GUIDANCE FOR PREPARING

NET STABLE FUNDING RATIO (NSFR) REPORTING FORM

**Contents**

[General Information 2](#_Toc201849529)

[Cover Sheet 4](#_Toc201849530)

[Glossary of Terms 5](#_Toc201849531)

[1. Introduction of the Net Stable Funding Ratio (NSFR) 8](#_Toc201849532)

[2. Net Stable Funding Ratio (NSFR) – General Requirements 10](#_Toc201849533)

[3. Net Stable Funding Ratio (NSFR) – Available Stable Funding (ASF) 11](#_Toc201849534)

[4. Net Stable Funding Ratio (NSFR) – Required Stable Funding (RSF) 15](#_Toc201849535)

[5. NSFR Calculation 22](#_Toc201849536)

[Annex A – Treatment of Derivatives 23](#_Toc201849537)

[Annex B - Eligible Multilateral Development Banks (MDBs) 24](#_Toc201849538)

# General Information

1. The NSFR Reporting Form (the “return”) is applicable to banks incorporated in the Isle of Man licensed under the Financial Services Act 2008 to conduct Class 1(1) or Class 1(2) deposit taking.
2. Rule 2.20(1) states that a bank must prepare deposit taking returns and Rule 2.20(4) states that the deposit taking returns must be in the format specified by the Authority, containing the information required by, and calculated in accordance with, the specifications. For the purpose of Rule 2.20(4), the NSFR Reporting Form is a form specified by the Authority which should be completed as set out in this guidance.
3. Attention is drawn to Rule 5.14 of the Financial Services Rule Book (“the Rule Book”) which requires that the external auditors of the bank select and verify one set of the reporting forms (other than a set that coincides with the deposit taker’s annual reporting date) which has been submitted to the Authority during the relevant accounting period, to the accounting books and records of the bank.
4. The spreadsheet workbook is “protected” to prevent alterations to the return structure and content in order for the return to be successfully submitted to the Authority’s data warehouse. You must not tamper with the spreadsheet protection and validation or alter the structure or validation by adding or removing spreadsheet tabs or fields.
5. This guidance document, which generally follows the Basel III NSFR Standard[[1]](#footnote-1), provides direction on how to complete the return. Firms must complete all relevant sections of the submission template, in accordance with this guidance. Grey areas within the tables in the return are input cells. Blue areas within tables are calculated fields or fields where no entry is required/permitted. The default value in all grey data cells for completion must be zero (where no other value is entered) and must not be left blank.
6. The return must be completed and reported in sterling, with any other currency business being calculated as a sterling equivalent figure using the middle market spot rate in the London market at the close of business on the reporting date, or as close to that time as a bank’s system will allow. For transactions, the rate ruling at the time of the transaction should be used. Figures reported should be to the nearest thousand pounds sterling (but omitting the “£’000s” - e.g. £5,678,123 should be reported as 5678). Decimal points must not be used.
7. Standard regulatory weightings are generally used. These are shown under the columns headed “Factor”. These standard regulatory weightings will flow through to the column headed “Calculated Amount”.
8. Firms should submit the return to [[**TBC**](mailto:returns@iomfsa.im)]. The NSFR Reporting Form must be reported to the Authority on a ***calendar quarterly basis*** as part of the Quarterly Prudential Returns. It should be prepared based on the information as at either the last working day, or the last calendar day, of March, June, September and December. ***Firms must submit the return within one month of each reporting date and earlier submission is encouraged***.
9. Banks must have the operational capacity to increase the frequency of reporting, for example to monthly or weekly in stressed situations at the discretion of the Authority.
10. Send any enquiries regarding the completion of the return, or the interpretation of this guidance, to [**TBC**].
11. Under Section 40 of the Financial Services Act 2008 a person commits an offence if they knowingly or recklessly give any information to the Authority which is false or misleading.

# Cover Sheet

1. The current return version number is 1.0, as stated in [cell E3 of the Cover Sheet] of the return template available on our website. This version must be used otherwise the return will be rejected.
2. Completion of the Cover Sheet spreadsheet is mandatory and the form sections should be completed as follows:
   * **Firm Information**: Input the full registered name of the firm. For this return-type and name, the reporting period should be input as the calendar quarter start and end dates in the format specified.

* **Firm Declaration**: A Notified and Accepted role holder within the firm or an R17 Notified Only role holder must complete the Firm Declaration. The primary Controlled Function(s) held should be input in the “Position” field. [Please note that only one signatory is required for this return].
* **Comments:** Additional information to explain the data submitted may be input to this non-mandatory free text field. For example, you may explain any material variances or assumptions made.

1. Note: validation is embedded into the Cover Sheet; [if cell G2] shows an “Incomplete” error message this means either the Cover Sheet or content of the return is insufficiently completed. You can review column G to help determine the cause of the issue. [Cell G2] must show as “complete”, or the return will be rejected by the data warehouse.

# Glossary of Terms

|  |  |
| --- | --- |
| **Amount (carrying value)** | In the context of the Available Stable Funding, the “amount”, or “carrying value”, represents the amount at which a liability or equity instrument is recorded before the application of any regulatory deductions, filters or other adjustments and is the amount prior to the application of any ASF factors.  In the context of the Required Stable Funding, the “amount”, or “carrying value”, of an asset item should generally be recorded by following its accounting value, i.e. net of specific provisions, and the requirements for on-balance sheet, non-derivative assets. It is the amount prior to the application of any RSF factors. |
| **(The) Authority** | The Isle of Man Financial Services Authority. |
| **Available Stable Funding (ASF)** | The portion of capital and liabilities expected to be reliable over the one-year time horizon considered by the NSFR. |
| **Bank / reporting bank** | In the context of the NSFR Reporting Form this is the Isle of Man incorporated entity that has been issued with a Class 1(1) or Class 1(2) (Deposit Taking) licence under the Financial Services Act 2008 and includes branches of that entity. |
| **Basel Committee on Banking Supervision (BCBS)** | The primary global standard setter for the prudential regulation of banks which provides a forum for regular cooperation on banking supervisory matters. |
| **Financial Institutions** | For example, regulated entities licensed under the Financial Services Act 2008, authorised under the Insurance Act 2008 or registered under the Insurance Act 2008 or the Retirement Benefits Schemes Act 2000 or persons undertaking equivalent activities outside the Isle of Man subject to prudential regulation by the Authority or by a body exercising functions corresponding to any of those of the Authority. |
| **Liquidity Coverage Ratio (LCR)** | A measure of liquidity over a 30-calendar day liquidity stress scenario. See “***Guidance for Preparing Liquidity Coverage Ratio (LCR) Reporting Form***” [link when finalised] (LCR Reporting Form Guidance) for further information. |
| **LCR Standard** | The Liquidity Coverage Ratio Standard, also referred to as the LCR Standard, means the LCR Standard as it was incorporated into the consolidated Basel Framework and which contains frequently asked questions and responses, effective 15 December 2019.  The LCR Standard can be found at  [**https://www.bis.org/basel\_framework/standard/LCR.htm**](https://www.bis.org/basel_framework/standard/LCR.htm) |
| **Multilateral Development Bank (MDB)** | An institution created by a group of countries that provides financing and professional advice for economic and social development projects. MDBs have large sovereign membership and may include both developed and/or developing countries. Each MDB has its own independent legal and operational status, but with a similar mandate and a considerable number of joint owners.  ***Eligible MDBs are defined at Annex B.*** |
| **Net Stable Funding Ratio (NSFR)** | The amount of available stable funding relative to the amount of required stable funding. |
| **NSFR Standard** | The Net Stable Funding Ratio Standard, also referred to as the NSFR Standard, means the NSFR Standard as it was incorporated into the consolidated Basel Framework and which contains frequently asked questions and responses, effective 15 December 2019.  The NSFR Standard can be found at: [**https://www.bis.org/basel\_framework/standard/NSF.htm**](https://www.bis.org/basel_framework/standard/NSF.htm) |
| **Non-financial** | Not conducting those activities undertaken by financial institutions. |
| **Public Sector Entity (PSE)** | Certain entities which have characteristics as set out in the [“***Guidance Note for Deposit Takers, Quarterly Prudential Returns***”](https://www.iomfsa.im/media/1567/quarterlyprudentialreturns.pdf) issued October 2017. |
| **Required Stable Funding (RSF)** | The amount of stable funding required, being a function of the liquidity characteristics and residual maturities of the various assets held by a bank as well as those of its off-balance sheet exposures. |
| **Small businesses** | Businesses where either:   1. the business borrows money from the bank and that borrowing meets the rules for the definition of “retail exposures” at Annex H to SR-1B (for banks adopting the simplified standardised approach to credit risk) and Annex J to SR-1B (for banks adopting the standardised approach to credit risk) i.e.    1. business’ turnover and balance sheet footings are less than £2m; and    2. the maximum aggregated retail exposure to the business does not exceed an absolute threshold of £750,000.   Or,   1. the business does not borrow from the bank, but its deposits are managed as retail deposits. This means that the bank treats such deposits in its internal risk management systems consistently over time and in the same manner as other retail deposits, and that the deposits are not individually managed in a way comparable to larger corporate deposits. 2. In both cases (i) and (ii), the total aggregated funding raised from any one business or group of connected businesses should not exceed £750,000 (on a consolidated basis where applicable). |
| **Sound Principles** | Refers to the “Principles for Sound Liquidity Risk Management and Supervision” published in 2008 by the Basel Committee on Banking Supervision (BCBS).  The Sound Principles can be found at:  [**https://www.bis.org/publ/bcbs144.htm**](https://www.bis.org/publ/bcbs144.htm) |
| **Standardised approach to credit risk** | The Isle of Man’s standardised approach to credit risk, including the simplified standardised approach to credit risk, is detailed in the [“***Guidance Note for Deposit Takers, Quarterly Prudential Returns***”](https://www.iomfsa.im/media/1567/quarterlyprudentialreturns.pdf) issued October 2017 in respect of Form SR-1B. |

# Introduction of the Net Stable Funding Ratio (NSFR)

The NSFR is one of two minimum standards (the other being the LCR) for funding and liquidity with the specific objective of reducing funding risk over a one-year time horizon by requiring banks to fund their activities with sufficiently stable sources of funding in order to mitigate the risk of future funding stress. Banks are expected to meet the minimum requirements of the NSFR as well as adhere to the Sound Principles.

The Basel Committee on Banking Supervision (BCBS) also developed a set of liquidity risk monitoring tools to measure other dimensions of a bank’s liquidity and funding risk profile. These tools promote global consistency in supervising ongoing liquidity and funding risk exposures of banks, and in communicating these exposures among home and host supervisors. These tools are supplementary to both the LCR and the NSFR and are not covered in this document. However, the contractual maturity mismatch metric, particularly the elements that take into account assets and liabilities with residual maturity of more than one year, should be considered as a valuable monitoring tool to complement the NSFR.

Unless otherwise specified, the NSFR definitions mirror those in the LCR Reporting Form Guidance.

The Authority may impose any other liquidity measure considered appropriate to deal with the liquidity risk of a particular bank (on an individual or consolidated basis), or of the banking sector as a whole.

**NSFR Minimum Requirements**

The NSFR requires banks 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 bank’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 limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on and off-balance sheet items, and promotes funding stability.

The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. This ratio should be equal to at least 100% on an ongoing basis. The Authority may also impose higher minimum or notification requirements on a bank.

“Available Stable Funding” is defined as the portion of capital and liabilities expected to be reliable over the one-year time horizon considered by the NSFR.

The amount of stable funding required ("Required Stable Funding") of a bank is a function of the liquidity characteristics and residual maturities of the various assets held by that bank as well as those of its off-balance sheet exposures.

Where the bank’s NSFR has fallen, or is expected to fall, below 100% (or any alternative higher limit the Authority may have set), irrespective of the circumstances, this will be a breach of the NSFR minimum requirement. Banks must notify the Authority immediately as per the relevant reporting requirements at / under the [insert applicable references to rules or directions].

A bank will be required to present an assessment of its funding liquidity position, including:

1. The factors that contributed to its NSFR expecting to fall below, or falling below, the 100% (or any alternative higher limit),
2. The measures that have been and will be taken; and
3. The expectations on the potential duration of the situation.

Enhanced reporting to the Authority, commensurate with the duration of the shortfall will generally be required. The Authority may also require the bank to take action to reduce its exposure to liquidity risk, strengthen its overall liquidity risk management, or improve its contingency funding plan.

Banks should use the NSFR Reporting Form on an ongoing basis to help monitor and control liquidity risk.

**Consolidated Returns**

A “Consolidated NSFR” (in relation to banks incorporated in the Isle of Man, and in additionto solo returns that must be submitted) will normally be required in the following circumstances:

1. Where the bank has provided substantial finance (other than share capital) for subsidiary companies or where it carries on a significant part of its business through subsidiary companies;
2. Where the bank has a material subsidiary that is a licensed bank in the Isle of Man or elsewhere; or
3. Where the bank has a material subsidiary that conducts financial services business in the Isle of Man or elsewhere.

The requirements should be discussed and agreed with the Authority in advance.

**Relationship to audited financial statements**

The NSFR Reporting Form may sometimes require items to be treated in a way that differs from the bank's practice for preparing its financial statements.

**Risk weightings**

Reference to (credit) risk weightings are those used in Form SR-1B for banks incorporated in the Isle of Man.

# Net Stable Funding Ratio (NSFR) – General Requirements

|  |
| --- |
| **General Requirements** |
| The amounts of available stable funding (**ASF**) and required stable funding (**RSF**) specified in the NSFR Standard are calibrated to reflect the presumed degree of stability of liabilities and liquidity of assets. The calibration reflects the stability of liabilities across two dimensions:   1. **Funding tenor**: the NSFR is generally calibrated such that longer-term liabilities are assumed to be more stable than short-term liabilities. 2. **Funding type and counterparty**: 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 behaviourally more stable than wholesale funding of the same maturity from other counterparties.   In determining the appropriate amounts of **RSF** for various assets, the NSFR Standard took the following criteria into consideration, recognising the potential trade-offs between these criteria:   1. **Resilient credit creation**: 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. 2. **Bank behaviour**: the NSFR is calibrated under the assumption that banks may seek to roll over a significant proportion of maturing loans to preserve customer relationships. 3. **Asset tenor**: 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. 4. **Asset quality and liquidity value**: 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 off-balance sheet commitments and contingent funding obligations. |

# Net Stable Funding Ratio (NSFR) – Available Stable Funding (ASF)

|  |  |
| --- | --- |
| **Available Stable Funding (ASF) – Items ASF.1 to ASF.14** | |
| The amount of ASF is measured based on the broad characteristics of the relative stability of a bank’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 (referred to as the “amount” in the return) of a bank’s capital and liabilities to the categories listed below. The amount assigned to each category is then multiplied by its associated ASF factor(s), and the “calculated amount” is the total ASF for each applicable category. There are 5 factors applied: 100%, 95%, 90%, 50% and 0%.  The “carrying value” represents the amount at which a liability or equity instrument is recorded before the application of any regulatory deductions, filters or other adjustments and is the amount prior to the application of any ASF factors.  Banks should report all capital and liabilities to the appropriate columns based on maturity.  When determining the maturity of an equity or liability instrument, a bank must assume that investors redeem call options at the earliest possible date.  For funding with options exercisable at the bank’s discretion, banks should take into account reputational factors that may limit their ability not to exercise the option[[2]](#footnote-2). In particular, where the market expects certain liabilities to be redeemed before their legal final maturity date, banks should assume such behaviour for the purpose of the NSFR and include these liabilities in the corresponding ASF category. Along the same lines, when calculating the NSFR, options by a bank to extend funding maturity of its obligations (e.g. soft-bullet structures) should generally be assumed not to be exercised when there may be reputational concerns.  For long-dated liabilities, only the portion of cash flows falling at or beyond the six-month and one-year time horizons should be treated as having an effective residual maturity of six months or more and one year or more, respectively. | |
| ASF.1 | **Total regulatory capital (100% ASF factor)**  Report the total amount of regulatory capital (Tier 1 and Tier 2), before the application of capital deductions, but exclude any Tier 2 instruments with a residual maturity of less than one year. |

|  |  |
| --- | --- |
| ASF.2 | **Capital instruments not included in ASF.1, ≥1-year residual maturity (100% ASF factor)**  Report the total amount of any capital instruments not included in ASF.1 that have an effective residual maturity of one year or more but exclude any instruments with explicit or embedded options that, if exercised, would reduce the expected maturity to less than one year. |
| ASF.3 | **Secured and unsecured borrowings and liabilities (including term deposits), ≥1-year residual maturity (100% ASF factor)**  Report the total amount of secured and unsecured borrowings and liabilities (including term deposits) with effective residual maturities of one year or more.  Note that any term deposits (funding) with effective maturity of one year or more from retail and non-financial small businesses should be reported in Items ASF.4 or ASF.5 as applicable.  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. |
| ASF.4 | **Retail and non-financial small business stable deposits (95% or 100% ASF factor)**  Under 6 months maturity, and 6 months to less than 1-year residual maturity (95% ASF factor)  Report stable retail deposits and deposits from small business customers (as defined for LCR purposes) that are on demand or are term deposits with residual maturities of less than one year, in the applicable maturity bucket (under 6 months, or 6 months to 1 year).  Also include stable retail and small business term deposits with residual maturities greater than one year if they ***can be*** ***withdrawn early without a significant penalty*** – in this case they should be included in the less than 6 months’ maturity column.  More than 1-year residual maturity (100% ASF factor)  Include only stable retail deposits and deposits from small business customers (as defined for LCR purposes) that have a residual maturity greater than one year, provided such deposits ***cannot*** be withdrawn early without significant penalty (otherwise they must be included as specified above, with a 95% ASF factor applying). |
| ASF.5 | **Retail and non-financial small business less stable deposits (90% or 100% ASF factor)**  Under 6 months maturity, and 6 months to less than 1-year residual maturity (90% ASF factor)  Report less stable retail deposits and deposits from small business customers (as defined for LCR purposes) that are on demand or are term deposits with residual maturities of less than one year, in the applicable maturity bucket (under 6 months, or 6 months to 1 year).  Also include less stable retail and small business term deposits with residual maturities greater than one year if they ***can be*** ***withdrawn early without a significant penalty*** – in this case they should be included in the less than 6 months’ maturity column.  More than 1-year residual maturity (100% ASF factor)  Include only less stable retail deposits and deposits from small business customers (as defined for LCR purposes) that have a residual maturity greater than one year, provided such deposits ***cannot*** be withdrawn early without significant penalty (otherwise they must be included as specified above, with a 90% ASF factor applying). |
| ASF.6 | **Funding (secured and unsecured), <1-year residual maturity, provided by non-financial corporate customers (50% ASF factor)**  Report secured and unsecured wholesale funding, non-maturity deposits and / or term deposits with a residual maturity of less than one year, provided by non-financial corporate customers (i.e. not banks or financial institutions), in the applicable maturity bucket (under 6 months, or 6 months to 1 year).  This does not include deposits placed by sovereigns, PSEs or MDBs which are reported under ASF.8 nor small business customers which are reported under ASF.4 or ASF.5. |
| ASF.7 | **Operational deposits (50% ASF factor)**  Report all operational deposits as defined for LCR purposes. For NSFR reporting these are all treated as being less than 6 months maturity. |
| ASF.8 | **Funding from sovereigns, PSEs, and MDBs <1-year residual maturity (50% ASF factor)**  Report funding, non-maturity deposits and / or term deposits with a residual maturity of less than one year, provided by sovereigns, PSEs or MDBs, in the applicable maturity bucket (under 6 months, or 6 months to 1 year). |
| ASF.9 | **Other funding (secured and unsecured), ≥6 months to <1-year residual maturity (50% ASF factor)**  Report other funding not included in the above Items, with ***residual maturity between six months to less than one year***, including funding from central banks and financial institutions (including non-operational deposits from other banks). |
| ASF.10 | **All other liabilities and equity categories not included in the above categories (0% ASF factor)**  Report other funding not covered in ASF1 to ASF.9 with ***residual maturity of less than six months,*** including from central banks and financial institutions (including non-operational deposits from other banks). |
| ASF.11 | **Other liabilities without a stated maturity (0%, 50% or 100% ASF factor)**  This category must include short positions and open maturity positions that are not captured under Items ASF.1 to ASF.10.  ***ASF.11.1 (0% ASF factor)*** – report liabilities (except those meeting ASF.11.2 or ASF.11.3 criteria) not otherwise captured in Items ASF.1 to ASF.10. Such Items should be included under the <6 months column.  Two exceptions to the 0% ASF factor are permitted for liabilities without a stated maturity:  ***ASF.11.2 (50% or 100% ASF factor)*** – report deferred tax liabilities, which should be treated according to the nearest possible date on which such liabilities could be realised.  ***ASF.11.3 (50% or 100% ASF factor)*** - report minority interest, which should be treated according to the term of the instrument, usually in perpetuity.  In respect of both ASF.11.2 and ASF.11.3 if the effective maturity is one year or greater, the ASF factor is 100%. If the effective maturity is between six months and less than one year, the ASF factor is 50%. |
| ASF.12 | **Net (NSFR) derivative liabilities (0% ASF factor)**  The amount to be reported for this Item should be calculated as:   * NSFR derivative liabilities (***calculated per paragraph A.1, Annex A***); less * NSFR derivative assets (***calculated per paragraph A.2 of Annex A***)   Subject to the result being a positive figure. If the result of the calculation is a negative figure, banks should input “0” as the “amount” here. A negative figure must not be input. |
| ASF.13 | **“Trade date” payables (0% ASF factor)**  Report any “trade date” payables arising from purchases of financial instruments, foreign currencies and commodities that:   1. are expected to settle within the standard settlement cycle or period that is customary for the relevant exchange or type of transaction; or 2. have failed to, but are still expected to, settle.   For NSFR reporting these are all treated as being less than 6 months maturity. |
| ASF.14 | **Total Available Stable Funding**  Calculated automatically as the sum of ASF.1 to ASF.13. |

# Net Stable Funding Ratio (NSFR) – Required Stable Funding (RSF)

|  |  |
| --- | --- |
| **Required Stable Funding (RSF) – Items RSF.1 to RSF.28** | |
| The amount of RSF is measured based on the broad characteristics of the liquidity risk profile of a bank’s assets and off-balance-sheet exposures.  The amount of RSF is calculated by first assigning the carrying value (referred to as the “amount” in the return) of a bank’s assets to the categories listed below. The carrying value of an asset item should generally be recorded by following its accounting value, i.e. net of specific provisions, and the requirements for on-balance sheet, non-derivative assets.  The amount assigned to each category is then multiplied by its associated RSF factor(s), and the “calculated amount” is the total RSF for each applicable category. There are 8 factors applied: 0%, 5%, 10%, 15%, 50%, 65%, 85% and 100%. The total RSF is the sum of these on balance sheet calculated amounts added to the amount of off-balance-sheet activity (or potential liquidity exposure) multiplied by its associated RSF factor(s).  In completing this section of the return banks should allocate the assets recorded on their balance sheet to the appropriate RSF category. For purposes of determining its RSF, a bank should include financial instruments, foreign currencies and commodities for which a purchase order has been executed, and exclude financial instruments, foreign currencies and commodities for which a sales order has been executed, even if such transactions have not been reflected in the balance sheet under a settlement-date accounting model, provided that (i) such transactions are not reflected as derivatives or secured financing transactions in the bank’s balance sheet, and (ii) the effects of such transactions will be reflected in the bank’s balance sheet when settled.  Definitions in the NSFR for RSF mirror those in the LCR Reporting Form Guidance, unless otherwise specified. Of note, for purposes of calculating the RSF, HQLA is defined as all HQLA without regard to LCR operational requirements and LCR caps on Level 2 and Level 2B assets that may limit the ability of some HQLA to be included as eligible HQLA in the calculation of the LCR.  *Treatment of maturity*  Unless otherwise stated, banks should allocate all assets to the appropriate columns (maturity buckets and RSF factors) in the return based on their residual maturity or liquidity value.  When determining the maturity of an instrument, investors are assumed to exercise any option to extend maturity. For assets with options to extend exercisable at the bank’s discretion, where the market expects certain assets to be extended in their maturity, banks should assume such behaviour for the purpose of the NSFR and include these assets in the corresponding maturity band (and RSF Item).  For amortising loans, (or other principal repayment claims) the portion that comes due within the one-year horizon can be treated in the less than one-year residual maturity categories.  Unencumbered loans without a stated final maturity, even where the borrower may repay the loan in full and without penalty charges at the next rate reset date, are deemed to have an effective residual maturity period of more than one year and must be given either a 65% or 85% RSF factor depending on their risk weights under the standardised approach for credit risk. If there is a contractual provision with a review date at which the bank may determine whether a given facility or loan is renewed or not, the Authority may authorise a bank, on a case-by-case basis, to use the next review date as the maturity date. In considering such authorisation the Authority will consider the incentives created and the actual likelihood that such facilities/loans will not be renewed. In particular, options by a bank not to renew a given facility should generally be assumed not to be exercised when there may be reputational concerns.  *Encumbrance*  In accordance with the principle that a bank cannot derive liquidity benefit from assets that they have encumbered, banks are required to identify whether specific assets have been encumbered and for what duration.  Assets on the balance sheet that are encumbered[[3]](#footnote-3) for one year or more must 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% must 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% must retain that higher RSF factor.  Where assets have less than six months remaining in the encumbrance period, those assets may be reported in the relevant Items for the equivalent unencumbered assets and treated as unencumbered for these purposes, unless a specific treatment is otherwise stated.  *Secured financing transactions*  For secured funding arrangements, use of balance sheet and accounting treatments should generally result in banks 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, banks must include securities they have lent in securities financing transactions where they retain beneficial ownership. Banks should also not include any securities they have received through collateral swaps if those securities do not appear on their balance sheets. Where banks have encumbered securities in repos or other securities financing transactions but have retained beneficial ownership and those assets remain on the bank’s balance sheet, the bank must allocate such securities to the appropriate RSF category.  Amounts receivable and payable under these securities financing transactions should generally be reported on a gross basis, meaning that the gross amount of such receivables and payables should be reported on the RSF side and ASF side, respectively. The only exception is that securities financing transactions with a single counterparty may be measured on a net basis when calculating the NSFR, provided that the netting conditions for securities financing transactions set out in item C.2 of Form SR-2D (leverage ratio) (as detailed in the [Guidance Note for Deposit Takers, Quarterly Prudential Returns](https://www.iomfsa.im/media/1567/quarterlyprudentialreturns.pdf) issued October 2017) are met. | |
| Balance Sheet Items (Items RSF.1 to RSF.21) | |
| RSF.1 | **Cash and central bank reserves / claims (0% RSF factor)**  Report coins, banknotes, central bank reserves and all claims on central banks with a residual maturity of less than six months.  The term “claims” is broader than loans. The term “claims”, for example, also includes central bank bills and the asset account created on banks’ balance sheets by entering into repo transactions with central banks. |
| RSF.2 | **"Trade date" receivables (0% RSF factor)**  Report trade date receivables arising from sales of financial instruments, foreign currencies and commodities that:   1. are expected to settle within the standard settlement cycle or period that is customary for the relevant exchange or type of transaction: or 2. have failed to, but are still expected to, settle. |
| RSF.3 | **Unencumbered Level 1 HQLA (5% RSF factor)**  Report unencumbered level 1 HQLA assets as defined for LCR purposes (but excluding any assets covered under RSF.1 above). Include:   * marketable securities which represent claims on, or guaranteed by, sovereigns, central banks, PSEs, the Bank for International Settlements, the International Monetary Fund, the European Central Bank and the European Community, European Stability Mechanism, the European Financial Stability Facility or eligible MDBs that are assigned a 0% risk weight under the standardised approach to credit risk; * non 0% risk weighted sovereign or central bank debt securities (excluding claims on central banks with maturities less than 6 months, covered in RSF.1 above). Note that the total amount for securities issued in foreign currency can be included here, irrespective of any exclusion in the LCR HQLA calculations.   **Annex B** contains a list of eligible MDBs. |
| RSF.4 | **Unencumbered loans to financial institutions, secured by Level 1 HQLA, <6 months residual maturity (10% RSF factor)**  Report unencumbered loans to financial institutions with residual maturities of less than six months, where the loan is secured against Level 1 HQLA (as defined for LCR purposes) and where the bank can freely rehypothecate the received collateral for the life of the loan. |
| RSF.5 | **Unencumbered Level 2A HQLA (15% RSF factor)**  Report unencumbered level 2A HQLA assets as defined for LCR purposes, as follows:  ***RSF.5.1:*** includemarketable securities which represent claims on, or guaranteed by, sovereigns, central banks, PSEs, or MDBs that are assigned a 20% risk weight under the standardised approach to credit risk.  ***RSF.5.2:*** include applicable level 2A HQLA corporate debt securities (including commercial paper) and covered bonds (must have a credit rating of at least AA- or equivalent according to the standardised approach to credit risk). |
| RSF.6 | **Unencumbered Level 2B HQLA (50% RSF factor)**  Report unencumbered level 2B HQLA assets as defined for LCR purposes, as follows:  ***RSF.6.1:*** include applicable level 2B HQLA residential mortgage-backed securities (RMBS) with a credit rating of at least AA or equivalent according to the standardised approach to credit risk.  ***RSF.6.2:*** include applicable level 2B HQLA corporate debt securities (including commercial paper) (must have a credit rating of between A+ and BBB- or equivalent according to the standardised approach to credit risk).  ***RSF.6.3:*** include applicable level 2B HQLA non-financial common equity shares (exchange traded shares).  ***RSF.6.4:*** include applicable level 2B HQLA sovereign and central bank debt securities (those rated BBB+ to BBB- or equivalent under the standardised approach to credit risk) and applicable PSE debt securities (must have a credit rating of at least BBB- or equivalent according to the standardised approach to credit risk). |
| RSF.7 | **Other loans to financial institutions and central banks** **(15%, 50% or 100%RSF factor)**  Report all other unencumbered loans to financial institutions and central banks that are not already reported in any of Items RSF.1 to RSF.6 above (nor in Item RSF.8) as follows:  Residual maturity of less than 6 months (15% RSF factor)  Report unencumbered loans to financial institutions with residual maturity of less than six months (not included in Item RSF.4).  *Note: Claims against central banks with a residual maturity of less than six months are reported under RSF.1.*  Residual maturity between 6 months and less than 1 year (50% RSF factor)  Report unencumbered loans to financial institutions and central banks with residual maturity of between six months and less than one year.  More than 1-year residual maturity (100% RSF factor)  Report unencumbered loans to financial institutions and central banks with residual maturity of more than one year. |
| RSF.8 | **Operational deposits (50% RSF factor)**  Report deposits held at other financial institutions for operational purposes, as defined for LCR purposes, and which are subject to the 50% ASF factor per Item ASF.7. For NSFR reporting these are all treated as being less than 6 months maturity. |
| RSF.9 | **Other non-HQLA <1-year residual maturity (50% RSF factor)**  Report all other non-HQLA not included in the above categories with residual maturity of less than one year, for example, loans to non-financial corporate clients, loans to retail customers (i.e. natural persons) and small business customers, and loans to sovereigns and PSEs. |
| RSF.10 | **Unencumbered residential mortgages ≥1-year residual maturity (Risk Weight ≤35%) (65% RSF factor)**  Report unencumbered residential mortgages with a residual maturity of one year or more that would qualify for a 35% or lower risk weight under the standardised approach to credit risk. |
| RSF.11 | **Other unencumbered loans (excluding financial institutions) ≥1-year residual maturity (Risk Weight ≤35%) (65% RSF factor)**  Report all other unencumbered loans (except loans to financial institutions), not included in the above RSF categories, with a residual maturity of one year or more that would qualify for a 35% or lower risk weight under the standardised approach to credit risk.  For example, this may include loans to sovereigns, PSEs and eligible MDBs not covered elsewhere. |
| RSF.12 | **Margin provided (85% RSF factor)**  Report cash, securities or other assets posted as initial margin for derivative contracts or provided to contribute to the default fund of a central counterparty (CCP). This is regardless of whether recorded on or off the balance sheet.  Where securities or other assets posted as initial margin for derivative contracts would otherwise receive a higher RSF factor, they should retain that higher factor.  *Note: Initial margin posted on behalf of a customer, where the bank provided a customer access to a third party (e.g. a CCP) for the purpose of clearing derivatives, where the transactions are executed in the name of the customer and the bank does not guarantee performance of the third party (e.g. the CCP), maybe exempt from this requirement.* |
| RSF.13 | **Other unencumbered loans (excluding financial institutions) ≥1-year residual maturity (Risk Weight >35%) (85% RSF factor)**  Include all other unencumbered performing loans (except loans to financial institutions) with a residual maturity of one year or more that do not qualify for the 35% or lower risk weight under the standardised approach to credit risk.  *Note:* p*erforming loans are those that are not past due for more than 90 days or otherwise classified as a defaulted exposure.* |
| RSF.14 | **Unencumbered securities and physical traded commodities (85% RSF factor)**  Include here:   * 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; * physical traded commodities, including gold. |
| RSF.15 | **Encumbered assets (where the encumbrance is ≥6 months) (50%, 65%, 85% or 100% RSF factor)**  For each of RSF.15.1 to RSF.15.4, banks should allocate assets to the appropriate columns (maturity buckets) in the return based on their residual maturity or liquidity value. The period of encumbrance is pertinent to the RSF factor only.  **RSF.15.1 (50% RSF factor)** - this comprises:   * any HQLA (defined in the LCR) that are encumbered for a period of between six months and less than one year; and * any non-HQLA assets encumbered between six months and less than one year that would, if unencumbered, receive an RSF factor lower than or equal to 50%.   **RSF.15.2 (65% RSF factor)** – this comprises non-HQLA assets encumbered between six months and less than one year that would, if unencumbered, receive an RSF factor of 65%. This includes the assets defined at RSF.10 and RSF.11.  **RSF.15.3 (85% RSF factor)** – this comprises non-HQLA assets encumbered between six months and less than one year that would, if unencumbered receive an RSF factor of 85%. This includes the assets defined at RSF.12 to RSF.14.  **RSF.15.4 (100% RSF factor)** – this comprises all assets, including HQLA, that are encumbered for a period of one year or more. |
| RSF.16 | **Net (NSFR) derivative assets (100% RSF factor)**  The amount to be reported for this Item should be calculated as:   * NSFR derivative assets (***calculated per paragraph A.2, Annex A***); less * NSFR derivative liabilities (***calculated per paragraph A.1, Annex A***)   Subject to the result being a positive figure, plus   * 20% of derivative liabilities (i.e. negative replacement cost amounts) as ***calculated per paragraph A.1 of Annex A*** (before deducting variation margin posted).   If the result of the calculation is a negative figure, banks should input “0” as the “amount” here. A negative figure must not be input. |
| RSF.17 | **Assets without a stated maturity (100% RSF factor)**  Report assets without a stated maturity not included in Items RSF.15 and RSF.16 (including non-maturity reverse repos unless a bank can demonstrate to the Authority that the non-maturity reverse repo would effectively mature in less than one year).  *Note: For NSFR reporting, these are treated as maturing over one year.* |
| RSF.18 | **Other assets (100% RSF factor)**  Report all other assets not included in any of the above categories, including non-performing loans, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities. |
| RSF.19 | **Total RSF – Balance Sheet Items**  Calculated automatically as the sum of Items RSF.1 to RSF.18. |
| Off Balance Sheet Items (Items RSF.20 to RSF.25) | |
| Many potential off-balance sheet liquidity exposures require little direct or immediate funding but can lead to significant liquidity drains over a longer time horizon. The NSFR assigns an RSF factor to various off-balance sheet activities in order to ensure that banks hold stable funding for the portion of off-balance sheet exposures that may be expected to require funding within a one-year horizon.  Consistent with the LCR Reporting Form Guidance, the NSFR identifies off-balance-sheet exposure categories based broadly on whether the commitment is a credit or liquidity facility or some other contingent funding obligation. | |
| RSF.20 | **Irrevocable and conditionally revocable facilities (5% RSF factor)**  Report balances of undrawn committed irrevocable and conditionally revocable credit and liquidity facilities to any client. |
| RSF.21 | **Unconditionally revocable facilities (0% RSF factor)**  Report balances of undrawn unconditionally revocable credit and liquidity facilities. |
| RSF.22 | **Trade finance-related obligations (0% RSF factor)**  Report trade finance-related obligations (including guarantees and letters of credit). |
| RSF.23 | **Guarantees and letters of credit unrelated to trade finance obligations (0% RSF factor)**  Report all other guarantees and letters of credit not covered in RSF.22. |
| RSF.24 | **Non-contractual obligations (0% RSF factor)**  Report any other contingent funding 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; and * Managed funds that are marketed with the objective of maintaining a stable value. |
| RSF.25 | **Total RSF – Off Balance Sheet Items**  Calculated automatically as the sum of Items RSF.20 to RSF.24. |
| Total RSF | |
| RSF.26 | **Total Required Stable Funding**  Calculated automatically as the sum of RSF.19 and RSF.25 |

# NSFR Calculation

|  |  |
| --- | --- |
| **Net Stable Funding Ratio (NSFR)** | |
| NSFR | **Net Stable Funding Ratio**  Calculated automatically as Item ASF.14 (Total Available Stable Funding) divided by Item RSF.26 (Total Required Stable Funding), expressed as a percentage. |

# Annex A – Treatment of Derivatives

This Annex is relevant to the calculation of the amount (carrying values) for Items ASF.12 and RSF.18.

**A.1 Calculation of Derivative Liability Amounts**

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 that meets the conditions as specified in Annex 1 (paragraphs 1 and 2) to Form SR-2D (leverage ratio) (as detailed in the [Guidance Note for Deposit Takers, Quarterly Prudential Returns](https://www.iomfsa.im/media/1567/quarterlyprudentialreturns.pdf) issued October 2017), the replacement cost for the set of derivative exposures covered by the contract must be the net replacement cost.

In calculating derivative liabilities for the NSFR, 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.

*Note: NSFR derivative liabilities = (derivative liabilities) – (total collateral posted as variation margin on derivative liabilities).*

*To the extent that the bank’s accounting framework reflects on balance sheet, in connection with a derivative contract, an asset associated with collateral posted as variation margin that is deducted from the replacement cost amount for purposes of the NSFR, that asset should not be included in the calculation of a bank’s RSF to avoid any double-counting.*

**A.2 Calculation of Derivative Asset Amounts**

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 that meets the conditions as specified above in A.1, the replacement cost for the set of derivative exposures covered by the contract must be the net replacement cost.

In calculating derivative assets for the NSFR, collateral received in connection with derivative contracts must 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 and meets the conditions as specified in Item B.4 of Form SR-2D (leverage ratio) (as detailed in the [Guidance Note for Deposit Takers, Quarterly Prudential Returns](https://www.iomfsa.im/media/1567/quarterlyprudentialreturns.pdf) issued October 2017) for the cash portion of variation margin exchanged between counterparties to be viewed as a form of pre-settlement payment. Any remaining balance sheet liability associated with variation margin received that does not meet the criteria above or initial margin received may not offset derivative assets and should be assigned a 0% ASF factor.

*Note: NSFR derivative assets = (derivative assets) – (cash collateral received as variation margin on derivative assets)*

# Annex B - Eligible Multilateral Development Banks (MDBs)

List of MDBs that are eligible for a 0% risk weight:

* the World Bank Group comprising:
  + the International Bank for Reconstruction and Development,
  + the International Finance Corporation,
  + the Multilateral Investment Guarantee Agency, and
  + the International Development Association
* Asian Development Bank
* African Development Bank
* European Bank for Reconstruction and Development
* Inter-American Development Bank
* European Investment Bank
* European Investment Fund
* Nordic Investment Bank
* Caribbean Development Bank
* Islamic Development Bank
* Council of Europe Development Bank
* International Finance Facility for Immunization
* Asian Infrastructure Investment Bank.

1. [NSF - Net stable funding ratio](https://www.bis.org/basel_framework/standard/NSF.htm?tldate=20250610) [↑](#footnote-ref-1)
2. This could reflect a case where a bank may imply that it would be subject to funding risk if it did not exercise an option on its own funding. [↑](#footnote-ref-2)
3. Encumbered assets include but are not limited to assets backing securities or covered bonds and assets pledged in securities financing transactions or collateral swaps. “Unencumbered” is defined in the LCR Reporting Form Guidance. [↑](#footnote-ref-3)