

Discussion Paper

Basel III

Updating the Liquidity Framework for Banks

*Implementation of a Net Stable Funding Ratio*

DP25-02

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# Glossary

|  |  |
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| **(The) Authority** | 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** | The BaselCommittee on Banking Supervision (“BCBS”) being the primary global standard setter for the prudential regulation of banks, which provides a forum for regular cooperation on banking supervisory matters. |
| **FSA08** | Isle of Man Financial Services Act 2008 |
| **Liquidity Coverage Ratio (“LCR”)** | The LCR, developed by the Basel Committee, is one of the minimum standards for funding liquidity with the specific purpose of promoting short-term resilience of a bank’s liquidity risk profile by ensuring that it has sufficient high-quality liquid assets (“HQLA”) to survive a significant stress scenario lasting for one month. See [**DP25-01**](https://www.iomfsa.im/media/3439/discussion-paper-lcr.pdf) for further information. |
| **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. |
| **Net Stable Funding Ratio (“NSFR”)** | A measure developed by the Basel Committee to promote resilience over a longer time horizon of one year. 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> |
| **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. |

# Executive Summary

## Overview

This Discussion Paper (“Paper”) is issued by the Isle of Man Financial Services Authority, which is the regulatory body for financial services in the Isle of Man.

Basel III is an internationally agreed set of measures and standards developed and issued by the international standard setting body, the Basel Committee on Banking Supervision (“Basel Committee”). It expanded upon and replaced Basel II. The various Basel III reforms were brought together in 2019 into one consolidated set of standards, collectively referred to as the Basel Framework.

Implementation of the components of the Basel Framework, at a consolidated level for internationally active banks, was between December 2019 to January 2023.

In summary, the Basel Framework consists of:

* Prudential standards covering bank capital adequacy, bank liquidity, and large exposures, and elements of interest rate risk;
* Risk management and supervisory review processes;
* Disclosure requirements (market discipline); and
* An approach to identifying and supervising systemically important banks.

Underpinning the above are the ‘core principles for effective banking supervision’ which provide a comprehensive standard for establishing a sound foundation for the regulation, supervision, governance and risk management of the banking sector.

In the Island, a flexible approach to rolling out the key components of the Basel Framework, most relevant to the banking sector, has been adopted. As part of this approach, in October 2024 the Authority published an [implementation plan](https://www.iomfsa.im/media/3351/basel-iii-liquidity-roadmap.pdf) in respect of introducing updated liquidity requirements for banks.

## Purpose

The purpose of this Paper is to seek views on proposals to implement a Net Stable Funding Ratio (“**NSFR”**) requirement (including reporting forms, guidance, and core regulatory requirements) for banks incorporated in the Isle of Man, in line with the Basel III NSFR Standard.

The Paper establishes proposals for the implementation of a NSFR requirement in respect of banks incorporated in the Island. Proposals in respect of other components of the [implementation plan](https://www.iomfsa.im/media/3351/basel-iii-liquidity-roadmap.pdf) published in October 2024 will be subject to separate discussion papers[[1]](#footnote-1).

Changes to reporting requirements for banks in the Island which are branches of overseas banks will also eventually be introduced as indicated in the published [implementation plan](https://www.iomfsa.im/media/3351/basel-iii-liquidity-roadmap.pdf).

The proposals for a NSFR are set out more fully in [section 3 (Proposals)](#_Proposals) of this Paper.

## Interested persons

The Paper is primarily relevant to banks incorporated in the Island, and to the banking sector more generally, including their auditors and any other advisers.

## How to respond

This Paper has been circulated to the Isle of Man Bankers Association and individual Class 1(1), Class 1(2) (Deposit Takers) and Class 1(3) (Representative Office) licenceholders under the FSA08. As this is a targeted consultation for banks and the banking sector, it has not been published on the Isle of Man Government’s Engagement Hub.

Responses can be submitted by email to [andrew.kermode@iomfsa.im](mailto:andrew.kermode@iomfsa.im) and, if in an attachment, preferably in an extractible format e.g. Microsoft Word document. Alternatively, you can submit responses by post to:

**Mr Andrew Kermode**

**Head of Division – Prudential Supervision Division**

**Isle of Man Financial Services Authority**

PO Box 58, Finch Hill House, Bucks Road, Douglas, Isle of Man, IM99 1DT

## Next steps

Following closure of the consultation period on **29 August 2025**, the Authority will review the responses received and issue a Feedback Statement to consultees.

## Questions

If you have a query in relation to how this consultation has been carried out, please contact the Authority’s Policy & Risk Division by email at [Policy@iomfsa.im](mailto:Policy@iomfsa.im) or by telephone on +44 1624 646000.

# Consultation Process

## The Authority’s regulatory objectives

The Authority’s regulatory objectives are set out in section 2(2) of the FSA08 as —

1. securing an appropriate degree of protection for policyholders, members of retirement benefits schemes and the customers of persons carrying on a regulated activity;
2. the reduction of financial crime; and
3. the maintenance of confidence in the Island’s financial services, insurance and pensions industries through effective regulation, thereby supporting the Island’s economy and its development as an international financial centre.

## Basis for consultation

The Authority has issued the Discussion Paper to the recipients listed in [Appendix A](#_Appendix_A_–).

## Responding to the Discussion Paper

Open dialogue with stakeholders is an essential element for successful development of the Authority’s proposals. Constructive feedback will help the Authority reach an informed decision on the content of the proposals and manner of implementation. Respondents should note the following when responding to this Discussion Paper:

* Submissions received by the closing date will be considered but may not necessarily result in a change to the proposals following a review of all responses received.
* Professional bodies, trade associations and other representative groups should provide a summary of the persons they represent and the method used to obtain input.
* Anonymous submissions will not be considered or included in the Feedback Statement.

## Confidentiality and data protection

The information you send may be published in full or in a summary of responses included in the Feedback Statement. All information in responses, including personal data, may be subject to publication or disclosure in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2015 and the Data Protection Act 2018) with which the Authority is obliged to comply.

**If you want your response to remain confidential, you should explain why confidentiality is necessary and your request will be agreed to only if it is appropriate in the circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding.**

The Authority is registered with the Information Commissioner as a data controller under Isle of Man data protection legislation. It collects and processes personal data to carry out its functions under relevant legislation and may share personal data with other parties where there is a legal basis for doing so. Further information on how the Authority collects and processes personal data can be found in the [Privacy Notice](https://www.iomfsa.im/terms-conditions/privacy-notice/) on the Authority’s website.[[2]](#footnote-2)

# Proposals

## Background

The NSFR, developed by the Basel Committee, 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 to mitigate the risk of future funding stress. Banks are expected to meet the minimum requirements of the NSFR.

The Basel Committee 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 to home and host supervisors. These tools are supplementary to both the LCR and the NSFR and are not covered in this Paper. However, the contractual maturity mismatch metric (*proposals for which will be covered in a future discussion paper*), particularly the elements that take into account assets and liabilities with residual maturity of more than one year, are considered as a valuable monitoring tool to complement the NSFR.

### The NSFR Scenario

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**.

“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.

### NSFR Minimum Requirements

The NSFR should be equal to at least 100% on an ongoing basis. The Authority may also impose higher minimum or notification requirements on a bank.

Proposals in respect of the Authority’s core regulatory requirements for the NSFR are covered in [section 3.2 (Proposed Core Regulatory Requirements for the NSFR)](#_Proposed_core_regulatory) below.

## Proposed Core Regulatory Requirements for the NSFR

The minimum requirement is that a bank’s NSFR must be no lower than 100% on an ongoing basis. Higher minimum or notification requirements may also be imposed on an individual bank.

The Authority proposes to introduce the following core regulatory requirements specifically relating to the NSFR (similar to the existing provisions contained in rule 8.44 (Liquidity management) of the [Financial Services Rule Book 2016](https://www.iomfsa.im/media/1470/financialservicesrulebook20131.pdf)):

1. A requirement for a bank incorporated in the Island to maintain funding liquidity at or above a specified “minimum funding liquidity requirement”[[3]](#footnote-3).
2. A requirement for a bank to measure and monitor its funding liquidity on a ***periodic basis[[4]](#footnote-4)*** by calculating the NSFR – see [section 3.3 (Proposed Reporting Forms and Guidance)](#_Proposed_Reporting_Forms) for further information on the calculation.
3. A requirement for a bank to notify the Authority if at any time, including in relation to periods of financial stress, it has reason to believe that its NSFR is below the minimum funding liquidity requirement or is expected to fall below the minimum funding liquidity requirement.
4. A requirement for a bank to remedy the breach of the minimum funding liquidity requirement and take appropriate action within a reasonable timeframe.
5. Reporting requirements in respect of the NSFR – see [section 3.4 (NSFR Proposed Frequency of Reporting)](#_NSFR_Proposed_Frequency)for proposals.

In respect of the implementation of requirements, these are ultimately proposed to be brought in through amendments to the [Financial Services Rule Book 2016](https://www.iomfsa.im/media/1470/financialservicesrulebook20131.pdf), as part of the full suite of amended liquidity requirements (for example including the LCR, other liquidity monitoring metrics, and wider liquidity management requirements). Prior to this, and subject to views, certain NSFR requirements would initially be implemented through issuing directions to banks incorporated in the Island – this is explained further in [section 3.5 (Transition and Implementation)](#_Transition_and_implementation).

Further, in relation to (c) and (d) above, it is proposed that:

* a bank would be expected to present an assessment to the Authority of its funding liquidity position, including:

1. The factors that contributed to its NSFR expecting to fall below, or falling below, the minimum funding liquidity requirement;
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 a bank to take action to reduce its exposure to liquidity risk, strengthen its overall liquidity risk management, or improve its contingency funding plan.

These regulatory expectations will eventually be incorporated into updated regulatory guidance pertaining to liquidity, and where applicable, recovery planning guidance.

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| Question 1 |
| Do you agree with the proposed core regulatory requirements in respect of the NSFR? If not, please provide additional information*.* |

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| Question 2 |
| Do you have any other observations to make in relation to these proposals? |

## Proposed Reporting Forms and Guidance

The proposed NSFR Reporting Form and associated guidance will only apply to banks incorporated in the Isle of Man.

Rule 2.20(1) (Deposit taking returns – Isle of Man incorporated) of the [Financial Services Rule Book 2016](https://www.iomfsa.im/media/1470/financialservicesrulebook20131.pdf) 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. It is proposed that, for the purpose of rule 2.20(4), the NSFR Reporting Form will be the form specified by the Authority to be completed as set out in the (draft) guidance ([Appendix B](#_Appendix_B_–)).

A copy of the proposed NSFR Reporting Form, together with the (draft) regulatory guidance, is attached to this Paper (see [**Appendix B(1)**](#_Draft_NSFR_Reporting) **and** [**Appendix B(2)**](#_Draft_Guidance)). The calculations and guidance are based on the Basel Committee NSFR Standard, whilst also considering the frameworks in place in other jurisdictions, including the Channel Islands and United Kingdom (“**UK**”).

In designing the NSFR Reporting Form and the (draft) regulatory guidance, the Authority is not proposing to exercise the national discretions pertaining to the following matters contained in the NSFR Standard:

* Exclusions from the NSFR per 10.6 of the NSFR Standard; and
* Interdependent assets and liabilities per 30.35 to 30.37 of the NSFR Standard

The Authority does not consider that exercising these discretions would have any material impact for banks incorporated in the Island.

In relation to the proposed NSFR Reporting Form and guidance specifically, please also note the following:

* The NSFR Reporting Form, once finalised, will be structured to include certain “validation” checks for submission into the Authority’s data warehouse.
* The NSFR Reporting Form may be combined with other reporting forms for the purpose of a final set of reporting forms (e.g. with the proposed LCR Reporting Forms consulted on in DP25-01), and for submission to the Authority’s data warehouse.
* The list of MDBs contained in Annex B of the draft guidance for the NSFR Reporting Form is an updated list that differs from the existing list contained in current guidance in respect of Form SR-1B (Quarterly Prudential Returns). The draft guidance includes 4 additional MDBs[[5]](#footnote-5). The current list for Form SR-1B will be updated in due course.

The draft NSFR Reporting Form is provided in electronic format and is available to be tested by banks.

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| Question 3 |
| Do you have any comments / observations in relation to the proposed NSFR Reporting Form and guidance (including the proposed decision not to exercise the national discretions referenced above)? If so, please provide further information, including identification of any errors. |

## NSFR Proposed Frequency of Reporting

The suggested frequency of reporting proposed by the Basel Committee in connection with the NSFR Standard is at least quarterly.

The Authority therefore proposes that the NSFR Reporting Form (which would include a consolidated NSFR if applicable to a bank) must be reported to the Authority on a quarterly basis as part of the set of deposit taking 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, and be submitted to the Authority within one month of each reporting date.

However, banks must have the operational capacity to increase the frequency of monitoring and reporting.

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| Question 4 |
| Do you agree with the proposal to implement quarterly reporting as standard (with submissions due within one month), consistent with the Basel Committee NSFR Standard? |

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| Question 5 |
| Would you be able to increase the frequency of reporting, for example to monthly, or even weekly if required to do so by the Authority (on an exceptional basis)? |

## Transition and Implementation

### General approach

The NSFR (and LCR) are additional measures introduced in the Basel Framework, and liquidity reporting and monitoring is more extensive under Basel III. The introduction of the proposed NSFR Reporting Form is the second part of the implementation plan and applies to banks incorporated in the Island.

It is proposed that the NSFR Reporting Form will initially be introduced as an additional reporting form and thus sit alongside existing reporting requirements currently set out in reporting form SR-3A (maturity mismatch[[6]](#footnote-6) and large depositors). As part of the wider implementation plan, form SR-3A will ultimately be replaced by a full suite of amended liquidity reporting requirements (including updated contractual mismatch and concentration of funding returns).

### Specific transitional arrangements

Subject to responses to this Paper, it is proposed that —

1. Banks should start reporting NSFR information to the Authority (using the NSFR Reporting Form) in alignment with the first reporting date with that to be agreed for the LCR; at this stage that is expected to be for either the first or second quarter of 2026[[7]](#footnote-7).
2. The formal regulatory requirements set out in [section 3.2 (Proposed Core Regulatory Requirements for the NSFR)](#_Proposed_core_regulatory) would be put in place (most likely through directions / modifications to rules) to align with the agreed reporting in (1) above. Any existing directions that refer to liquidity behavioural adjustments will also be amended to remove such adjustments.
3. At the same time as will be agreed for (2) above, the current mismatch rules would be disapplied. However, **the maturity mismatch report and large depositor return (the current form SR-3A) may still be required to be submitted**, but banks would not need to include behavioural adjustment information (the mismatch report would therefore be on a contractual basis). This mismatch report will be replaced by new contractual mismatch reporting in relatively short order.

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| Question 6 |
| Do you agree with the proposal to start reporting NSFR information to the Authority in alignment with the LCR (expected Q1 or Q2 2026)?  If this proposed date(s) would cause you difficulties, please provide an alternative date for commencing reporting and summarise the reasons why. |

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| Question 7 |
| Do you agree with the proposal to introduce the proposed regulatory requirements for NSFR in 2026 aligned to the final agreed first reporting date? If this proposed date would cause you difficulties, please provide an alternative date and summarise the reasons why. |

# Impact Assessment

The Authority recognises that introducing new regulatory requirements can carry a cost for industry, both initially (to implement the changes) and on an ongoing compliance basis.

Most banks incorporated in the Island are already calculating and reporting liquidity metrics for other regulators on a Basel III basis, including for the NSFR. This is because they are either reporting upwards for group consolidated purposes or reporting directly to host supervisors where they operate overseas branches. Moving towards a Basel III liquidity framework in the Island will help to bring more consistency in reporting requirements for most banks, will make sure applicable international standards are applied, and help the Authority to better monitor liquidity risks in the sector, as part of the framework for providing adequate protection for consumers. In this respect, the Authority does not consider it viable to continue with the existing liquidity framework for the regulation and supervision of the banking sector in the Island.

Under Schedule 1, paragraph 2(1) of the FSA08, the functions of the Authority include “the regulation and supervision of persons undertaking regulated activity” and “the maintenance and development of the regulatory regime for regulated activities”. The proposed introduction of the NSFR, and other changes to liquidity requirements (that will be subject to further discussion, including DP25-01), is directly compatible with these functions.

In discharging its functions, the Authority must have regard to the factors set out in Schedule 1, paragraph 3 of the FSA08. The most relevant factors pertaining to the proposals in the Paper are set out below, together with a brief assessment:

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| Factor | Assessment |
| The need to balance the regulatory objectives | **Neutral impact** |
| The need for the regulatory, supervisory and registration regimes to be effective, responsive to commercial developments and proportionate to the benefits which are expected to result from the imposition of any regulatory burden | **Neutral impact** – an updated framework should be more effective, balanced against any increased cost burden. The Authority has suggested a proportionate approach to the frequency of reporting. |
| The desirability of implementing and applying recognised international standards | **Positive impact** – Basel III and NSFR is the recognised international standard |
| The desirability of cooperating with governments, regulators and others outside the island | **Positive impact** – other overseas regulators most relevant to the Island’s banking sector have implemented Basel III NSFR |
| The need to safeguard the reputation of the island | **Positive impact** – Basel III and NSFR is a recognised international standard |
| The international character of the financial services, insurance and pensions industries and their markets and the desirability of maintaining the competitive position of the Island | **Neutral impact** – there may be some costs of implementation and compliance, balanced by having a better recognised liquidity regime |
| The desirability of facilitating the development of the financial services, insurance and pensions industries | **Neutral impact** – will bring the framework up to date |
| The impact of its decision on the stability of the financial system of the Island | **Positive impact** – Basel III and NSFR is a recognised international standard |

# Questions

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| Question 1 |
| Do you agree with the proposed core regulatory requirements (set out in [section 3.2](#_Proposed_core_regulatory)) in respect of the NSFR? If not, please provide additional information*.* |

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| Question 2 |
| Do you have any other observations to make in relation to the proposals set out in [section 3.2](#_Proposed_core_regulatory)? |

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| Question 3 |
| Do you have any comments / observations in relation to the proposed NSFR Reporting Form and guidance as set out in [section 3.3](#_Proposed_Reporting_Forms) and [Appendix B(1)](#_Draft_LCR_Reporting) and [Appendix B(2)](#_Draft_Guidance) (including in respect of national discretions)? If so, please provide further information, including identification of any errors. |

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| Question 4 |
| Do you agree with the proposal to implement quarterly reporting as standard (with submissions due within one month), consistent with the Basel Committee NSFR Standard? |

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| Question 5 |
| Would you be able to increase the frequency of reporting, for example to monthly, or even weekly if required to do so by the Authority (on an exceptional basis)? |

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| Question 6 |
| Do you agree with the proposal to start reporting NSFR information to the Authority in alignment with the LCR (expected Q1 or Q2 2026)?  If this proposed date(s) would cause you difficulties, please provide an alternative date for commencing reporting and summarise the reasons why. |

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| Question 7 |
| Do you agree with the proposal to introduce the proposed regulatory requirements for NSFR in 2026 aligned to the final agreed first reporting date? If this proposed date would cause you difficulties, please provide an alternative date and summarise the reasons why. |

# Appendix A – List of Specific Recipients

* Isle of Man Bankers’ Association
* Individual Class 1(1) and Class 1(2) Deposit Takers (Banks), and Class 1(3) representative offices

# Appendix B – Draft Reporting Forms and Guidance

# Draft NSFR Reporting Form Template



# Draft Guidance



1. Including DP 25-01 issued 28 May 2025. [↑](#footnote-ref-1)
2. <https://www.iomfsa.im/terms-conditions/privacy-notice/> [↑](#footnote-ref-2)
3. In this context, the “minimum funding liquidity requirement” means: (a) such NSFR as the Authority may direct in the case of the bank; or (b) where no such direction is given, a NSFR of 100%. [↑](#footnote-ref-3)
4. Unlike the LCR there is no requirement for the NSFR to be measured and monitored daily. The frequency of measuring and monitoring the NSFR will depend on various factors including the bank's size, complexity, and the prevailing market conditions. Some banks may monitor the NSFR more frequently, while others may be sufficient with monthly or quarterly review. [↑](#footnote-ref-4)
5. Consistent with the draft guidance for the LCR Reporting Form as set out in DP25-01. [↑](#footnote-ref-5)
6. The current maturity mismatch return can include behavioural adjustments to both assets and liabilities, specific to each bank. [↑](#footnote-ref-6)
7. This considers feedback provided for DP25-01. [↑](#footnote-ref-7)