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**REPORT ON SPECIFIC ASPECTS OF THE  
NSFR FRAMEWORK UNDER ARTICLE  
510 (4), (6) AND (9) OF  
REGULATION (EU) NO 575/2013**

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EBA/Rep/2024/01 January 2024

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# Abbreviations

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CRR .....	Regulation (EU) No 575/2013
NSFR .....	Net Stable Funding Ratio
RSF .....	Required Stable Funding
COREP .....	Common Solvency ratio Reporting
bps.....	Basis points, 0.01% = 1 bps

## Executive summary

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Motivation	<p>The three mandates under Articles 510(4), (6) and (9) of Regulation (EU) No 575/2013 amended by Regulation (EU) No 2019/876 commit the EBA to evaluate the prudential treatment of several items under the NSFR framework: derivative contracts, securities financing transactions and unsecured transactions with a residual maturity of less than six months with financial customers, holding of securities to hedge derivative contracts</p>
The data	<p>No ad-hoc data collection was launched to address the mandates. The quantitative analysis is done by leveraging on COREP data, involving all the credit institutions (major and small/local institutions) for which the EBA receives the data on regular basis.</p>
The report	<p>The report leverages mostly on qualitative analysis based on expert judgement supplemented by some materiality and sensitivity analysis. In detail, for some of the items for which data is available, the report could provide an evaluation of the materiality of the phenomena as well as an assessment of the impact of possible changes to the current prudential treatment</p>
Conclusions	<p>The qualitative analysis did not reveal any reasons in support of the need to modify the prudential treatment currently envisaged for the items discussed. On the other hand, the quantitative analysis showed that variations to these treatments would have limited impacts. Therefore, also in consideration of the push towards harmonization between different jurisdictions, it is believed that changes to the current legislation are not necessary. As regards the treatment of SFTs and unsecured transactions with a residual maturity of less than six months with financial counterparties, it is recommended to comply with Basel standards after the phase-in period as envisaged in the CRR.</p>

# 1. General remarks

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## 1.1 Background and mandate

1. The three mandates under Articles 510(4), (6) and (9) of Regulation (EU) No 575/2013 amended by Regulation (EU) No 2019/876 commit the EBA to evaluate several items: 9 articles and other specific parts referred to the NSFR regulation framework are explicitly mentioned. The EBA shall report on the appropriateness of the mentioned prudential treatments by 28 June 2023 (mandated under the Articles (6) and (9)) and by 28 June 2024 (mandate under the Article (4)).
2. The purpose of these reports is to enable the European Commission to fulfil its mandate under the Articles 510 (5), (7) and (9). The European Commission shall, where appropriate and considering these reports, any international standards, and the diversity of the Banking sector in the European Union, submit legislative proposals to the European Parliament and the Council on how to amend the respective provisions for the calculation of the NSFR.
3. The initially envisaged deadlines for the submission of the reports have been modified to Q4 2023 so to merge the analysis in a single report.

## 1.2 Methodology

4. The mandates require to evaluate the impact of possible changes to the current treatment of some specific items (mainly, treatment of specific assets for the computation of the amount of required stable funding - RSF) but also the opportunity of those changes. The impact analysis should be extended not only to the credit institutions but also to the functioning of the relative markets.
5. Evaluating the opportunity of the changes is challenging as this would imply to measure the liquidity risk (under the NSFR perspective) of the involved assets and to translate these measures in weighting factors. In turn, this would require collecting non-standard data and to develop the risk measures. It is worth mentioning that also at the BCBS level, exercises of this kind weren't carried out but rather the weighting factors were set on the basis of expert judgement. Moreover, evaluating the impact on the markets is probably not feasible.
6. The report leverages mostly on qualitative analysis based on expert judgement supplemented by some materiality and sensitivity analysis. In detail, for some of the items for which data is available, the report could provide an evaluation of the materiality of the phenomena as well as an assessment of the impact of possible changes to the current prudential treatment. Since the choice of the weighing factors would not be supported by any quantitative study, the report should be intended as providing only a sensitivity analysis. However, the report includes qualitative analyses about the opportunity to modify the weighing factors.

- The qualitative analysis is aimed at assessing if a different treatment applies in other jurisdictions and, if that is the case to, assess how those approaches would impact the NSFR in EU banks for potential level playing field issues.

### 1.3 Sources of information

- No ad-hoc data collection was launched to address the mandates under Articles 510 (4), (6) and (9). The quantitative analysis is done by leveraging on COREP data, involving all the credit institutions (major and small/local institutions) for which the EBA receives the data on regular basis. Several different reference dates (starting from June 2021) are considered.
- The table below synthetises the specific items mentioned in the mandates together with the data availability.

Table 1: items analysed and data availability

Mandate Article	510 (4)							510 (6)					510 (9)
	(a)	(b)	(c)				(a)	(b)	(c)	(d)	(f)	(a)(b)(c)	
<b>to be analysed</b>	marginéd vs unmarginéd	Art 428s(2), 428a(2)	Art 428d	Art 428k(4), 428a(4)	Art 428s(2), 428a(2)	Art 428ag, 428ay	Art 428ah(2), 428az(2)	SFT and Other M€6m	SFT non-L1 M€6m	Off Balance Sheet	Liab vs Assets finan customer	SFT L1 M€6m	SFT hedging derivs
<b>Materiality</b>													
<b>Impact</b>													

	data not available
	data available in COREP

### 1.4 Samples

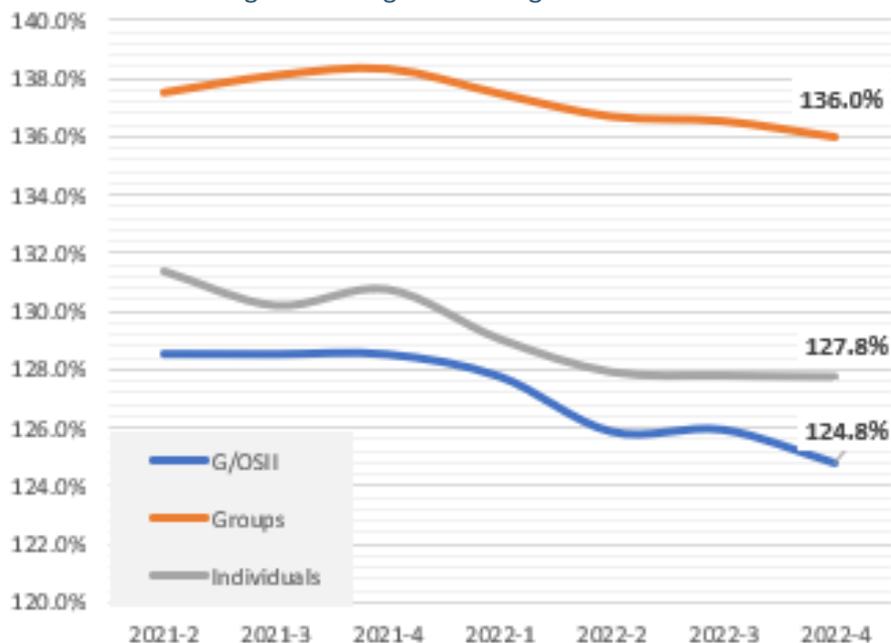
- The sample for the main calculations included in the report is composed by more than 2300 institutions from 29 states for which the EBA receives the data reported under the COREP templates (see Table 2). The level of consolidation considered is the highest at the EU member level. This implies that subsidiaries of EU institutions are not considered.
- The analysis included in the report relies on three different samples: GSII and OSII, Groups and Individual institutions. In the period considered, the NSFR was well above the regulatory minimum even if slightly decreasing (see Figure 1).

Table 2: Number of Institutions in the sample, data as of Q4 2022

Ctry	G/OSII	Other		Total
		Groups	Individuals	
AT	5	26	320	351
BE	4	6	10	20
BG	3	1	7	11
CY	2	3	2	7
CZ	0	3	6	9
DE	11	56	1,154	1,221
DK	5	7	33	45
EE	2	3	0	5
ES	4	29	33	66
FI	3	7	0	10
FR	7	32	45	84
GR	4	4	6	14
HR	1	0	11	12
HU	2	1	6	9
IE	6	4	4	14
IT	4	38	84	126
LI	3	3	5	11
LT	1	5	5	11
LU	3	11	36	50
LV	3	2	2	7
MT	3	2	11	16
NL	5	13	9	27
NO	1	20	20	41
PL	4	4	15	23
PT	4	9	11	24
RO	2	0	5	7
SE	3	16	77	96
SI	1	4	2	7
SK	0	1	3	4
<b>Total</b>	<b>96</b>	<b>310</b>	<b>1,922</b>	<b>2,328</b>

Source: COREP

Figure 1: Weighted Average NSFR



Source: COREP

## 1.5 Structure of the report

- The report is structured as follows: the next three sections are dedicated to the funding risk stemming from derivative contracts; securities financing transactions; holding of securities to hedge derivative contracts. Each section provides a qualitative analysis of the actual prudential treatment and a comparison with other jurisdictions. It is also provided a quantitative analysis about the materiality of each item and a sensitivity analysis. The materiality is usually represented in terms of contribution to the total amount of the RSF. The sensitivity analysis shows the impact on the NSFR of possible changes of the weighting factor associated with each item.

## 2. Funding risk linked to the derivative contracts

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### 2.1 Introduction

13. In the NSFR framework, when a bilateral netting contract exists between an institution and a counterparty, the institution reports the net value of all its derivative contracts with that counterparty and this net exposure can be either an asset or a liability.

**Article 510(4) CRR:** *EBA shall monitor the amount of required stable funding covering the funding risk linked to the derivative contracts listed in Annex II and credit derivatives over the one-year horizon of the net stable funding ratio, in particular the future funding risk for those derivative contracts set out in Articles 428s(2) and 428at(2), and report to the Commission on the opportunity to adopt a higher required stable funding factor or a more risk-sensitive measure by 28 June 2024. That report shall at least assess: (a) the opportunity to distinguish between margined and unmargined derivative contracts; (b) the opportunity to remove, increase or replace the requirement set out in Articles 428s(2)<sup>1</sup> and 428at(2); (c) the opportunity to change more broadly the treatment of derivative contracts in the calculation of the net stable funding ratio, as set out in Article 428d, Articles 428k(4)<sup>2</sup> and 428s(2), points (a) and (b) of Article 428ag, Articles 428ah(2)<sup>3</sup>, 428al(4) and 428at(2), points (a) and (b) of Article 428ay and Article 428az(2), to better capture the funding risk linked to those contracts over the one-year horizon of the net stable funding ratio; (d) the impact of the proposed changes on the amount of stable funding required for institutions' derivative contracts.*

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<sup>1</sup> For all netting sets of derivative contracts, institutions shall apply a 5 % required stable funding factor to the absolute fair value of those netting sets of derivative contracts, gross of any collateral posted, where those netting sets have a negative fair value. For the purposes of this paragraph, institutions shall determine the fair value as gross of any collateral posted or settlement payments and receipts related to market valuation changes of such contracts.

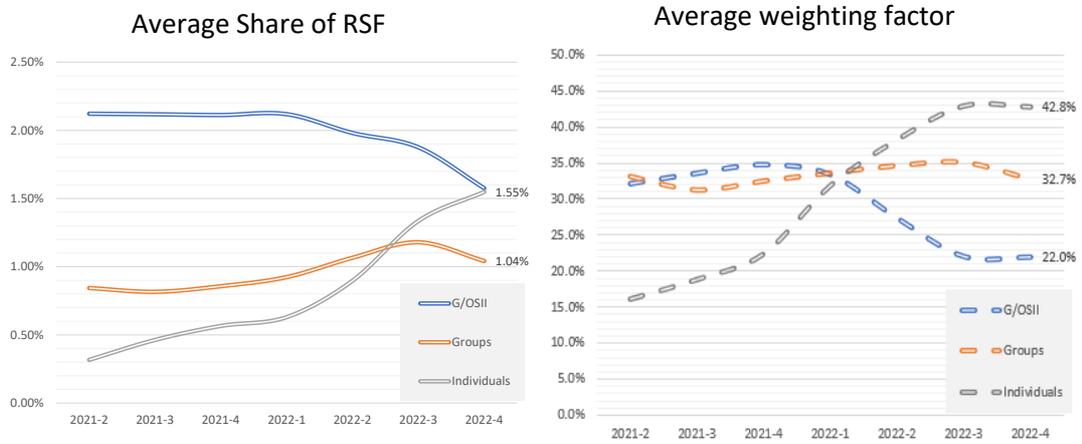
<sup>2</sup> Institutions shall apply a 0 % available stable funding factor to the absolute value of the difference, if negative, between the sum of fair values across all netting sets with positive fair value and the sum of fair values across all netting sets with negative fair value calculated in accordance with Article 428d.

<sup>3</sup> Institutions shall apply a 100 % required stable funding factor to the difference, if positive, between the sum of fair values across all netting sets with positive fair value and the sum of fair values across all netting sets with negative fair value calculated in accordance with Article 428d

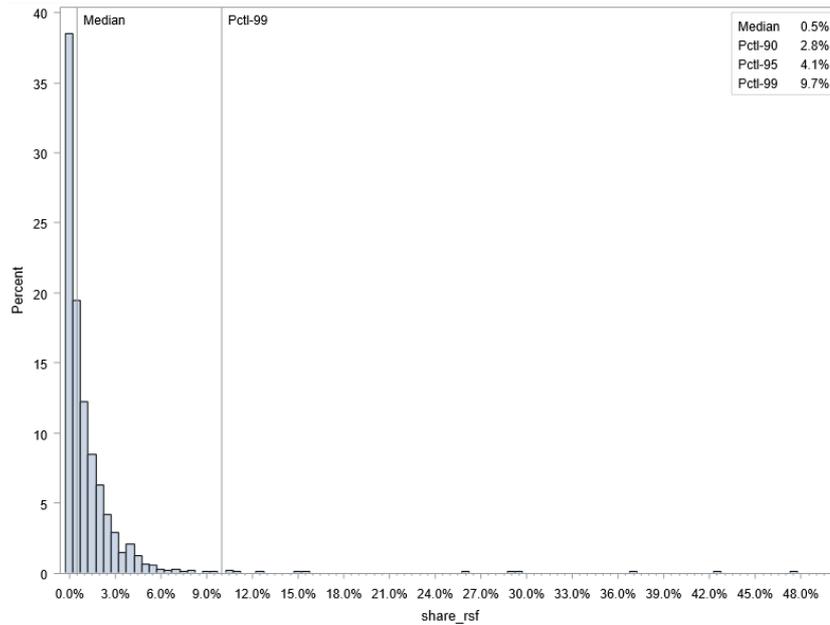
## 2.2 Materiality

14. Derivatives contribute to determine the RSF amount. Three categories are represented in the COREP templates: derivative liabilities, derivative assets and initial margin posted. Derivatives are transformed into a component of the RSF amount through the application of weighting factors (5% for derivatives liabilities, 100% for derivative assets and 85% for initial margin posted). At the end of 2022 altogether, these categories represented on average 1.5% of the total RSF amount. This limited quantity appears quite stable over the time (see Figure 2). For 99% of the institutions in the sample, the derivatives generated at most 9.6% of the RSF amount.

Figure 2: Contribution of Derivatives to RSF



Distribution of the share of RSF by institution – Dec. 2022

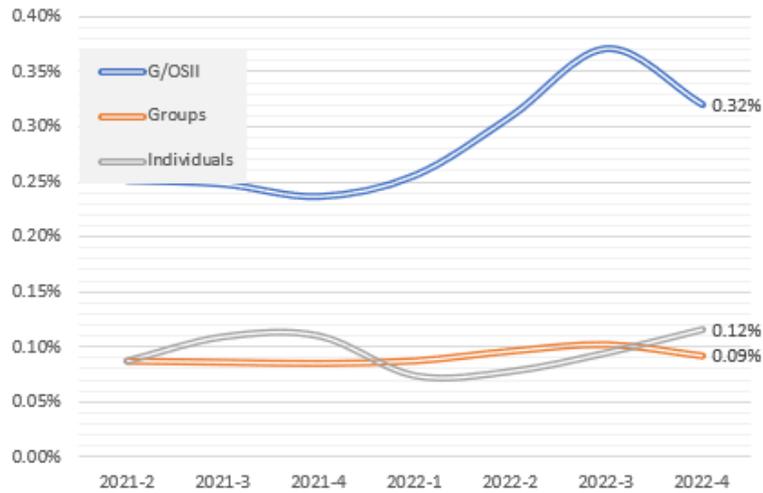


Source: COREP Template C 80.00.b row 920

**Article 510(4)b - Requirement set out in Articles 428s(2) and 428at(2)**

15. The amount of netting sets of derivative contracts to which the institutions apply a 5% required stable funding factor, represent on average, less than 0.5% of the total RSF and this quantity was quite stable over the observed period (see Figure 3).

Figure 3: Contribution of items subject to Articles 428s(2) and 428at(2) to the RSF

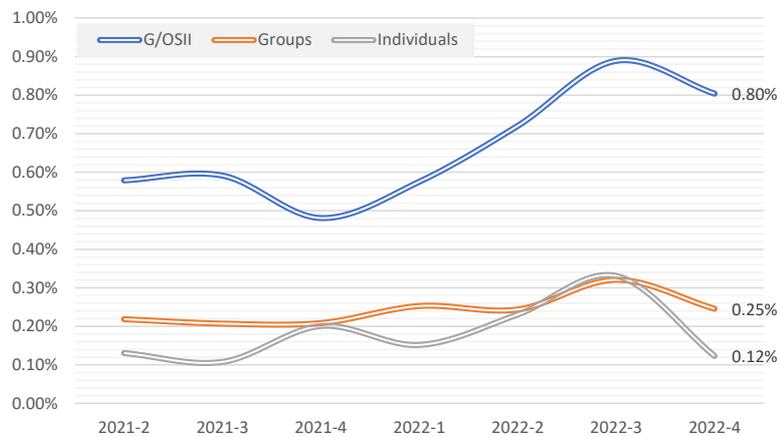


Source: COREP Template C 80.00.b row 930 col 10

**Article 510(4)c - Requirement set out in Articles 428k(4) and 428al(4)**

16. The Articles 428k(4), 428al(4) refer to the application of the 0% factor to the difference (if negative) of derivatives netting sets. This item is reported in the Template C 81.00.b (row 320). However, since the factor is 0% it does not contribute to the total amount of Available Stable Funding. In this case the assessment of the materiality is done by comparing the nominal amount with the Total Assets.

Figure 4: Items subject to Article 428k(4) and 428al(4) over Total assets

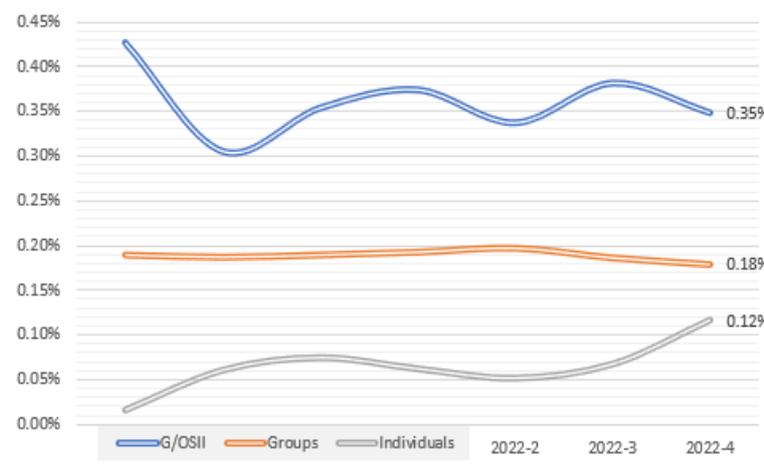


Source: COREP Template C 81.00.b row 320 col 10

**Article 510(4)c - Requirement set out in Articles 428ag and 428ay**

17. The amount of assets posted as initial margin for derivative contracts subject to the application of the 85%, represent on average less than 0.5% of the total RSF and this quantity was quite stable over the observed period.

Figure 5: Contribution to items subject to Articles 428ag and 428ay to the RSF

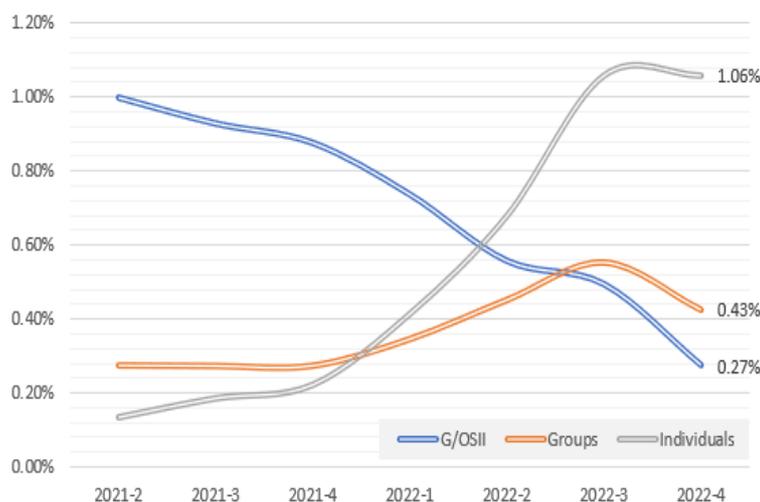


Source: COREP Template C 80.00.b row 950 col 10, 20 if factor = 85%

**Article 510(4)c - Requirement set out in Articles 428ah(2) and 428az(2)**

18. The amount of derivatives netting sets subject to a 100% factor represent less than 1% of the RSF for larger institutions (G/OSII and Groups) but it increased up to 1% for smaller (Individuals) institutions.

Figure 6: Contribution to items subject to Articles 428ah(2) and 428az(2) to the RSF



Source: COREP Template C 80.00.b row 940 col 10

## 2.3 Prudential treatment

19. The current prudential treatment of derivatives assets and liabilities in the Basel NSFR standards is based on three main components. First, either a 100% RSF factor or a 0% ASF factor is applied to the difference between net of variation margin derivatives assets and liabilities, at the level of the balance sheet. If, overall, the bank has a larger amount of net assets, then the difference receives a 100% RSF. On the contrary, if overall, the bank has a larger amount of net liabilities, then the difference receives a 0% ASF factor. The eligibility criteria for the variation margins are taken directly from the Basel leverage ratio framework, and exclude all securities, therefore including only cash. All in all, this treatment recognizes that derivatives assets can be financed with derivatives liabilities, and cover the funding risk for the proportion of derivative assets in excess of derivative liabilities.
20. Moreover, in order to cover the funding risk associated with derivatives liabilities, an add-on corresponding to a 5% to 20% RSF factor is applied to derivative liabilities before deduction of variation margin posted. This specific add-on seeks to ensure that a bank with lower net derivative assets than net derivative liabilities will still need to back a portion of its derivative exposures with stable funding. In the EU, a 5% RSF factor is applied to all netting sets which have a negative fair value, corresponding to the minimum RSF factor.
21. Finally, another add-on is applied to the initial margin posted receiving a 85% RSF factor, in order to cover the funding risk associated with these assets, as they can be considered stable and encumbered.
22. The Regulatory Consistency Assessment Programme (RCAP) implemented by the BIS offers an overview of the implementation of the NSFR standard by other jurisdictions. The RCAP have identified several national adaptations from other jurisdictions. The most widespread one consists in expanding the scope of the collateral received as variation margin, for the calculation of the net derivative assets and liabilities. A provision of this kind is integrated in the CRR regulation<sup>4</sup>, as Level 1 assets, excluding highly liquid covered bonds can be deducted. This deviation does not have a material impact on the NSFR of EU institutions.
23. Other national adaptations from the standard integrated in the regulation of other jurisdictions (see the table below) are either: i) similar to EU law or ii) their impact on the NSFR is uncertain such as the Japanese treatment of excess collateral and should consequently not encourage any changes in the EU regulation.

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<sup>4</sup> Articles 428k(4)(a) and 428ah(2)(a) of Consolidated text: Regulation (EU) No 575/2013

Table 3: Comparison across different jurisdictions

Assessment different treatments in other jurisdictions		
Country	Legal references	Specific treatment of derivatives in NSFR regulation
Japan	Paragraph 35 of the Basel NSFR standard	Under Japanese regulations, Article 89(1) of the NSFR Pillar 1 Notice provides for a larger scope of collateral received that may offset the positive replacement cost amount by also recognising as variation margin received Level 1 assets other than cash.
	Article 89(1) of the NSFR Pillar 1 Notice	
Canada	Basel paragraph 35 Paragraph 41, LAR Chapter 3 – NSFR guideline	Under the OSFI NSFR regulation, the offset is permitted for collateral received in the form of either Level 1 HQLA or cash VM.
US	Basel paragraph 35 US regulation __.107(a), __.107(b), __.107(f)	The US NSFR regulation allows the collateral received in the form of non-cash VM to offset the positive replacement cost amount. More specifically, rehypothecatable Level 1 high-quality liquid assets (HQLA) securities received as VM are allowed to offset the replacement cost of derivative assets because those securities are deemed have very stable value and reliable liquidity across market conditions. In addition, allowing netting of VM in the form of Level 1 HQLA securities aligns with the US agencies' swap margin rule. The US agencies notes however that, when measured by total volume, a significant majority of VM exchanged with swap dealers continues to be comprise
Japan	Paragraph 20 of the Basel NSFR standard Article 80 of the NSFR Pillar 1 Notice and Article 80-Q3 of Q&A document	Article 80 of the NSFR Pillar 1 Notice introduces a floor (of zero) to ensure that the amount of NSFR derivative liabilities after the deduction of collateral posted in the form of variation margin does not become negative.
Japan	Paragraph 19 of the Basel NSFR standard Articles 35(2) and 80 of the NSFR Pillar 1 Notice Article 8(2) of the Leverage Ratio Pillar 1 Notice	Under Japanese regulations, Article 80 of the NSFR Pillar 1 notice implements paragraph 19 of the Basel NSFR standard by also making reference to legally valid bilateral netting contracts. A definition of such contracts is provided in Article 8(2) of the Leverage Ratio Pillar 1 Notice. However, the latter provision does not specify all the conditions of paragraphs 8 of the annex of the Basel III leverage ratio framework and disclosure requirements in the same granular manner.
US	Basel [NSFR Paragraph 34] US rules : __.107, __.107(a), __.107(b), __.107.(f)(1)	According to the US agencies, the conditions specified in the Basel NSFR standard were incorporated in paragraph (3) and (4) of the definition of qualifying master netting agreement (QMNA) in 12 CFR 217.2 but do not currently appear in the Code of Federal Regulations due to a technical issue which the US agencies assured to address at the next opportunity. In the interim, the US agencies do not expect to alter their approach with respect to the QMNA definition. The Assessment Team assessed this deviation as not material and included it as an item for follow-up assessments.
HK	Basel paragraph 43 (d) BLR Rule 54(1) to be amended by Rule 8 of Banking (Liquidity) (Amendment) Rules 2019 (BLAR 2019), re definition of total derivative liabilities (before adjustments), Table 2 of BLR Schedule 6 to be amended by Rule 21 of BLAR 2019; the CIs (Completion Instructions, Paragraph 68A and Annex 1) for the Return MA(BS)26.	The Committee agreed in October 2017 that, at national discretion, jurisdictions may lower the value of the 20% RSF factor, with a floor of 5%. The HKMA has implemented a 5% RSF factor as per 1 January 2020. The Assessment Team observes therefore that the implementation of this particular element of the NSFR standard was delayed by two years.

24. There is no evidence that any change in the current regulatory framework should be implemented. The recent turmoil does not suggest the current RSF calibration is not prudent enough. Derivatives are central to risk management and are often used for hedging purposes, therefore increasing NSFR requirements by adjusting derivative weightings in a conservative manner does not seem relevant. No changes are suggested on the treatment of derivative contracts in NSFR.
25. Regarding the articles 428s (2) and 428 at (2), the materiality and sensitivity analyses (see below) shows that reducing to zero or doubling the factor assigned to the amount of netting sets of derivative contracts to which the institutions apply a 5% required stable funding factor, would have, on average, a limited impact on the NSFR as it represents on average less than 0.5% of the total RSF of banks. Therefore, no changes are proposed.

## 2.4 Sensitivity analysis

26. This section provides the impact of changes to the current supervisory treatment.

### **Article 510(4)b - Requirement set out in Articles 428s(2) and 428at(2)**

27. Reducing to zero or doubling the factor assigned to the amount of netting sets of derivative contracts to which the institutions apply a 5% required stable funding factor, would have, on average, limited impact on the NSFR (see Table 4). For some institutions, the impact can be high, but they represent a small portion of the Total assets.

Table 4: Sensitivity analysis of items subject to Articles 428s(2) and 428at(2)

	G/OSII	Groups	Individuals	5 most impacted Institutions			
	Avg Factor	5%	5%	5%	% TA	avg Fct	NSFR
					0.9%	5.0%	163.08%
	Fct 0%	40	12	15		Fct 0%	1,635
	Fct 10%	-40	-12	-15		Fct 10%	-1,362
<b>Impact</b>	Fct 20%	-119	-37	-44	<b>Impact</b>	Fct 20%	-3,501
<b>(bps of</b>	Fct 30%	-196	-62	-74	<b>(bps of</b>	Fct 30%	-5,105
<b>NSFR)</b>	Fct 40%	-273	-87	-103	<b>NSFR)</b>	Fct 40%	-6,351
	Fct 50%	-349	-111	-132		Fct 50%	-7,348
	Fct 100%	-715	-233	-275		Fct 100%	-10,337

**Article 510(4)c - Requirement set out in Articles 428k(4) and 428al(4)**

28. Increasing the weighting factor (set to zero) would have a positive impact on the NSFR being this item part of the Available Stable Funding.

Table 5: Sensitivity analysis of items subject to Articles 428k(4) and 428al(4)

	G/OSII	Groups	Individuals	5 most impacted Institutions			
				% TA	avg Fct	NSFR	
<b>Avg Factor</b>	0%	0%	0%	0.1%	0.0%	139.76%	
	Fct 5%	9	2	1	Fct 5%	41	
	Fct 10%	17	4	2	Fct 10%	82	
<b>Impact</b>	Fct 20%	34	9	4	<b>Impact</b>	Fct 20%	1
<b>(bps of</b>	Fct 30%	51	13	6	<b>(bps of</b>	Fct 30%	247
<b>NSFR)</b>	Fct 40%	69	18	8	<b>NSFR)</b>	Fct 40%	329
	Fct 50%	86	22	10	Fct 50%	411	
	Fct 100%	171	44	20	Fct 100%	823	

**Article 510(4)c - Requirement set out in Articles 428ag and 428ay**

29. Even reducing to zero or setting to 100% the factor assigned to the assets posted as initial margin for derivative contracts, would have limited impact on the NSFR.

Table 6: Sensitivity analysis of items subject to Articles 428ag and 428ay

	G/OSII	Groups	Individuals	5 most impacted Institutions			
				% TA	avg Fct	NSFR	
<b>Avg Factor</b>	85%	85%	85%	0.6%	85.0%	158.32%	
	Fct 0%	44	24	15	Fct 0%	1,593	
	Fct 10%	38	21	14	Fct 10%	1,389	
<b>Impact</b>	Fct 20%	33	19	12	<b>Impact</b>	Fct 20%	1,190
<b>(bps of</b>	Fct 30%	28	16	10	<b>(bps of</b>	Fct 30%	995
<b>NSFR)</b>	Fct 40%	23	13	8	<b>NSFR)</b>	Fct 40%	805
	Fct 50%	18	10	6	Fct 50%	619	
	Fct 100%	-4	-4	-3	Fct 100%	-251	

**Article 510(4)c -Requirement set out in Articles 428ah(2) and 428az(2)**

30. Reducing up to zero the factor assigned to the assets posted as initial margin for derivative contracts, would have limited impact on the NSFR.

Table 7: Sensitivity analysis of items subject to Articles 428ah(2) and 428az(2)

	Avg Factor	G/OSII	Groups	Individuals	5 most impacted Institutions		
		100%	100%	100%	% TA	avg Fct	NSFR
					0.1%	100.0%	136.47%
	Fct 0%	34	59	138		Fct 0%	2,099
	Fct 10%	30	53	124		Fct 10%	1,861
<b>Impact</b>	Fct 20%	27	47	110	<b>Impact</b>	Fct 20%	1,629
<b>(bps of</b>	Fct 30%	24	41	96	<b>(bps of</b>	Fct 30%	1,405
<b>NSFR)</b>	Fct 40%	20	35	82	<b>NSFR)</b>	Fct 40%	1,187
	Fct 50%	17	29	68		Fct 50%	975
	Fct 100%	0	0	0		Fct 100%	0

## 3. Funding risk linked to securities financing transactions

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### 3.1 Introduction

31. This report will serve as a basis for further evaluation of the European Commission, which according to Art. 510(7) CRR has the power to submit – by 28 June 2024 - a legislative proposal to the European Parliament and to the Council on how to amend the provisions regarding the treatment of short term securities financing transactions (SFTs) and unsecured transactions with financial customers for the calculation of the NSFR to take better account of the funding risk linked to these transactions. Article 510(8) of the CRR provides that, by 28 June 2025, the RSF factors applied to these transactions will be aligned with the RSF factors envisaged in the Basel NSFR standard, unless otherwise specified in a legislative act adopted on the basis of the aforementioned proposal by the Commission.

**Article 510(6) CRR:** *EBA shall monitor the amount of stable funding required to cover the funding risk linked to securities financing transactions, including to the assets received or given in those transactions, and to unsecured transactions with a residual maturity of less than six months with financial customers and report to the Commission on the appropriateness of that treatment by 28 June 2023. That report shall at least assess: (a) the opportunity to apply higher or lower stable funding factors to securities financing transactions with financial customers and to unsecured transactions with a residual maturity of less than six months with financial customers to take better account of their funding risk over the one-year horizon of the net stable funding ratio and of the possible contagion effects between financial customers; (b) the opportunity to apply the treatment set out in point (g) of Article 428r(1)<sup>5</sup> to securities financing transactions collateralised by other types of assets; (c) the opportunity to apply stable funding factors to off-balance-sheet items used in securities financing transactions as an alternative to the treatment set out in Article 428p(5)<sup>6</sup>; (d) the adequacy of the asymmetric treatment between liabilities with a residual maturity of less than six months provided by financial customers that are subject to a 0 % available stable funding factor in accordance with point (c) of Article 428k(3) and assets resulting from transactions with a residual maturity of less than six months with financial*

<sup>5</sup> monies due from securities financing transactions with financial customers, where those transactions have a residual maturity of less than six months, where those monies due are collateralised by assets that qualify as level 1 assets pursuant to the delegated act referred to in Article 460(1), excluding extremely high quality covered bonds specified therein, and where the institution would be legally entitled and operationally able to reuse those assets for the duration of the transaction

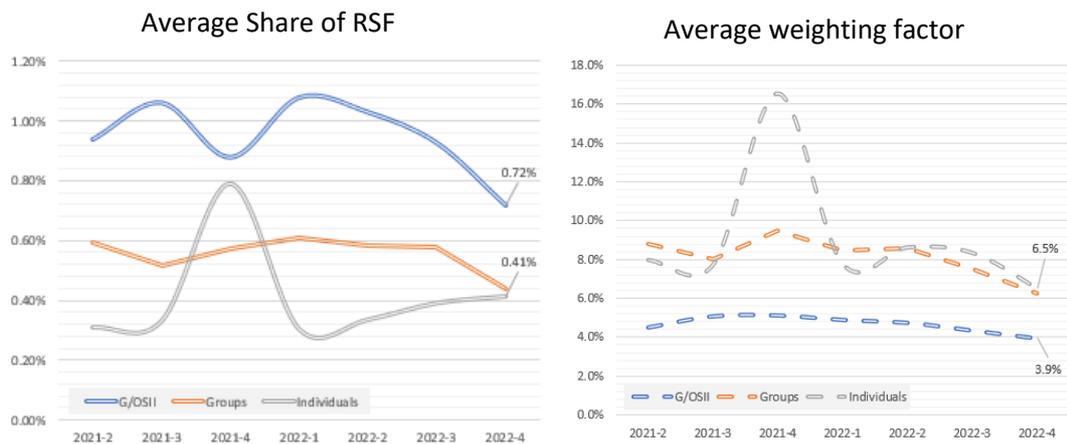
<sup>6</sup> Where an institution reuses or repledges an asset that was borrowed, including in securities financing transactions, and that asset is accounted for off-balance-sheet, the transaction in relation to which that asset has been borrowed shall be treated as encumbered, provided that the transaction cannot mature without the institution returning the asset borrowed.

*customers that are subject to a 0 %, 5 % or 10 % required stable funding factor in accordance with point (g) of Article 428r(1), point (c) of Article 428s(1) and point (b) of Article 428v; (e) the impact of the introduction of higher or lower required stable funding factors for securities financing transactions, in particular with a residual maturity of less than six months with financial customers, on the market liquidity of assets received as collateral in those transactions, in particular of sovereign and corporate bonds; (f) the impact of the proposed changes on the amount of stable funding required for those institutions' transactions, in particular for securities financing transactions with a residual maturity of less than six months with financial customers where sovereign bonds are received as collateral in those transactions*

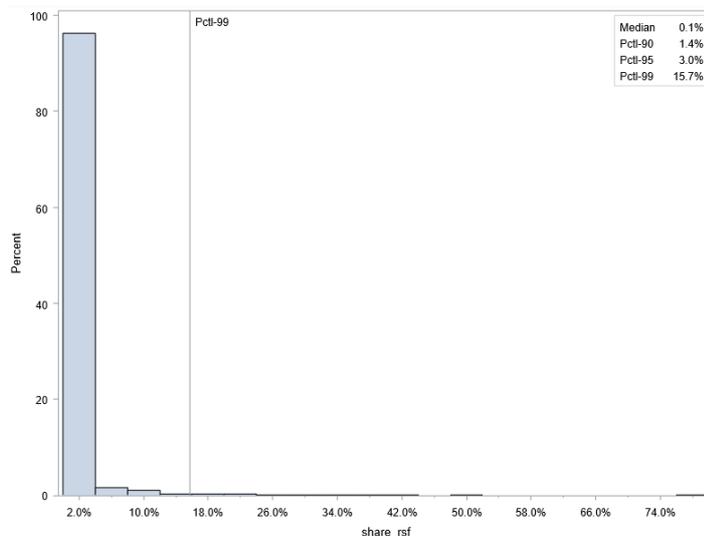
### 3.2 Materiality

32. This section provides the magnitude of the items referred to in the Article 510(6) that is, the amount of stable funding required to cover the funding risk linked to securities financing transactions (SFTs) with financial customers. The SFTs with financial customers are divided in three categories in the COREP template: collateralised by Level 1 assets; collateralised by other assets; unsecured. At the end of the 2022, the SFTs represented, on average, a non-significant percentage of the total RSF amount (see Figure 7). The weighting factor was about 4% for major institutions and 6.5% for the other institutions. For 99% of the institutions in the sample, the SFTs represented at most 15.7% of the RSF.

Figure 7: Contribution of SFTs to RSF



Distribution of the share of RSF by institution – Dec. 2022

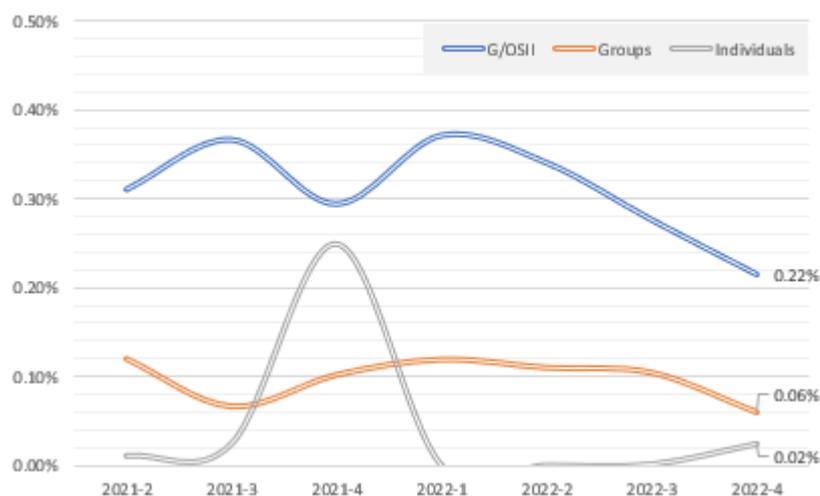


Source: COREP Template C 80.00.b row 640 col 10

**Article 510(6)a - SFT collateralised by Level 1 assets with a residual maturity of less than six months with financial customers**

33. The amount of SFT collateralised by Level 1 assets with a residual maturity of less than six months with financial customers represent 0.2% of the RSF for G/OSII and it is substantially immaterial for Groups and smaller (Individuals) institutions.

Figure 8: Contribution of SFT collateralised by Level 1 assets with a residual maturity of less than six months with financial customers to the RSF

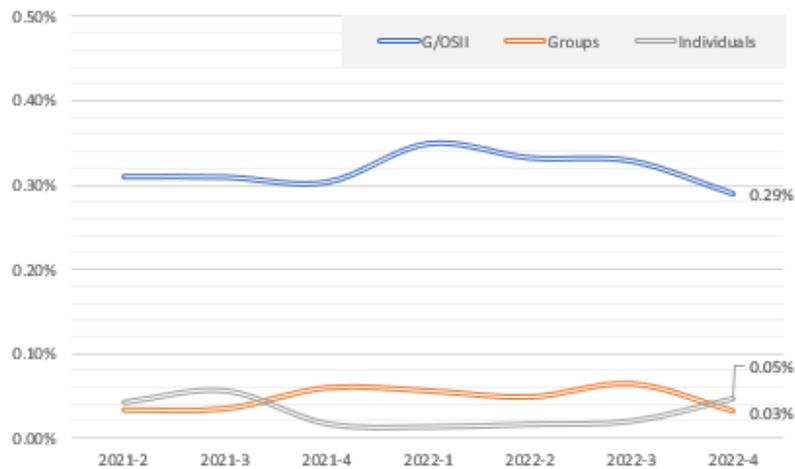


Source: COREP Template C 80.00.a row 660, 670, 680 col 10

**Article 510(6)a – SFT collateralised by other assets with a residual maturity of less than six months with financial customers**

34. The amount of SFT collateralised by other assets with a residual maturity of less than six months with financial customers represent about 0.4% of the RSF and this quantity remained stable over the considered period.

Figure 9: Contribution of SFT collateralised by other assets with a residual maturity of less than six months with financial customers to the RSF

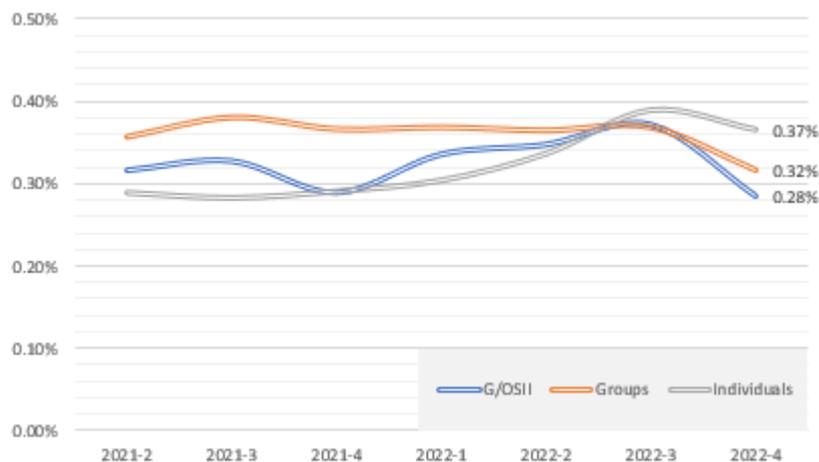


Source: COREP Template C 80.00.a row 700, 710, 720 col 10

**Article 510(6)a – Unsecured transactions with a residual maturity of less than six months with financial customers**

35. The amount of Unsecured transactions with a residual maturity of less than six months with financial customers represent about 0.3% of the RSF and this quantity remained stable over the considered period.

Figure 10: Contribution of Unsecured transactions with a residual maturity of less than six months with financial customers to the RSF

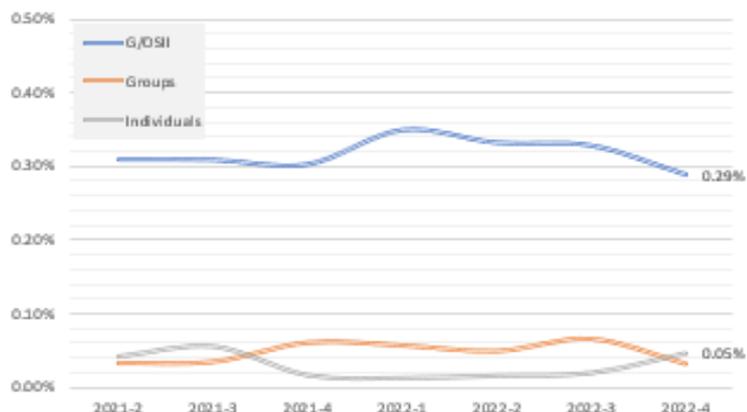


Source: COREP Template C 80.00.a row 730 col 10

**Article 510(6)b – requirements set out in Article 428r(1)g**

36. The amount of SFT collateralised by other assets with financial customers with residual maturity of less than six months contributes for a limited quantity (0.3% for G/OSII and practically zero for the other institutions) to the total RSF.

Figure 11: Contribution of SFT collateralised by other assets with residual maturity of less than 6 month with financial customers to the RSF



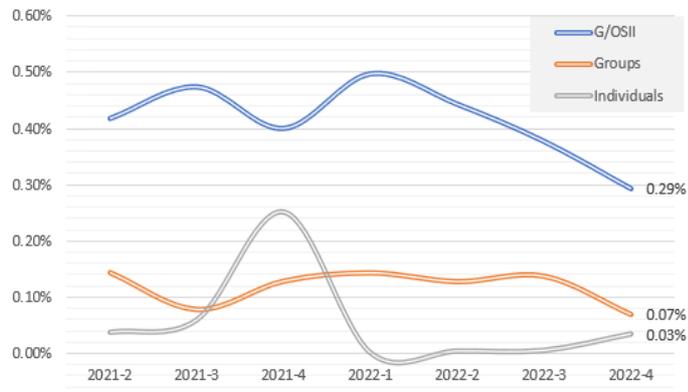
Source: COREP Template C 80.00.a row 690 col 10

**Article 510(6)c – Off-balance-sheet items used in Securities financing transactions**

37. To reflect “off-balance sheet items used in SFTs” data of SFTs with financial customers which are encumbered are used, because the encumbrance of the loans is due to the reuse or re-pledge of assets originally received as collateral in these SFTs rather than that the loans themselves are used as collateral.

38. It is available the information about the SFT with financial customers which are encumbered where the encumbrance of the loans is due to the reuse or re-pledge of assets originally received as collateral in these SFT. It can be seen from Figure 12 that the contribution of this item to the total amount of the RSF is limited.

Figure 12: Contribution of SFT encumbered with residual maturity of less than 6 month with financial customers to the RSF



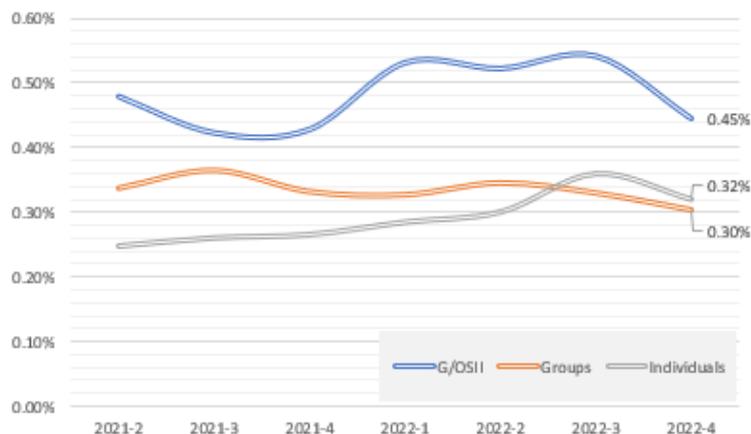
Source: COREP Template C 80.00.a row 670, 680, 710, 720 col 10

**Article 510(6)d – adequacy of the asymmetric treatment between liabilities with a residual maturity of less than six months provided by financial customers and assets resulting from transactions with a residual maturity of less than six months with financial customers.**

39. Article 510(6)d refers to the asymmetric treatment between ASF and RSF positions against financial customers. ASF-side refers to liabilities provided by financial customers; RSF-side refers to SFT with residual maturity of less than six months provided by financial customers resulting from transactions that are subject to a 0%, 5% or 10% weighting factor.

40. Figure 13 shows the contribution to the total RSF amount of SFT with residual maturity of less than six months provided by financial customers resulting from transactions that are subject to a 0%, 5% or 10% weighting factor.

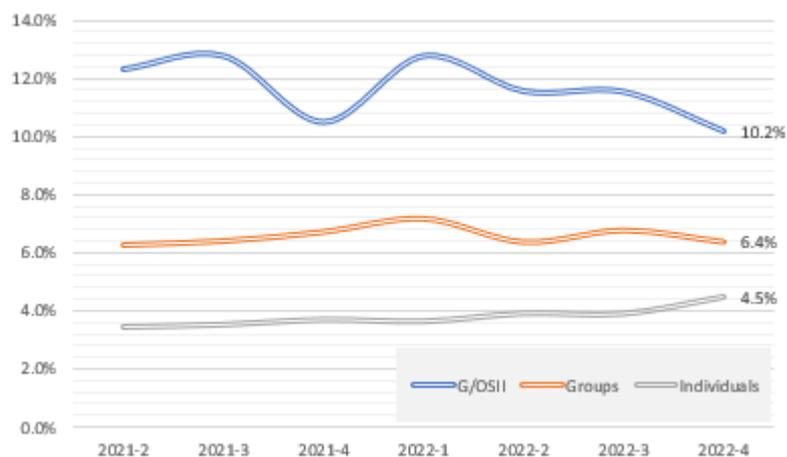
Figure 13: Contribution of SFT with residual maturity of less than six months provided by financial customers resulting from transactions that are subject to a 0%, 5% or 10% factor to the RSF



Source: COREP Template C 80.00.a row 660 with 0%, row 700 with 5%, row 730 with 10%

41. Figure 14 shows the contribution to the total ASF amount of liabilities provided by financial customers with residual maturity of less than six months resulting from transactions that are subject to a 0% weighting factor.

Figure 14: Amount of liabilities provided by financial customers vs Total Assets

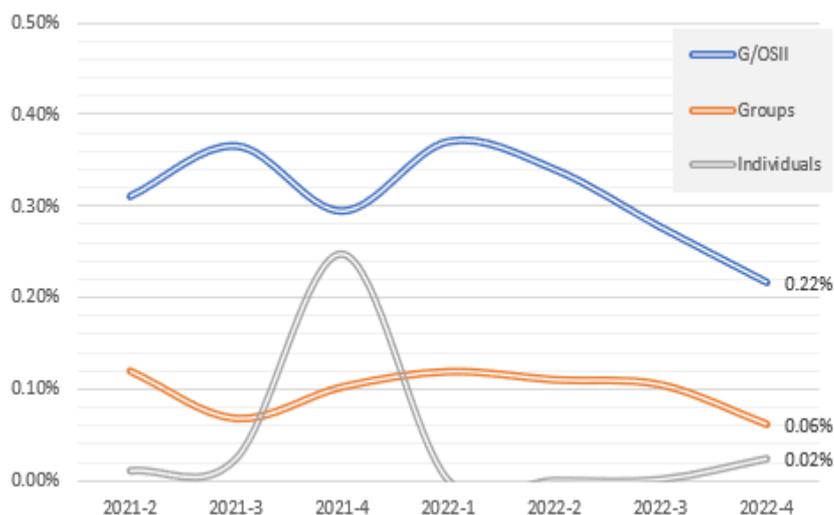


Source: COREP Template C 81.00.a row 290, 300 col 10

**Article 510(6)f –SFT with a residual maturity of less than six months with financial customers where sovereign bonds are received as collateral in those transactions**

42. The contribution of SFT with a residual maturity of less than six month with financial customers where sovereign bonds are received as collateral represent about 0.2% of the total RSF for G/OSII while it is practically null for the other banks.

Figure 15: Contribution of SFT with maturity of less than six month with financial customers where sovereign bonds are received as collateral to the RSF



Source: COREP Template C 80.00.a row 660, 670, 680 col 10

### 3.3 Prudential treatment

43. Under the NSFR framework there is not difference between the treatment of secured and unsecured funding provided by financial customers. This is due to the fact that secured funding is not proven to be necessarily more stable or likely to be rolled over than unsecured funding under normal conditions<sup>7</sup>.
44. In order to discourage the reliance on short-term funding, the BCBS chose an asymmetrical treatment for short-term lending and short-term funding between financial counterparties. Even though, on the liability side, funding received from financials with a maturity below six months is not deemed stable (a 0% ASF factor is applied), on the asset side some stable funding is required to at least ensure the funding of a minimum rate of rollover of these loans.
45. In EU it was deemed necessary to give sufficient time to institutions to progressively adapt to such a conservative calibration. Therefore, it was decided to temporarily reduce the RSF factors applied to monies due from SFTs with financial customers. Indeed, the calibration of RSF factors could have affected the liquidity of securities usually used as collateral in short-term transactions, with a consequent potential reduction of the volume of the operations in repo.
46. It deems to be underlined that repo transactions are important instruments in the context of the functioning of the whole financial system. Based on the Committee on the Global Financial System's paper<sup>8</sup> related to the analysis of the changes in the availability and cost of repo financing, *"repo markets play a key role in facilitating the flow of cash and securities around the financial system. They offer a low-risk and liquid investment for cash, as well as the efficient management of liquidity and collateral by financial and non-financial firms. A well-functioning repo market also supports liquidity and price discovery in cash markets, helping to improve the efficient allocation of capital and to reduce the funding costs of firms in the real economy. However, excessive use of repos can facilitate the build-up of leverage and encourage reliance on short-term funding."*
47. Generally, in the NSFR, transactions between financial institutions receive an asymmetric treatment: short-term funding received is not recognized as stable, while short-term lending is subject to a RSF factor, which depends on the quality of the collateral.

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<sup>7</sup> Secured funding, unlike unsecured one, is collateralized by an asset, either a loan or a security. Under Article 4(1)(139) of the CRR, there is the definition of securities financing transaction as *'a repurchase transaction, a securities or commodities lending or borrowing transaction, or a margin lending transaction'*. Repurchase (repo) agreements and reverse repurchase (reverse repo) agreements are an example of SFTs. A repo is an agreement to sell securities at a given price, coupled with an agreement to repurchase these securities at a pre-established price at a later date. A reverse repo is the same set of transactions seen from the perspective of the party that lends cash and receives the securities as collateral. Repo transactions are usually used by institutions to obtain liquidity, whereas reverse repo transactions are used to invest excess cash and cover short positions in securities.

<sup>8</sup> Committee on the Global Financial System document: Repo Market Functioning, April 2017. Online at: [Repo market functioning \(bis.org\)](http://www.bis.org)

48. The asymmetric treatment in Basel is aimed at preventing any contagion effects between institutions during liquidity shocks, in case of unavailability of short-term funding. Furthermore, stable funding could be needed in relation to monies lent in short-term reverse repo even if the collateral is a liquid asset, because the transaction could be rolled over in practice; hence – in case no minimum stable funding is required – the funding risk would not be covered properly.
49. In the EU implementation of NSFR it was decided to temporarily reduce the asymmetric treatment envisaged in Basel until 2025. This transitional treatment was introduced in the CRR in order not to affect negatively the liquidity of securities usually pledged as collateral in short-term transactions (in particular sovereign bonds), as institutions could reduce the volume of their operations in repo markets. It was deemed appropriate to give sufficient time to institutions to adapt to the conservative calibration.
50. In details, the treatments in EU and in Basel are the following:

Table 8: Comparison with Basel standards

Item	EU	Basel
Short-term SFTs with financial counterparties backed by Level 1 assets	0% RSF	10% RSF
Short-term SFTs with financial counterparties backed by non-level 1 assets	5% RSF	15% RSF
Unsecured loans with financial counterparties	10% RSF	15% RSF
Short-term liabilities provided by financial counterparties	0% ASF	0% ASF

51. In the context of the jurisdictional assessment carried out by the BCBS (Regulatory Consistency Assessment Programme (RCAP)), the current RSF factors envisaged in the CRR have been flagged as a not material deviation, based on the expectation that they are temporary and will expire on June 2025 with a full alignment to the Basel standard.
52. Based on available RCAP reports, similar deviations from the Basel standard can be found also in other jurisdictions. For example, the Canadian prudential regulator (OSFI) has assigned a 5% RSF to SFTs secured against Level 1 assets between financial counterparties and a 10% RSF factor when secured against non-Level 1 assets, which are higher than in EU regulation but still not fully aligned to NSFR Basel standards. Under Japanese regulations, a RSF factor of 0% is assigned to SFTs between financials secured by L1 assets, similarly to EU. The US NSFR regulation expands the scope of assets that receive a 0% RSF factor to assets such as unencumbered Level 1 assets and unencumbered loans to financial institutions with a residual maturity of less than six months, where the loan is secured

against Level 1 assets. Under the Basel NSFR standard, such assets should receive a 5% and 10% RSF factor, respectively.

53. EBA is mandated to assess the opportunity to apply higher or lower RSF factors to these transactions. Possible alternative treatments could be suggesting a full alignment to the Basel NSFR standard or, conversely, deleting the asymmetric treatment envisaged for repo/reverse repo.
54. In the EBA NSFR calibration report<sup>9</sup> particular attention was paid to SFTs. On repo and reverse repo transactions, the report concluded that basically, as aforementioned, there could be some funding risk created by the maturity mismatch between the two sides of these transactions. Consequently, it was deemed correct to cover this type of assets with a percentage of stable funding, consistently with the Basel framework. At the same time, on the basis of the analysis carried out in the report, banks seemed to be able on average to increase their NSFR without in parallel decreasing these trading activities. For these reasons, material consequences in financial markets as a direct result of introducing a NSFR requirement were considered unlikely to happen. Rather, the suggested calibration of the NSFR was expected to protect against the existing funding risks raised by these transactions.
55. On the other hand, through the call for evidence and the NSFR targeted consultation, the banking industry raised concern that such treatment of short-term transactions may have affected the liquidity of repo market and of the underlying collateral. They complained the fact that small asymmetries in ASF and RSF applied could have had a very large impact, due to the size of the European repo market. AFME and ISDA recommended in their position paper prescribing a full removal of the asymmetry (with a 0% RSF for reverse repos) or, in alternative, applying such a treatment only to agreements with non-regulated financial entities<sup>10</sup>. The ICMA too noted in its paper that the impact of the NSFR, in case of strict alignment to the NSFR Basel standard, would have had negative implications for the smooth functioning of broader financial markets<sup>11</sup>. On the basis of available data and of Members states' opinions expressed during the expert group meetings, it was then decided to bring temporary limited changes to the treatment envisaged in Basel, hence the choice to introduce lower RSF factors in the CRR.

#### **Treatment of OBS items used in SFTs**

56. Former paragraphs were focused on the cash leg of repo/reverse repo transactions, but the CRR actually sets out provisions relating to the collateral leg as well, namely under paragraph 2 and 3 of Article 428p. In particular, for the calculation of NSFR, institutions are required to consider assets borrowed/lent through SFTs when they have the beneficial ownership,

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<sup>9</sup> European Banking Authority document: EBA Report on Net Stable Funding Requirements under Article 510 of the CRR, December 2015. Online at: [EBA-Op-2015-22 NSFR Report.pdf \(europa.eu\)](#)

<sup>10</sup> AFME, ISDA: *CRD 5: The Net Stable Funding Ratio*, April 2017. Online at: [CRD 5: The Net Stable Funding Ratio \(afme.eu\)](#)

<sup>11</sup> International Capital Market Association (ICMA): *Impacts of the Net Stable Funding Ratio on Repo and Collateral Markets*, March 2016. Online at: [ERCC-NSFR-230316.pdf \(icmagroup.org\)](#)

regardless of the accounting treatment. In this case, both assets borrowed and lent shall be subject to the RSF factors to be applied under Section 2 of the CRR, even if the asset does not appear in the balance sheet of the institution <sup>(12)</sup>.

57. Regarding the role of asset encumbrance in NSFR, it implies that assets encumbered for medium- to long-term periods receive a higher RSF factor than the one they would receive if they were held unencumbered. In particular, assets encumbered for a residual maturity from six to twelve months shall be subject to a stable funding requirement of at least 50%. On the contrary, short-term encumbrance does not affect RSF factors: assets that have less than six months remaining in the encumbrance period receive the same stable funding requirement as if they were held unencumbered.
58. Encumbrance could be due to short-term operations (e.g. repos, collateral swaps) or to long-term ones (e.g. covered bonds). The identification of these transactions by means of a look-through approach is necessary to capture the proper measure in term of stable funding requirement.
59. Furthermore, where an asset has been borrowed and it is accounted for off-balance sheet, the encumbrance affects directly the transaction in relation to which that asset has been borrowed, which is considered itself encumbered, since the transaction cannot mature without the institution returning the asset borrowed (Art. 428p (5) CRR). This implies that the residual maturity of the encumbrance for NSFR purposes shall be the higher between the residual maturity of the transaction where the assets has been borrowed and the residual maturity of the transaction where the assets has been repledged.

### 3.4 Sensitivity analysis

60. This section provides the impact of changes to the current supervisory treatment.

#### ***Article 510(6)a – STF collateralised by Level 1 assets with a residual maturity of less than six months with financial customers***

61. On average the weighing factor applied to SFT with a residual maturity of less than six month with financial customers is equal to 3%. The Table 9 shows the impact in terms of NSFR of reducing the factor to 0% or to increase it up to 100%.

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<sup>12</sup> However, a derogation from this rule is provided for in the European prudential reporting framework. In particular, NSFR reporting instructions specify that in case of reverse repo transactions - where the asset is accounted for off-balance sheet and the bank has the beneficial ownership of the asset – only the higher RSF factor between the ones applied respectively to the receivable and to the security must be considered.

Table 9: Sensitivity analysis of STF with a residual maturity of less than six months with financial customers

	G/OSII	Groups	Individuals	5 most impacted Institutions			
Avg Factor	3%	3%	2%	% TA	avg Fct	NSFR	
				2.3%	5.8%	140.66%	
	Fct 0%	27	8	3	Fct 0%	679	
	Fct 10%	-67	-11	-15	Fct 10%	-461	
<b>Impact</b>	Fct 20%	-160	-31	-34	<b>Impact</b>	Fct 20%	-1,438
<b>(bps of</b>	Fct 30%	-251	-50	-52	<b>(bps of</b>	Fct 30%	-2,284
<b>NSFR)</b>	Fct 40%	-340	-70	-70	<b>NSFR)</b>	Fct 40%	-3,024
	Fct 50%	-429	-89	-88	Fct 50%	-3,676	
	Fct 100%	-852	-186	-178	Fct 100%	-6,045	

**Article 510(6)a – SFT collateralised by other assets with a residual maturity of less than six months with financial customers**

62. On average the weighting factor applied to SFT with a residual maturity of less than six month with financial customers is equal to 7%. The Table 10 shows the impact in terms of NSFR of reducing the factor to 0% or to increase it up to 100%.

Table 10: Sensitivity analysis of SFT collateralised by other assets with a residual maturity of less than six months with financial customers

	G/OSII	Groups	Individuals	5 most impacted Institutions			
Avg Factor	7%	6%	6%	% TA	avg Fct	NSFR	
				1.3%	6.7%	155.01%	
	Fct 0%	35	4	6	Fct 0%	918	
	Fct 10%	-19	-2	-4	Fct 10%	-409	
<b>Impact</b>	Fct 20%	-72	-9	-13	<b>Impact</b>	Fct 20%	-1,538
<b>(bps of</b>	Fct 30%	-126	-15	-23	<b>(bps of</b>	Fct 30%	-2,510
<b>NSFR)</b>	Fct 40%	-178	-22	-32	<b>NSFR)</b>	Fct 40%	-3,355
	Fct 50%	-231	-28	-41	Fct 50%	-4,097	
	Fct 100%	-486	-61	-88	Fct 100%	-6,766	

**Article 510(6)a – Unsecured transactions with a residual maturity of less than six months with financial customers**

63. On average, the weighting factor applied to Unsecured transactions with a residual maturity of less than six month with financial customers is equal to 10%. The Table 11 shows the impact in terms of NSFR of reducing the factor to 0% or to increase it up to 100%.

Table 11: Sensitivity analysis of Unsecured transactions with a residual maturity of less than six months with financial customers

	Avg Factor	G/OSII	Groups	Individuals	5 most impacted Institutions		
		10%	10%	10%	% TA	avg Fct	NSFR
					0.0%	12.2%	642.00%
	Fct 0%	35	44	47		Fct 0%	65,288
	Fct 10%	0	-2	2		Fct 10%	6,318
<b>Impact (bps of NSFR)</b>	Fct 20%	-34	-49	-43	<b>Impact (bps of NSFR)</b>	Fct 20%	-15,748
	Fct 30%	-69	-94	-88		Fct 30%	-27,295
	Fct 40%	-103	-140	-133		Fct 40%	-34,398
	Fct 50%	-137	-185	-177		Fct 50%	-39,208
	Fct 100%	-303	-407	-393		Fct 100%	-50,369

**Article 510(6)b – requirements set out in Article 428r(1)g**

64. SFT collateralised by other than L1 assets are associated on average to a weighting factor equal to 7%. Decreasing the factor to 0% would shape a limited increase to the NSFR (36 bps for G/OSII) – see Table 12.

Table 12: Sensitivity analysis of items subject to the Article 428r(1)g

	Avg Factor	G/OSII	Groups	Individuals	5 most impacted Institutions		
		7%	7%	6%	% TA	avg Fct	NSFR
					0.3%	5.9%	209.18%
	Fct 0%	36	4	6		Fct 0%	2,303
	Fct 10%	-19	-2	-4		Fct 10%	-1,362
<b>Impact (bps of NSFR)</b>	Fct 20%	-74	-8	-13	<b>Impact (bps of NSFR)</b>	Fct 20%	-4,028
	Fct 30%	-129	-15	-23		Fct 30%	-6,054
	Fct 40%	-183	-21	-32		Fct 40%	-7,646
	Fct 50%	-236	-27	-42		Fct 50%	-8,930
	Fct 100%	-497	-58	-89		Fct 100%	-12,839

**Article 510(6)c – Off-balance-sheet items used in Securities financing transactions**

65. Coherently with its limited materiality in terms of contribution to the total RSF, modifying the factor to this specific item would have limited impact.

Table 13: Sensitivity analysis of SFT that are encumbered

	G/OSII	Groups	Individuals	5 most impacted Institutions			
				% TA	avg Fct	NSFR	
<b>Avg Factor</b>	82%	97%	51%	1.8%	90.8%	153.25%	
	Fct 0%	37	9	4	Fct 0%	1,440	
	Fct 10%	32	8	3	Fct 10%	1,268	
<b>Impact</b>	Fct 20%	28	7	3	<b>Impact</b>	Fct 20%	1,100
<b>(bps of</b>	Fct 30%	23	7	2	<b>(bps of</b>	Fct 30%	935
<b>NSFR)</b>	Fct 40%	19	6	1	<b>NSFR)</b>	Fct 40%	774
	Fct 50%	14	5	0	Fct 50%	615	
	Fct 100%	-8	0	-4	Fct 100%	-132	

**Article 510(6)d – adequacy of the asymmetric treatment between liabilities with a residual maturity of less than six months provided by financial customers and assets resulting from transactions with a residual maturity of less than six months with financial customers.**

66. On average, the SFT with residual maturity of less than six months provided by financial customers resulting from transactions that are subject to a 0%, 5% or 10% is associated with a factor equal to 3% for major banks and slightly higher for the other banks. Table 14 provides the impact of modifying this factor.

Table 14: Sensitivity analysis SFT with residual maturity of less than six months provided by financial customers resulting from transactions that are subject to a 0%, 5% or 10%

	G/OSII	Groups	Individuals	5 most impacted Institutions			
				% TA	avg Fct	NSFR	
<b>Avg Factor</b>	3%	7%	7%	0.1%	7.2%	245.0%	
	Fct 0%	54	42	41	Fct 0%	9,438	
	Fct 10%	-112	-22	-21	Fct 10%	-2,374	
<b>Impact</b>	Fct 20%	-275	-85	-83	<b>Impact</b>	Fct 20%	-8,086
<b>(bps of</b>	Fct 30%	-433	-148	-143	<b>(bps of</b>	Fct 30%	-11,454
<b>NSFR)</b>	Fct 40%	-586	-210	-204	<b>NSFR)</b>	Fct 40%	-13,675
	Fct 50%	-737	-272	-264	Fct 50%	-15,250	
	Fct 100%	-1433	-572	-554	Fct 100%	-19,145	

67. On average, the amount of liabilities provided by financial customers is associated with weight factor equal 0%.

Table 15: Sensitivity analysis for liabilities provided by financial customers

	G/OSII	Groups	Individuals	5 most impacted Institutions			
	Avg Factor	0%	0%	0%	% TA	avg Fct	NSFR
					0.1%	0.0%	273.62%
	Fct 0%	0	0	0	Fct 0%	0	
	Fct 10%	216	118	73	Fct 10%	10,718	
<b>Impact (bps of NSFR)</b>	Fct 20%	433	237	147	<b>Impact</b>	Fct 20%	21,435
	Fct 30%	649	355	220	<b>(bps of</b>	Fct 30%	32,153
	Fct 40%	865	474	294	<b>NSFR)</b>	Fct 40%	42,871
	Fct 50%	1,081	592	367	Fct 50%	53,588	
	Fct 100%	2,163	1,184	734	Fct 100%	107,177	

**Article 510(6)f –SFT with a residual maturity of less than six months with financial customers where sovereign bonds are received as collateral in those transactions**

68. On average, SFT with M<6m with financial customers where sovereign bonds are received as collateral is associated with a factor equal to 3%. Table 16 provides the impact of modifying this factor.

Table 16: Sensitivity analysis of SFT with M<6m with financial customers where sovereign bonds are received as collateral

	G/OSII	Groups	Individuals	5 most impacted Institutions			
	Avg Factor	3%	4%	2%	% TA	avg Fct	NSFR
					2.3%	5.8%	140.66%
	Fct 0%	27	8	3	Fct 0%	679	
	Fct 10%	-67	-11	-15	Fct 10%	-461	
<b>Impact (bps of NSFR)</b>	Fct 20%	-160	-31	-34	<b>Impact</b>	Fct 20%	-1,438
	Fct 30%	-251	-50	-52	<b>(bps of</b>	Fct 30%	-2,284
	Fct 40%	-340	-70	-70	<b>NSFR)</b>	Fct 40%	-3,024
	Fct 50%	-429	-89	-88	Fct 50%	-3,676	
	Fct 100%	-852	-186	-178	Fct 100%	-6,045	

## 4. Funding risk linked to institutions' holdings of securities to hedge derivative contracts

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### 4.1 Introduction

**Article 510(9) CRR:** *EBA shall monitor the amount of stable funding required to cover the funding risk linked to institutions' holdings of securities to hedge derivative contracts. EBA shall report on the appropriateness of the treatment by 28 June 2023. That report shall at least assess: (a) the possible impact of the treatment on investors' ability to gain exposure to assets and the impact of the treatment on credit supply in the capital markets union; (b) the opportunity to apply adjusted stable funding requirements to securities that are held to hedge derivatives which are funded by initial margin, either wholly or in part; (c) the opportunity to apply adjusted stable funding requirements to securities that are held to hedge derivatives which are not funded by initial margin.*

69. This article is related to a banking activity which is holding securities to hedge derivative contracts (for example, equity swaps) and taking into account if these securities are funded or not by the initial margin.

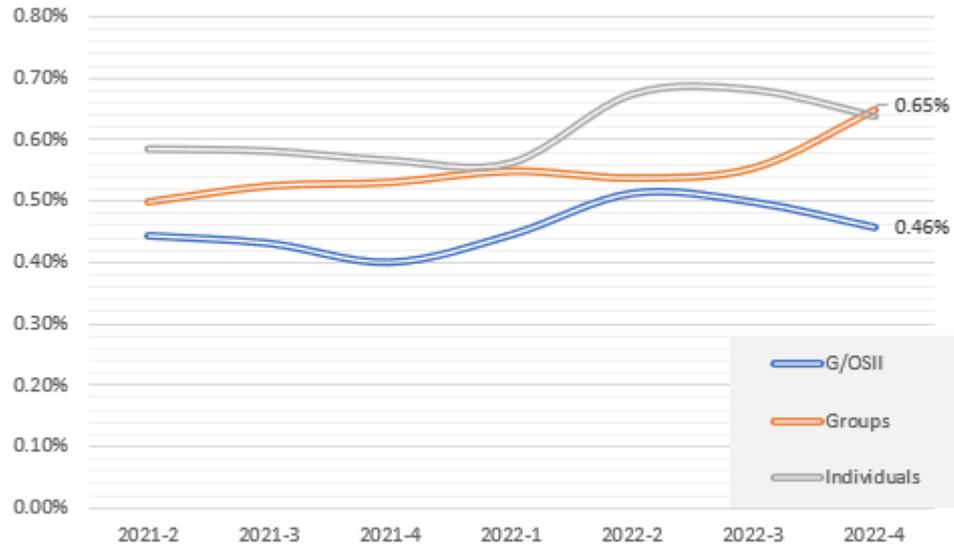
### 4.2 Materiality

70. This section provides the magnitude of the items discussed.

71. The Article 510(9) relates to securities hedging derivatives transactions. However, COREP templates, and specifically row 950 refers only to initial margin posted. Alternatively, considering rows 580 and 610 it is not possible to disentangle the detail of the securities held to hedge derivatives contracts (and so to distinguish the securities that are funded by initial margin). But this can be seen as an upper bound of the phenomenon in terms of materiality.

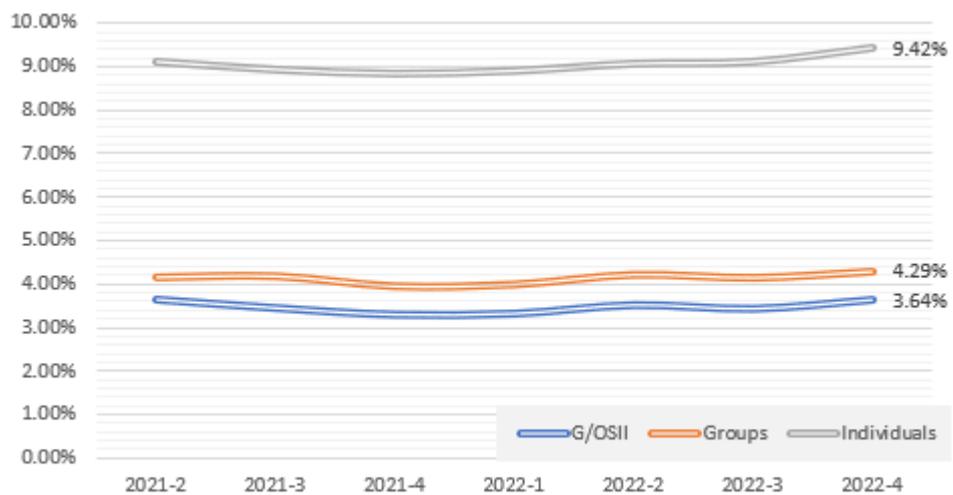
72. Figure 16 and Figure 17 show the contribution of Securities (unencumbered or encumbered) other than liquid assets to the total RSF.

Figure 16: Contribution of non-HQLA securities unencumbered or encumbered for a residual maturity of less than one year to the total RSF



Source: COREP Template C 80.00.a row 580, col 10 and 20

Figure 17: Contribution of Non-HQLA securities encumbered for a residual maturity of more than one year to the total RSF



Source: COREP Template C 80.00.a row 580, col 30 and row 610 col 10, 20, 30

### 4.3 Prudential treatment

73. The current prudential treatment in the SSM and its comparison with other main jurisdictions is summarised in the next table:

Table 17: prudential treatment holdings of securities to hedge derivative contracts

RSF from securities other than liquid assets		Standard RSF factor				
		SSM	UK	USA	CH	JAP
non- HQLA securities and exchange traded equities	< 1 year	50%	50%	50%	50%	50%
	≥ 1 year	85%	85%	85%	85%	85%
non-HQLA securities encumbered for a residual maturity of one year or more in a cover pool	< 1 year	85%	85%	100%	100%	100%
	≥ 1 year	85%	85%	100%	100%	100%

74. The treatment is the same in all the analysed jurisdictions for the case of securities unencumbered or encumbered for a residual maturity of less than one year; however, in SSM and UK the treatment for the non-HQLA securities encumbered for a residual maturity of one year or more in a cover pool is less demanding than the rest of jurisdictions. The rationale of this calibration is to protect the credit institution against the funding risks entailed by these transactions.

75. Particularly, RSF factors are calibrated depending on the ability to convert a security into cash easily (so that unencumbered HQLAs have RSF factors from 0% to 55% without considering their residual maturity), instead for non-HQLAs securities the residual maturity is taken into account, i.e, when the remaining maturity is over one year a RSF factor of 85% is required because it is expected that these non-HQLA securities cannot be sold or pledged as easily if an unstable funding source is not rolled over. This assumption explains the relatively high stable funding requirement to hold these securities because the requirement's aim is to cover funding risk and not market risk.

### 4.4 Sensitivity analysis

76. This section provides the impact of changes to the current supervisory treatment.

77. Coherently with its limited materiality, modifying the treatment (weighting factor) of non-HQLA Securities unencumbered or encumbered for a residual maturity of less than one year would not have a material impact on the NSFR. The impact would be higher for non-HQLA Securities unencumbered or encumbered for a residual maturity of higher than one year.

Table 18: Sensitivity analysis of non-HQLA securities unencumbered or encumbered for a residual maturity of less than one year

	G/OSII	Groups	Individuals	5 most impacted Institutions			
	Avg Factor	50%	50%	50%	% TA	avg Fct	NSFR
					0.0%	50.0%	257.41%
<b>Impact (bps of NSFR)</b>	Fct 0%	57	89	82		Fct 0%	20,757
	Fct 10%	46	71	66		Fct 10%	14,300
	Fct 20%	34	53	49	<b>Impact</b>	Fct 20%	9,417
	Fct 30%	23	36	33	<b>(bps of</b>	Fct 30%	5,596
	Fct 40%	11	18	16	<b>NSFR)</b>	Fct 40%	2,524
	Fct 50%	0	0	0		Fct 50%	0
	Fct 100%	-57	-88	-81		Fct 100%	-7,945

Table 19: Sensitivity analysis of non-HQLA securities encumbered for a residual maturity of more than one year

	G/OSII	Groups	Individuals	5 most impacted Institutions			
	Avg Factor	85%	85%	85%	% TA	avg Fct	NSFR
					0.0%	85.0%	124.67%
<b>Impact (bps of NSFR)</b>	Fct 0%	472	611	1329		Fct 0%	25,598
	Fct 10%	414	537	1158		Fct 10%	18,192
	Fct 20%	357	463	992	<b>Impact</b>	Fct 20%	13,198
	Fct 30%	301	389	829	<b>(bps of</b>	Fct 30%	9,604
	Fct 40%	245	317	671	<b>NSFR)</b>	Fct 40%	6,892
	Fct 50%	190	245	516		Fct 50%	4,774
	Fct 100%	-80	-102	-209		Fct 100%	-1,323

78. According to these sensitivity analysis, in the Table 18 the impact is very low and the actual RSF factors, in our opinion, would not affect to the bank's strategies on their investment in these types of securities.

79. Regarding the Table 19, the impact is higher but, in this case, reducing the RSF factors for these securities would create a miscalibration and discrimination in comparison with the RSF factor applied for HQLAS securities and these facts might change the incentives of banks regarding their investment in financial securities. So that, in our opinion, the RSF factors should not be changed because they do not affect over the markets and the investors' ability to gain exposure to these assets

## 5. Conclusions

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80. The three mandates under Articles 510(4), (6) and (9) of Regulation (EU) No 575/2013 amended by Regulation (EU) No 2019/876 commit the EBA to evaluate several items: 9 articles and other specific parts referred to the NSFR regulation framework are explicitly mentioned. The mandates require to evaluate the impact of possible changes to the current treatment of some specific items (mainly, treatment of specific assets for the computation of the amount of required stable funding - RSF) but also the opportunity of those changes. The impact analysis should be extended not only to the credit institutions but also to the functioning of the relative markets.
81. Evaluating the opportunity of the changes is challenging as this would imply to measure the liquidity risk (under the NSFR perspective) of the involved assets and to translate these measures in weighting factors. In turn, this would require collecting non-standard data and to develop the risk measures. Also, evaluating the impact on the markets was deemed excessively challenging.
82. The report leverages mostly on qualitative analysis based on expert judgement supplemented by some materiality and sensitivity analysis. In detail, for some of the items for which data is available, the report could provide an evaluation of the materiality of the phenomena as well as an assessment of the impact of possible changes to the current prudential treatment. Since the choice of the weighing factors would not be supported by any quantitative study, the report should be intended as providing only a sensitivity analysis. However, the report includes qualitative analyses about the opportunity to modify the weighing factors.
83. The qualitative analysis is aimed at assessing if a different treatment applies in other jurisdictions and, if that is the case to, assess how those approaches would impact the NSFR in EU banks for potential level playing field issues.
84. The report leverages mostly on qualitative analysis based on expert judgement supplemented by some materiality and sensitivity analysis. In detail, for some of the items for which data is available, the report provides an evaluation of the materiality of the phenomena as well as an assessment of the impact of possible changes to the current prudential treatment.
85. The qualitative analysis presents the rationale of the current prudential treatments and a comparison with other jurisdictions. Moreover, the quantitative analysis relies on information available through the Supervisory Reporting Templates (i.e. COREP) and, in particular, it leverages only on data provided in the EBA sample. This way, it is not necessary to collect information from National Competent Authorities (NCAs) or directly from banks<sup>13</sup>.

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<sup>13</sup> Making ad hoc data collections is a costly and time-consuming process. For this reason, it is preferable, whenever it is possible, to exploit data that are readily available from statistical agencies and databases.

86. All the items mentioned in the mandates have limited materiality in terms of contribution to the total RSF and this situation is verified for major banks as well for smaller banks. A change in the regulatory treatment of such items would probably not shape material effects to the institutions but it would generate costs of compliance. Moreover, the current treatment appears aligned with other jurisdictions so that variations would hamper the harmonization across jurisdictions.
  
87. As regards the treatment of SFTs with financial counterparties, the limited materiality shown in the results of the sensitivity analysis does not provide evidence against the compliance with Basel standards after the phase-in period as envisaged in the CRR. The EBA will keep monitoring the impact of the NSFR treatment on repo markets regularly in the context of its report on liquidity measures under Article 509(1) CRR.

# Annex

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## Details about the analysis required by the mandates under Articles 510(4), (6) and (9) and the data availability

### *Mandate on derivative contracts*

1. **Article 510(4):** RSF covering the funding risk linked to the derivative contracts (report due by June 2024) [...] over the one-year horizon [...] report to the Commission on the opportunity to adopt a higher required stable funding factor or a more risk sensitive measure
  - **Data available in COREP:** there is data on the amount of RSF for derivatives and the applicable RSF factor. However, the breakdown of derivative assets and derivative liabilities is not available. With regards the initial margin posted, it is available at all maturities.
2. With the data available, the EBA intends to address the mandate as follows:
  - **Sub-Article (a)** distinguish between margined and unmargined derivative contracts.
    - No data is available. This item would be analysed under a qualitative perspective only.
  - **Sub-Article (b)** the opportunity to remove, increase or replace the requirement set out in Articles 428s(2) and 428at(2);
    - Articles 428s(2) and 428at(2) refer to the application of a factor equal to 5% to netting sets of derivative contracts with negative fair value. We have this information in Corep: Templates C.80.00.b row **930**, col 10: required stable funding for derivative liabilities.
  - **Sub-Article (c)** the opportunity to change the treatment of derivative contracts in the calculation of the net stable funding ratio, as set out in Article 428d, Articles 428k(4) and 428s(2), points (a) and (b) of Article 428ag, Articles 428ah(2), 428al(4) and 428at(2), points (a) and (b) of Article 428ay and Article 428az (2), to better capture the funding risk linked to those contracts over the one-year horizon of the net stable funding ratio;
    - Article 428d refers broadly to the treatment of derivatives for the NSFR computation. One of the main aspects is the netting, for which no data is available. This item would be analysed under a qualitative perspective only.
    - Articles 428k(4), 428al(4) refer to the application of the 0% factor to the difference (if negative) of derivatives netting sets. We have this info in COREP in the Template C.81.00.a row 320 col 10
    - Articles 428s(2) and 428at(2) are already analysed in (2)
    - Points (a) and (b) of Articles 428ag and 428ay refer to the application of the 85% factor to any assets posted as initial margin for derivative contracts. We have this information in COREP for all maturities (Template C.80.00.b row **950** col 10 and 20: NSFR derivative assets).

- Articles 428ah(2) and 428az(2) refer to the application of the 100% factor to the difference (if positive) of derivatives netting sets. We don't have this info in COREP. However, it is possible to verify from the Template C.80.00.b col 10 and 20 to what extent the 100% factor is practically applied.

### *Mandate on securities financing transactions*

3. **Article 510(6):** RSF covering the funding risk linked to securities financing transactions (SFT) [...] and Unsecured transactions with financial customer [...] maturity of less than 6m (report due by June 2023) [...] report to the Commission on the opportunity to adopt a higher or lower required stable funding factor or a more risk sensitive measure.
  - **Data available in COREP:** The data of SFTs in COREP is extensive and also includes breakdown by collateral: (i) collateralised by Level 1 assets and (ii) collateralised by other assets. Also, there is data of other loans and advances to financial customers. The amount and the RSF factors for all these breakdowns are available for all maturities. The high level of detail for securities financing transactions makes possible the possibility of addressing the mandate without the need of launching a data collection.
4. With the data available, the EBA intends to address the mandate as follows:
  - **Sub-Article (a)** it is referred to SFT and Other Loans with financial customer with maturity <6 months;
    - We have this information: Templates C.80.00a rows 640 and 730 col 10 (securities financing transactions with financial customers and other loans and advances to financial customers).
  - **Sub-Article (b)** it is referred to SFT collateralised by non L1 assets and M < 6m
    - We have this information: Template C.80.00a rows 690 col 10 (securities financing transactions with financial customers collateralized by other assets). The mandate does not specify the maturity but since the Article 428r(1)(g) is referred to STF with maturity <6m we consider only this maturity class.
  - **Sub-Article (c)** it is referred to Off-balance sheet items and M<6m
    - We have this information: Templates C.80.00a rows 670, 680, 710 and 720 col 10 (RSF from OBS items). SFT transactions with financial customers which are encumbered (the encumbrance of the loans is due to the reuse or re-pledge of assets originally received as collateral in these SFTs rather than that the loans themselves are used as collateral) and reported.
  - **Sub-Article (d)** the adequacy of asymmetric treatment between liabilities (M<6m) from financial customer (subject to 0% factor) and assets (SFT and Other loans, any maturity)
    - We have this information.
      - For the assets side: C.80.00a Row 660 – 0% RSF, row 700 – 5% RSF, row 730 – 10% RSF
      - For the liability side Template C.81.00 rows 290-300 col 10 (Liabilities provided by financial customers with factor 0%)

- **Sub-Article (f)** it is referred to SFT backed by sovereign bonds (M < 6m)
  - We have this information: Template C.80.00a rows 650 col 10 (SFT collateralized by level 1 assets eligible for 0% LCR haircut). It is assumed, that all reported Level 1 assets with 0% haircut, are sovereign bonds (660, 670, 680).

*Mandate on securities to hedge derivative contracts*

5. **Article 510(9)**: RSF covering the funding risk linked to holding of securities to hedge derivatives. With the data available, the EBA intends to address the mandate as follows:

- **Sub-Article (a),(b),(c)** it is referred to SFT backed by L1 assets (M < 6m)
  - Considering rows 580 and 610 it is not possible to disentangle the detail of the securities held to hedge derivatives contracts. But this can be seen as an upper bound of the phenomenon in terms of materiality.



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