



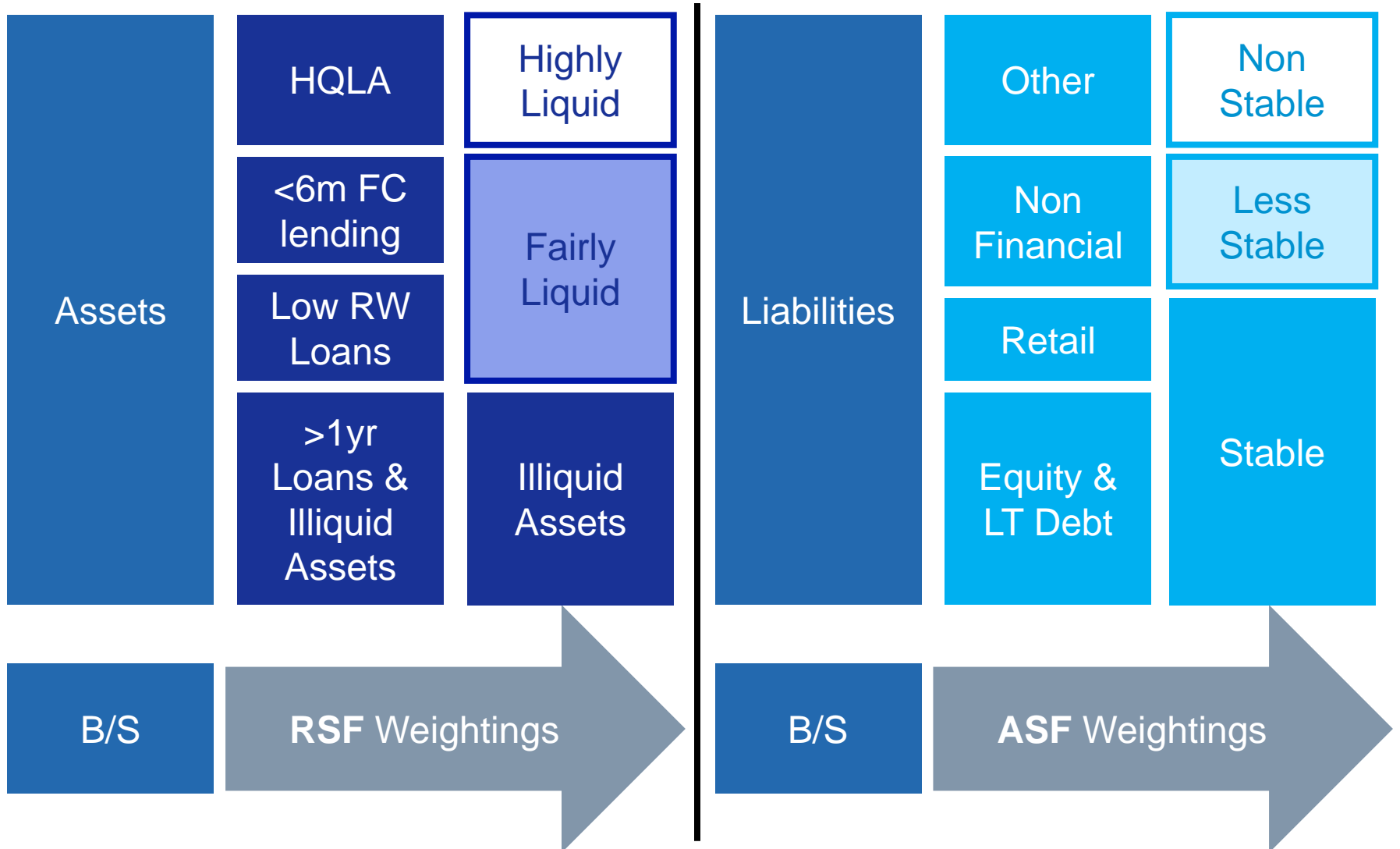
NSFR – A few Aspects to consider

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Juergen Sklarczyk

Introduction

The Net Stable Funding Ratio (NSFR)



Mismatch in Treatment of unsecured Money Markets

Inconsistent ASF/RSF weightings



	ASF factor		
	< 6 months	≥ 6 months to < 1 year	≥ 1 year
Unsecured funding from non-financial customers (e.g. non-financial corporates/sovereigns/PSEs/MDBs/NDBs/PSEs/regional governments/ promotional banks/credit unions/PICs/deposit brokers)			
of which is an operational deposit (as defined in the LCR)	0.50	0.50	1.00
of which is a non-operational deposit (as defined in the LCR)	0.50	0.50	1.00
of which is non-deposit unsecured funding	0.50	0.50	1.00
Unsecured funding from other legal entities (this includes the "financial customer definition" for Europe)			
of which is an operational deposit (as defined in the LCR)	0.50	0.50	1.00
of which is a non-operational deposit (as defined in the LCR)	0.00	0.50	1.00
of which is non-deposit unsecured funding	0.00	0.50	1.00

	RSF factor		
	< 6 months	≥ 6 months to < 1 year	≥ 1 year
Exposures to central banks			
of which required reserves	0.00	0.50	1.00
Loans to financial customers			
of which Unsecured loans to financial customers*	0.10	0.50	1.00

CA (Regulatory) Discretion

ASF treatment & ASF-RSF mismatch of money market funding

The rules give banks the following weightings for funding from financial institutions (unless operational deposit) and CBs:

- 0% for <6M
- 50% for >6M and <1Y
- 100% for >1Y

Conclusions:

- (1) Banks would need to move to longer term funding to meet NFSR
- (2) For banks that are both receiver and provider of funding, there is an additional penalty from the RSF on unsecured loans to financial customers:
 - 10% (proposed EU rules) or 15% (Basel rules) for <6M
 - 50% for >6M and <1Y
 - 100% for >1Y
 and CB exposure is 0% for <6M

Market Impact:

- Participants will ask for less short-term funding from Financials and specific products (e.g. CD/CP)
- Short-dated offers to Financials should disappear as long-term funding would be required to meet NFSR

→ Short-dated MM flows would be negatively affected and most probably further reduced. i.e. increasing illiquidity

NSFR By Currency

NSFR by Currency Calculation



Summary

- The proposed NSFR text (Article 428b) introduces a requirement for institutions by referring to “**shall calculate and monitor**” the NSFR in significant currencies. **This would be in addition to BCBS for European banks only**
- Article 428d attempts to address this by importing language on the treatment of derivatives for currency reporting in the LCR Delegated Act but has misunderstood the implications this has within the NSFR which is a balance sheet standard (as opposed to cash flow)
- Most (European) banks will manage their long-term currency mismatch via access to the term-swap market
- FX & XCCY swaps, however, are derivative instruments and not ‘balance sheet liabilities’ (e.g. deposits)
- The FX or XCCY swaps used to manage this asset-liability mismatch would not appear in currency reports, i.e. showing a NSFR shortfall in the significant currency the assets are in

Policy Recommendation

- This provision **should be removed or significantly amended** as the treatment of currency derivatives has not been appropriately specified
- Currency swaps **should be reported as a liability** for, the currency being swapped into (e.g. received), and as an asset for the currency being swapped out of (e.g. exchanged)
- To effect this treatment, the swaps should receive an **appropriate ASF factor**

NSFR By Currency

An Example for Illustration (current NSFR text)



Treatment of FX Swaps in Draft CRR (NSFR text)

Balance Sheet and NSFR Ratios [EUR mns equivalent]

	NSFR Weighting	All Currency (unweighted)	All Currency (weighted)	EUR (weighted)	USD (weighted)
Liabilities					
Equity	100% ASF	50	50	50	0
Retail Deposits	90% ASF	100	90	90	0
Other Liabilities	0% ASF	325	0	0	0
Total		475	140	140	0
Assets					
Loans <6m to FI	10% RSF	350	35	15	20
Loans 6m-1yr to FI	50% RSF	50	25	15	10
Loans >1yr to FI	100% RSF	74	75	20	55
Total		475	135	50	85
NSFR Ratio					
			104%	280%	0%
Surplus/Deficit			+5	+90	-85