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Capital and Prudential Standards Blog

Basel III Net Stable Funding Ratio (NSFR) – High-Level Comparison Tables

Posted on January 13, 2014, by Luigi L. De Ghenghi and Andrew S. Fei in Basel Committee, Basel III - International, Liquidity, Proposals, Securities Financing Transactions, Short-term Wholesale Funding.

[Detailed client memorandum to come.] We have prepared a set of tables that provide a high-level comparison of the available stable funding (ASF) factors and the required stable funding (RSF) factors used to calculate the Basel III net stable funding ratio (NSFR). The tables compare the Basel Committee's January 2014 proposed revisions to the NSFR with the original December 2010 version of the NSFR. We will be publishing a client memorandum that analyzes the key proposed changes to the Basel III NSFR.

How the NSFR is calculated: Part of the Basel III liquidity framework, the NSFR requires banking organizations to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. The NSFR is defined as the amount of available stable funding (ASF) relative to the amount of required stable funding (RSF). This ratio should be equal to at least 100% on an ongoing basis (see formula below). ASF refers to the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of stable funding required of a banking organization is a function of the liquidity characteristics and residual maturities of its assets and off-balance sheet (OBS) exposures.

$$\frac{\text{Available amount of stable funding}}{\text{Required amount of stable funding}} \geq 100\%$$

ASF factors used to calculate the available amount of stable funding (numerator of NSFR): Very generally, the available amount of stable funding (numerator of the NSFR) is calculated by first assigning the carrying value of a banking organization's capital and liabilities to one of several categories. The amount assigned to each category is then multiplied by a **prescribed ASF factor** (summarized in the tables below). The available amount of stable funding is the sum of the weighted amounts.

RSF factors used to calculate the amount of required stable funding (denominator of NSFR): Very generally, the amount of required stable funding (denominator of the NSFR) is calculated by first assigning the carrying value of a banking organization's assets and OBS exposures to one of several categories. The amount assigned to each category is then multiplied by a **prescribed RSF factor** (summarized in the tables below). The amount of required stable funding is the sum of the weighted amounts.

High-level summary of liability categories and prescribed ASF factors

Prescribed ASF	Components of ASF category	Components of ASF category

factor	(Jan. 2014 proposed revisions to NSFR)	(Original version of NSFR)
100%	• The total amount of regulatory capital, before the application of capital deductions, as defined in paragraph 49 of the Basel III text, excluding the proportion of Tier 2 instruments with residual maturity of less than one year. • The total amount of any capital instrument not included above that has an effective residual maturity of one year or more excluding any instruments with explicit or embedded options that, if exercised, would reduce the expected maturity to less than one year. • 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 should not qualify for the 100% ASF factor.	• The total amount of capital, including both Tier 1 and Tier 2 as defined in Basel III • The total amount of any preferred stock not included in Tier 2 that has an effective remaining maturity of one year or greater taking into account any explicit or embedded options that would reduce the expected maturity to less than one year. • The total amount of secured and unsecured borrowings and liabilities (including term deposits) with effective remaining maturities of one year or greater excluding any instruments with explicit or embedded options that would reduce the expected maturity to less than one year. Such options include those exercisable at the investor's discretion within the one-year horizon.
95%	• Stable non-maturity (demand) deposits and term deposits with residual maturity of less than one year provided by retail and small- and medium-sized entity (SME) customers	
90%	• Less stable non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and SME customers	• "Stable" non-maturity (demand) deposits and/or term deposits with residual maturities of less than one year provided by retail customers and small business customers.
80%		• "Less stable" non-maturity (demand) deposits and/or term deposits with residual maturities of less than one year provided by retail and small business customers.
50%	• Funding with residual maturity of less than one year provided by non-financial corporate customers • Operational deposits • Funding with residual maturity of less than one year from sovereigns, public sector entities (PSEs), and multilateral and national development banks • Other funding with residual maturity of not less than six months and less than one year not included in the above categories, including funding provided by central banks and financial institutions	• Unsecured wholesale funding, non-maturity deposits and/or term deposits with a residual maturity of less than one year, provided by non-financial corporates, sovereigns, central banks, multilateral development banks and PSEs.
0%	• All other liabilities and equity not included in above categories, including liabilities without a	• All other liabilities and equity categories not included in the above categories.

stated maturity

- Derivatives payable net of derivatives receivable if payables are greater than receivables

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High-level summary of asset categories and prescribed RSF factors

Prescribed RSF factor	Components of RSF category (Jan. 2014 proposed revisions to NSFR)	Components of RSF category (Original version of NSFR)
0%	• Coins and banknotes • All central bank reserves • Unencumbered loans to banks subject to prudential supervision with residual maturities of less than six months	• Cash immediately available to meet obligations, not currently encumbered as collateral and not held for planned use (as contingent collateral, salary payments, or for other reasons) • Unencumbered short-term unsecured instruments and transactions with outstanding maturities of less than one year • Unencumbered securities with stated remaining maturities of less than one year with no embedded options that would increase the expected maturity to more than one year • Unencumbered securities held where the institution has an offsetting reverse repurchase transaction when the security on each transaction has the same unique identifier (eg ISIN number or CUSIP) • Unencumbered loans to financial entities with effective remaining maturities of less than one year that are not renewable and for which the lender has an irrevocable right to call
5%	• Unencumbered Level 1 assets as defined in the revised LCR framework, excluding coins, banknotes and central bank reserves	• Unencumbered marketable securities with residual maturities of one year or greater representing claims on or claims guaranteed by sovereigns, central banks, BIS, IMF, EC, non-central government PSEs) or multilateral development banks that are assigned a 0% risk-weight under the Basel II standardized approach, provided that active repo or sale-markets exist for these securities
15%	• Unencumbered Level 2A assets as defined in the revised LCR framework	
20%		• Unencumbered corporate bonds or covered bonds rated AA- or higher with residual maturities of one year or greater satisfying all of the conditions for Level 2 assets in the original Dec. 2010 LCR framework [the Basel Committee has since revised the LCR framework]

		• Unencumbered marketable securities with residual maturities of one year or greater representing claims on or claims guaranteed by sovereigns, central banks, non-central government PSEs that are assigned a 20% risk-weight under the Basel II standardized approach, provided that they meet all of the conditions for Level 2 assets in the original Dec. 2010 LCR framework [the Basel Committee has since revised the LCR framework]

50%	• Unencumbered Level 2B assets as defined in the revised LCR framework
	• HQLA encumbered for a period of six months or more and less than one year
	• Loans to banks subject to prudential supervision with residual maturities six months or more and less than one year
	• Deposits held at other financial institutions for operational purposes
	• All other assets not included in the above categories with residual maturity of less than one year, including loans to non-bank financial institutions, loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs
		• Unencumbered gold
		• Unencumbered equity securities, not issued by financial institutions or their affiliates, listed on a recognized exchange and included in a large cap market index
		• Unencumbered corporate bonds and covered bonds that satisfy all of the following conditions:
		  ◦ Central bank eligibility for intraday liquidity needs and overnight liquidity shortages in relevant jurisdictions
		  ◦ Not issued by financial institutions or their affiliates (except in the case of covered bonds)
		  ◦ Not issued by the respective firm itself or its affiliates
		  ◦ Low credit risk: assets have a credit assessment by a recognized ECAI of A+ to A-, or do not have a credit assessment by a recognized ECAI and are internally rated as having a PD corresponding to a credit assessment of A+ to A-
		  ◦ Traded in large, deep and active markets characterized by a low level of concentration
		  ◦ Unencumbered loans to non-financial corporate clients, sovereigns, central banks, and PSEs having a remaining maturity of less than one year

65%	• Unencumbered residential mortgages with a residual maturity of one year or more and with a risk weight of less than or equal to 35% • Other unencumbered loans not included in the above categories, excluding loans to financial institutions, with a residual maturity of one year or more and with a risk weight of less than or equal to 35% under the Standardized Approach	• Unencumbered residential mortgages of any maturity that would qualify for the 35% or lower risk weight under Basel II Standardized Approach for credit risk • Other unencumbered loans, excluding loans to financial institutions, with a remaining maturity of one year or greater, that would qualify for the 35% or lower risk weight under Basel II Standardized Approach for credit risk
85%	• Other unencumbered performing loans with risk	• Unencumbered loans to retail customers (i.e.

	weights greater than 35% under the Standardized Approach and residual maturities of one year or more, excluding loans to financial institutions • Unencumbered securities that are not in default and do not qualify as HQLA including exchange-traded equities • Physical traded commodities, including gold	natural persons) and small business customers (as defined in the original Dec. 2010 LCR framework) having a remaining maturity of less than one year (other than those that qualify for the 65% RSF above)
100%	• All assets that are encumbered for a period of one year or more • Derivatives receivable net of derivatives payable if receivables are greater than payables • 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, pension assets, intangibles, deferred tax assets, retained interest, insurance assets, subsidiary interests, and defaulted securities	• All other assets not included in the above categories

High-level summary of OBS exposure categories and prescribed RSF factors

Prescribed RSF factor	Components of RSF category (Jan. 2014 proposed revisions to NSFR)	Components of RSF category (Original version of NSFR)
5% of the currently undrawn portion	• Irrevocable and conditionally revocable credit and liquidity facilities to any client	• Irrevocable and conditionally revocable credit and liquidity facilities to any client

National supervisors can 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 (VRDNs); and
	  • Managed funds that are marketed with the
		• Other contingent funding obligations, including products and instruments such as:
		• Unconditionally revocable "uncommitted" credit and liquidity facilities;
		• Guarantees;
		• Letters of credit;
		• Other trade finance instruments; 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 (VRDNs); and
		  • Managed funds that are marketed with the objective of maintaining a stable value such as

	objective of maintaining a stable value.	money market mutual funds or other types of stable value collective investment funds etc.

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This blog is created by the lawyers in the bank regulatory practice of Davis Polk’s Financial Institutions Group. Its goal is to provide a central resource for the many ongoing regulatory changes that are reshaping bank capital and prudential requirements in the United States and abroad. For more information, we invite you to contact any of the blog authors listed below.

This blog is intended to provide general, high-level summaries and observations about matters relating to regulatory capital and prudential standards, as a complement to the client memoranda and updates that Davis Polk regularly publishes. It is not a complete overview or analysis of the matters presented and should not be relied upon as legal advice.

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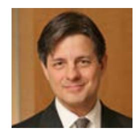

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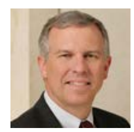

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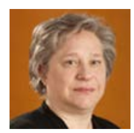

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