Office of the Superintendent of Financial Institutions Canada
Bureau du surintendant des institutions financières Canada

Overview of the Net Stable Funding Ratio

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OSFI BSIF

Canada

Agenda

- Background
- OSFI’s liquidity framework
- Net Stable Funding Ratio (NSFR)
    - Available stable funding
    - Required stable funding
    - Treatment of repos and BAs
    - Current development status
    - Public disclosure

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International liquidity framework

- Liquidity Coverage Ratio (LCR)
  - Short-term metric (30 day horizon)
  - Imposes some of the cost of “insuring” against short-term system-wide liquidity shocks on regulated banks
  - Size of the “insurance” (i.e., liquidity buffer) is derived from the relative riskiness of a bank’s contractual and contingent funding profiles
- Net Stable Funding Ratio (NSFR)
  - Longer-term metric (one year horizon)
  - Requires a minimum amount of “stable funding” to prevent excessive pro-cyclical maturity and liquidity transformation
  - “Stable funding” requirement measured against:
    - asset duration and encumbrance;
    - the marketability of assets; and
    - the size and type of off-balance sheet commitments

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Liquidity monitoring tools

- Suite of additional Basel-outlined monitoring tools meant to act as a complement to LCR and NSFR
  - Contractual maturity mismatch
  - Concentration of funding (significant counterparty; significant product/instrument)
  - Available unencumbered assets (those marketable as collateral in secondary markets; those eligible for central banks' standing facilities)
  - LCR by significant currency
  - Market-related monitoring tools (market wide info; financial sector info; FI-specific info)
- Intraday liquidity monitoring tools also introduced

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OSFI LAR Guideline

- OSFI Liquidity Adequacy Requirements (LAR) Guideline
  - Final version issued May 2014
  - Updated periodically (last update in early 2017)
  - Covers domestic implementation of several Basel liquidity documents:
    - Basel minimum standards – LCR and NSFR
    - Other monitoring tools (incl. domestic Net Cumulative Cash Flow metric)
    - Intraday liquidity monitoring tools
- Complements OSFI's Guideline B-6: Liquidity Principles
  - Guidance on sound practices for liquidity risk management

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NSFR – Overview

- Finalized by BCBS in October 2014 (minor amendment in 2017)
- Intended to reduce funding risk over a longer time horizon (than LCR) by requiring institutions to fund their assets and off-balance sheet activities with sufficiently stable sources of funding in order to mitigate the risk of future funding stress
  - "Structural" funding metric, with calibration focused on a one-year time horizon
  - Designed to disincentivize excessive maturity and/or liquidity transformation and minimize pro-cyclical balance sheet contraction

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

- International implementation date scheduled for January 1, 2018; however OSFI has delayed domestic implementation to January 1, 2019

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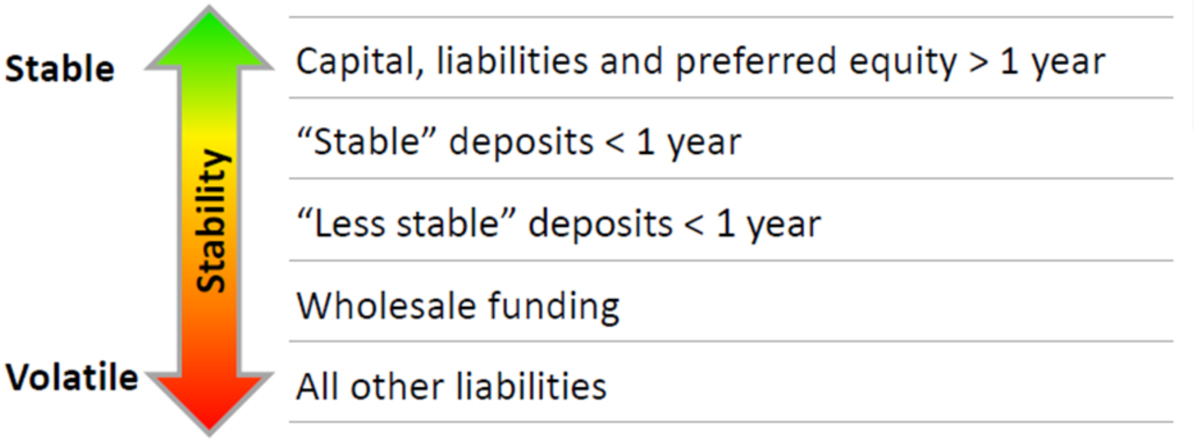
NSFR – Available Stable Funding

- Available Stable Funding (ASF) is measured according to the relative stability of an institution’s funding, including the contractual maturity of its liabilities and the differences in the propensity of different types of funding providers to withdraw their funding



- Sum of weighted liabilities and capital equals ASF

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NSFR – ASF factors

Basel III: the net stable funding ratio - Available Stable Funding Factors (ASF) *								
	Regulatory capital	Non-maturity demand and term deposits provided by retail and SME customers		Operational deposits	Other funding provided by		Other capital instruments	Interdependent liabilities
		Stable	Less Stable		Corporates, sovereigns, MDBs and PSEs	Central banks and FIs		
Mat <6 m	100	95	90	50	50	0	0	0
Mat 6-12 m	100	95	90	50	50	50	50	0
Mat ≥1 year	100	100	100	100	100	100	100	0

*Some items, such as derivative liabilities and deferred tax liabilities, are not shown to simplify the presentation.

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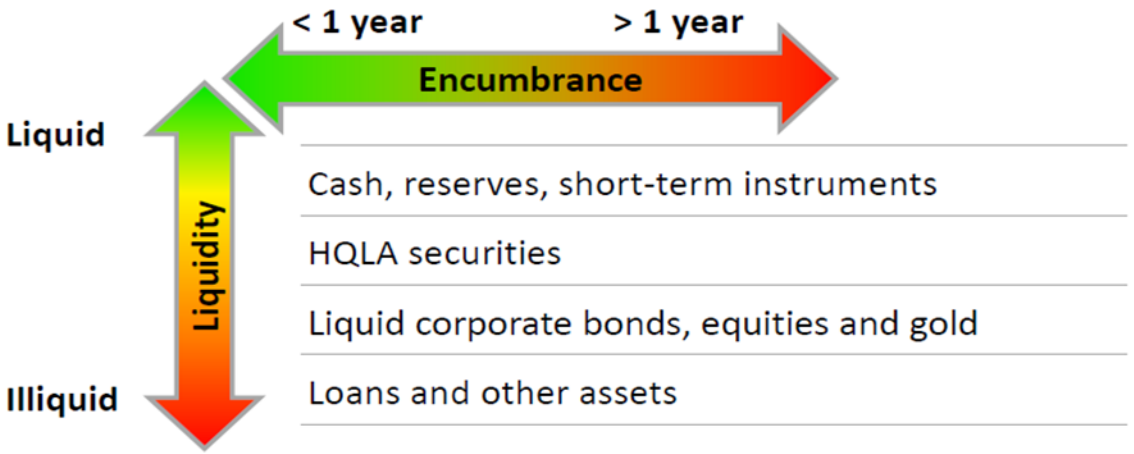
NSFR – Required Stable Funding

- The amount of Required Stable Funding (RSF) is measured based on the characteristics of an institution's assets and off-balance sheet exposures
- Assets and OBS exposures are weighted according to liquidity value so that unencumbered, shorter-term and highly liquid assets receive lower weights



- Sum of weighted assets and OBS exposures equals RSF

NSFR – RSF (cont'd)

- RSF factors are calibrated with consideration to:
  - Resilient credit creation and franchise value – assumes continuation of some proportion of lending, which will be stably funded (i.e. institutions will seek to roll-over a significant proportion of maturing loans to preserve customer relationships)
  - Asset tenor – some shorter dated assets require less stable funding
  - Asset quality and liquidity value – unencumbered, high quality assets that can easily be used as collateral to secure additional funding or sold in the market, require less stable funding
- Stable funding is also required to support at least a small portion of the potential calls on liquidity arising from OBS commitments

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NSFR – RSF factors

Basel III: the net stable funding ratio - Required Stable Funding Factors (RSF)*													
	Loans, Currency and Central Bank Reserves						Marketable Securities						Interdependent assets
	Coins, notes and CB reserves	FIs**			Corporates, Sovereigns, CBs, PSEs, Retail & SME	Res. Mtge (35% RW)	HQLA				Non-HQLA		
		Secured by Level 1 HQLA	Other secured	Unsecured			Level 1	Level 2A	Level 2B	Encumbered	Unencumbered	Encumbered	
Mat <6 m	0	10	15	15	50	50	5	15	50	Treat as unencumbered	50	50	0
Mat 6-12 m	0	50	50	50	50	50	5	15	50	50	50	50	0
Mat ≥ 1 year	0	100	100	100	85	65	5	15	50	100	85	100	0

* Some items, such as derivative assets and initial margins, are not shown to simplify the presentation.

** Operational deposits held at other banks are assigned a 50% RSF if the maturity is less than one year, or a 100% RSF if the maturity is greater than one year.

Note: assets encumbered for a period of less than 6 months are given an RSF equal to that of an unecumbered asset; assets encumbered for a period of between 6 and 12 months receive an RSF factor equal to the higher of 50% or the RSF if the asset were unecumbered; and assets encumbered for a period of more than one year receive an RSF factor of 100%.

NSFR – Repos / reverse repos

- Treatment under Basel NSFR rules:

	Repos (ASF factor)			Reverse repos (RSF factor)			
				FIs			
	Non-FI Corps	Sovereigns, PSEs, MDBs	Central Banks, FIs	Secured by Level 1 HQLA	Other secured	Non-FI Corps, Sovereigns, PSEs, MDBs	Central Banks
Mat < 6	50%	50%	0%	10%	15%	50%	0%
Mat 6-12 m	50%	50%	50%	50%	50%	50%	50%
Mat ≥ 1 year	100%	100%	100%	100%	100%	85%	100%

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NSFR – Bankers' acceptances

- Treatment under Basel NSFR rules:
  - RSF dictated by term of facility, specifically:
    - usually a >1 year term; hence a 85% RSF factor for the drawn portion related to the BAs, or
    - if the term is <1 year, the RSF factor for the drawn portion would be 50%
  - Most BAs are short-term and thus default to the 0% ASF category as the ultimate BA holder cannot be easily identified

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NSFR – Domestic development status

- Next steps:
  - Aim to issue an updated LAR Guideline, Chapter 3 (NSFR) for public consultation in Spring 2018
  - Expect to finalize domestic NSFR guidance by mid-year 2018

- Canadian implementation date – January 1, 2019

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NSFR – Public disclosure

- Basel released NSFR-related public disclosure requirements in June 2015
  - Mandatory quantitative NSFR disclosure template (see next slide)
  - Additional qualitative disclosures are suggested:
    - drivers of NSFR results and reasons for intra-period changes as well as the changes over time; and
    - composition of interdependent assets and liabilities

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NSFR – Basel disclosure template

	(in currency amount)	Unweighted value by residual maturity				Weighted value
		No maturity[6]	< 6 months	6 months to < 1yr	≥ 1yr	
ASF Item						
1	Capital:					
2	*Regulatory capital*					
3	*Other capital instruments*					
4	Retail deposits and deposits from small business customers:					
5	*Stable deposits*					
6	*Less stable deposits*					
7	Wholesale funding:					
8	*Operational deposits*					
9	*Other wholesale funding*					
10	Liabilities with matching interdependent assets					
11	Other liabilities:					
12	*NSFR derivative liabilities*					
13	*All other liabilities and equity not included in the above categories*					
14	**Total ASF**					
RSF Item						
15	Total NSFR high-quality liquid assets (HQLA)					
16	Deposits held at other financial institutions for operational purposes					
17	Performing loans and securities:					
18	*Performing loans to financial institutions secured by Level 1 HQLA*					
19	*Performing loans to financial institutions secured by non-Level 1 HQLA and unsecured performing loans to financial institutions*					
20	*Performing loans to non- financial corporate clients, loans to retail and small business customers, and loans to sovereigns, central banks and PSEs, of which:*					
21	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*					
22	*Performing residential mortgages, of which:*					
23	*With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk*					
24	*Securities that are not in default and do not qualify as HQLA, including exchange-traded equities*					
25	Assets with matching interdependent liabilities					
26	Other assets:					
27	*Physical traded commodities, including gold*					
28	*Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs*					
29	*NSFR derivative assets*					
30	*NSFR derivative liabilities before deduction of variation margin posted*					
31	*All other assets not included in the above categories*					
32	Off-balance sheet items					
33	**Total RSF**					
34	**Net Stable Funding Ratio** (%)					

Questions?

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