



**EBA REPORT ON THE IMPACT OF THE NSFR ON THE
FUNCTIONING OF THE PRECIOUS METALS MARKET
UNDER THE MANDATE IN ARTICLE 510 (11) OF
REGULATION (EU) NO 2019/876**

November 2021

EBA/Rep/2021/34

EBA

EUROPEAN
BANKING
AUTHORITY

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Executive Summary

The subject of the report is the impact of the NSFR on the market for precious metals

This report provides a discussion about the possible impact of the NSFR on the functioning of the precious metals market. The analysis is based on different data sources including Common Reporting (COREP).¹

Based on QIS data, the effect of the NSFR on the precious metals market is limited

Information collected by the BCBS and the EBA under the QIS project enables verification that banks started to comply with the new liquidity requirements well in advance of their entry into force. During the period 2011–2019, banks analysed in the BCBS QIS cleared the shortfall of stable funding needed to comply with the NSFR. In the same period, the volatility of the net volume of transfers of gold and silver physically held in London did not increase in respect to the previous period (1996-2009). This evidence suggests that the adjustments induced by the NSFR shaped limited impacts on the market of precious metals.

The impact of reducing the RSF factor assigned to physically traded commodities is immaterial

Based on the EBA QIS and COREP data, the amount of physically traded commodities reported by the banks is negligible when compared with the market volumes. Also, the requirement for stable funding generated by these assets is limited in comparison with the total amount of required stable funding and a reduction of the weighting factor assigned to these assets would have limited impact on the banks and, in particular, it would not materially make the NSFR less stringent.

¹ The report is provided under Article 509(1) of the Capital Requirements Regulation (CRR). The objective of the report is to monitor and evaluate the liquidity coverage requirements under Commission Delegated Regulation (DR) (EU) 2015/61.

1. Introduction

1.1 Background information

Regulation (EU) No 2019/876 (CRR2) amended Article 510 of Regulation (EU) No 575/2013 (CRR) by adding the paragraph (11) that mandates the EBA to submit a report to the Commission by 28 June 2021 assessing whether it would be justified to reduce the required stable funding factor for assets used for providing clearing and settlement services or for providing financing transactions of precious metals.

Article 510(11) CRR2: EBA shall assess whether it would be justified to reduce the required stable funding factor for assets used for providing clearing and settlement services of precious metals such as gold, silver, platinum and palladium or assets used for providing financing transactions of precious metals such as gold, silver, platinum and palladium of a term of 180 days or less. EBA shall submit its report to the Commission by 28 June 2021.

The initially envisaged deadline for the submission of the report has been postponed to Q4 2021 so as to enable the EBA to exploit the first official reporting for the NSFR that referred to 30 June 2021 and was available to the EBA in September 2021.

The introduction of the Net Stable Funding Ratio (NSFR) in the prudential regulation is part of the extensive revision of the regulation known as the Basel 3 agreement settled in the G20 meeting in Seoul in November 2010². The NSFR is one of the measures undertaken as a consequence of the Great Financial crisis of 2007 that pushed governments and markets to pay more attention to the liquidity status of banks. The NSFR aims to limit overreliance on short-term wholesale funding and complements the other indicator introduced with Basel 3, i.e. the Liquidity Coverage Ratio (LCR)³.

The NSFR discipline requires banks to maintain a stable funding profile in relation to the composition of their assets. 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. The NSFR limits overreliance on short-term wholesale funding, promoting funding stability. In practice, with the NSFR banks are required to hold an amount of funding stemming from stable sources (for example own capital or deposits with a maturity of more than one year) in proportion with on and off-balance-sheet items: their Required Stable Funding (RSF). The monetary amount of the RSF is obtained by classifying the assets into buckets on the grounds of the facility type and maturity, and assigning weights to each bucket. For example, coins and banknotes (cash) and central bank

² BCBS (2010): Basel III: A global regulatory framework for more resilient banks and banking systems.

³ The NSFR has a 12-month horizon while the LCR has a 1-month horizon. The NSFR is computed as the ratio between the available amount of stable funding and the required amount of stable funding. This ratio must be not lower than 100%.

reserves are weighted at 0% for any maturity, meaning that these assets are considered as not requiring to be backed by stable funding. Loans to non-financial corporations with a residual maturity lower than one year are weighted at 50% if unencumbered or encumbered but with remaining period of encumbrance of less than six months. This means that for each unencumbered euro of loans, for example to an SME with a residual maturity of three months, the bank is asked to hold at least 0.5 of a euro of stable funding.

While the LCR entered into force in the EU back in 2016, the enforcement of the NSFR has been postponed to 2021. However, the BCBS (at global level) and the EBA (at the EU level) have monitored the impact of the NSFR through the Quantitative Impact Studies (QIS) so that quantitative information about the implementation of this new regulatory standard is also available before 2021⁴.

In recent years, some participants in the precious metals market have raised the concern that the rules embedded in the NSFR could force some players, and in particular banks, out of the market. These rules treat physically traded metals like any other commodity, requiring banks to hold liquid assets to match their gold exposure as a buffer against adverse price movements. In particular, in the opinion of the London Bullion Market Association (LBMA) – whose members include major gold refiners and bullion trading banks – the NSFR rules about the gold holding are unnecessarily stringent. In turn, this treatment could disrupt London’s bullion clearing system inasmuch as a number of banks could stop trading or settling gold, curtailing market liquidity⁵.

1.2 Structure of the report

Section 2 reviews the current prudential treatment under the NSFR of the assets used for providing clearing and settlement services of precious metals and the assets used for providing financing transactions of precious metals. In this section there is also a discussion of the EBA report on the definition of high-quality liquid assets for the computation of the LCR. Section 3 describes the data used in the report. In Section 4 the impact of possible modifications of the treatment of the assets used for providing clearing and settlement services of precious metals under the NSFR is quantified. Section 5 concludes.

⁴ See <https://www.bis.org/bcbs/qis/index.htm> and <https://www.eba.europa.eu/risk-analysis-and-data/quantitative-impact-study/basel-iii-monitoring-exercise>

⁵<https://www.reuters.com/article/us-gold-regulation-nsfr/eu-ministers-reject-easing-of-liquidity-rules-for-gold-trading-idUSKCN1PI12A>; <https://www.businesstimes.com.sg/energy-commodities/eu-parliament-agrees-to-ease-liquidity-rules-for-gold-trading>; <https://www.businesstelegraph.co.uk/eu-ministers-reject-easing-of-liquidity-rules-for-gold-trading/>

2. The relevant factors of the NSFR

2.1 The relevant Required Stable Funding factors of the NSFR and coherence with the LCR

The amount of the RSF is obtained by multiplying banks' assets (included off-balance-sheet items) by factors. For example, a factor of 100% (the highest assignable value) implies that the asset value must be completely covered by stable funding. The required stable funding factors increase with the maturity of the assets but decrease with the liquidity of the assets.

The reliance on the liquidity of the assets in addition to their maturity for the assignment of the factors ensures a certain level of coherence between the NSFR and the LCR. Generally, the haircut applicable to liquid assets in the LCR is related to the RSF factor in the NSFR. So, to apply a 0% RSF it is necessary (but not sufficient) that an asset is considered liquid for the LCR.

The mandate in Article 510(11) CRR2 generically refers to the factors assigned to two types of assets:

1. *assets used for providing clearing and settlement services of precious metals*
2. *assets used for providing financing transactions of precious metals*

According to the LBMA⁶, banks active on the precious metals markets provide various financial services to market participants like short-term loans. Such loans are usually granted and repaid in metal over terms of less than 180 days and constitute short-term assets on bank balance sheets. Other transactions include uncommitted facilities under which a bank may loan metal to a counterparty to finance or facilitate an industrial or manufacturing process such as refining precious metals. Banks also finance precious metals refining by purchasing metal ore from mining companies and merchandisers and loaning this ore to refiners for processing. Market participants prefer such financing transactions to more complex derivative or repurchase transactions.

A factor equal to 85% is assigned to physically traded commodities (including gold but excluding commodity derivatives) if unencumbered or encumbered for a residual maturity of less than one year. If the assets are encumbered with a residual maturity higher than one year, the factor is 100%⁷. This factor clearly applies to the facilities described above.

However, assets used for providing financing transactions could be any type of facilities that provides liquidity to the counterparties. Where the counterparty is a financial customer, these assets are classified as securities financing transactions⁸ with financial customers and collateralised

⁶ https://cdn.lbma.org.uk/downloads/Pages/NSFR-PRA-Letter-final_signed-20210504.pdf

⁷ Article 428 ag (g) CRR2.

⁸ Asset financing refers to the use of a company's balance sheet assets, including short-term investments, inventory and accounts receivable, to borrow money or obtain a loan. The company borrowing the funds must provide the lender with a security interest in the assets. Securities financing transactions include securities or commodities lending and securities or commodities borrowing. See Article 4 CRR, point 139 of paragraph 1.

by other assets (i.e. non-HQLA). If the maturity is less than 180 days (that is the focus of the mandate) the factors assigned to these assets are⁹:

- 5% if unencumbered or encumbered for a residual maturity of less than six months
- 50% if encumbered for a residual maturity of at least six months but less than one year
- 100% if encumbered for a residual maturity of one year or more

For non-financial counterparties, the relevant factors assigned to securities financing transactions are those assigned to the other loans to non-financial customers other than central banks:

- 50% if unencumbered or encumbered for a residual maturity of less than one year
- 100% if encumbered for a residual maturity of one year or more
- 10% for trade finance on-balance-sheet products

Notice that the 100% factor is assigned to assets encumbered for at least 12 months. This is coherent with the one-year-horizon logic of the NSFR that assigns the highest factor to assets maturing in one year or more.

In particular, the term “trade finance” generally refers to finance that facilitates the trade of goods. Typically, trade finance is provided by banks and financial institutions, which intermediate between the buyer and the seller by providing financing to mitigate the risks involved in international as well as domestic trade¹⁰.

While these factors specifically refer to a particular market, the 85% factor assigned to physically traded commodities (if unencumbered or encumbered for a residual maturity of less than one year) is strictly related to the market of precious metals and this also considering the type of operations of the banks involved in this market as described by the LBMA (see above). The other factors refer to more generic facility types that can be used by the banks to provide liquidity to the counterparties.

It is also worth mentioning that in the LBMA documents about the NSFR the concerns are associated specifically with the 85% factor (see note 5). In detail, in the LBMA’s response to the public consultation on implementation of the Basel standards conducted by the UK Prudential Regulation Authority (PRA), it is stated that the 85% factor would increase the costs for clearing banks to the point that some would be forced to exit the clearing and settlement system and consequently it would increase the financing costs for the market participants.

For these reasons this report analyses the impact of a reduction of the 85% factor. It also considers the case where the factor is set to 0% even if it would contradict the coherence between the NSFR and the LCR. Indeed, for example gold as an asset has been excluded from the list of HQLA and specifically only cash, central bank reserves and sovereigns are subject to a 0% haircut under the

⁹ Article 428(4)(2) CRR2.

¹⁰ In the EBA Report under Article 510 CRR on the NSFR requirements a broad discussion will be found about trade finance and its treatment under the NSFR (see section 6 of the report).

LCR. This list has been determined by the European Commission on the basis of the recommendations contained in an EBA report that studied the liquidity of different markets.

2.2 The LCR report on HQLA

In 2013 the EBA published a report on the LCR pursuant to Art 481(1) CRR. In this report, the EBA developed an empirical analysis aimed at identifying the liquidity features of financial instruments at asset class level on the basis of a range of liquidity metrics. The final EBA recommendations for the definitions of liquid assets combine the results of this empirical analysis with qualitative supervisory judgment and reflect the great importance the EBA attaches to alignment with the international standards defined by the BCBS. In particular, the gold physically held by banks was not considered eligible as HQLA.

For this report the EBA performed a detailed quantitative assessment of the liquidity of individual assets. The estimates of various liquidity metrics from the quantitative data were used to produce an ordinal ranking of the relative liquidity of different asset classes. The relationship between the characteristics of specific assets and these liquidity metrics was also assessed to identify the characteristics that are of particular importance to market liquidity. The data analysis in the EBA report focused on the Great Financial Crisis period, which was considered appropriate for a calibration of a stress metric.

Data were collected and analysed for a range of asset types including gold, which has not been considered eligible as HQLA because: it is not eligible as collateral for standard central bank operations in the EU; it is not listed on stock exchanges but is traded in outright sale markets; lastly, gold was not found to be used as collateral in a survey of repo transactions.

3. The data

3.1 The data sources exploited

This report exploits four sources of information. The first one is the BCBS, which regularly publishes reports based on the QIS data collection. This data collection involves about 200 banks.

To assess the impact of the Basel III framework on banks, the BCBS has set up a semi-annual monitoring framework using data collected by national supervisors on a representative sample of institutions in each country. Data are provided for about 200 banks, including large internationally active (“Group 1”) banks and other (“Group 2”) banks. Although these reports do not refer specifically only to the EU and only aggregate figures are available, they have the advantage of dating back to a few years before the entry into force of the new liquidity measures introduced with Basel III.

The second source is the EBA QIS database. In this case the data are more granular and refer to a sample of EU banks (including UK banks up to 2018) but the period spanned dates back only to 2015. In particular, from this source of information, it is possible to retrieve the detail of the value of the assets subject to the 85% factor.

The third source is LBMA Trade Data, which make it possible for market participants to gauge the size and shape of the London OTC precious metals market, the oldest and biggest financial market for gold in the world. This source of data is relevant for providing a picture of the dimension of the precious metals market.

Lastly, the report relies on micro-data of European credit institutions. The main database is the EBA supervisory data, which contain quarterly or monthly financial data for a sample of large credit institutions in the EU. Uniform reporting requirements were set by the EBA with Commission Implementing Regulation (EU) No 680/2014 on supervisory reporting (COREP). Data are collected both at the highest level of consolidation and at individual level. Starting from June 2021, banks are asked also to report detailed information about the implementation of the NSFR. The analysis takes advantage also of the extended number of banks that have started to report to the EBA under the EUCLID project starting from end-2020. It is thanks to this enlargement of the range of banks that report to the EBA that the analysis extends also to less significant and local banks.

The analysis is conducted on a sample of 2,379 credit institutions, representative of 27 EU Member States, that report COREP data to the EBA on a regular basis. The data exploited come mainly from supervisory reporting templates C 80.00 and C 84.00 of COREP. The sample covers both globally active and other significant institutions (G-SIIs and O-SIIs), as well as other credit institutions. Subsidiaries have been excluded from both samples. In terms of total assets, the sample covers approximately EUR 30.5 trillion in June 2021. Since not all banks report FINREP information to the EBA, the total assets (template F.01 row 380) have been proxied with the total exposures amount

used for the computation of the Leverage Ratio (template C.47 row 290¹¹). This definition is broader than the total assets figure as it also encompasses the off-balance-sheet exposures transformed into credit equivalents through the application of credit conversion factors. This implies that it can be expected with this definition that the figures are likely to be somewhat higher than what could be obtained with the FINREP definition. The total amount under this definition over the entire sample (EUR 3.9 trillion stemming from smaller banks and EUR 26.9 trillion from major banks – see Table 1) can be compared with the total assets of EU headquartered credit institutions published by the ECB, which amounted to EUR 30.4 trillion at the same reference date. This comparison demonstrates that the samples considered for this report cover practically all the EU banking system.

Table 1: COREP data, sample composition – June 2021. Total assets in EUR billions

Country	Groups		Banks not belonging to a group		Total	
	N	Tot Ass	N	Tot Ass	N	Tot Ass
AT	32	871.2	359	135.1	391	1,006.3
BE	13	788.5	9	10.5	22	799.0
BG	5	13.4	7	6.5	12	19.9
CY	3	43.3	4	5.5	7	48.8
CZ	.	.	12	13.0	12	13.0
DE	72	3,822.6	1,244	2,776.6	1,316	6,599.2
DK	4	839.5	.	.	4	839.5
EE	6	17.4	.	.	6	17.4
ES	34	3,611.2	33	67.7	67	3,679.0
FI	11	775.5	.	.	11	775.5
FR	40	8,237.2	36	19.9	76	8,257.1
GR	8	271.1	6	4.2	14	275.3
HR	.	.	12	7.7	12	7.7
HU	3	104.0	4	3.9	7	107.9
IE	6	278.7	5	220.0	11	498.7
IT	45	2,924.4	90	116.1	135	3,040.5
LT	5	4.9	5	0.6	10	5.5
LU	9	86.0	40	254.5	49	340.5
LV	5	7.5	1	0.2	6	7.7
MT	5	27.0	14	8.1	19	35.1
NL	21	2,195.6	8	27.1	29	2,222.6
PL	2	151.4	10	54.3	12	205.7
PT	11	303.6	15	4.5	26	308.1
RO	4	30.3	7	14.1	11	44.4
SE	23	1,135.5	80	133.8	103	1,269.3
SI	4	37.1	3	2.1	7	39.3
SK	1	0.7	3	8.6	4	9.4
Total	372	26,577.7	2,007	3,894.6	2,379	30,472.3

Source: COREP

¹¹ Total Leverage Ratio exposure measure – using a fully phased-in definition of Tier 1 capital.

4. The results

4.1 Impact on the market

The introduction of the NSFR has been part of the revised prudential regulation (Basel III) since the beginning. Indeed, in the BCBS (2010) document *Basel III: A global regulatory framework for more resilient banks and banking systems*, the NSFR was already introduced. Although the entry into force of this requirement was postponed for years, it is clear that banks and their stakeholders began to pay increased attention to the issue of liquidity risk. Moreover, the BCBS and EBA QIS exercises permitted banks to familiarise themselves with the technical details of the NSFR well in advance of its entry into force.

Figure 1 below, obtained by elaborating the data presented in the BCBS semi-annual QIS reports, shows the dynamic of the shortfall in stable funding required to satisfy the NSFR requirements. The shortfall in stable funding measures the difference between balance sheet positions after the application of available stable funding factors and the application of required stable funding factors for banks where the former is less than the latter. This number is only reflective of the aggregate shortfall for banks that are below the 100% NSFR requirement and does not reflect any surplus stable funding of banks above the 100% requirement.

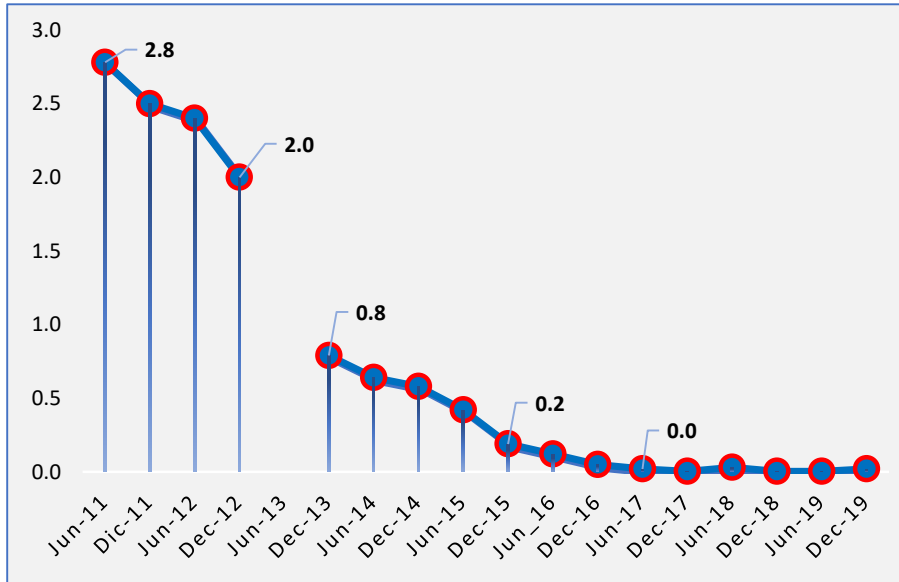
It can be seen that the aggregate shortfall has declined steadily since end-June 2011 and it was practically eliminated already at the end of 2016. At the end of 2019 the average weighted NSFR was 117% for major internationally active banks and 121% for the other banks included in the QIS sample.

It must also be mentioned that in 2016 the LCR entered into force. According to the *EBA Report on Liquidity Measures under Article 509(1) CRR*, in December 2017 the weighted average LCR for the sample of banks used for that report was 145%. An analysis of the evolution shows that banks have made significant efforts to increase the level of the LCR and to reduce the shortfall in liquid assets. The LCR, on average, has been above the 100% level since September 2016. The necessity to comply with the LCR has probably prompted banks to reduce their liquidity risk in general and the NSFR benefitted from it.

All these figures suggest that banks anticipated compliance with the NSFR standards well before their entry into force in June 2021. This implies that the potential negative effects on the precious metals market should already be visible in the data, but this does not seem to be the case. Figure 2 shows the net volume of transfers of gold and silver physically held in London – known as Loco London – settled between the four LBMA market maker banks that own and operate London Precious Metals Clearing Limited (LPMCL). In the charts the period subsequent to the announcement of the Basel III standards is highlighted. A reduction in the liquidity of the markets should show as an increase in the volatility of the markets but this is not what can be observed, rather the volatility of the gold and silver markets in the period subsequent to the announcement

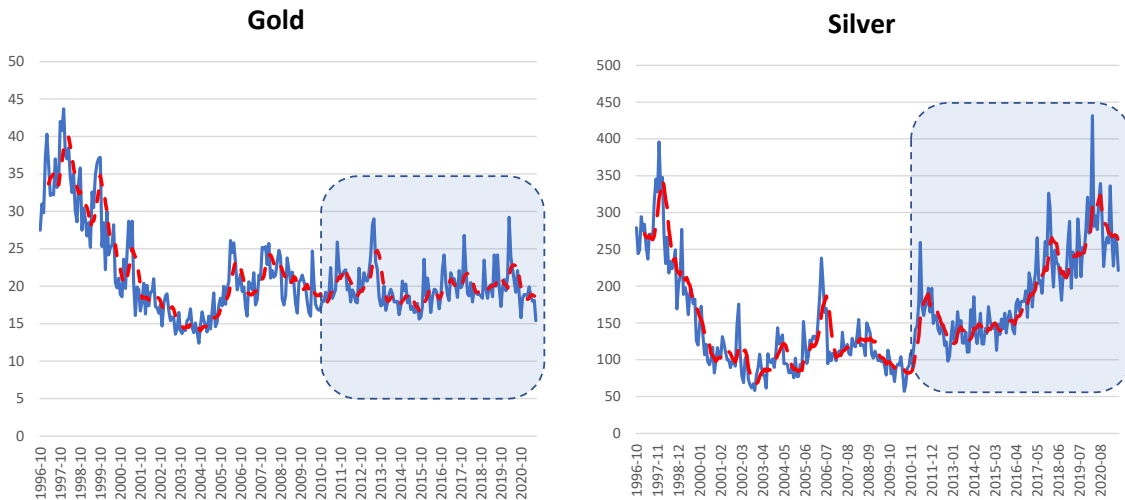
of the introduction of the NSFR (i.e. since 2010 onward) has been lower compared to the volatility of the previous period: the coefficient of variation of net volume of transfers of ounces was 31.6% before 2010 and 12.9% after that for the gold market and 48.5% against 36.1% for the silver market.

Figure 1: Shortfall of stable funding (USD trillions)¹²



Source: BCBS QIS semi-annual reports

Figure 2: Net volume of transfers of ounces¹³ (millions) of gold and silver settled between the four LBMA market maker banks



Source: LBMA website

¹² The missing value in June 2013 is due to a redefinition of the NSFR standards.

¹³ The troy ounce is the standard unit of weight for precious metals such as gold and silver. It equals approximately 31.1 grams.

4.2 Impact analysis – QIS data

The table below shows the number of banks included in the EBA QIS exercise. The banks have been classified between those not reporting any amount subject to the 85% factor and those reporting a non-zero amount. It also shows the relative importance in terms of total RSF as a measure of the banks' size. The nominal (i.e. unweighted) value of the assets subject to the 85% factor is reported, too. Over the period considered, a maximum of EUR 2.1 billion for EU banks and EUR 2.9 billion for UK banks appears as a rather low figure when compared with the total RSF; also the weekly average value of trades reported on the LBMA website was, at the end of August 2021, equal to about EUR 300 billion and was therefore much higher.¹⁴

Table 2: Composition of the EU QIS sample and amount subject to the 85% factor

		banks not reporting the 85%		banks reporting the 85%			
		N	TOT RSF	N	TOT RSF	amount subject to 85%	
						€ bln	% of RSF
EU	31-Dec-15	180	71%	27	29%	2.1	0.05%
	31-Dec-16	123	69%	23	31%	1.6	0.03%
	31-Dec-17	119	64%	22	36%	1.6	0.03%
	31-Dec-18	102	66%	17	34%	1.1	0.02%
	31-Dec-19	98	71%	16	29%	0.9	0.02%
	31-Dec-20	94	73%	14	27%	1.9	0.05%
GB	31-Dec-15	7	71%	1	29%	2.3	0.31%
	31-Dec-16	6	59%	2	41%	1.5	0.17%
	31-Dec-17	8	61%	2	39%	2.9	0.37%
	31-Dec-18	8	87%	1	13%	2.2	0.85%

Source: EBA QIS

Focusing on the banks reporting non-zero amounts that are subject to the 85% factor, it is possible to quantify the impact of a change in the 85% factor. The following table shows the weighted average NSFR computed with current rules and the value that would be obtained by reducing the 85% factor to 50% and to 0%.

First, it can be seen that the average NSFR was above the minimum requirement already in 2015 and it increased steadily throughout the observation period. Then, it can be seen that the impact of reducing the 85% would be negligible.

¹⁴ Including gold, silver, platinum and palladium.

Table 3: Impact of the variation of the 85% on the NSFR, banks reporting non-zero amounts subject to the 85% factor

EU – banks				GB – banks			
Date	NSFR - factor applied to physically traded commodities			Date	NSFR - factor applied to physically traded commodities		
	85%	50%	0%		85%	50%	0%
Dec-15	103.54%	103.56%	103.59%	Dec-15	105.22%	105.36%	105.55%
Dec-16	108.29%	108.31%	108.33%	Dec-16	107.81%	107.89%	108.00%
Dec-17	111.39%	111.40%	111.43%	Dec-17	115.42%	115.59%	115.84%
Dec-18	112.57%	112.59%	112.60%	Dec-18	124.05%	124.49%	125.11%
Dec-19	115.08%	115.09%	115.11%				
Dec-20	122.91%	122.94%	122.97%				

Source: EBA QIS

4.3 Impact analysis – COREP data

A second analysis has been conducted by exploiting the official reporting data that, for the first time in June 2021, also included information relating to the NSFR. Table 4 has been constructed by subdividing the sample of banks (see Table 1) on the basis of whether they reported or not, in the NSFR template, assets that are subject to the 85% weighting factor i.e. physically traded commodities unencumbered or encumbered for a residual maturity of less than one year (row 1000 of template C.80.00).

It can be seen that banks reporting assets subject to the 85% weighting factor are only 497 and they represent one-third of the total assets. Moreover, the average NSFR of these banks is higher than the regulatory minimum. The total amount of assets subject to the 85% factor reported by the 497 banks in June 2021 is equal to EUR 3.4 billion. Also in this case, the number does not appear very significant when compared, for example, with the weekly average value of trades reported by the LBMA, which is EUR 300 billion. After applying the 85% factor, the amount of required stable funding (RSF) is EUR 2.9 billion and this can be compared with the total amount of required stable funding i.e. the denominator of the NSFR. Figure 3 shows the relative share of the RSF stemming from assets subject to the 85% factor over the total amount of RSF. On average, this share is equal to 0.05% but, at the individual bank level, higher values can be observed.

**Table 4: Banks not-reporting/reporting assets subject to the 85% factor
– June 2021**

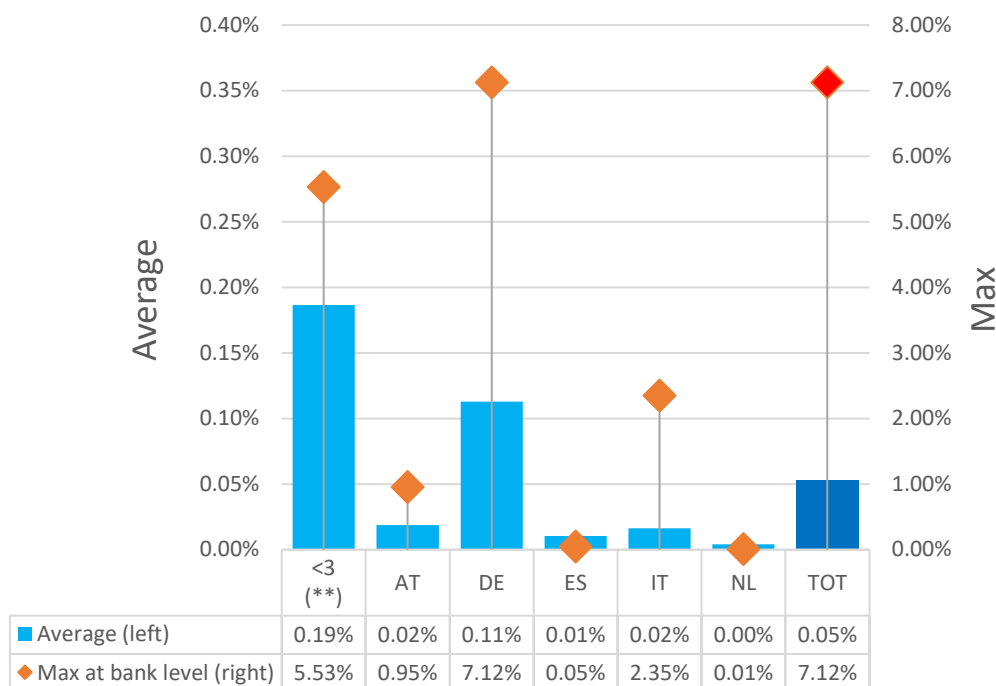
Country	Not reporting			Reporting			Total	
	N	TA%	Avg Nsfr	N	TA%	Avg Nsfr	N	Avg Nsfr
=0 (*)	102	100%	136.1%	.	.	.	102	136.1%
<3 (**)	324	93%	128.4%	15	7%	125.3%	339	128.2%
AT	232	60%	141.9%	159	40%	133.2%	391	138.3%
DE	1,013	52%	129.6%	303	48%	125.5%	1,316	127.7%
ES	64	23%	137.5%	3	77%	131.3%	67	132.8%
IT	121	62%	120.6%	14	38%	135.6%	135	125.7%
NL	26	15%	140.6%	3	85%	136.7%	29	137.6%
All	1,882	66%	129.8%	497	34%	130.7%	2,379	130.1%

(*) Countries where there are no banks reporting assets subject to the 85% factor: CY,CZ,DK,FI,HR,HU,IE,LT,LV,RO,SI,SK

(**) Countries where there are < 3 banks reporting assets subject to the 85% factor: BE,BG,EE,FR,GR,LU,MT,PL,PT,SE

Source: COREP

Figure 3: Relative importance of the required stable funding stemming from assets subject to the 85% weighting factor and the total amount of required stable funding



Source: COREP

The next table shows the impact at aggregate level of reducing the 85% factor assigned to physically traded commodities (unencumbered or encumbered for a residual maturity of less than one year) to a value of 50% or 0%. On average the impact of such a reduction is practically immaterial, being equal to 4 basis points when the factor is set equal to 50% and 8 basis points when the factor is reduced to 0%.

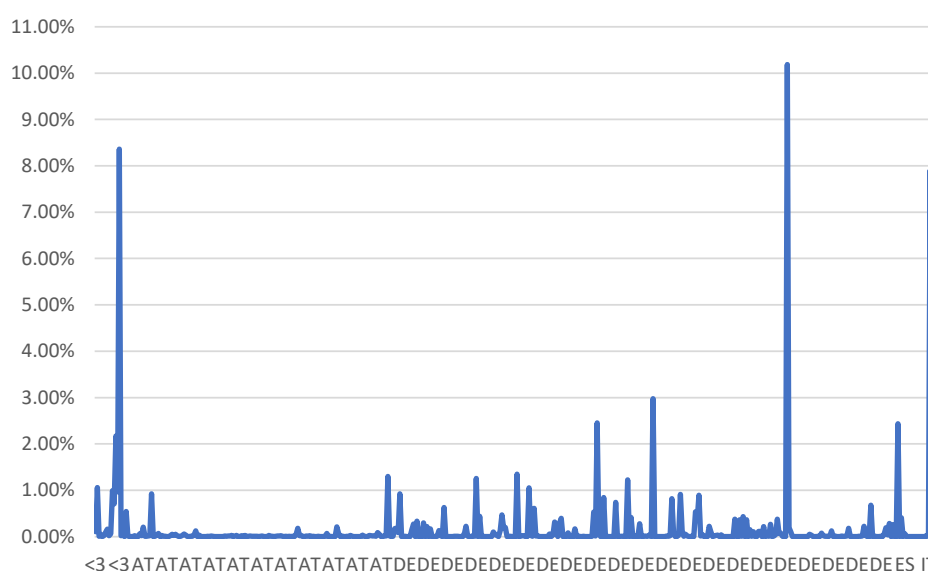
More detailed information is provided by Figure 4. Over the 497 banks reporting assets subject to the 85% factor, there are 29 banks for which the impact of reducing the factor to 0% would be higher than 50 basis points in terms of the NSFR; for 7 of them the impact would be higher than 200 basis points. In all these cases, the NSFR was well above 100% before reducing the 85% factor. In detail, referring to the seven banks for which the impact of reducing the factor to 0% was higher than 200 basis points, the total amount of assets subject to 85% factor was less than EUR 0.5 billion and the average NSFR was 150.60% with the factor equal to 85% and 154.73% with the factor set to 0%.

Table 5: Impact of the variation of the 85% factor on the NSFR, banks reporting non-zero amounts subject to the 85% factor – aggregate level

Country	Nsfr with factor = 85%	Nsfr with factor = 50% variation		Nsfr with factor = 0% variation	
<3(**)	125.31%	125.51%	0.20%	125.65%	0.34%
AT	133.24%	133.25%	0.01%	133.27%	0.03%
DE	125.51%	125.57%	0.06%	125.65%	0.14%
ES	131.28%	131.28%	0.00%	131.29%	0.01%
IT	135.60%	135.60%	0.01%	135.62%	0.02%
NL	136.70%	136.71%	0.01%	136.71%	0.01%
Total	130.75%	130.78%	0.04%	130.82%	0.08%

Source: COREP

Figure 4: Impact of the variation of the 85% factor on the NSFR, banks reporting non-zero amounts subject to the 85% factor – bank level



Source: COREP

5. Conclusions

The data collected through the BCBS QIS exercises allow it to be verified that banks started to comply with the new liquidity requirements (including the NSFR) well in advance of their entry into force. Over the period 2011–2019, a sample of about 200 banks reduced the shortfall of stable funding from USD 2.8 trillion to zero and, at the end of 2019, the average weighted NSFR was well above the minimum of 100%. In the same period, there is no evidence of negative effects due to the expected potential reduction of liquidity in the markets for precious metals.

The more granular data available under the EBA QIS exercise allow attention to be focused on the banks reporting non-zero amounts and subject to the 85% factor. The analysis shows both that these amounts appear to be small in comparison with the overall size of the precious metals markets and that a reduction of the 85% factor would not have any appreciable effect on the NSFR. An analysis conducted by exploiting the regulatory reporting (COREP) and involving practically all the EU banking system confirms this evidence.

A common hypothesis in impact analysis is that, if the proposed intervention does not produce an effect that causes a breach of a regulatory requirement (or reduces it), it is assumed that the intervention does not generate any change in the behaviour of the banks. In this case, the effect of a reduction of the 85% factor appears to be both immaterial and not capable of rendering the constraint on the NSFR less binding. For these reasons, it can be concluded that this modification would not have any practical impact on banks' behaviour.

In conclusion, there is no evidence that the efforts made by the banking system since the announcement of the new prudential standard in 2010 to comply with newly introduced liquidity requirements have had a material impact on the precious metals markets. Moreover, the impact of reducing the 85% factor even to 0% would be negligible and then it would be improbable that this would modify banks' behaviour.



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