightings different to Basel but still create a market asymmetry

Monies due from transactions with financial customers other than secured financing transactions (e.g. unsecured)

EBA report on appropriateness of unsecured transactions with financial customer due 28 June 2023

BCBS assigns 15% RSF

MISMATCH BETWEEN ASF AND RSF FOR SHORT TERM MONEY MARKETS

The rules give banks the following weightings for funding from financial customers and central banks (unless classified as an operational deposit):

- 0% for <6 months
- 50% for >6m to <1y
- 100% for >1y

This implies that banks, particularly those constrained by the NSFR, would have to move to longer term funding (e.g. >6m)

For banks that are both a receiver and provider, there is an additional penalty from the RSF on short term (<6m) unsecured loans to financial customers of 10% (vs 15% in BCBS)

Potential consequence: less demand and supply in short dated money markets

-Mismatch between ASF and RSF for short term money markets

-Non financial customers as defined in Article 411 of the CRR, includes: central governments, regional governments, public sector entities, multilateral development banks, non-financial corporate customers, and credit unions
Mismatch in Treatment of Repo Transactions
Inconsistent approach across maturity buckets

...What is the treatment of repo?

Both Basel and CRR give no value to short term repo with financial customers, regardless of collateral quality

Liabilities from non-financial customers*

<table>
<thead>
<tr>
<th>ASF Factor</th>
<th>&lt; 6 months to &lt; 1 year</th>
<th>≥ 1 year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Art 428l(b)</td>
<td>0.50</td>
<td>0.50</td>
</tr>
<tr>
<td>Art 428k.3(c)</td>
<td>0.00</td>
<td>0.50</td>
</tr>
</tbody>
</table>

Liabilities from central banks

<table>
<thead>
<tr>
<th>Liabilities from financial customers</th>
</tr>
</thead>
<tbody>
<tr>
<td>CRR significantly diverges from Basel by -5% RSF in each repo category, subject to a four year review period</td>
</tr>
</tbody>
</table>

Monies due from secured financing transactions with financial customers:

Collateralized by assets that qualify as Level 1 HQLA

<table>
<thead>
<tr>
<th>RSF factor</th>
<th>&lt; 6 months to &lt; 1 year</th>
<th>≥ 1 year</th>
</tr>
</thead>
<tbody>
<tr>
<td>Art 418r.1(g)</td>
<td>0.00</td>
<td>0.50</td>
</tr>
<tr>
<td>Art 428ad(d)</td>
<td>0.05</td>
<td>0.50</td>
</tr>
<tr>
<td>Art 428ah(b)</td>
<td>0.10</td>
<td>0.50</td>
</tr>
</tbody>
</table>

Monies due from transactions with financial customers other than secured financing transactions (e.g. unsecured)

EBA report on appropriateness of the stable funding factors assigned to securities financing and unsecured transactions with financial customer due 28 June 2023

BCBS assigns 10-15% RSF

Mismatch between ASF and RSF for repos

- Secured funding from financial customer receive the same stable funding value (0%/50%/100% for the maturity buckets) as unsecured funding
- Reverse repos have a different treatment for the <6m maturity bucket, as follows:
  - Level 1 HQLA: 0% RSF (10% in Basel)
  - All other: 5% RSF (10% in Basel)

Despite the more favourable weightings in the CRR, an asymmetry in the repo market will exist for non Level 1 HQLA collateral.

Potential consequence: reduction in short-dated repo market activity on non Level 1 HQLA collateral.