



CENTRAL BANK OF
TRINIDAD & TOBAGO

Net Stable Funding Ratio Consultation Paper

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Table of Contents

ABBREVIATIONS	3
1. INTRODUCTION	4
2. CONSULTATION PROCESS AND QUANTITATIVE IMPACT STUDY (QIS)	5
3. DEFINITIONS	5
4. REGULATORY FRAMEWORK	7
5. SCOPE OF APPLICATION	8
6. GENERAL REQUIREMENTS	9
8. TREATMENT OF SPECIFIC INSTRUMENTS	22
9. IMPLEMENTATION AND TRANSITION PERIODS	22

ABBREVIATIONS

ASF	Available Stable Funding
BCBS	Basel Committee on Banking Supervision
CAR	Financial Institutions (Capital Adequacy) Regulations, 2020
CCP	Central Counterparty
FIA	Financial Institutions Act, Chap. 79:09
HQLA	High Quality Liquid Assets
LCR	Liquidity Coverage Ratio
LR	Leverage Ratio
MDB	Multilateral Development Bank
NSFR	Net Stable Funding Ratio
PSE	Public Sector Entity
RSF	Required Stable Funding

1. INTRODUCTION

- 1.1. The global financial crisis of 2007-2008 highlighted shortcomings in the prudential framework governing banks. In particular, the Basel Committee on Banking Supervision (BCBS) identified poor liquidity management as a major contributor to bank failures during the crisis. Moreover, the recent banking crisis of 2023 has underscored the need for effective liquidity risk measurement and management as a complement to robust capital planning and reserving.
- 1.2. As part of its post financial crisis Basel III reforms, the BCBS developed two minimum standards to strengthen the liquidity and funding framework, namely, the Liquidity Coverage Ratio (LCR)¹ and the Net Stable Funding Ratio (NSFR). The LCR and the NSFR have separate but complementary objectives.
- 1.3. The NSFR aims to promote resilience over a longer time horizon by creating incentives for banks to fund their activities with more stable sources of funding on an ongoing basis. It limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on- and off-balance sheet items, and promotes funding stability.
- 1.4. The NSFR requires banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities. A sustainable funding structure is intended to reduce the likelihood that disruptions to a bank's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress.
- 1.5. Accordingly, this *Net Stable Funding Ratio Consultation Paper* comprehensively sets out the specific elements of the NSFR to be implemented by financial institutions. It also sets out the Central Bank's expectations with respect to reporting on the NSFR.
- 1.6. Financial institutions are expected to augment the NSFR and the LCR by continuously assessing their liquidity and funding risks. In this regard, financial institutions must also consider the Central Bank's *Guideline on the Management of Liquidity Risk* and should utilise any other liquidity monitoring tools developed internally or as set out by the Central Bank to monitor and manage their liquidity risk.
- 1.7. Finally, the Central Bank may impose any other liquidity measure considered appropriate to treat with the liquidity risk of a particular financial institution (on an individual or consolidated basis), or on the banking sector as a whole.

¹ The LCR was implemented by the Central Bank of Trinidad and Tobago in October 2025.

2. CONSULTATION PROCESS AND QUANTITATIVE IMPACT STUDY (QIS)

- 2.1 Comments on this Consultation Paper on the Net Stable Funding Ratio and the draft reporting template are due by November 2026. Feedback received will be considered and incorporated into a revised NSFR Framework.
- 2.2 A Quantitative Impact Study (QIS) on the NSFR will be conducted over the period February– April, 2027 to assess the capacity of financial institutions to meet the NSFR. The QIS will also help to inform any further changes to the NSFR, including any transition periods needed to be included in the proposed framework.
- 2.3 Following consideration of the comments received and the results of the QIS, the Central Bank will finalize the NSFR Framework and communicate the implementation arrangements to the banking industry.

3. DEFINITIONS²

<i>Act/ FIA</i>	means the Financial Institutions Act, Chap. 79:09.
<i>Available Stable Funding / ASF</i>	means the portion of a financial institution's capital and liabilities that will remain with the institution for more than one year.
<i>bank / commercial bank</i>	means a financial institution licensed by the Central Bank to carry on the business of banking in accordance with section 16 of the Act or a financial institution licensed to carry on equivalent business by any other similar regulatory authority.
<i>Capital Adequacy Regulations (CAR)</i>	means the Financial Institutions (Capital Adequacy) Regulations, 2020.
<i>Central Bank</i>	means the Central Bank of Trinidad and Tobago.

² Unless otherwise specified, definitions in this NSFR Guideline mirror those in the Central Bank's LCR Guideline. However, for the purposes of calculating the NSFR, high-quality liquid assets (HQLA) are defined as all HQLA without regard to the LCR operational requirements nor the LCR caps on Level 2 and Level 2B assets that may otherwise limit the ability of some HQLA to be included as eligible HQLA in calculation of the LCR.

<i>Corporate debt securities (including commercial paper)</i>	means financial instruments (not issued by a financial institution) that contain a promise from the issuer to pay the holder a defined amount by a specific date and includes only plain-vanilla assets whose valuation are readily available based on standard methods and does not depend on private knowledge. These do not include complex structured products or subordinated debt.
<i>Covered bond</i>	means a financial instrument issued by a financial institution, that is secured by a pool of assets such as residential or commercial mortgages or public sector loans, where defaulted or prepaid loans can be replaced within the pool of assets, and they offer dual recourse to the issuing financial institution as well as the underlying assets.
<i>Credit rating agency</i>	means a company that issues credit ratings as defined by the Central Bank's <u>Guidelines for the Use of Credit Ratings</u> . A list of <u>Recognized Credit Rating Agencies and their Equivalency Mapping</u> can be found on the Central Bank's website.
<i>Financial holding company/ FHC</i>	has the meaning as defined in the Act.
<i>Financial institution</i>	means a company which carries on or used to carry on all or any aspects of banking business or business of a financial nature as defined in the Act.
<i>LCR Guideline</i>	means the Central Bank's Liquidity Coverage Ratio Guideline.
<i>LR Guideline</i>	means the Central Bank's Leverage Ratio Guideline.
<i>Licensee</i>	means a commercial bank or non-bank financial institution licensed under the Act.
<i>Non-bank financial institution/ NFI</i>	means a financial institution licensed by the Central Bank to carry on the business of a financial nature in accordance with section 17 of the Act or a financial institution licensed to carry on equivalent business by any other similar regulatory authority.
<i>Required Stable Funding / RSF</i>	means the amount of stable funding a financial institution is required to hold given the liquidity characteristics and residual maturities of its assets and the contingent liquidity risk arising from its off-balance sheet exposures.

<i>Resilient credit creation</i>	means a financial institution's ability to maintain sustainable lending to the real economy throughout the economic cycle, including during periods of financial stress.
<i>Securities Financing Transactions</i>	means transactions such as repurchase agreements, reverse repurchase agreements, security lending and borrowing, collateral swaps, and margin lending transactions where the value of the transactions depends on market valuations and the transactions are often subject to margin agreements.
<i>Settlement cycle</i>	means the specific time frame between the execution of a financial trade (Trade Date) and the actual exchange of funds to the seller and securities to the buyer (Settlement Date).
<i>Soft bullet structures</i>	refers to a feature of debt instruments whereby there is a scheduled maturity date but it can be extended under specific, predefined conditions.
<i>Systemic/ system-wide stress</i>	means a stress which affects multiple financial institutions or the financial sector as a whole, for example a pandemic, natural disasters, etc.
<i>Unencumbered asset</i>	means an asset free of legal, regulatory, contractual or other restrictions on the ability of the financial institution to liquidate, sell, transfer, or assign the asset. The asset is not pledged (either explicitly or implicitly) to secure, collateralise or credit-enhance any transaction nor is it designated to cover operational costs (such as rents and salaries).
<i>Unencumbered loan</i>	means a new loan or mortgage secured against collateral that is owned outright and is not subject to any existing liens, debts, or charges.

4. REGULATORY FRAMEWORK

- 4.1 Similar to the LCR, the NSFR will be implemented via the use of both Regulations and a Guideline. Section 9(1)(c) of the Act provides for the making of regulations for prudential criteria by the Minister of Finance and includes liquidity requirement and ratios under section 9(3)(b) of the Act. In addition, Section 10 of the Act provides for the Central Bank to issue guidelines on any matter it considers necessary to give effect to the Act.

It is proposed that the Regulations will contain *inter alia*:

- a) the requirement to maintain a minimum NSFR of 100%;
 - b) the scope of application i.e. to licensees on both a solo and consolidated basis and to their FHCs on a consolidated basis only;
 - c) the required frequency of reporting;
 - d) the requirement for Central Bank to specify the details of the calculation of the NSFR in a guideline;
 - e) any required transition periods; and
 - f) the enforcement actions for non-compliance with the NSFR.
- 4.2 The NSFR Guideline will specify the technical and operational requirements and details for the computation of the NSFR, including any relevant criteria to be considered. This approach will enable the Central Bank to remain agile and responsive to changes in liquidity management practices, as well as international and domestic standards and developments.

5. SCOPE OF APPLICATION

- 5.1 The NSFR will apply to financial institutions under the Act in the following manner:-
- a) to a licensee on an individual basis; and
 - b) on a consolidated basis, to a licensee that is a parent company and to a financial holding company to include, where applicable, all domestic and foreign–
 - i. Subsidiaries of the licensee or financial holding company; and
 - ii. Companies in which the licensee or the financial holding company is a significant shareholder.
- 5.2 The Scope of consolidation referred to in paragraph 5.1 shall be specified by the Central Bank.
- 5.3 The scope of consolidation for an FHC or financial group will be the same as that which applies for consolidated capital adequacy reporting as stated in the Central Bank's *Consolidated Prudential Reporting Guideline* or such other guidance that may be specified by the Central Bank.
- 5.4 The Central Bank may determine, on a case-by-case basis, the entities of financial groups that should be included or excluded from the scope of consolidation for the purposes of the NSFR. For example, the scope of consolidation of the NSFR does not include liquidity risks stemming from insurance business conducted within financial groups.

- 5.5 Derivative transactions with central banks arising from that central bank's short-term monetary policy and liquidity operations may be excluded from the financial institution's NSFR computation and to offset unrealised capital gains and losses relating to these derivative transactions from available stable funding. These transactions include foreign exchange swaps that have a maturity of six months or less at inception. As such, the financial institutions' NSFR would not change due to entering a short-term derivative transaction with a central bank for the purpose of short-term monetary policy and liquidity operations.

Notwithstanding the scope of application of the NSFR, financial institutions should actively monitor and control their liquidity risk exposures and funding needs at the level of individual legal entities, foreign branches and subsidiaries and the group as a whole, taking into account legal, regulatory and operational limitations to the transferability of liquidity and funding.

6. GENERAL REQUIREMENTS

- 6.1 The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. A financial institution would be required to calculate its NSFR as follows:-

$$\text{NSFR} = \frac{\text{Available Amount of Stable Funding}}{\text{Required Amount of Stable Funding}}$$

- 6.2 A financial institution would be required to maintain a **minimum NSFR of 100% on an ongoing basis**.
- 6.3 A financial institution referred to in paragraph 5.1 will be required to submit a report on its **individual and consolidated NSFR to the Central Bank on a quarterly basis within 20 business days of the end of each quarter** in accordance with Regulations, using the Central Bank's NSFR reporting Template.
- 6.4 The Central Bank will utilize the range of tools at its disposal to address a financial institution's reported NSFR below 100%. At a minimum, a financial institution must present to the Central Bank an assessment of its funding position, including the factors that contributed to its NSFR falling below 100%, the measures that have been or will be taken, and the expectations on the potential length of the situation.

7. AVAILABLE STABLE FUNDING (ASF) AND REQUIRED STABLE FUNDING (RSF)

General

- 7.1 The amounts of ASF and RSF are to be calibrated to reflect the presumed degree of stability of liabilities and liquidity of assets.
- 7.2 The calibration reflects the stability of liabilities across two dimensions:
- a) *Funding tenor*: the NSFR is generally calibrated such that longer-term liabilities are assumed to be more stable than short-term liabilities.
 - b) *Funding type and counterparty*: the NSFR is calibrated under the assumption that short-term (maturing in less than one year) deposits provided by retail customers and funding provided by small business customers are behaviourally more stable than wholesale funding of the same maturity from other counterparties.
- 7.3 In determining the appropriate amounts of required stable funding for various assets, the following criteria are to be taken into consideration, recognising the potential trade-offs between these criteria:
- a) *Resilient credit creation*: the NSFR requires stable funding for some proportion of lending to the real economy in order to ensure the continuity of this type of intermediation.
 - b) *Financial institution's behaviour*: the NSFR is calibrated under the assumption that financial institutions may seek to roll over a significant proportion of maturing loans to preserve customer relationships.
 - c) *Asset tenor*: the NSFR assumes that some short-dated assets (maturing in less than one year) require a smaller proportion of stable funding because financial institutions would be able to allow some proportion of those assets to mature instead of rolling them over.
 - d) *Asset quality and liquidity value*: the NSFR assumes that unencumbered, high-quality assets that can be securitised or traded, and thus can be readily used as collateral to secure additional funding or sold in the market, do not need to be wholly financed with stable funding.

- 7.4 Additional stable funding sources are also required to support at least a small portion of the potential calls on liquidity arising from off-balance sheet commitments and contingent funding obligations.

Measurement of Available Stable Funding

- 7.5 The amount of ASF is measured based on the broad characteristics of the relative stability of an institution's funding sources, including the contractual maturity of its liabilities and the differences in the propensity of different types of funding providers to withdraw their funding.
- 7.6 The amount of ASF must be calculated by first assigning the carrying value of an institution's capital and liabilities to one of five categories presented in paragraphs 7.10 – 7.14 below. The amount assigned to each category is then multiplied by an ASF factor, and the total ASF is the sum of the weighted amounts. The carrying value represents the amount at which a liability or equity instrument is recorded before the application of any regulatory deductions, filters or other adjustments.
- 7.7 When determining the maturity of an equity or liability instrument, the financial institution must assume investors redeem call options at the earliest possible date. For funding with options exercisable at the financial institution's discretion, central banks should take into account reputational factors that may limit a financial institution's ability not to exercise the option³. In particular, where the market expects certain liabilities to be redeemed before their legal final maturity date, financial institutions and central banks should assume such behaviour for the purpose of the NSFR and include these liabilities in the corresponding ASF category. Along the same lines, when calculating the NSFR, options by a bank to extend funding maturity of its obligations (e.g. soft-bullet structures) should generally be assumed not to be exercised when there may be reputational concerns. For long-dated liabilities, only the portion of cash flows falling at or beyond the six-month and one-year time horizons should be treated as having an effective residual maturity of six months or more and one year or more, respectively.
- 7.8 Derivative liabilities are calculated first based on the replacement cost for derivative contracts (obtained by marking to market) where the contract has a negative value. Where an eligible bilateral netting contract is in place that meets the conditions as specified in Schedule 2 under clause 49(4) and (5) of the CAR, the replacement cost for the set of derivative exposures covered by the contract must be the net replacement cost.

³ This could reflect a case where a financial institution may imply that it would be subject to funding risk if it did not exercise an option on its own funding.

- 7.9 In calculating NSFR derivative liabilities, collateral posted in the form of variation margin in connection with derivative contracts, regardless of the asset type, must be deducted from the negative replacement cost amount, that is:

$$\text{NSFR derivative liabilities} = (\text{derivative liabilities}) - (\text{total collateral posted as variation margin on derivative liabilities})^4.$$

Categories of Available Stable Funding

- 7.10 Liabilities and capital instruments receiving a **100% ASF factor** comprise:

- a) the total amount of regulatory capital, before the application of capital deductions, as defined in Regulation 9 of the CAR, excluding the proportion of Tier 2 instruments with residual maturity of less than one year;
- b) the total amount of any capital instrument not included in paragraph 7.10 (a) that has an effective residual maturity of one year or more, but excluding any instruments with explicit or embedded options that, if exercised, would reduce the expected maturity to less than one year;
- c) the total amount of secured and unsecured borrowings and liabilities (including term deposits) with effective residual maturities of one year or more. Cash flows falling below the one-year horizon but arising from liabilities with a final maturity greater than one year do not qualify for the 100% ASF factor; and
- d) retail term deposits maturing over one year that cannot be withdrawn early without significant penalty.

- 7.11 Liabilities receiving a **95% ASF factor** comprise:

- a) “stable” (as defined in paragraphs 7.7 - 7.12 of the LCR Guideline) non-maturity (demand) deposits and/or term deposits with residual maturities of less than one year, and/or term deposits with residual maturities greater than one year that can be withdrawn early without a significant penalty, provided by retail and small business customers.

- 7.12 Liabilities receiving a **90% ASF factor** comprise:

- a) “less stable” (as defined in paragraphs 7.13 - 7.15 of the LCR Guideline) non-maturity (demand) deposits and/or term deposits with residual maturities of less than one year, and/or term deposits with residual maturities greater than

⁴ To the extent that the financial institution’s accounting framework reflects on balance sheet, in connection with a derivative contract, an asset associated with collateral posted as variation margin that is deducted from the replacement cost amount for purposes of the NSFR, that asset should not be included in the calculation of a financial institution’s RSF to avoid any double-counting.

one year that can be withdrawn early without a significant penalty, provided by retail and small business customers⁵.

7.13 Liabilities receiving a **50% ASF factor** comprise:

- a) funding (secured and unsecured) with a residual maturity of less than one year provided by non-financial corporate customers;
- b) operational deposits (**as defined in paragraphs 7.25 - 7.36 of the LCR Guideline**);
- c) funding with residual maturity of less than one year from sovereigns, public sector entities (PSEs), and multilateral and national development banks⁶; and
- d) other funding (secured and unsecured) not included in the categories above with residual maturity between six months to less than one year, including funding from central banks and financial institutions.

7.14 Liabilities receiving a **0% ASF factor** comprise:

- a) all other liabilities and equity categories not included in the above categories, including other funding with residual maturity of less than six months from central banks and financial institutions;
- b) other liabilities without a stated maturity. This category must include short positions and open maturity positions that are not otherwise captured under paragraphs 7.10 to 7.13. Two exceptions may be recognised for liabilities without a stated maturity, which would then be assigned either a 100% ASF factor if the effective maturity is one year or greater, or 50%, if the effective maturity is between six months and less than one year:
 - 1) *deferred tax liabilities*, which should be treated according to the nearest possible date on which such liabilities could be realised; and
 - 2) *minority interest*, which should be treated according to the term of the instrument, usually in perpetuity.
- c) NSFR derivative liabilities as calculated according to paragraphs 7.8 and 7.9 net of NSFR derivative assets as calculated according to paragraphs 7.23 and 7.24, if NSFR derivative liabilities are greater than NSFR derivative assets, that is:

$$ASF = 0\% \times \text{MAX} ((\text{NSFR derivative liabilities} - \text{NSFR derivative assets}), 0).$$

⁵ The treatment of retail and small business deposits follows the definitions provided in the Central Bank's LCR Guideline and not the run-off rates applied to them in a particular jurisdiction. Thus, retail and small business deposits that are subject to higher (than 5% and 10%) outflow assumptions than those for stable and less stable deposits in the LCR could be treated as stable and less stable, unless a given jurisdiction chooses to apply a more conservative treatment (lower ASF).

⁶ National Development Banks typically belong to or are controlled by the state in which they are incorporated.

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

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

- 7.15 The amount of RSF is measured based on the broad characteristics of the liquidity risk profile of an institution’s assets and off-balance-sheet exposures. The amount of RSF is calculated by first assigning the carrying value of an institution’s assets to the categories listed in paragraphs 7.25 – 7.32 below. The carrying value of an asset item should generally be recorded by following its accounting value, i.e. net of specific provisions and partial write-offs, in line with Schedule 2 of the CAR and the requirements for on-balance sheet, non-derivative assets as set out under the Exposure Measure in the LR Guideline. The amount assigned to each category is then multiplied by its associated RSF factor, and the total RSF is the sum of the weighted amounts added to the amount of off-balance-sheet activity (or potential liquidity exposure) multiplied by its associated RSF factor. The risk weights under the standardised approach as per Schedule 2 of the CAR must be used to determine the NSFR treatment.
- 7.16 Unless explicitly stated otherwise in this NSFR Consultation Paper, assets must be allocated to maturity buckets according to their contractual residual maturity. However, this should take into account embedded optionality, such as put or call options, which may affect the actual maturity date as described in paragraphs 7.7 and 7.17. The RSF factors assigned to various types of assets are intended to approximate the amount of a particular asset that would have to be funded, either because it will be rolled over, or because it could not be monetised through sale or used as collateral in a secured borrowing transaction over the course of one year without significant expense. Under the standard, such amounts must be supported by stable funding.
- 7.17 Assets must be allocated to the appropriate RSF factor based on their residual maturity or liquidity value. When determining the maturity of an instrument, the financial institution must assume investors exercise any option to extend maturity.

For assets with options to extend, exercisable at the financial institution’s discretion, reputational factors that may limit a financial institution’s ability not to exercise the option will be taken into account⁷. In particular, where the market expects certain

⁷ This could reflect a case where a financial institution may imply that it would be subject to funding risk if it did not exercise an option on its own assets.

assets to be extended in their maturity, such behaviour must be assumed for the purpose of the NSFR and these assets included in the corresponding RSF category. For amortising loans (or other principal repayment claims), the portion that comes due within the one-year horizon may be treated in the less than-one-year residual maturity category. Unencumbered loans without a stated final maturity, even where the borrower may repay the loan in full and without penalty charges at the next rate reset date, are deemed to have an effective residual maturity period of more than one year and must be given either a 65% or 85% RSF factor depending on their risk weights under the standardised approach for credit risk.

If there is a contractual provision with a review date at which the financial institution may determine whether a given facility or loan is renewed or not, central banks may authorize, on a case by case basis, financial institutions to use the next review date as the maturity date. In doing so, consideration will be given to the incentives created and the actual likelihood that such facilities/loans will not be renewed. In particular, options by a financial institution not to renew a given facility should generally be assumed not to be exercised when there may be reputational concerns.

- 7.18 For exceptional central bank liquidity absorbing operations, claims on central banks may receive a reduced RSF factor. For those operations with a residual maturity equal to or greater than six months, the RSF factor must not be lower than 5%. When the reduced RSF factor is applied, central banks shall closely monitor the ongoing impact on financial institutions' stable funding positions arising from the reduced requirement and may take appropriate measures as needed. Also, as further specified in paragraph 7.20, assets that are provided as collateral for exceptional central bank liquidity providing operations may receive a reduced RSF factor which must not be lower than the RSF factor applied to the equivalent asset that is unencumbered. In both cases, the Central Bank reserves the right to set an appropriate RSF factor with the relevant central bank.
- 7.19 For purposes of determining its RSF, an institution must include financial instruments, foreign currencies and commodities for which a purchase order has been executed, and exclude financial instruments, foreign currencies and commodities for which a sales order has been executed, even if such transactions have not been reflected in the balance sheet under a settlement-date accounting model, provided that:
- a) such transactions are not reflected as derivatives or secured financing transactions in the institution's balance sheet, and
 - b) the effects of such transactions will be reflected in the institution's balance sheet when settled.

7.20 Assets on the balance sheet that are encumbered⁸ for one year or more must receive a 100% RSF factor. Assets encumbered for a period of between six months and less than one year receive a 50% RSF factor, if that asset would have qualified for an RSF factor of 50% or lower, if unencumbered. Assets encumbered for between six months and less than one year that would, if unencumbered, receive an RSF factor higher than 50% must retain the higher RSF factor. Where assets have less than six months remaining in the encumbrance period, those assets may receive the same RSF factor as an equivalent asset that is unencumbered. In addition, for the purposes of calculating the NSFR, assets that are encumbered for exceptional⁹ central bank liquidity operations may receive a reduced RSF factor, which must not be lower than the RSF factor applied to the equivalent asset that is unencumbered. The Central Bank reserves the right to adjust this RSF factor with the relevant central bank.

7.21 For secured funding arrangements, the use of balance sheet and accounting treatments should generally result in financial institutions excluding, from their assets, securities which they have borrowed in securities financing transactions where they do not have beneficial ownership. In contrast, financial institutions must include securities they have lent in securities financing transactions where they retain beneficial ownership.

Financial institutions should also not include any securities they have received through collateral swaps if those securities do not appear on their balance sheets. Where financial institutions have encumbered securities in repos or other securities financing transactions, but have retained beneficial ownership and those assets remain on the financial institution's balance sheet, the financial institution must allocate such securities to the appropriate RSF category.

7.22 Amounts receivable and payable under these securities financing transactions should generally be reported on a gross basis, meaning that the gross amount of such receivables and payables should be reported on the RSF side and ASF side, respectively. The only exception is that securities financing transactions with a single counterparty may be measured on a net basis when calculating the NSFR, provided that the netting conditions for securities financing transactions set out in the Exposure Measure and Appendix 2 of the LR Guideline are met.

7.23 Derivative assets are calculated first based on the replacement cost for derivative contracts (obtained by marking to market) where the contract has a positive value. When an eligible bilateral netting contract is in place that meets the conditions as specified in Schedule 2 under clause 49(4) and (5) of the CAR, the replacement cost

⁸ Encumbered assets include but are not limited to assets backing securities or covered bonds and assets pledged in securities financing transactions or collateral swaps.

⁹ In general, exceptional central bank liquidity operations are considered to be nonstandard, temporary operations conducted by central banks in order to achieve its mandate in a period of market-wide financial stress and/or exceptional macroeconomic challenges.

for the set of derivative exposures covered by the contract must be the net replacement cost.

- 7.24 In calculating NSFR derivative assets, collateral received in connection with derivative contracts must not offset the positive replacement cost amount, regardless of whether or not netting is permitted under the financial institution's operative accounting or risk-based framework, unless it is received in the form of cash variation margin and meets the conditions as specified in paragraph 4.8.5 of the LR Guideline for the cash portion of variation margin exchanged between counterparties to be viewed as a form of pre-settlement payment, that is:

$$\text{NSFR derivative assets} = (\text{derivative assets}) - (\text{cash collateral received as variation margin on derivative assets})$$

Any remaining balance sheet liability associated with variation margin received that does not meet the criteria above or initial margin received may not offset derivative assets and should be assigned a 0% ASF factor.

Categories of Required Stable Funding

- 7.25 Assets assigned a **0% RSF factor** comprise:

- a) coins and banknotes immediately available to meet obligations;
- b) all central bank reserves (including required reserves and excess reserves)¹⁰;
- c) all claims¹¹ on central banks with residual maturities of less than six months; and
- d) "trade date" receivables arising from sales of financial instruments, foreign currencies and commodities that:
 - 1) are expected to settle within the standard settlement cycle or period that is customary for the relevant exchange or type of transaction, or
 - 2) have failed to, but are still expected to, settle.

- 7.26 Assets assigned a **5% RSF factor** comprise unencumbered Level 1 assets as defined in paragraph 6.17 of the LCR Guideline, excluding assets receiving a 0% RSF as specified above, and including:

- a) marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs, the Bank for International Settlements, the International Monetary Fund, the European Central Bank and the European Community, or

¹⁰ The Central Bank reserves the right to set the RSF factor assigned to required reserves held at other central banks, based on consideration of whether or not the reserve requirement must be satisfied at all times and thus the extent to which reserve requirements in that jurisdiction exist on a longer-term horizon and therefore require associated stable funding.

¹¹ The term "claims" is broader than loans. The term "claims", for example, also includes central bank bills and the asset account created on banks' balance sheets by entering into repo transactions with central banks.

multilateral development banks that are assigned a 0% risk weight under Schedule 2 of the CAR; and

- b) certain non-0% risk-weighted sovereign or central bank debt securities (excluding claims on central banks with maturities of less than six months, which must receive a 0% RSF) as specified in the Central Bank's LCR Guideline.

7.27 Assets assigned a 10% RSF factor comprise:

- a) unencumbered loans to financial institutions with residual maturities of less than six months, where the loan is secured against Level 1 assets as defined in paragraph 6.17 of the LCR Guideline, and where the financial institution has the ability to freely rehypothecate the received collateral for the life of the loan.

7.28 Assets assigned a 15% RSF factor comprise:

- a) unencumbered Level 2A assets as defined in paragraph 6.21 of the LCR Guideline, including:
 - 1) marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs or multilateral development banks that are assigned a 20% risk weight under Schedule 2 of the CAR; and
 - 2) corporate debt securities (including commercial paper) and covered bonds with a credit rating equal or equivalent to at least AA-;
- b) all other unencumbered loans to financial institutions with residual maturities of less than six months not included in paragraph 7.27.

7.29 Assets assigned a 50% RSF factor comprise:

- a) unencumbered Level 2B assets as defined and subject to the conditions set forth in paragraph 6.23 of the LCR Guideline, including:
 - 1) residential mortgage-backed securities with a credit rating of at least AA;
 - 2) corporate debt securities (including commercial paper) with a credit rating of between A+ and BBB-; and
 - 3) exchange-traded common equity shares not issued by financial institutions or their affiliates;
- b) any HQLA as defined in the LCR Guideline that are encumbered for a period of between six months and less than one year;
- c) all loans to financial institutions and central banks with residual maturity of between six months and less than one year;
- d) deposits held at other financial institutions for operational purposes, as outlined in paragraphs 7.25 to 7.36 of the LCR Guideline, that are subject to the 50% ASF factor in paragraph 7.13(b); and
- e) all other non-HQLA not included in the above categories that have a residual maturity of less than one year, for example, loans to non-financial corporate clients, loans to retail customers (i.e. natural persons) and small business customers, and loans to sovereigns, national development banks and PSEs.

7.30 Assets assigned a **65% RSF factor** comprise:

- a) unencumbered residential mortgages with a residual maturity of one year or more that would qualify for a 35% or lower risk weight under Schedule 2 clause 12 of the CAR; and
- b) other unencumbered loans, including loans to sovereigns, multilateral development banks, PSEs and national development banks, not included in the above categories, excluding loans to financial institutions, with a residual maturity of one year or more that would qualify for a 35% or lower risk weight under Schedule 2 clauses 5, 6 and 7 of the CAR.

7.31 Assets assigned an **85% RSF factor** comprise:

- a) cash, securities or other assets posted as initial margin for derivative contracts¹² and cash or other assets provided to contribute to the default fund of a central counterparty (CCP), in both cases regardless of whether recorded on or off the balance sheet. Where securities or other assets posted as initial margin for derivative contracts would otherwise receive a higher RSF factor, they should retain that higher factor.
- b) other unencumbered performing loans¹³ that do not qualify for the 35% or lower risk weight under Schedule 2 clauses 8 to 13 of the CAR and have residual maturities of one year or more, excluding loans to financial institutions;
- c) unencumbered securities with a remaining maturity of one year or more and exchange-traded equities, that are not in default and do not qualify as HQLA according to the LCR Guideline; and
- d) physical traded commodities, including gold.

7.32 Assets assigned a **100% RSF factor** comprise:

- a) all assets that are encumbered for a period of one year or more;
- b) NSFR derivative assets as calculated according to paragraphs 7.23 and 7.24 net of NSFR derivative liabilities as calculated according to paragraphs 7.8 and 7.9, if NSFR derivative assets are greater than NSFR derivative liabilities, that is:

$$RSF = 100\% \times \text{MAX} ((NSFR \text{ derivative assets} - NSFR \text{ derivative liabilities}), 0);$$

- c) assets without a stated maturity not included in paragraphs 7.32(a) and 7.32(b) (including non-maturity reverse repos unless financial institutions can

¹² Initial margin posted on behalf of a customer, where the financial institution provided a customer access to a third party (e.g. a CCP) for the purpose of clearing derivatives, where the transactions are executed in the name of the customer and the financial institution does not guarantee performance of the third party (e.g. the CCP), maybe exempt from this requirement.

¹³ Performing loans are considered to be those that are not past due for more than 90 days.

demonstrate to the Central Bank that the non-maturity reverse repo would effectively mature in less than one year);

- d) all other assets not included in the above categories, including non-performing loans, loans to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities; and
- e) 20% of all derivative liabilities (i.e. negative replacement cost amounts) as calculated according to paragraphs 7.8 to 7.9 (before deducting variation margin posted).

Off-Balance Sheet Exposures

7.33 Many potential off-balance sheet liquidity exposures require little direct or immediate funding but can lead to significant liquidity drains over a longer time horizon. The NSFR assigns an RSF factor to various off-balance sheet activities in order to ensure that institutions hold stable funding for the portion of off-balance sheet exposures that may be expected to require funding within a one-year horizon.

7.34 Consistent with the LCR, the NSFR identifies off-balance-sheet exposure categories based broadly on whether the commitment is a credit or liquidity facility or some other contingent funding obligation. Table 7.34 identifies the specific types of off-balance-sheet exposures to be assigned to each off-balance sheet category and their associated RSF factor.

Table 7.34 - Off-balance Sheet Categories and Associated RSF Factors	
RSF factor	RSF category
5% of the currently undrawn portion	Irrevocable and conditionally revocable credit and liquidity facilities to any client
10% of the currently undrawn portion ¹⁴	Other contingent funding obligations, including products and instruments such as: 1. unconditionally revocable credit and liquidity facilities; 2. trade finance-related obligations (including guarantees and letters of credit); 3. guarantees and letters of credit unrelated to trade finance obligations; and 4. non-contractual obligations, such as:

¹⁴ RSF Factor subject to change.

	▪ potential requests for debt repurchases of the bank's own debt or that of related conduits, securities investment vehicles and other such financing facilities, ▪ structured products where customers anticipate ready marketability, such as adjustable rate notes and variable rate demand notes, or ▪ managed funds that are marketed with the objective of maintaining a stable value.
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Interdependent assets and liabilities

7.35 Subject to approval by the Central Bank¹⁵, for interdependent items¹⁶, financial institutions may adjust the RSF and ASF factors so that they are both 0%, if based on the contractual arrangements, the assets and liabilities are interdependent such that the liability cannot fall due while the asset remains on the balance sheet, the principal payment flows from the asset cannot be used for something other than repaying the liability and the liability cannot be used to fund other assets. In addition, this treatment will be subject to the following criteria:

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

7.36 In order to assess the interdependence of assets and liabilities in paragraph 7.35 and determine whether perverse incentives or unintended consequences are being created, financial institutions must submit to the Central Bank specific details of the contractual arrangement including the satisfaction of all the criteria outlined.

¹⁵ For the conduct of the QIS: (i) no special treatment for interdependent items will be allowed; and (ii) a separate worksheet to provide information on interdependent assets and liabilities will be included to assess the data.

¹⁶ Excluding derivatives.

8. TREATMENT OF SPECIFIC INSTRUMENTS

Guidance on the treatment of specific instruments

- 8.1 Some loans are only partially secured and are therefore separated into secured and unsecured portions with different risk weights under the Basel capital adequacy framework. The specific characteristics of these portions of loans should be taken into account for the calculation of the NSFR: the secured and unsecured portions of a loan should each be treated according to its characteristics and assigned the corresponding RSF factor. If it is not possible to draw the distinction between the secured and unsecured part of the loan, the higher RSF factor must be applied to the whole loan.
- 8.2 Assets that are owned by financial institutions but segregated to satisfy statutory requirements for the protection of customer equity in margined trading accounts, must be reported in accordance with the underlying exposure, whether or not the segregation requirement is separately classified on a financial institution's balance sheet. However, those assets must also be treated according to paragraph 7.20. That is, they may be subject to a higher RSF depending on (the term of) encumbrance. The (term of) encumbrance should be determined by authorities, taking into account whether the institution can freely dispose or exchange such assets and the term of the liability to the financial institution's customer(s) that generates the segregation requirement.
- 8.3 Non-operational deposits held at other financial institutions must be treated equivalently to loans to financial institutions, taking into account the term of the deposit.

9. IMPLEMENTATION AND TRANSITION PERIODS

- 9.1 The Central Bank anticipates that the NSFR will be implemented in January 2028, however the exact effective date and appropriate transition period will only be determined after completion of the QIS.
- 9.2 The QIS will be applied to all licensees under the FIA. However, similar to the LCR, and applying the principle of proportionality, the results to the QIS will determine the scope of application of the NSFR.