Central Bank of Oman

البَنك المركزي العُمَاني

Basel III-Net Stable Funding Ratio guidelines

October 2016

Basel III- Net Stable Funding Ratio guidelines

INDEX

Section	Subject	Page no.
1	Introduction	2
2	Definition of minimum requirements	3
	Definition of Available Stable Funding	5
	Calculation of derivative liability amounts	6
	Summary of liability categories and associated ASF factors	9
	Definition of Required Stable Funding and Off Balance sheet exposures	9
	Encumbered assets	11
	Secured financing transactions	11
	Calculation of derivative assets amounts	12
	Summary of asset categories and associated RSF factors	16
	Interdependent assets and liabilities	18
	Off balance sheet exposures	18
	Summary of off balance sheet exposures and associated RSF factors	19
3	Application issues for NSFR	20
	NSFR reporting format	21
4	Disclosure requirements for NSFR	23
	Explanation of each row of the common disclosure template	26
	Instructions for completion of NSFR disclosure template	27

Section 1

Introduction

1. Central Bank of Oman commenced the observation period for the Liquidity Coverage Ratio (LCR) and the Net Stable Funding Ratio (NSFR) in terms of the roadmap for implementation of Basel III, forwarded vide Circular BM 1097 dated August 12, 2012. As required in terms of paragraph 15 of the annex to the above mentioned circular, licensed banks are required to calculate and report the Liquidity Coverage Ratio and Net Stable Funding Ratio as per Basel III guidelines to CBO as at the end of every month. In terms of our letter BSD/2014/Basel III/ All Banks /426 dated March 25, 2014 read with our circular no. BM 1127 dated December 24, 2014, banks were advised to follow a prescribed format for reporting the Liquidity Coverage Ratio (LCR) and its related disclosures. The standard for LCR came into effect from January 1, 2015 at a minimum ratio of 60%, increasing by 10% every year thereafter.

2. This document provides guidance on the Net Stable Funding Ratio (NSFR), one of the Basel Committee's key reforms to promote a more resilient banking sector. 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.

3. Just as banks may have private incentives to increase leverage, incentives arise for banks to expand their balance sheets quickly, very often relying on relatively cheap and abundant short-term wholesale funding. Rapid balance sheet growth can weaken the ability of individual banks to respond to liquidity (and solvency) shocks when they occur, and can have systemic implications when banks fail to internalise the costs associated with large funding gaps. A highly interconnected financial system tends to exacerbate these spillovers.

4. The difficulties experienced by some banks arose from failures to observe the basic principles of liquidity risk management. In this context, CBO had earlier issued guidelines on management of liquidity risk as part of the comprehensive circular on risk management (BM 955 dated May 7, 2003).

5. Subsequent to Basel Committee further strengthening its liquidity framework by developing two *minimum* standards for funding and liquidity, CBO

issued the framework on Liquidity Coverage Ratio (LCR) and LCR disclosure standards in terms of circular BM 1127 dated December 24, 2014 (hereinafter referred to as LCR framework). The LCR is to promote the 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 30 days. The second standard is the Net Stable Funding Ratio (NSFR), with objective to reduce funding risk over a longer 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.

6. In addition to the LCR and NSFR standards, the Basel Committee has 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 (Please see para 8, Section D of the LCR framework). In this regard, the contractual maturity mismatch metric, 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.

7. The Basel Committee reviewed the development of the NSFR over an observation period. The focus of this review was on addressing any unintended consequences for financial market functioning and the economy, and on improving its design with respect to several key issues, notably:

(i) the impact on retail business activities;
(ii) the treatment of short-term matched funding of assets and liabilities; and
(iii) analysis of sub-one year buckets for both assets and liabilities.

8. Section 2 of this document presents minimum requirements, definitions, etc. Section 3 discusses application issues for the NSFR such as scope of application, implementation date etc. The disclosure requirements for the NSFR are set out in Section 4, including a common template that banks must use to report their NSFR results and selected details of the NSFR components.

Section 2

Definition and minimum requirements

9. 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. "*Available stable funding*" is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of such stable funding *required* ("Required stable funding") of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by that institution as well as those of its off-balance sheet (OBS) exposures.

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

10. The NSFR consists primarily of internationally agreed-upon definitions and calibrations. 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.

11. The calibration reflects the stability of liabilities across two dimensions:

(a) *Funding tenor* – The NSFR is generally calibrated such that longer-term liabilities are assumed to be more stable than short-term liabilities.

(b) *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.

12. As a key component of the supervisory approach to funding risk, the NSFR will be supplemented by CBO's assessment work. CBO may require an individual bank to adopt more stringent standards to reflect its funding risk profile and CBO's assessment of its compliance with the Sound Principles.

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

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.

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.

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.

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.

14. 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.

15. NSFR definitions mirror those outlined in the LCR framework, unless otherwise specified. All references to LCR definitions in the NSFR refer to the definitions in the LCR framework issued by CBO. It is amply clarified that insurance and investment companies are considered as financial institutions for the application of the NSFR standards.

Definition of Available Stable Funding

16. 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 detailed in paras 19-23 and summarized in para 24. 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 value represents the amount at which a liability or equity instrument is recorded before the application of any regulatory deductions, filters or other adjustments.

17. When determining the maturity of an equity or liability instrument, it is assumed that a call option will be redeemed at the earliest possible date. For funding with options exercisable at the bank’s discretion, reputational factors that may limit a bank’s ability not to exercise the option will be duly considered by CBO. 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.

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. 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.

Calculation of derivative liability amounts

18. 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 paragraphs 8 and 9 of the annex of Basel III leverage ratio framework and disclosure requirements, January 2014, (www.bis.org/publ/bcbs270.pdf), the replacement cost for the set of derivative exposures covered by the contract will be the net replacement cost.

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

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. To avoid any double counting in connection with a derivative contract, the extent that the bank's accounting framework reflects on balance sheet an asset associated with collateral posted as variation margin that is deducted from the replacement cost amount, that asset should not be included in the calculation of a bank's required stable funding (RSF).

Liabilities and capital receiving a 100% ASF factor

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

(a) the total amount of regulatory capital, before the application of capital deductions, being the sum of Tier 1 capital and Tier 2 capital, 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) 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.

Capital instruments reported here should meet all requirements outlined in BM 1114 (CP-1).

Liabilities receiving a 95% ASF factor

20. Liabilities receiving a 95% ASF factor comprise “stable” (as defined in para 11.3 (i)(a) of the LCR framework) ,non-maturity (demand) deposits and/or term deposits with residual maturities of less than one year provided by retail and small business customers.

Liabilities receiving a 90% ASF factor

21. Liabilities receiving a 90% ASF factor comprise “less stable” (as defined in para 11.3(i)(b) of the LCR framework) non-maturity (demand) deposits and/or term deposits with residual maturities of less than one year provided by retail and small business customers. Retail deposits are defined in paragraph 11.3(i)(c) ibid. Small business customers are defined in paragraph 11.3(ii)(a) ibid.

Liabilities receiving a 50% ASF factor

22. Liabilities receiving a 50% ASF factor comprise:

(a) funding (secured and unsecured) with a residual maturity of less than one year provided by non-financial corporate customers;

(b) operational deposits (as defined para 11.3 (ii)(b) of the LCR framework);

(c) funding with residual maturity of less than one year from sovereigns, public sector entities (PSEs), and multilateral and national development banks (i.e. Oman Development Bank); 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.

Liabilities receiving a 0% ASF factor

23. Liabilities receiving a 0% ASF factor comprise:

(a) all other liabilities and equity categories not included in the above categories, including other funding with residual maturity of less than six months from central banks and financial institutions;

(b) other liabilities without a stated maturity. This category may include short positions and open maturity positions. Two exceptions can be recognised for liabilities without a stated maturity:

- first, deferred tax liabilities, which should be treated according to the nearest possible date on which such liabilities could be realised; and

- second, minority interest, which should be treated according to the term of the instrument, usually in perpetuity.

These liabilities would then be assigned either a 100% ASF factor if the effective maturity is one year or greater, or 50%, if the effective maturity is between six months and less than one year;

(c) NSFR derivative liabilities as calculated according to paragraph 18 above net of NSFR derivative assets as calculated later according to paragraphs 31 and 32, if NSFR derivative liabilities are greater than NSFR derivative assets; So

ASF = 0% x MAX ((NSFR derivative liabilities – NSFR derivative assets), 0).

(d) “trade date” payables arising from purchases of financial instruments, foreign currencies and commodities that (i) are expected to settle within the standard settlement cycle or period that is customary for the relevant exchange or type of transaction, or (ii) have failed to, but are still expected to, settle.

24. Table 1 below summarises the components of each of the ASF categories and the associated maximum ASF factor to be applied in calculating an institution’s total amount of available stable funding under the standard.

Summary of liability categories and associated ASF factors Table 1

ASF factor	Components of ASF category
100%	• Total regulatory capital (excluding Tier 2 instruments with residual maturity of less than one year) • Other capital instruments and liabilities with effective residual maturity of one year or more
95%	• Stable non-maturity (demand) deposits and term deposits with residual maturity of less than one year provided by retail and small business customers
90%	• Less stable non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and small business customers
50%	• Funding with residual maturity of less than one year provided by non-financial corporate customers • Operational deposits • Funding with residual maturity of less than one year from sovereigns, PSEs, and multilateral and national development banks • Other funding with residual maturity between six months and less than one year not included in the above categories, including funding provided by central banks and financial institutions
0%	• All other liabilities and equity not included in the above categories, including liabilities without a stated maturity (with a specific treatment for deferred tax liabilities and minority interests) • NSFR derivative liabilities net of NSFR derivative assets if NSFR derivative liabilities are greater than NSFR derivative assets • "Trade date" payables arising from purchases of financial instruments, foreign currencies and commodities

Definition of Required Stable Funding for assets and off-balance sheet exposures

25. The amount of Required Stable Funding (RSF) 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 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. For the purposes of calculating the NSFR, HQLA are defined as all HQLA without regard to LCR operational requirements and LCR caps on Level 2 and Level 2B assets that may otherwise limit the ability of some HQLA to be included as eligible HQLA in calculation of the LCR. HQLA are defined in Section B of the LCR framework issued under BM 1127. Operational requirements are specified in paragraphs 5.7 to 5.16 of the same document.

26. 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.

27. Assets should be allocated to the appropriate RSF factor based on their residual maturity or liquidity value. When determining the maturity of an instrument, investors should be assumed to exercise any option to extend maturity. For assets with options exercisable at the bank's discretion, CBO would take into account reputational factors that may limit a bank's ability not to exercise the option. (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 assets).

In particular, 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 RSF category. 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.

28. For purposes of determining its required stable funding, an institution should (i) include financial instruments, foreign currencies and commodities for which a purchase order has been executed, and (ii) 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 institution's balance sheet, and (ii) the effects of such transactions will be reflected in the institution's balance sheet when settled.

Encumbered assets

29. 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. 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 LCR framework paragraph 5.1. 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. In addition, for the purposes of calculating the NSFR, assets that are encumbered for exceptional central bank liquidity operations may receive a reduced RSF factor, which will not be lower than the RSF factor applied to the equivalent asset that is unencumbered, and as may be decided by CBO.

In general, exceptional central bank liquidity operations are considered to be non-standard and temporary operations conducted by the central bank in order to achieve its mandate in a period of market-wide financial stress and/or exceptional macroeconomic challenges.

Secured financing transactions

30. 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 should 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 should allocate such securities to the appropriate RSF category.

It is clarified that in cases where collateral is pledged in a repo operation with remaining maturity of one year or greater but where the collateral pledged matures in less than one year, for the purpose of computing the NSFR, the collateral should be considered encumbered for the term of the repo or secured transaction, even if

the actual maturity of the collateral is shorter than one year. This follows because the collateral would have to be replaced once it matures. Thus, the collateral pledged under a transaction maturing beyond one year should be subject to a RSF factor of 100%, regardless of its maturity.

Securities financing transactions with a single counterparty may be measured net when calculating the NSFR, provided that the netting conditions set out in Paragraph 33(i) of the *Basel III leverage ratio framework and disclosure requirements (www.bis.org/publ/bcbs270.pdf)* are met.

Calculation of derivative asset amounts

31. 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 in paragraphs 8 and 9 of the annex of *Basel III leverage ratio framework and disclosure requirements* (www.bis.org/publ/bcbs270.pdf), the replacement cost for the set of derivative exposures covered by the contract will be the net replacement cost.

32. In calculating NSFR derivative assets, (NSFR derivative assets = derivative assets – cash collateral received as variation margin on 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 and meets the conditions as specified in paragraph 25 of the *Basel III leverage ratio framework and disclosure requirements* (www.bis.org/publ/bcbs270.pdf). 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.

Assets assigned a 0% RSF factor

33. Assets assigned a 0% RSF factor comprise:

(a) coins and banknotes immediately available to meet obligations;

(b) all central bank reserves (including required reserves and excess reserves);

(c) all claims on central banks with residual maturities of less than six months;

and

(d) “trade date” receivables arising from sales of financial instruments, foreign currencies and commodities that (i) are expected to settle within the standard settlement cycle or period that is customary for the relevant exchange or type of transaction, or (ii) have failed to, but are still expected to, settle.

Note: The term “claims” referred to in item (c) above, is a broader term than loans. It includes, for example, assets created in banks’ balance sheets by entering into repo transactions with the central bank.

Assets assigned a 5% RSF factor

34. Assets assigned a 5% RSF factor comprise unencumbered Level 1 assets as defined in LCR framework ,paragraph 5.5, excluding assets receiving a 0% RSF as specified above, and including:

- marketable securities representing 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, or multilateral development banks that are assigned a 0% risk weight under the Basel II standardised approach for credit risk;
  and

- certain non-0% risk-weighted sovereign or central bank debt securities as specified in the LCR framework.

Assets assigned a 10% RSF factor

35. 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 Section B of LCR framework, and where the bank has the ability to freely rehypothecate the received collateral for the life of the loan.

Assets assigned a 15% RSF factor

36. Assets assigned a 15% RSF factor comprise:

(a) unencumbered Level 2A assets as defined in para 5.6a of LCR framework, 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 months not included in paragraph 34.

Assets assigned a 50% RSF factor

37. Assets assigned a 50% RSF factor comprise:

(a) unencumbered Level 2B assets as defined and subject to the conditions set forth in LCR framework paragraph 5.6(b), 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 maturity of between six months and less than one year; and

(d) deposits held at other financial institutions for operational purposes, as outlined in LCR framework paragraph 11.3(ii)(b), that are subject to the 50% ASF factor in paragraph 22 (b); above and

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

Assets assigned a 65% RSF factor

38. Assets assigned a 65% RSF factor comprise:

(a) unencumbered residential mortgages with a residual maturity of one year or more that would qualify for a 35% or lower risk weight under the Basel II standardised approach for credit risk; 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 standardised approach for credit risk.

Assets assigned an 85% RSF factor

39. Assets assigned an 85% RSF factor comprise:

(a) cash, securities or other assets posted as initial margin for derivative contracts and cash or other assets provided to contribute to the default fund of a central counterparty (CCP). Initial margin posted on behalf of a customer, where the bank does not guarantee performance of the third party, would be exempt from this requirement. 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. In light of the on-going implementation of regulatory requirements related to the margining and settlement of derivatives, the Basel Committee will continue to evaluate the treatment of margining in the NSFR. During this period, the Basel Committee will conduct quantitative analysis and consider alternative approaches, if necessary and appropriate.

(b) other unencumbered performing loans that do not qualify for the 35% or lower risk weight under the Basel II standardised approach for credit risk and have residual maturities of one year or more, excluding loans to financial institutions.

(c) 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; and

(d) physical traded commodities, including gold.

Assets assigned a 100% RSF factor

40. 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 as calculated according to paragraphs 31 and 32 net of NSFR derivative liabilities as calculated according to paragraph 18, if NSFR derivative assets are greater than NSFR derivative liabilities. Thus,

RSF = 100% x MAX ((NSFR derivative assets – NSFR derivative liabilities), 0).

(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, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities; and

(d) 20% of derivative liabilities (i.e. negative replacement cost amounts) as calculated according to paragraph 18 (before deducting variation margin posted).

41. Table 2 summarises the specific types of assets to be assigned to each asset category and their associated RSF factor.

Summary of asset categories and associated RSF factors Table 2

RSF factor	Components of RSF category
0%	• Coins and banknotes • All central bank reserves • All claims on central banks with residual maturities of less than six months • "Trade date" receivables arising from sales of financial instruments, foreign currencies and commodities
5%	• Unencumbered Level 1 assets, excluding coins, banknotes and central bank reserves

10%	• 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 LCR framework para 5.5, and where the bank has the ability to freely rehypothecate the received collateral for the life of the loan
15%	• All other unencumbered loans to financial institutions with residual maturities of less than six months not included in the above categories • Unencumbered Level 2A assets
50%	• Unencumbered Level 2B assets • HQLA encumbered for a period of six months or more and less than one year • Loans to financial institutions and central banks with residual maturities between six months and less than one year • Deposits held at other financial institutions for operational purposes • All other assets not included in the above categories with residual maturity of less than one year, including loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns and PSEs
65%	• Unencumbered residential mortgages with a residual maturity of one year or more and with a risk weight of less than or equal to 35% under the Standardised Approach • Other unencumbered loans not included in the above categories, excluding loans to financial institutions, with a residual maturity of one year or more and with a risk weight of less than or equal to 35% under the standardised approach
85%	• Cash, securities or other assets posted as initial margin for derivative contracts and cash or other assets provided to contribute to the default fund of a CCP • Other unencumbered performing loans with risk weights greater than 35% under the standardised approach and residual maturities of one year or more, excluding loans to financial institutions • Unencumbered securities that are not in default and do not qualify as HQLA with a remaining maturity of one year or more and exchange-traded equities • Physical traded commodities, including gold

100%	• All assets that are encumbered for a period of one year or more • NSFR derivative assets net of NSFR derivative liabilities if NSFR derivative assets are greater than NSFR derivative liabilities 20% of derivative liabilities as calculated according to paragraph 18 • 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, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities

Interdependent assets and liabilities

42. Certain asset and liability items, on the basis of contractual arrangements, are interdependent such that the liability cannot fall due while the asset remains on the balance sheet, the principal payment flows from the asset cannot be used for something other than repaying the liability, and the liability cannot be used to fund other assets. For interdependent items, CBO, at its discretion, may adjust RSF and ASF factors so that they are both 0%, subject to the following criteria:

- The individual interdependent asset and liability items must be clearly identifiable.
- The maturity and principal amount of both the liability and its interdependent asset should be the same.
- The bank is acting solely as a pass-through unit to channel the funding received (the interdependent liability) into the corresponding interdependent asset.
- The counterparties for each pair of interdependent liabilities and assets should not be the same.

Banks should approach CBO with full particulars of such cases**.** While applying its discretion**,** CBO would consider whether perverse incentives or unintended consequences are being created.

Off-balance sheet exposures

43. Many potential OBS 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 OBS activities in order to ensure that institutions hold stable funding for the portion of OBS exposures that may be expected to require funding within a one-year horizon.

44. Consistent with the LCR, the NSFR identifies OBS exposure categories based broadly on whether the commitment is a credit or liquidity facility or some other contingent funding obligation. Table 3 identifies the specific types of OBS exposures to be assigned to each OBS category and their associated RSF factor.

Summary of off-balance sheet categories and associated RSF factors: Table 3

RSF factor	RSF category
5% of the currently undrawn portion	Irrevocable and conditionally revocable credit and liquidity facilities to any client
	Other contingent funding obligations, including products and instruments such as: • Unconditionally revocable credit and liquidity facilities • Trade finance-related obligations (including guarantees and letters of credit) • Guarantees and letters of credit unrelated to trade finance obligations
5%	Non-contractual 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 (VRDNs) − managed funds that are marketed with the objective of maintaining a stable value

Section 3

Application issues for the NSFR

45. This section outlines two issues related to the application of the NSFR: the scope of application of the NSFR and the frequency with which banks calculate and report the NSFR.

Scope of application

46. The standard will come in force from January 1, 2018. The NSFR would be applied to all banks on a consolidated basis, as also at solo levels. It is amply clarified that Islamic Banking windows would also be required to adhere to the minimum NSFR standards going forward from the date of implementation.

Frequency of calculation and reporting

47. Banks are expected to meet the NSFR requirement on an ongoing basis. The NSFR should be reported monthly in the standardized format given in para 51 below, within 15 days of the following month. The NSFR return should accompany the monthly return of LCR, prescribed in terms of the LCR framework.

48. It is recognised that the NSFR is only one measure of a bank's funding risk and that other information, both quantitative and qualitative, is essential for market participants to gain a broader picture of a bank's funding risk and management. Section E of the LCR framework provides additional guidance on other information that banks may choose to disclose in order to facilitate understanding and awareness of their internal funding liquidity risk measurement and management.

49. Banks will be required to comply with the NSFR disclosure requirements from the date of the first reporting period after 1 January 2018. Banks must publish this disclosure with the same frequency as, and concurrently with, the publication of their financial statements (i.e. on a quarterly basis), irrespective of whether the financial statements are audited. The first such disclosure should therefore be made for the position as on March 31, 2018.

50. Banks must either include the disclosures required by this document in their published financial reports or, at a minimum, provide a direct and prominent link to the completed disclosure on their websites or in publicly available regulatory reports. Banks must also make available on their websites, or through publicly

available regulatory reports, an archive (for a retention period of three years) of all templates relating to prior reporting periods. Irrespective of the location of the disclosure, the minimum disclosure requirements must be in the format required by this document (i.e. according to the requirements in Section 4).

51. **NSFR reporting format**

Banks should forward their NSFR calculations on a monthly basis, in the following format:

Basel III-Net Stable Funding Ratio **Report for the Month of:**

Bank: (RO '000)

Available stable funding	**Associated Factor**	**Unweighted amount**	**Weighted amount**
Tier 1 capital	100%		
Tier 2 capital (excluding Tier 2 instruments with residual maturity of less than one year)	100%		
Other capital instruments with effective residual maturity of one year or more	100%		
Other liabilities with effective residual maturities of one year or more	100%		
Stable non-maturity (demand) deposits and term deposits with residual maturity of less than one year provided by retail and small business customers	95%		
Less stable non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and small business customers	90%		
Funding with residual maturity of less than one year provided by non-financial corporate customers, Funding with residual maturity of less than one year from sovereigns, PSEs, and multilateral and national development banks	50%		
Operational deposits	50%		
Other funding with residual maturity between six months and less than one year not included in the above categories, including funding provided by central banks and financial institutions	50%		
All other liabilities and equity not included in the above categories, including liabilities without a stated maturity (with a specific treatment for deferred tax liabilities and minority interests)	0%		
NSFR derivative liabilities net of NSFR derivative assets if NSFR derivative liabilities are greater than NSFR derivative assets	0%		
“Trade date” payables arising from purchases of financial instruments, foreign currencies and commodities	0%		
Total Available Stable Funding			
Required stable funding			
Coins,banknotes and reserves with CBO	0%		

All claims on central banks with residual maturities of less than six months	0%		
"Trade date" receivables arising from sales of financial instruments, foreign currencies and commodities	0%		
Unencumbered Level 1 assets, excluding coins, banknotes and reserves with CBO	5%		
Unencumbered loans to financial institutions with residual maturities of less than six months, where the loan is secured against Level 1 assets defined in LCR framework para 5.5,and where the bank has the ability to freely rehypothecate the received collateral for the life of the loan	10%		
All other unencumbered loans to financial institutions with residual maturities of less than six months not included in the above categories	15%		
Unencumbered Level 2A assets	15%		
Unencumbered Level 2B assets	50%		
HQLA encumbered for a period of six months or more and less than one year	50%		
Loans to financial institutions and central banks with residual maturities between six months and less than one year	50%		
Deposits held at other financial institutions for operational purposes	50%		
All other assets not included in the above categories with residual maturity of less than one year, including loans to non-financial corporate clients, loans to retail and small business customers, and loans to sovereigns and PSEs	50%		
Unencumbered residential mortgages with a residual maturity of one year or more and with a risk weight of less than or equal to 35% under the Standardised Approach	65%		
Other unencumbered loans not included in the above categories, excluding loans to financial institutions, with a residual maturity of one year or more and with a risk weight of less than or equal to 35% under the Standardised Approach	65%		
Cash, securities or other assets posted as initial margin for derivative contracts and cash or other assets provided to contribute to the default fund of a CCP	85%		
Other unencumbered performing loans with risk weights greater than 35% under the Standardised Approach and residual maturities of one year or more, excluding loans to financial institutions.	85%		
Unencumbered securities that are not in default and do not qualify as HQLA with a remaining maturity of one year or more and exchange-traded equities	85%		
Physical traded commodities, including gold	85%		
All assets that are encumbered for a period of one year	100%		

or more			
NSFR derivative assets net of NSFR derivative liabilities if NSFR derivative assets are greater than NSFR derivative liabilities	100%		
20% of derivative liabilities (as per para 18 above)	100%		
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, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities.	100%		
Sub total (A)			
Off balance sheet exposures			
Irrevocable and conditionally revocable credit and liquidity facilities to any client	5% of currently undrawn portion		
Other contingent funding obligations, including products and instruments such as guarantees, letters of credit, Unconditionally revocable credit and liquidity facilities	5% of currently undrawn portion		
Non contractual 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, managed funds that are marketed with the objective of maintaining a stable value	5%		
Sub total (B)			
Total Required Stable Funding (A+B)			
NSFR (%)	ASF/RSF		

Section 4

Disclosure requirements for NSFR

52. The disclosure of quantitative information about the NSFR should follow the common template developed by the Basel Committee. An explanation of the common template's design is given in paragraph 55. The NSFR information must be calculated on a consolidated basis and presented in Rial Omani. Data must be presented as quarter-end observations at the end of each quarter of the financial year. A hard and soft copy of the disclosure should also be forwarded to Banking Surveillance Department of CBO.

	Bank:	Unweighted value by residual maturity				Weighted value
	Quarter ended:	No maturity	< 6 months	6 months to < 1yr	≥ 1yr	
	(in RO' 000)					
ASF Item						
1	Capital:					
2	*Regulatory capital*					
3	*Other capital instruments*					
4	Retail deposits and deposits from small business customers:					
5	*Stable deposits*					
6	*Less stable deposits*					
7	Wholesale funding:					
8	*Operational deposits*					
9	*Other wholesale funding*					
10	Liabilities with matching interdependent assets					
11	Other liabilities:					
12	*NSFR derivative liabilities*					
13	*All other liabilities and equity not included in the above categories*					
14	**Total ASF**					
RSF Item						
15	Total NSFR high-quality liquid assets (HQLA)					
16	Deposits held at other financial institutions for operational purposes					
17	Performing loans and securities:					
18.	Performing loans to financial institutions secured by Level 1 HQLA					
19.	Performing loans to financial institutions secured by non- Level 1 HQLA and unsecured performing loans to financial institutions					
20.	Performing loans to non-financial corporate clients,loans to retail and small business customers, and loans to sovereigns, central					

	banks and PSEs, of which					
21.	-With a risk weight of less than or equal to 35% under the Basel II Standardised approach for credit risk					
22.	Performing residential mortgages, of which:					
23.	With a risk weight of less than or equal to 35% under the Basel II Standardised Approach for credit risk					
24.	Securities that are not in default and do not qualify as HQLA, including exchange-traded equities					
25.	Assets with matching interdependent liabilities					
26.	Other Assets:					
27.	Physical traded commodities, including gold					
28.	Assets posted as initial margin for derivative contracts and contributions to default funds of CCPs					
29.	NSFR derivative assets					
30.	NSFR derivative liabilities before deduction of variation margin posted					
31.	All other assets not included in the above categories					
32.	Off-balance sheet items					
33.	**TOTAL RSF**					
34.	**NET STABLE FUNDING RATIO (%)**					

53. Both unweighted and weighted values of the NSFR components must be disclosed unless otherwise indicated. Weighted values are calculated as the values after ASF or RSF factors are applied.

54. Items to be reported in the ‘No maturity’ time bucket do not have a stated maturity. Such items include but are not limited to, capital with perpetual maturity, non-maturity deposits, short positions, open maturity positions, non-HQLA equities

and physical traded commodities.

55. **Explanation of each row of the common disclosure template**

Row number	Explanation	Relevant paragraph(s) of NSFR guidelines
1.	Capital is the sum of rows 2 and 3	
2	Regulatory capital before the application of capital deductions, as defined in paragraph 7 of the guidelines on regulatory capital under Basel III (CP-1). *Capital instruments reported here should meet all requirements outlined in CP-1.*	19(a), 22(d) and 23(a)
3	Total amount of any capital instruments not included in row 2.	19(b), 22(d) and 23(a)
4	Retail deposits and deposits from small business customers, as defined in the LCR framework paragraphs 73–84 and 89–92, are the sum of row 5 and 6.	
5	Stable deposits comprise “stable” (as defined in the LCR framework in paragraph 11.3(i)(a), non-maturity (demand) deposits and/or term deposits provided by retail and small business customers.	19(c) and 20
6	Less stable deposits comprise “less stable” (as defined in the LCR framework in paragraph 11.3(i)(b), non-maturity (demand) deposits and/or term deposits provided by retail and small business customers.	19(c) and 21
7	Wholesale funding is the sum of rows 8 and 9.	
8	Operational deposits: As defined in LCR framework paragraph 11.3(ii)(b), including deposits in institutional networks of cooperative banks.	19(c), 22(b) and 23(a)
9	Other wholesale funding include funding (secured and unsecured) provided by non-financial corporate customer, sovereigns,	19(c), 22 (a), (c), and (d) and 23(a)

	public sector entities (PSEs), multilateral and national development banks, central banks and financial institutions.	
10	Liabilities with matching interdependent assets.	42
11	Other liabilities are the sum of rows 12 and 13.	
12	In the unweighted cells, report NSFR derivatives liabilities as calculated according to paragraph 18. There is no need to differentiate by maturities. [The weighted value under NSFR derivative liabilities is dark coloured, given that it will be zero after the 0% ASF is applied.]	18, 23(c)
13	All other liabilities and equity not included in above categories.	23(a), (b) and (d)
14	Total ASF is the sum of all weighted values in rows 1, 4, 7, 10 and 11.	
15	Total HQLA as defined in Section B of the LCR framework (encumbered and unencumbered), without regard to LCR operational requirements and LCR caps on Level 2 and Level 2B assets that might otherwise limit the ability of some HQLA to be included as eligible in calculation of the LCR:	25, 33(a) and (b), 34, 36(a), 37(a) and (b), 39(a) and 40(a)

56. **Instructions for completion of the NSFR common disclosure template**

Rows in the template are set and compulsory for all banks. Paragraph 55 provides a table that sets out an explanation of each line of the common template, with references to the relevant paragraph(s) of the NSFR guidelines. Key points to note about the common template are:

− Each dark grey row introduces a section of the NSFR template.

− Each light grey row represents a broad subcomponent category of the NSFR in the relevant section.

− Each unshaded row represents a subcomponent within the major categories under ASF and RSF items. The relevant subcomponents to be included in the calculation of each row are specified in Paragraph 55. As an exception, rows 21 and 23 are subcomponents of rows 20 and 22, respectively. Row 17 is the sum of rows 18, 19, 20, 22 and 24.

− No data should be entered for the dark black cells.

• Figures entered in the template should be the quarter-end observations of individual line items.

• Figures entered for each RSF line item should include both unencumbered and encumbered amounts.

• Figures entered in unweighted columns are to be assigned on the basis of residual maturity and in accordance with paragraphs 18 and 29 of the NSFR rules text.

57. **Other disclosures**

In addition to the common template, banks should provide a sufficient qualitative discussion around the NSFR to facilitate an understanding of the results and the accompanying data. For example, where significant to the NSFR, banks could discuss:

(a) the drivers of their NSFR results and the reasons for intra-period changes as well as the changes over time (e.g. changes in strategies, funding structure, circumstances etc.); and

(b) the composition of the bank's interdependent assets and liabilities (as defined in paragraph 42 of this document) and to what extent these transactions are interrelated.

****