

CONSULTATION PAPER

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Consultation Paper on Local Implementation of Basel III Liquidity Rules – Net Stable Funding Ratio (“NSFR”) and NSFR Disclosure

MAS

Monetary Authority of Singapore

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1 Preface

1.1 On 31 October 2014, the Basel Committee of Banking Supervision (“BCBS”) published its final standard for the net stable funding ratio (“NSFR”)¹. The NSFR requires banks to maintain a stable funding profile in relation to the composition of their assets and off-balance sheet activities, thus reducing the likelihood that disruptions to a bank’s regular sources of funding will erode its liquidity position in a way that could increase the risk of its failure and potentially lead to broader systemic stress. The BCBS intends for the NSFR to become a minimum standard for internationally active banks by 1 January 2018.

1.2 On 22 June 2015, the BCBS issued its final NSFR disclosure standard. This aims to improve the transparency of the NSFR requirements, reinforce the Principles for Sound Liquidity Risk Management and Supervision², strengthen market discipline and reduce uncertainty in the markets as the NSFR is implemented. In parallel with the BCBS’ timeline for the NSFR standards, the disclosure requirements are intended to be implemented from the date of the first reporting period after 1 January 2018.

1.3 The Monetary Authority of Singapore (“MAS”) supports the BCBS’ overall objective of strengthening global liquidity framework via its two minimum standards for liquidity and funding. MAS has since 2015 implemented the Basel III Liquidity Coverage Ratio (“LCR”) to promote the short-term resilience of a bank’s liquidity risk profile under stress periods. To ensure that banks also fund their balance sheets with stable funding sources on an ongoing basis and hence reduce their funding risk over a longer term horizon, MAS proposes to impose the BCBS’ NSFR to complement the existing LCR requirement in Singapore.

1.4 MAS will adopt BCBS’ recommended implementation timeline for both the NSFR and the NSFR disclosure requirements. Details of the proposed local implementation of the NSFR standard and its disclosure requirements in Singapore are set out in this consultation paper. The draft rules are also appended in Annex B and C of the paper.

1.5 MAS invites comments from interested parties on the proposals.

Please note that all submissions received will be published and attributed to the respective respondents unless they expressly request MAS not to do so. As such, if respondents would like (i) their whole submission or part of it, or (ii) their identity, or both, to be kept confidential, please expressly state so in the submission to MAS. In addition, MAS reserves the right not to publish any submission received where MAS

¹ <http://www.bis.org/bcbs/publ/d295.pdf>

² <http://www.bis.org/bcbs/publ/bcbs144.pdf>

considers it not in the public interest to do so, such as where the submission appears to be libellous or offensive.

1.6 Please submit written comments by 15 December 2016 to –

Specialist Risk Department
Monetary Authority of Singapore
10 Shenton Way, MAS Building
Singapore 079117
Fax: (65) 62203973
Email: liquidity@mas.gov.sg

1.7 Electronic submission is encouraged. We would appreciate that you use this [template](#) for your submission to ease our collation efforts.

2 Scope of Application

2.1 Under the Basel III framework, both the NSFR standard and its disclosure requirements are applicable to all internationally active banks on a consolidated basis, but may also be used for other banks and on any subset of entities of internationally active banks to ensure greater consistency and a level playing field between domestic and cross-border banks.

2.2 In determining the scope of application for domestic implementation of the NSFR, MAS considered the nature of activities banks in Singapore engaged in, and the ensuing funding risks. Another consideration was consistency with the scope of application under the Singapore LCR framework.

2.3 MAS proposes to impose the NSFR standard to banks that have been designated by MAS as domestic systemically important banks (“D-SIBs”) in Singapore:

- (a) ***For a D-SIB that is locally incorporated and whose group is headquartered in Singapore:*** NSFR will be implemented at the consolidated group level; and
- (b) ***For a D-SIB whose group is not headquartered in Singapore:*** NSFR will be implemented at the entity level. If the D-SIB has been approved by MAS to comply with Part II of the MAS Notice 649 on the LCR requirements at the country-level, the NSFR standard would similarly be imposed on the D-SIB at the country-level.

2.4 MAS proposes to impose the NSFR disclosure requirements to the following groups of banks:

- (a) ***For a D-SIB that is locally incorporated and whose group is headquartered in Singapore:*** NSFR disclosure requirements will be implemented at the consolidated group level; and
- (b) ***For a D-SIB that is locally incorporated and whose group is not headquartered in Singapore:*** NSFR disclosure requirements will be implemented at the entity level excluding its bank branch. If the D-SIB has been approved by MAS to comply with Part II of the MAS Notice 649 on the LCR requirements at the country-level, the NSFR disclosure requirement would similarly be imposed on the D-SIB at the country-level.

Question 1. MAS seeks comments on the proposed scope of application for both the NSFR standard and NSFR disclosure requirements.

3 All Currency Requirement

3.1 Quite unlike the LCR standard, which was imposed to ensure that banks hold sufficient high quality liquid assets to meet liquidity needs under a prescribed “stressed scenario”, the NSFR standard is a “business as usual” metric intended to ensure that banks stably fund their balance sheets on an on-going basis. Given that banks generally enjoy good access to foreign exchange markets during non-stressed business conditions, the benefit of imposing a currency-specific NSFR standard seems limited. In this regard, MAS proposes to impose the NSFR standard only on an all-currency basis.

Question 2. MAS seeks comments on the proposal to impose NSFR on an all-currency basis only.

4 NSFR Minimum Requirements

4.1 BCBS prescribes that the NSFR be equal to at least 100% on an ongoing basis when applied to all internationally active banks on a consolidated basis.

4.2 Consistent with the BCBS requirements, MAS proposes to impose minimum 100% all-currency NSFR requirement on D-SIBs that are locally incorporated and whose groups are headquartered in Singapore at the consolidated group level.

4.3 In line with the LCR requirement, MAS proposes to impose a minimum 50% all-currency NSFR requirement for other D-SIBs (i.e. D-SIBs whose groups are not headquartered in Singapore) at the entity level, or the country level if the D-SIB has been approved by the Authority to comply with Part II of MAS Notice 649 at country level. This takes into consideration the need for the Head Offices of these D-SIBs to fully meet the 100% all-currency NSFR requirement at the consolidated group level in their home jurisdictions.

4.4 The proposed lower NSFR requirement for D-SIBs whose groups are not headquartered in Singapore seeks to balance these banks’ liquidity management norms, i.e. longer term funding requirements are generally managed at group level during non-stress period, with providing some comfort that the banks are holding some amount of stable funding in Singapore. Should these banks engage in more activities that require higher stable funding over time or if MAS has concerns about the banks’ liquidity risk management capabilities in Singapore, MAS could, on a case by case basis, increase the all-currency NSFR requirement of these banks.

Question 3. MAS seeks comments on the proposed minimum NSFR requirements for the different classes of banks.

5 Areas for National Discretion

5.1 Assets encumbered for exceptional central bank liquidity operations

5.1.1 Under the NSFR standard, assets that are encumbered for exceptional central bank liquidity operations may receive a reduced required stable funding (“RSF”) factor, which must not be lower than the RSF applied to the equivalent asset that is unencumbered. In general, exceptional central bank liquidity operations are considered to be non-standard, temporary operations conducted by the central bank in order to achieve its mandate in a period of market-wide financial stress and/or exceptional macroeconomic challenges.

5.1.2 To preserve NSFR neutrality with respects to exceptional central bank liquidity operations, MAS proposes to allow banks to use the same RSF factor applicable for unencumbered assets, on the assets encumbered for exceptional central bank liquidity operations.

Question 4. MAS seeks comments on the proposal to apply the same RSF factor for unencumbered assets on the assets encumbered under exceptional central bank liquidity operations.

5.2 Derivatives transactions with central banks arising from short-term monetary policy and liquidity operations

5.2.1 Under the NSFR standard, national supervisors may exercise discretion to allow banks to exclude derivative transactions with central banks arising from central banks’ short-term monetary policy and liquidity operations from the reporting bank’s NSFR computation. Concurrently, unrealised capital gains and losses related to these derivative transactions would also be excluded from the reporting bank’s available stable funding (“ASF”). Together, these ensure that a bank’s NSFR would not change as a result of entering into a short-term derivative transaction with its central bank on the back of the latter’s short-term monetary policy and liquidity operations.

5.2.2 To preserve NSFR neutrality with respect to central banks’ short-term monetary and liquidity operations, MAS proposes to allow banks to exclude derivative transactions of the above-mentioned nature from their NSFR computations. These transactions include foreign exchange derivatives such as foreign exchange swaps, and should have a maturity of less than six months at inception.

Question 5. MAS seeks comments on the proposal to allow banks to exclude such derivatives transactions from NSFR computation.

5.3 Interdependent assets and liabilities

5.3.1 The NSFR standard allows in limited circumstances, national discretion to determine whether certain asset and liability items, on the basis of contractual arrangements, are interdependent such that the liability cannot fall due while the asset remains on the balance sheet, the principal payment flows from the asset cannot be used for something other than repaying the liability, and the liability cannot be used to fund other assets.

5.3.2 For such interdependent items, both the RSF and ASF factors could be adjusted to 0%, 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 should be the same;
- (c) The bank is acting solely as a pass-through unit to channel the funding received (the interdependent liability) into the corresponding interdependent asset; and
- (d) The counterparties for each pair of interdependent liabilities and assets should not be the same.

5.3.3 MAS proposes to allow banks to apply 0% RSF factor and 0% ASF factor on these transactions if the transactions meet all the above listed criteria. The bank should have an internal independent verification process to ensure the eligibility of these reported interdependent items.

Question 6. MAS seeks comments on the proposal to allow banks to allocate 0% RSF and 0% ASF if they can demonstrate that the transactions meet all the listed criteria for interdependent items.

5.4 Off-balance sheet exposures

5.4.1 Other than the prescribed 5% RSF factor on the currently undrawn portion of irrevocable or conditionally revocable liquidity and credit facilities, the NSFR standard allows national supervisors to determine appropriate RSFs for other contingent funding obligations, including products and instruments such as:

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- (a) Unconditionally revocable credit and liquidity facilities;
 - (b) Trade finance-related obligations (including guarantees and letters of credit);
 - (c) Guarantees and letters of credit unrelated to trade finance obligations; and
 - (d) Non-contractual obligations such as:
 - i. potential requests for debt repurchases of the bank's own debt or that of related conduits, securities investment vehicles and other such financing facilities;
 - ii. structured products where customers anticipate ready marketability, such as adjustable rate notes and variable rate demand notes (VRDNs); and
 - iii. managed funds that are marketed with the objective of maintaining a stable value.

5.4.2 In general, such off-balance sheet ("OBS") liquidity exposures require little direct or immediate funding but can lead to significant liquidity drains over a longer time horizon. An RSF factor assigned to these various OBS activities would ensure that banks hold stable funding for the portion of OBS exposures that may be expected to require funding within a one-year horizon.

5.4.3 To illustrate, for trade finance and non-trade finance related obligations, drawdowns occur when customer defaults or when there are disputes on documents or delivery of goods/services. In such cases, some provisions would be needed to cover the non-recovery of these funds. Hence, banks should cater some stable funding for these obligations in the event that such drawdowns occur in the annual business and funding needs review.

5.4.4 As such, MAS proposes to apply the following RSF factors to these contingent funding obligations:

- (a) Irrevocable or conditionally revocable liquidity and credit facilities: 5% RSF on the undrawn portion;
- (b) Unconditionally revocable credit and liquidity facilities: 1% RSF of the undrawn portion;
- (c) Trade finance-related obligations (including guarantees and letters of credit): 1% RSF on the undrawn portion;

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- (d) Guarantees and letters of credit unrelated to trade finance obligations: 1% RSF on the undrawn portion; and
 - (e) Other non-contractual obligations: 1% RSF on the undrawn portion.

5.4.5 MAS will conduct regular review of the imposed RSF on these OBS exposures, and make adjustments to the proposed RSF factors as appropriate. As part of MAS' industry-wide monitoring of banks' funding needs arising from such OBS activities, it is proposed that banks be required to provide historical analysis on the drawdown rates of such OBS exposures to MAS on an annual basis.

Question 7. MAS seeks comments on the proposed RSF factors for the various OBS exposures. MAS will review the appropriateness of these RSF factors, drawing from banks' annual data input on the percentage drawdown of such exposures.

6 Frequency of Regulatory Reporting and Disclosure

6.1 For NSFR regulatory reporting, the NSFR standard prescribes that the NSFR should be reported at least quarterly. The time lag in reporting should not exceed the allowable time lag under the Basel capital standards.

6.2 MAS proposes that banks report their monthly entity level, country level or consolidated group NSFR numbers together with the full quarter-end NSFR data per the format listed in Table 4 of the NSFR Notice in Annex B. This report should be submitted to MAS by the 30th day of the following month after quarter-end.

6.3 The NSFR disclosure requirements prescribes that banks must publish their NSFR disclosure with the same frequency as, and concurrently with, the publication of their financial statements (i.e., typically quarterly or semi-annually), irrespective of whether the financial statements are audited. In addition, NSFR data must be presented as quarter-end observations. For banks reporting on a semi-annual basis, the NSFR must be reported for each of the two preceding quarters. For banks reporting on an annual basis, the NSFR must be reported for the preceding four quarters.

6.4 MAS proposes that banks disclose their quarter-end NSFR data per the template listed in Table 1 of the NSFR Disclosure Notice in Annex C at the same time as the publication of their financial statements, irrespective of whether the financial statements are audited.

Question 8. MAS seeks comments on the proposed frequency of NSFR regulatory reporting and disclosure.

7 Retention Period

7.1 The NSFR disclosure requirements prescribes that banks make available on their websites, or through publicly available regulatory reports, an archive (for a suitable retention period as determined by the relevant supervisors) of all NSFR disclosure templates relating to prior reporting periods.

7.2 Consistent with the record retention periods specified in Section 199(2) of the Companies Act, as well as the archival retention periods specified in MAS Notice 637 and 651, MAS proposes to mandate a five year retention period for NSFR disclosure information.

Question 9. MAS seeks comments on the proposed retention period for NSFR disclosure information.

8 Reporting Currency

8.1 For NSFR regulatory reporting, MAS proposes that banks report their NSFR numbers in Singapore Dollar (“SGD”) equivalent.

8.2 The NSFR disclosure requirements prescribes that the NSFR disclosure be calculated on a consolidated basis and presented in a single currency. MAS proposes that the currency used for NSFR disclosure follow that used in the bank’s financial statements, to facilitate ease in cross referencing between the two documents which are meant to be read together.

Question 10. MAS seeks comments on the proposed reporting currency for NSFR regulatory reporting and disclosure.

9 Implementation Timeline

9.1 MAS proposes to follow the BCBS’ recommended timelines for both the NSFR standard and NSFR disclosure requirements. Specifically, the NSFR standard will become applicable from 1 January 2018, and the NSFR disclosure requirements will become effective from the date of the first reporting period after 1 January 2018.

Question 11. MAS seeks comments on the proposed implementation timeline for both the NSFR standard and NSFR disclosure requirements.

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Annex B

DRAFT NSFR NOTICE

[DRAFT AND SUBJECT TO CHANGE]

[\(Link to draft NSFR Notice\)](#)

Annex C

DRAFT NSFR DISCLOSURE NOTICE

[DRAFT AND SUBJECT TO CHANGE]

[\(Link to draft NSFR Disclosure Notice\)](#)

