Deposit Insurance Corporation of Ontario
Société ontarienne d'assurance-dépôts

Completion Guide:

Net Stable Funding Ratio

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Ce document est également disponible en français.

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1. INTRODUCTION

1. The Net Stable Funding Ratio (NSFR) is a standard that will require credit unions to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to a credit union's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR aims to limit over-reliance on short-term wholesale funding, encourages better assessment of funding risk across all on- and off-balance sheet items, and promotes funding stability. In addition, the NSFR approach offsets incentives for institutions to fund their stock of liquid assets with short-term funds that mature just outside the LCR's 30-day horizon.

2. ASSUMPTIONS

2. The amounts of available and required stable funding specified in the standard are calibrated to reflect the presumed degree of stability of liabilities and liquidity of assets. The NSFR is generally calibrated such that longer-term liabilities are assumed to be more stable than short-term liabilities. The NSFR is calibrated under the assumption that short-term (maturing in less than one year) deposits provided by retail customers and funding provided by small business customers are more stable than wholesale funding of the same maturity from other counterparties.

3. In determining the appropriate amounts of required stable funding for various assets, the following criteria were taken into consideration, recognising the potential trade-offs between these criteria:

- The NSFR requires stable funding for some proportion of lending to the real economy in order to ensure the continuity of this type of intermediation.
- The NSFR is calibrated under the assumption that banks may seek to roll over a significant proportion of maturing loans to preserve customer relationships.
- The NSFR assumes that some short-dated assets (maturing in less than one year) require a smaller proportion of stable funding because banks would be able to allow some proportion of those assets to mature instead of rolling them over.
- The NSFR assumes that unencumbered, high-quality assets that can be securitised or traded, and thus can be readily used as collateral to secure additional funding or sold in the market, do not need to be wholly financed with stable funding.
- Additional stable funding sources are also required to support at least a small portion of the potential calls on liquidity arising from OBS commitments and contingent funding obligations.

4. This stress test should be viewed as a minimum requirement. Credit unions are expected to conduct their own stress tests to assess the level of liquidity they should hold beyond this minimum, and construct their own scenarios that could cause difficulties for their specific business activities. Such internal stress tests should incorporate different factors to test the impacts of potentially lower availability of the more significant funding sources.

5. The NSFR has two components:
   a) Available amount of stable funding; and
   b) Required amount of stable funding, calculated according to the scenario parameters outlined below.

6. The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. The ratio should be at least equal to 100% on an ongoing basis.

Available stable funding is defined as the portion of capital and liabilities of the credit union that is expected to be reliable over the time horizon of the NSFR. Required stable funding is a function of the liquidity characteristics and residual maturities of assets and off-balance sheet exposures of the credit union.

7. NSFR definitions mirror those outlined in the LCR publications, unless otherwise specified. All references to LCR definitions in the NSFR refer to the definitions outlined in the LCR documents.

3. AVAILABLE STABLE FUNDING

8. The amount of available stable funding (ASF) is measured based on the broad characteristics of the relative stability of an institution's funding sources, including the contractual maturity of its liabilities and the differences in the propensity of different types of funding providers to withdraw their funding. The amount of ASF is calculated by first assigning the carrying value of an institution's capital and liabilities to one of five categories as presented below. The amount assigned to each category is then multiplied by an ASF factor, and the total ASF is the sum of the weighted amounts. Carrying values represent the amount at which a liability or equity instrument is recorded before the application of any regulatory deductions, filters or other adjustments.

3.1 Liabilities and capital receiving a 100% ASF factor

9. Liabilities and capital instruments receiving a 100% ASF factor comprise:

a) the total amount of regulatory capital, before the application of capital deductions, excluding the proportion of Tier 2 instruments with residual maturity of less than one year;
b) the total amount of any capital instrument not included in (a) that has an effective residual maturity of one year or more, but excluding any instruments with explicit or embedded options that, if exercised, would reduce the expected maturity to less than one year; and
c) the total amount of secured and unsecured borrowings and liabilities (including term deposits, NHA MBS (CMB) 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 do not qualify for the 100% ASF factor.

Term deposits that allow for annual redemption without penalty are treated as maturing at the next anniversary date.

3.2 Liabilities receiving a 95% ASF factor

10. Liabilities receiving a 95% ASF factor are "stable" (insured) non-maturity demand deposits and term deposits (as defined in the LCR) with residual maturities of less than one year provided by retail and small business members.

3.3 Liabilities receiving a 90% ASF factor

11. Liabilities receiving a 90% ASF factor are "less stable" (uninsured) non-maturity (demand) deposits and term deposits, large deposit and other deposits (as defined in the LCR) with residual maturities of less than one year provided by retail and small business customers.

3.4 Liabilities receiving a 50% ASF factor

12. Liabilities receiving a 50% ASF factor are:

a) funding (secured and unsecured) with a residual maturity of less than one year provided by non-financial corporate customers;
b) operational deposits;
c) funding with residual maturity of less than one year from sovereigns, public sector entities (PSEs), and multilateral and national development banks; and
d) other funding (secured and unsecured) not included in the categories above with residual maturity between six months to less than one year, including funding from central banks and financial institutions.

3.5 Liabilities receiving a 0% ASF factor

13. Liabilities receiving a 0% ASF factor are:

a) all other liabilities and equity categories not included in the above categories, including net derivative liabilities, other funding with residual maturity of less than six months from central banks and financial institutions; and
b) other liabilities without a stated maturity.

Calculation of derivative liability amounts

14. Derivative liabilities are calculated first based on the replacement cost for derivative contracts (obtained by marking to market) where the contract has a negative value. When an eligible bilateral netting contract is in place, the replacement cost for the set of derivative exposures covered by the contract will be the net replacement cost.

15. In calculating NSFR derivative liabilities, collateral posted in the form of variation margin in connection with derivative contracts, regardless of the asset type, must be deducted from the negative replacement cost amount.

4. REQUIRED STABLE FUNDING

16. The amount of required stable funding is measured based on the broad characteristics of the liquidity risk profile of an institution's assets and OBS exposures. The amount of required stable funding is calculated by first assigning the carrying value of an institution's assets to the categories listed. The amount assigned to each category is then multiplied by its associated required stable funding (RSF) factor, and the total RSF is the sum of the weighted amounts added to the amount of OBS activity (or potential liquidity exposure) multiplied by its associated RSF factor. Definitions mirror those outlined in the LCR, unless otherwise specified.

17. The RSF factors assigned to various types of assets are intended to approximate the amount of a particular asset that would have to be funded, either because it will be rolled over, or because it could not be monetised through sale or used as collateral in a secured borrowing transaction over the course of one year without significant expense. Under the standard, such amounts are expected to be supported by stable funding.

18. Assets should be allocated to the appropriate RSF factor based on their residual maturity or liquidity value. For amortising loans, the portion that comes due within the one-year horizon can be treated in the less-than-one-year residual maturity category.

Encumbered assets

19. Assets on the balance sheet that are encumbered for one year or more receive a 100% RSF factor. Assets encumbered for a period of between six months and less than one year that would, if unencumbered, receive an RSF factor lower than or equal to 50% receive a 50% RSF factor. Assets encumbered for between six months and less than one year that would, if unencumbered, receive an RSF factor higher than 50% retain that higher RSF factor. Where assets have less than six months remaining in the encumbrance period, those assets may receive the same RSF factor as an equivalent asset that is unencumbered.

Secured financing transactions

20. For secured funding arrangements, use of balance sheet and accounting treatments should generally result in credit union's excluding, from their assets, securities which they have borrowed in securities financing transactions (such as reverse repos and collateral swaps) where they do not have beneficial ownership. In contrast, credit unions should include securities they have lent in securities financing transactions where they retain beneficial ownership.

21. Credit unions should also not include any securities they have received through collateral swaps if those securities do not appear on their balance sheets. Where credit unions have encumbered securities in repos or other securities financing transactions, but have retained beneficial ownership and those assets remain on the balance sheet, the credit union should allocate such securities to the appropriate RSF category.

Calculation of derivative asset amounts

22. Derivative assets are calculated first based on the replacement cost for derivative contracts (obtained by marking to market) where the contract has a positive value. When an eligible bilateral netting contract is in place the replacement cost for the set of derivative exposures covered by the contract will be the net replacement cost.

23. In calculating NSFR derivative assets, collateral received in connection with derivative contracts may not offset the positive replacement cost amount, regardless of whether or not netting is permitted under the bank's operative accounting or risk-based framework, unless it is received in the form of cash variation margin. Any remaining balance sheet liability associated with (a) variation margin received that does not meet the criteria above or (b) initial margin received may not offset derivative assets and should be assigned a 0% ASF factor.

4.1 Assets assigned a 0% RSF factor

24. Assets assigned a 0% RSF factor are unencumbered Level 1 HQLA as defined in the LCR (excluding assets receiving a 5% RSF as noted below):

a) cash on hand and immediately available to meet obligations;
b) Liquidity Reserve Deposits with Central 1 or a League;
c) all claims on central banks with a 0% risk weight including marketable securities (e.g. NHA MBS) with residual maturities of less than six months.

4.2 Assets assigned a 5% RSF factor

25. Assets assigned a 5% RSF are unencumbered Level 1 HQLA noted in paragraph 24 (c) above with residual maturities of 6 months to 1 year.

4.3 Assets assigned a 10% RSF factor

26. Assets assigned a 10% RSF factor are unencumbered loans to financial institutions with residual maturities of less than six months, where the loan is secured against Level 1 assets as defined in the LCR and where the bank has the ability to freely rehypothecate the received collateral for the life of the loan.

4.4 Assets assigned a 15% RSF factor

27. Assets assigned a 15% RSF factor are:

a) unencumbered Level 2A HQLA assets as defined in the LCR including:
   - marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs or multilateral development banks that are assigned a 20% risk weight under the Basel II standardised approach for credit risk; and
   - corporate debt securities (including commercial paper) and covered bonds with a credit rating equal or equivalent to at least AA–;

b) all other unencumbered loans to financial institutions with residual maturities of less than six not included in 4.3.

4.5 Assets assigned a 50% RSF factor

28. Assets assigned a 50% RSF factor are:

a) unencumbered Level 2B HQLA assets including:
   - residential mortgage-backed securities (RMBS) with a credit rating of at least AA;
   - corporate debt securities (including commercial paper) with a credit rating of between A+ and BBB–; and
   - exchange-traded common equity shares not issued by financial institutions or their affiliates;

b) any HQLA as defined in the LCR that are encumbered for a period of between six months and less than one year;

c) all loans to financial institutions and central banks with residual maturities between six months and less than one year;

d) deposits held at other financial institutions for operational purposes, as outlined in LCR guidance; and

e) all other non-HQLA not included in the above categories that have a residual maturity of less than one year, including non-financial corporate loans and retail and small business (i.e. natural persons) loans.

4.6 Assets assigned a 65% RSF factor

29. Assets assigned a 65% RSF factor comprise:

a) unencumbered residential mortgages with a residual maturity of one year or more that qualify for a 35% or lower risk weight under the Basel II; and

b) other unencumbered loans not included in the above categories, excluding loans to financial institutions, with a residual maturity of one year or more that would qualify for a 35% or lower risk weight under the Basel II.

4.7 Assets assigned an 85% RSF factor

30. Assets assigned an 85% RSF factor comprise:

a) other unencumbered performing loans that do not qualify for the 35% or lower risk weight under the Basel II and have residual maturities of one year or more, excluding loans to financial institutions;
b) unencumbered securities with a remaining maturity of one year or more and exchange-traded equities, that are not in default and do not qualify as HQLA according to the LCR;

4.8 Assets assigned a 100% RSF factor

31. Assets assigned a 100% RSF factor comprise:

a) all assets that are encumbered for a period of one year or more;
b) NSFR derivative assets;
c) 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, and items deducted from regulatory capital.

Non-performing loans are loans that are greater than 90-days delinquent.

4.9 Off-Balance Sheet Assets assigned a 5% RSF factor

32. Irrevocable and conditionally revocable credit facilities to any client are assigned a 5% RSF for the outstanding undrawn amount.

APPENDIX 1: SUMMARY ASF AND RSF FACTORS

LIABILITIES	Balance Sheet Items	ASF
Capital and Liabilities with residual maturity/callable >1 year		
	Regulatory Capital (Tier 1)	100%
	Term Deposits	100%
	NHA MBS	100%
	Other borrowings and liabilities	100%
Retail and Small Business Funding with residual maturity <1 year		90%
Wholesale Funding with residual maturity/callable <1 year		50%
All other liabilities and equity		0%
ASSETS	**Balance Sheet Items**	**RSF**
Level 1 HQLA	Cash on Hand/Reserves/NHA MBS <6 months	0%
	NHA/MBS < 6 months	5%
Level 2A HQLA	Marketable securities (20% RW), Qualifying Corporate debt	15%
Level 2B HQLA	Marketable securities/ Qualifying Corporate debt and equity securities	50%
Deposits	Operational Deposits at FIs	50%
Performing loans to FIs with residual maturity/callable <6 months		
	loan secured against Level 1 assets collateral can be rehypothecated	10%
	Other loans	15%
Performing loans with residual maturity/callable <1 year		50%
Loans with residual maturity/callable >1 year		
	Residential mortgages and other loans RW 35% or less	65%
	Other Loans	85%
	Non-performing loans	100%
All other assets		100%
Off-Balance Sheet Assets	Undrawn LOC	5%