Guideline

Title	Liquidity Adequacy Requirements (LAR) (2023) Chapter 3 – Net Stable Funding Ratio
Category	Capital Adequacy Requirements
Date	January 31, 2022
Sector	Banks Trust and Loan Companies
Effective Date	April 1, 2023

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Note

This chapter is valid until the end of the 2024 reporting period. A newer version is available.

Chapter 3 – Net Stable Funding Ratio

1. This chapter is drawn from the Basel Committee on Banking Supervision's (BCBS) Basel III framework, Basel III: The Net Stable Funding Ratio and the BCBS's Frequently Asked Questions on Basel III's Net Stable Funding Ratio framework (February 2017). For reference, the Basel Consolidated Framework text paragraph numbers

that are associated with the text appearing in this chapter are indicated in square brackets at the end of each paragraph[1].

2. The BCBS has developed the Net Stable Funding Ratio (NSFR) to promote a more resilient banking sector. The NSFR requires institutions 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 an institution's regular sources of funding will erode its liquidity position in a way that would increase the risk of its failure and potentially lead to broader systemic stress. The NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk across all on- and off-balance sheet items, and promotes funding stability.

3. The NSFR is a key component of OSFI's supervisory approach to liquidity risk, and will be supplemented by detailed supervisory assessment of other aspects of an institution's liquidity risk management framework in line with the BCBS *Sound Principles*[2] and OSFI's Guideline B-6:*Liquidity principles*[3], the other liquidity monitoring tools (Chapters 4 and 6), and the Liquidity Coverage Ratio (LCR) (Chapter 2). In addition, OSFI may require an institution to adopt more stringent requirements or parameters to reflect its liquidity risk profile and OSFI's assessment of its compliance with the BCBS *Sound Principles* and OSFI's *Guideline B-6*.[4]

OSFI Notes

The NSFR applies to DSIBs and to Category I institutions with significant reliance on wholesale funding as described in OSFI's *Capital and Liquidity Requirements for Small and Medium-Sized Deposit-Taking Institutions* Guideline. Annex 1 of this chapter outlines the methodology for Category I institutions to calculate the wholesale funding reliance threshold related to possible NSFR application and the parameters related to such institutions' migration in and out of scope of application of the NSFR standard.

3.1 Definition and Minimum Requirements

4. The NSFR is defined as the amount of available stable funding relative to the amount of required stable funding. This ratio should be equal to at least 100% on an ongoing basis. "Available stable funding" is defined as the portion of capital and liabilities expected to be reliable over the time horizon considered by the NSFR, which extends to one year. The amount of such stable funding required ("Required stable funding") of a specific institution is a function of the liquidity characteristics and residual maturities of the various assets held by that institution as well as those of its off-balance sheet (OBS) exposures.

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

[Basel Framework, NSF 20.2]

5. The NSFR consists primarily of internationally agreed-upon definitions and calibrations. Some elements, however, remain subject to national discretion to reflect jurisdiction-specific conditions. [Basel Framework, NSF 10.1]

6. The amounts of available and required stable funding are calibrated to reflect the degree of stability of liabilities and liquidity of assets. [Basel Framework, NSF 30.1]

7. 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.

[Basel Framework, NSF 30.2]

8. In determining the appropriate amounts of required stable funding for various assets, the following criteria were 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. *Institution behaviour* – The NSFR is calibrated under the assumption that 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 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.

    [Basel Framework, NSF 30.3]

9. Additional stable funding sources are also required to support at least a small portion of the potential calls on liquidity arising from OBS commitments and contingent funding obligations. [Basel Framework, NSF 30.4]

10. NSFR definitions mirror those outlined in the LCR, unless otherwise specified. All references to LCR definitions in the NSFR refer to the definitions in the LCR standard published by the BCBS and reproduced in Chapter 2 of this Guideline. [Basel Framework, NSF 10.2]

3.2 Definition of available stable funding

11. The amount of available stable funding (ASF) is measured based on the broad characteristics of the relative stability of an institution's funding sources, including the contractual maturity of its liabilities and the differences in the propensity of different types of funding providers to withdraw their funding. The amount of ASF is calculated by first assigning the carrying value of an institution's capital and liabilities to one of six

categories as presented 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. 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, as defined in section 2.3 of the *Capital Adequacy Requirements* (CAR) Guideline5. [Basel Framework, NSF 30.5, 30.6]

12. When determining the maturity of an equity or liability instrument, investors are assumed to redeem a call option at the earliest possible date. For equity and liability instruments with options exercisable at the institution's discretion, institutions are expected to reflect the exercise of such call options if, on measurement date, their internal economic forecasts anticipate market conditions and other factors favourable to an exercise of the call option. Similarly, where market participants expect certain liabilities to be redeemed before their legal final maturity date, such behaviour should be assumed for the purpose of the NSFR and these liabilities should be included in the corresponding ASF category. In addition, institutions should consider reputational factors that may limit their ability not to exercise an option on their equity or liability instruments as doing so may imply they are under stress. Such circumstances should be discussed with the institution's Lead Supervisor and may result in an effective maturity on the call date. 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 effective residual maturity of six months or more and one year or more, respectively. [Basel Framework, NSF 30.7]

3.2.1 Calculation of derivative liability amounts

13. Derivative liabilities are calculated first based on the replacement cost for derivative contracts (obtained by marking to market) where the contract has a negative value. When an eligible bilateral netting contract is in place that meets the conditions as specified in paragraph 103 of Chapter 7 of OSFI's CAR Guideline, the replacement cost for the set of derivative exposures covered by the contract will be the net replacement cost. [Basel Framework, NSF 30.8]

14. In calculating NSFR derivative liabilities, collateral posted in the form of variation margin (VM) in connection with derivative contracts, regardless of the asset type, must be deducted from the negative replacement cost amount[6]'[7]. [Basel Framework, NSF 30.9]

15. For Over-the-Counter (OTC) transactions, any fixed independent amount an institution was contractually required to post at the inception of the derivatives transaction should be considered as initial margin (IM), regardless of whether any of this margin was returned to the institution in the form of VM payments. If the IM is formulaically defined at a portfolio level, the amount considered as IM should reflect this calculated amount as of the NSFR measurement date, even if, for example, the total amount of margin physically posted to the institution's counterparty is lower because of VM payments received. For centrally cleared transactions, the amount of IM should reflect the total amount of margin posted less any mark-to-market losses on the applicable portfolio of cleared transactions. [Basel Framework, NSF 30.24]

3.2.2 Liabilities and capital receiving a 100% ASF factor

16. 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 CAR Chapter 2, paragraph 2, excluding the proportion of Tier 2 instruments with residual maturity of less than one year;
    b. the total amount of any capital instrument not included in (a) that has an effective residual maturity of one year or more, but excluding any instruments with explicit or embedded options that, if exercised, would reduce the expected maturity to less than one year; and
    c. the total amount of secured and unsecured borrowings and liabilities[8]'[9], (including term deposits) with effective residual maturities of one year or more. Cash flows occurring within the one-year horizon but arising from liabilities with a final maturity of greater than one year do not qualify for the 100% ASF factor.

    [Basel Framework, NSF 30.10]

3.2.3 Liabilities and capital receiving a 95% ASF factor

17. Liabilities receiving a 95% ASF factor comprise "stable" (as defined in LAR Chapter 2, paragraphs 56 to 59) non-maturity (demand) deposits and/or term deposits with residual maturities of less than one year provided by retail and small business customers[10]. [Basel Framework, NSF 30.11]

18. Deposits maturing in less than one year, or which can be withdrawn early without a significant penalty, i.e. materially greater than the loss of interest, that are classified as stable retail term deposits in the LCR should, for purposes of the NSFR, be classified as stable. Retail term deposits maturing over one year and which cannot be withdrawn early without significant penalty are subject to a 100% ASF. [Basel Framework, NSF 30.11]

3.2.4 Liabilities receiving a 90%, 80%, 70%, and 60% ASF factor

19. Liabilities in this category comprise "less stable" (as defined in LAR Chapter 2, paragraph 60-61) non-maturity (demand) deposits and/or term deposits with residual maturities of less than one year provided by retail and small business customers. Each sub-category of less stable deposits outlined in Chapter 2 is assigned a corresponding ASF factor:

    i. insured deposits where:
        i. the depositor does not have an established relationship with the institution; or
        ii. the deposits are not in a transactional account; or
        iii. the deposit are received from funds and trusts where the balance is controlled solely by the underlying retail customer;

    are assigned a 90% ASF factor;

    ii. deposits sourced in the home jurisdiction but denominated in a foreign currency not qualifying as "stable" deposits under the LCR are assigned a 90% ASF factor;

iii. uninsured deposits, including the portion of a deposit in excess of the deposit insurance coverage limit and deposits not meeting the deposit insurance coverage criteria, are assigned a 90% ASF factor;

iv. rate sensitive deposits where the client directly manages the funds and where:

    i. the client has an established relationship with the institution; or

    ii. the deposit is in a transactional account

    are assigned a 90% ASF factor;

v. rate sensitive deposits where the client directly manages the funds and where:

    i. the client does not have an established relationship with the institution; and

    ii. the deposits are not in a transactional account;

    are assigned a 80% ASF factor;

vi. term deposits directly managed by an unaffiliated third party that are maturing or cashable in the next 30 days are assigned a 70% ASF factor;

vii. demand deposits where an unaffiliated third party directly manages the funds are assigned a 60% ASF factor.

[Basel Framework, NSF 30.12]

20. Deposits maturing in less than one year, or which can be withdrawn early without a significant penalty, i.e. materially greater than the loss of interest, that are classified as less stable retail term deposits in the LCR should, for purposes of the NSFR, be classified as less stable. Retail term deposits maturing over one year and which cannot be withdrawn early without significant penalty are subject to a 100% ASF. [Basel Framework, NSF 30.12]

3.2.5 Liabilities receiving a 50% ASF factor

21. 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 LAR Chapter 2, paragraphs 73-84);
c. funding with residual maturity of less than one year from sovereigns, public sector entities (PSEs), multilateral development banks, and national development banks; 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[11]'[12].

[Basel Framework, NSF 30.13]

3.2.6 Liabilities receiving a 35% ASF factor

22. Stamped bankers' acceptances (BA) liabilities issued by an institution with a residual maturity of less than six months will receive a 35% ASF factor, irrespective of the counterparty holding the BA.

3.2.7 Liabilities receiving a 0% ASF factor

23. Liabilities receiving a 0% ASF factor comprise:

    a. all other liabilities and equity categories not included in the above categories, including other funding with residual maturity of less than six months from central banks[13] and financial institutions;
    b. other liabilities without a stated maturity. This category may include short positions and open maturity positions. Two exceptions can be recognised for liabilities without a stated maturity:
        - first, deferred tax liabilities, which should be treated according to the nearest possible date on which such liabilities could be realised; and
        - second, minority interest, which should be treated according to the term of the instrument, usually in perpetuity.

       These liabilities would then be assigned either a 100% ASF factor if the effective maturity is one year or greater, or 50%, if the effective maturity is between six months and less than one year;
    c. NSFR derivative liabilities as calculated according to paragraphs 13 and 14 net of NSFR derivative assets as calculated according to paragraphs 40 and 41, if NSFR derivative liabilities are greater than

NSFR derivative assets[14];

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

[Basel Framework, NSF 30.14]

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

Table 1: Summary of liability categories and associated ASF factors

ASF factor	Components of ASF category
100%	◦ Total regulatory capital (excluding Tier 2 instruments with residual maturity of less than one year) ◦ Other capital instruments and liabilities with effective residual maturity of one year or more
95%	◦ Stable non-maturity (demand) deposits and term deposits with residual maturity of less than one year provided by retail and small business customers
90%	◦ All less stable non-maturity deposits and term deposits with residual maturity of less than one year provided by retail and small business customers not assigned a lower ASF factor below
80%	◦ Rate sensitive deposits managed by the client, no relationship and deposit not in a transactional account
70%	◦ Term deposits directly managed by an unaffiliared third party (maturing or cashable in the next 30 days)
60%	◦ Demand deposits directly managed by an unaffiliated third party
50%	◦ Funding with residual maturity of less than one year provided by non-financial corporate customers ◦ Operational deposits ◦ Funding with residual maturity of less than one year from sovereigns, PSEs, and multilateral and national development banks ◦ Other funding with residual maturity between six months and less than one year not included in the above categories, including funding provided by central banks and financial institutions
35%	◦ Stamped bankers' acceptances (BA) liabilities issued by the institution with a residual maturity of less than six months

0%	◦ Matched secured financing transactions that meet the criteria for matched transactions outlined in paragraph 39 ◦ Interdependent liabilities ◦ All other liabilities and equity not included in the above categories, including liabilities without a stated maturity (with a specific treatment for deferred tax liabilities and minority interests) ◦ NSFR derivative liabilities net of NSFR derivative assets if NSFR derivative liabilities are greater than NSFR derivative assets ◦ "Trade date" payables arising from purchases of financial instruments, foreign currencies and commodities

[Basel Framework, NSF 99.1]

3.3 Definition of required stable funding for assets and off-balance sheet exposures

25. The amount of required stable funding is measured based on the broad characteristics of the liquidity risk profile of an institution's assets and OBS exposures. The amount of required stable funding is calculated by first assigning the carrying value of an institution's assets to the categories listed. The amount assigned to each category is then multiplied by its associated required stable funding (RSF) factor, and the total RSF is the sum of the weighted amounts added to the amount of OBS activity (or potential liquidity exposure) multiplied by its associated RSF factor. Definitions mirror those outlined in the LAR Chapter 2, unless otherwise specified.15'16 Regardless of whether an institution uses the Internal Ratings-Based (IRB) approach to credit risk, the Standardised Approach risk weights in CRE20 must be used to determine the NSFR treatment. [Basel Framework, NSF 30.15]

26. The RSF factors assigned to various types of assets are intended to approximate the amount of a particular asset that would have to be funded, either because it will be rolled over, or because it could not be monetised through sale or used as collateral in a secured borrowing transaction over the course of one year without significant expense. Under the standard, such amounts are expected to be supported by stable funding. [Basel Framework, NSF 30.16]

27. Assets should be allocated to the appropriate RSF factor based on their residual maturity[17] or liquidity value. When determining the maturity of an instrument, the institution's clients should be assumed to exercise any option to extend maturity. For assets with options exercisable at the institution's discretion, OSFI will take into account reputational factors that may limit an institution's ability not to exercise the option.[18] In particular, where the market expects certain assets to be extended in their maturity, institutions should and OSFI will assume such behaviour for the purpose of the NSFR and include these assets in the corresponding RSF category. For amortising loans and other amortising claims, the portion that comes due within the one-year horizon can be treated in the less-than-one-year residual matiurity category. In the case of 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 applying a reduced RSF factor, OSFI will closely monitor the ongoing impact on institutions' stable funding positions arising from the reduced requirement and take appropriate measures as needed. Also, as further specified in paragraph 31, assets that are provided as collateral for exceptional central bank liquidity providing operations may receive a reduced RSF factor equal to the RSF factor applied to the equivalent asset that is unencumbered. In both cases, OSFI will discuss and agree on the appropriate RSF factor with the relevant central bank. [Basel Framework, NSF 30.17, 30.18]

28. Unless explicitly stated otherwise in this standard, assets should be allocated to maturity buckets according to their contractual 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 12 and 27. [Basel Framework, NSF 30.16]

29. For assets with a contractual review date provision granting the institution the option to determine whether a given facility or loan is renewed or not, OSFI will authorize, on a case by case basis, institutions to use the next review date as the maturity date. In doing so, OSFI will consider the incentives created and the actual likelihood that such facilities/loans will not be renewed. In particular, options by an institution not to renew a given facility should generally be assumed not to be exercised when there may be reputational concerns. [Basel Framework, NSF 30.17]

30. For purposes of determining its required stable funding, an institution should (i) include financial instruments, foreign currencies and commodities for which a purchase order has been executed, and (ii) exclude financial instruments, foreign currencies and commodities for which a sales order has been executed, even if such transactions have not been reflected in the balance sheet under a settlement-date accounting model, provided that (i) such transactions are not reflected as derivatives or secured financing transactions in the institution's balance sheet, and (ii) the effects of such transactions will be reflected in the institution's balance sheet when settled. [Basel Framework, NSF 30.19]

3.3.1 Encumbered assets

31. Assets on the balance sheet that are encumbered[19] for one year or more receive a 100% RSF factor. Assets encumbered for a period of between six months and less than one year that would, if unencumbered, receive an RSF factor lower than or equal to 50% receive a 50% RSF factor. Assets encumbered for between six months and less than one year that would, if unencumbered, receive an RSF factor higher than 50% retain that higher RSF factor. Where assets have less than six months remaining in the encumbrance period, those assets may receive the same RSF factor as an equivalent asset that is unencumbered. In addition, for the purposes of calculating the NSFR, assets that are encumbered for exceptional[20] central bank liquidity operations may receive the RSF factor applied to the equivalent asset that is unencumbered. [Basel Framework, NSF 30.20]

32. The treatment of excess over-collateralisation (OC), i.e. an amount higher than the legal OC requirement, will depend on the ability of the institution to issue additional covered bonds against the collateral or pool of collateral, which may depend on the specific characteristics of the covered bond issuance programme. If collateral is posted for the specific issuance of covered bonds and it is thus an intrinsic characteristic of a particular issuance, then the excess collateral committed for the issuance cannot be used to raise additional funding or be taken out of the collateral pool without affecting the characteristics of the issuance, and should be considered encumbered for as long as it remains in the collateral pool. If, however, the covered bonds are issued against a collateral pool that allows for multiple issuance, subject to OSFI's discretion, the excess

collateral (which would actually represent excess issuance capacity) may be treated as unencumbered for the purpose of the NSFR, provided it can be withdrawn at the issuer's discretion without any contractual, regulatory, reputational or relevant operational impediment (such as a negative impact on the institution's targeted rating) and it can be used to issue more covered bonds or mobilise such collateral in any other way (e.g. by selling outright or securitising). A type of operational impediment that should be taken into account includes those cases where rating agencies set an objective and measureable threshold for OC (i.e. explicit OC requirements to maintain a minimum rating imposed by rating agencies), and to the extent that not meeting such requirements could materially impact the institution's targeted rating of the covered bonds, thus impairing the future ability of the institution to issue new covered bonds. In such cases, OSFI may specify an OC level below which excess collateral is considered encumbered. [Basel Framework, NSF 30.20]

33. Assets held in segregated accounts to satisfy statutory requirement for the protection of customer equity in margined trading account should be reported in accordance with the underlying exposure, whether or not the segregation requirement is separately classified on the institution's balance sheet. However, those assets should also be treated according to paragraph 31 . That is, they could be subject to a higher RSF factor depending on the term of encumbrance, i.e. whether the institution can freely dispose or exchange such assets and the term of the liability to the institution's customer that generate the segregation requirement. [Basel Framework, NSF 99.5]

3.3.2 Secured financing transactions

34. For secured funding arrangements, use of balance sheet and accounting treatments should generally result in institutions excluding, from their assets, securities which they have borrowed in securities financing transactions (such as reverse repos and collateral swaps) where they do not have beneficial ownership. In contrast, institutions should include securities they have lent in securities financing transactions where they retain beneficial ownership. Institutions should also not include any securities they have received through collateral swaps if those securities do not appear on their balance sheets. Where institutions have encumbered securities in repos or other securities financing transactions, but have retained beneficial ownership and those assets remain on the institution's balance sheet, the institution should allocate such

securities to the appropriate RSF category. [Basel Framework, NSF 30.21]

35. Securities financing transactions with a single counterparty may be measured net when calculating the NSFR, provided that the netting conditions set out in Paragraph 53(i) of OSFI's Leverage Requirements Guideline[21] are met. [Basel Framework, NSF 30.22]

36. Amounts receivables and payable under securities financing transactions such as repos or reverse repos 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 for securities financing transactions with a single counterparty as per paragraph 35. [Basel Framework, NSF 30.22]

37. Collateral maturing in less than one year but pledged in a repo operation with remaining maturity of one year or longer should be considered encumbered for the term of the repo or secured transaction, even if the actual maturity of the collateral is shorter than one year as the collateral pledged would have to be replaced once it matures. [Basel Framework, NSF 30.21]

38. When a loan is partially secured, the specific characteristics of the secured and unsecured portions of loans should be taken into account for the calculation of the NSFR 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 should apply to the whole loan. [Basel Framework, NSF 99.4]

39. Securities financing transactions (i.e. repos, reverse repos, securities lending and borrowing, and collateral swaps) can be considered "matched" from an NSFR perspective and assigned a 0% RSF factor and a 0% ASF factor provided they meet all of the following criteria:

Maturity

a. The offsetting SFT must have the same maturity date and have a residual maturity of less than six months;

Collateral

b. SFTs secured against Level 1 collateral can only be matched with SFTs secured against Level 1 collateral where the collateral is from the same **issuer** (e.g. Government of Canada-issued collateral vs. Government of Canada-issued collateral); and,
c. SFTs secured against other collateral must involve the same collateral, i.e. same CUSIP/ISIN.

For clarity, SFT liabilities that meet criteria b) cannot be used to offset SFT assets that meet criteria c), and vice versa. In addition, the amount of eligible SFT assets that meet criteria b) cannot exceed the amount of eligible SFT liabilities that meet criteria b). Similarly, the amount of eligible SFT assets that meet criteria c) cannot exceed the amount of eligible SFT liabilities that meet criteria c).

3.3.3 Calculation of derivative asset amounts

40. 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 paragraph 103 of Chapter 7 of OSFI's CAR Guideline, the replacement cost for the set of derivative exposures covered by the contract will be the net replacement cost. [Basel Framework, NSF 30.23]

41. In calculating NSFR derivative assets, collateral received in connection with derivative contracts may not offset the positive replacement cost amount, regardless of whether or not netting is permitted under the institution's operative accounting or risk-based framework, unless it is received in the form of either Level 1 HQLA or cash VM that meets the following conditions:

    i. For trades not cleared through a qualifying central counterparty (QCCP) the VM received by the recipient counterparty is not segregated. VM would satisfy the non-segregation criterion if the recipient counterparty has no restrictions by law, regulation, or any agreement with the counterparty on the ability to use the VM received.
    ii. For financial counterparties, VM must be calculated and exchanged on at least a daily basis based on mark-to-market valuation of derivative positions. To meet this criterion, derivative positions must be

valued daily and VM must be transferred at least daily to the counterparty or to the counterparty's account, as appropriate. VM exchanged on the morning of the subsequent trading day based on the previous, end-of-day market values would meet this criterion. In the case of non-financial counterparties, VM does not need to be exchanged daily rather must be calculated and exchanged as prescribed in the derivative contract.

iii. VM is received in a currency specified in the derivative contract, governing master netting agreement (MNA), credit support annex to the qualifying MNA or as defined by any netting agreement with a CCP.

iv. VM exchanged is the full amount that would be necessary to extinguish the mark-to-market exposure of the derivative subject to the threshold and minimum transfer amounts applicable to the counterparty.

v. Derivative transactions and VM are covered by a single MNA between the legal entities that are the counterparties in the derivative transaction. The MNA must explicitly stipulate that the counterparties agree to settle net any payment obligations covered by such a netting agreement, taking into account any variation margin received or provided if a credit event occurs involving either counterparty. The MNA must be legally enforceable and effective in all relevant jurisdictions, including in the event of default and bankruptcy or insolvency. For the purposes of this paragraph, the term "MNA" includes any netting agreement that provides legally enforeable rights of offset and a Master MNA may be deemed to be a single MNA.

Any remaining balance sheet liability associated with (a) variation margin received that does not meet the criteria above or (b) initial margin received, may not offset derivative assets and should be assigned a 0% ASF factor. [Basel Framework, NSF 30.24]

42. For OTC transactions, any fixed independent amount an institution was contractually required to post at the inception of the derivatives transaction should be considered as initial margin, regardless of whether any of this margin was returned to the institution in the form of variation margin payments. If the initial margin is formulaically defined at a portfolio level, the amount considered as initial margin should reflect this calculated amount as of the NSFR measurement date, even if, for example, the total amount of margin

physically posted to the institution's counterparty is lower because of VM payments received. For centrally cleared transactions, the amount of initial margin should reflect the total amount of margin posted less any mark-to-market losses on the applicable portfolio of cleared transactions. [Basel Framework, NSF 30.24]

43. The existence of minimum thresholds of transfer amounts for exchange of collateral in derivative contracts does not automatically preclude an offsetting of collateral received (in particular regarding the daily calculation and exchange of variation margins). [Basel Framework, NSF 30.24]

3.3.4 Assets assigned a 0% RSF factor

44. Assets assigned a 0% RSF factor comprise:

    a. coins and banknotes immediately available to meet obligations;
    b. all central bank reserves (including required reserves and excess reserves);
    c. unencumbered Level 1 assets as defined in LAR Chapter 2, paragraph 43(c) to 43(e), including:
        - marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs, the Bank for International Settlements, the International Monetary Fund, the European Central Bank and the European Community, or multilateral development banks that are assigned a 0% risk weight under the Standardised Approach for credit risk; and
        - certain non-0% risk-weighted sovereign or central bank debt securities under the Standardised Approach for credit risk;
    d. all claims[22] on central banks with residual maturities of less than six months; and
    e. "trade date" receivables arising from sales of financial instruments, foreign currencies and commodities that (i) are expected to settle within the standard settlement cycle or period that is customary for the relevant exchange or type of transaction, or (ii) have failed to, but are still expected to, settle;
    f. assets associated with collateral posted as variation margin that are deducted from the replacement cost of derivative liability amounts.

[Basel Framework, NSF 30.25, 30.26]

3.3.5 Assets assigned a 5% RSF factor

45. 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 LAR Chapter 2, paragraph 43, and where the institution has the ability to freely rehypothecate the received collateral for the life of the loan. [Basel Framework, NSF 30.27]

3.3.6 Assets assigned a 10% RSF factor

46. Unencumbered loans to financial institutions with residual maturities of less than six months, where the loan is secured against non-Level 1 assets, and where the institution has the ability to freely rehypothecate the received collateral for the life of the loan.

3.3.7 Assets assigned a 15% RSF factor

47. Assets assigned a 15% RSF factor comprise:

    a. unencumbered Level 2A assets as defined in LAR Chapter 2, paragraph 45, including:
        - marketable securities representing claims on or guaranteed by sovereigns, central banks, PSEs or multilateral development banks that are assigned a 20% risk weight under the Standardised Approach for credit risk; and
        - corporate debt securities (including commercial paper) and covered bonds with a credit rating equal or equivalent to at least AA– ;
    b. (b) all other unencumbered loans[23] to financial institutions with residual maturities of less than six months not included in paragraphs 45 to 46.

    [Basel Framework, NSF 30.28]

3.3.8 Assets assigned a 50% RSF factor

48. Assets assigned a 50% RSF factor comprise:

a. unencumbered Level 2B assets as defined and subject to the conditions set forth in LAR Chapter 2, paragraph 47, including:
    - residential mortgage-backed securities (RMBS) with a credit rating of at least AA;
    - corporate debt securities (including commercial paper) with a credit rating of between A+ and BBB–; and
    - exchange-traded common equity shares not issued by financial institutions or their affiliates;
b. any HQLA as defined in the LCR that are encumbered for a period of between six months and less than one year;
c. all loans to financial institutions and central banks with residual maturity of between six months and less than one year; and
d. deposits held at other financial institutions for operational purposes, as outlined in LAR Chapter 2, paragraphs 73-84, that are subject to the 50% ASF factor in paragraph 21(b); and
e. all other non-HQLA not included in the above categories that have a residual maturity of less than one year, including loans to non-financial corporate clients, loans to retail customers (i.e. natural persons) and small business customers, loans to sovereigns and PSEs, and loans to national development banks.

[Basel Framework, NSF 30.29]

3.3.9 Assets assigned a 65% RSF factor

49. Assets assigned a 65% RSF factor comprise:

    a. unencumbered residential mortgages with a residual maturity of one year or more that would qualify for a 35% or lower risk weight under the Standardised Approach for credit risk;
    b. other unencumbered loans not included in the above categories, excluding loans to financial institutions, with a residual maturity of one year or more that would qualify for a 35% or lower risk weight under the Standardised Approach for credit risk;

c. unencumbered reverse mortgages that would qualify for a 35% risk weight under the Standardised Approach for credit risk, as outlined in Section 4.1.15 of OSFI's CAR Guideline.

[Basel Framework, NSF 30.30]

3.3.10 Assets assigned an 85% RSF factor

50. Assets assigned an 85% RSF factor comprise:

    a. cash, securities or other assets posted as initial margin for derivative contracts[24]'[25], and cash or other assets provided to contribute to the default fund of a central counterparty (CCP), regardless of whether those assets are on balance or off-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 loans[26] that do not qualify for the 35% or lower risk weight under the Standardised Approach for credit risk and have residual maturities of one year or more, excluding loans to financial institutions;
    c. unencumbered reverse mortgages that would qualify for a 50%, 75%, or 100% risk weight under the Standardised Approach for credit risk;
    d. unencumbered securities with a remaining maturity of one year or more and exchange-traded equities, that are not in default and do not qualify as HQLA according to the LCR; and
    e. physical traded commodities[27], including gold.

[Basel Framework, NSF 30.31]

3.3.11 Assets assigned a 100% RSF factor

51. 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 40 and 41 net of NSFR derivative liabilities as calculated according to paragraphs 13 and 14, if NSFR derivative assets are greater than NSFR derivative liabilities[28];

c. all other assets not included in the above categories, including non-performing loans, the exposure amount that exceeds an 85% loan-to-value ratio (LTV) for unencumbered reverse mortgages where the current LTV is greater than 85%, loans to financial institutions with a residual maturity of one year or more, non-exchange-traded equities, fixed assets, items deducted from regulatory capital, retained interest, insurance assets, subsidiary interests and defaulted securities; and

d. 5% of derivative liabilities (i.e. negative replacement cost[29] amount) as calculated according to paragraph 13 (before deducting variation margin posted). [BCBS October 2017, Press Release]

[Basel Framework, NSF 30.32]

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

Table 2: Summary of asset categories and associated RSF factors

RSF factor	Asset category
0%	◦ Coins and banknotes ◦ All central bank reserves ◦ Unencumbered Level 1 assets ◦ All claims on central banks with residual maturities of less than six months ◦ "Trade date" receivables arising from sales of financial instruments, foreign currencies and commodities ◦ Assets associated with collateral posted as variation margin that are deducted from the replacement cost of derivative liability amounts ◦ Matched secured financing transactions that meet the criteria for matched transactions ◦ Interdependent assets
5%	◦ Unencumbered loans to financial institutions with residual maturities of less than six months, where the loan is secured against Level 1 and where the institution has the ability to freely rehypothecate the received collateral for the life of the loan
10%	◦ Unencumbered loans to financial institutions with residual maturities of less than six months, where the loan is secured against non-Level 1 assets, and where the institution has the ability to freely rehypothecate the received collateral for the life of the loan
15%	◦ All other unencumbered loans to financial institutions with residual maturities of less than six months not included in the above categories ◦ Unencumbered Level 2A assets
50%	◦ Unencumbered Level 2B assets ◦ HQLA encumbered for a period of six months or more and less than one year ◦ Loans to financial institutions and central banks with residual maturities between six months and less than one year ◦ Deposits held at other financial institutions for operational purposes ◦ All other assets not included in the above categories with residual maturity of less than one year, including loans to non-financial corporate clients, loans to retail and small business customers, loans to sovereigns and PSEs, and loans to national development banks

65%	◦ Unencumbered residential mortgages with a residual maturity of one year or more and with a risk weight of less than or equal to 35% under the Standardised Approach for credit risk ◦ Other unencumbered loans not included in the above categories, excluding loans to financial institutions, with a residual maturity of one year or more and with a risk weight of less than or equal to 35% under the Standardised Approach for credit risk ◦ Uunencumbered reverse mortgages that would qualify for a 35% risk weight under the Standardised Approach for credit risk
85%	◦ Cash, securities or other assets posted as initial margin for derivative contracts and cash or other assets provided to contribute to the default fund of a CCP ◦ Other unencumbered performing loans with risk weights greater than 35% under the Standardised Approach for credit risk and residual maturities of one year or more, excluding loans to financial institutions ◦ Unencumbered reverse mortgages that would qualify for a 50%, 75%, or 100% risk weight under the Standardised Approach for credit risk ◦ Unencumbered securities that are not in default and do not qualify as HQLA with a remaining maturity of one year or more and exchange-traded equities ◦ Physical traded commodities, including gold
100%	◦ All assets that are encumbered for a period of one year or more ◦ NSFR derivative assets net of NSFR derivative liabilities if NSFR derivative assets are greater than NSFR derivative liabilities ◦ 5% of derivative liabilities (i.e. negative replacement cost amount) calculated before deducting variation margin posted ◦ All other assets not included in the above categories, including non-performing loans, the exposure amount that exceeds 85% LTV for unencumbered reverse mortgages where the current LTV is greater than 85%, 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

[Basel Framework, NSF 99.2]

3.3.12 Interdependent assets and liabilities

53. Certain asset and liability items will be deemed by OSFI to be interdependent and as such will have their RSF and ASF factors adjusted to 0%. Interdependency will be determined on the basis of contractual arrangements, which assure that the liability cannot fall due while the associated 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, in making a determination as which items are deemed interdependent, OSFI will apply the following criteria:

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

Based on an assessment against these requirements, the following transactions are designated as interdependent and, as such, institutions may adjust their RSF and ASF factors, for assets and liabilities, respectively, to 0%:

- National Housing Act Mortgage Backed Securities (NHA MBS) liabilities including liabilities arising from transactions involving the Canada Mortgage Bond program, and their corresponding encumbered mortgages (up to the maximum of the amount of the recorded liabilities). This treatment explicitly excludes purchased NHA MBS and pooled and unsold NHA MBS; and
- Variation margin received from an institution's client and posted on the client's behalf to a CCP to clear derivative transactions, provided the institution does not guarantee performance of the third party.

[Basel Framework, NSF 30.35]

3.3.13 Off-balance sheet exposures

54. Many potential OBS liquidity exposures require little direct or immediate funding but can lead to significant liquidity drains over a longer time horizon. The NSFR assigns an RSF factor to various OBS activities in order to ensure that institutions hold stable funding for the portion of OBS exposures that may be expected to require funding within a one-year horizon. [NSF 30.33]

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

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

RSF factor	Off Balance Sheet Exposure
5% of the currently undrawn portion	Irrevocable and conditionally revocable credit and liquidity facilities to any client
2% of the currently undrawn portion	Unconditionally revocable credit and liquidity facilities provided to retail and small business customers
5% of the currently undrawn portion	Unconditionally revocable credit and liquidity facilities provided to all other customers
3%	Trade finance-related obligations (including guarantees and letters of credit)
5%	Guarantees and letters of credit unrelated to trade finance obligations
0%	Debt-buy back requests (including related conduits)
5%	Structured products
0%	Managed funds
5%	Other non-contractual obligations

[Basel Framework, NSF 30.34]

Annex 1 – Scope of application for Category I institutions

Wholesale funding reliance theshold calculation

For purposes of the threshold calculation related to the scope of application for Category I institutions, wholesale funding is defined as the sum of several liability data points in OSFI's Balance Sheet return (M4), less amounts from small business customer deposits (from LCR data). This amount is then considered against an institution's total on-balance assets in calculating its proportion of wholesale funding reliance.

The threshold above which an institution is deemed to have significant reliance on wholesale funding is set at 40%.

Wholesale funding balances include the sum of the following data point addresses (DPAs) found on the M4 regulatory return:

- Demand and notice deposits
    - DPA 0873: Federal and provincial, total
    - DPA 0874: Municipal or school corporations, total
    - DPA 0875: Deposit-taking institutions, total
    - DPA 0878: Other, total
- Fixed-term deposits
    - DPA 0880: Federal and provincial, total
    - DPA 0881: Municipal or school corporations, total
    - DPA 2202: Deposit-taking institutions, total
    - DPA 2339: Other, total
- DPA 2345: Acceptances, total
- Liabilities of subsidiaries other than deposits
    - DPA 0620: call & other short loans payable, total
    - DPA 0624: other than call and other short loans payable, total
- DPA 0632: Obligations related to borrowed securities, total
- DPA 0634: Obligations related to assets sold under repurchase agreements, total

From the sum of these data points, institutions may remove the amounts that consist of small business customer deposits, defined as the total of the following DPAs found on OSFI's LCR (LA) regulatory return:

- Stable, insured deposits in a transactional account, provided by small business customers
    - DPA 21201: eligible for a 3% run-off rate – in Canada
    - DPA 21202: eligible for a 3% run-off rate – not in Canada
    - DPA 21203: eligible for a 5% run-off rate

- Stable, insured deposits in non-transactional accounts with established relationships that make deposit withdrawal highly unlikely, provided by small business customers
    - DPA 21204: eligible for a 3% run-off rate – in Canada
    - DPA 21205: eligible for a 3% run-off rate – not in Canada
    - DPA 21206: eligible for a 5% run-off rate
- Less stable deposits, provided by small business customers
    - DPA 21207: insured deposits in non-transactional and no established relationship accounts
    - DPA 21208: uninsured deposits
    - DPA 21210: deposits denominated in a foreign currency
    - DPA 21211: term deposits with remaining maturity > 30 days
    - DPA 21232: Insured deposits received from funds and trusts where the balance is controlled by underlying small business customer
    - Rate sensitive deposits directly managed by the client:
        - DPA 21233: established relationship or deposit in a transactional account
        - DPA 21234: no established relationship and not in a transactional account
    - DPA 21235: term deposits managed by an unaffiliated third-party cashable or maturing in the next 30 days
    - DPA 21236: demand deposits managed by unaffiliated 3rd party
    - DPA 21237: less stable small business deposits subject to host jurisdiction requirements

Total on-balance sheet assets is represented by DPA 1045 on OSFI's Balance Sheet (M4) regulatory return.

Implementation

Category I institutions are responsible for calculating and tracking their wholesale funding ratio against the 40% threshold. At the end of each fiscal quarter, Category I institutions must calculate their ratio of wholesale funding reliance using data from the trailing five fiscal quarters.

If, at the end of any fiscal quarter, the previous five quarterly periods moving average ratio of wholesale funding reliance is greater than the 40% threshold, the institution must:

- Notify OSFI that this is the case within 60 days of the end of the fiscal quarter; and
- After confirmation from OSFI, adhere to the 100% NSFR minimum standard beginning on the end of the fiscal quarter occurring nine months after the last quarterly reference date in the moving average period calculation.

It is recommended that an institution engage early with its Lead Supervisor where the institution forecasts that the threshold will be exceeded.

When a Category I institution that is subject to the NSFR falls below the wholesale funding reliance threshold for a given five quarter moving average period, it is still required to continue to adhere to the NSFR minimum standard and report its NSFR position to OSFI. If the institution continues to be below the wholesale funding reliance threshold for four consecutive moving average periods, it must notify OSFI, and will no longer be subject to any NSFR requirements after receiving written confirmation from OSFI.

1 Following the format: [Basel Framework, XXX yy.zz].

2 https://www.bis.org/publ/bcbs144.htm.

3 https://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/gl-ld/Pages/b6-2020.aspx.

4 Per Principle 10 of OSFI's Guideline B-6, institutions are expected to incorporate liquidity costs, benefits and risks in the internal pricing for all significant business activities. However, given the NSFR's limited number of categories and corresponding factors, OSFI does not expect or require institutions to map the NSFR internal costs and benefits at a granular level such as at trading desk levels or individual products; rather the NSFR is calibrated to foster a diversified funding profile and asset mix on a consolidated basis.

5 https://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/gl-ld/Pages/CAR22_chpt2.aspx.

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

7 To the extent that the 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 an institution's required stable funding to avoid any double-counting.

8 Deposit liabilities resulting from foreign bank branches' Capital Equivalency Deposits (CEDs) should be categorized as liabilities with an effective maturity of one year or more until one of the following occurs: a) the institution is made aware that the depositing foreign bank branch has submitted an approval request for withdraw or termination of the CED to OSFI or, b) the depositing foreign bank branch provides a withdraw or termination notice related to the CED to the institution. Once either a) or b) occurs, the CED amount should be assigned a 0% ASF factor.

9 On-balance sheet precious metals liabilities should receive the same ASF factors as other on-balance sheet (cash) funding. There is no difference between cash settlement and physical delivery in terms of application of ASF factors.

10 Retail deposits are defined in LAR Chapter 2, paragraph 54. Small business customers are defined in LAR Chapter 2, paragraph 70 and 71.

11 Deposit-taking entities (including banking entities), insurance entities, securities firms, investment managers (such as pension funds and collective investment vehicles), and their affiliates are considered financial institutions for the application of the NSFR standard. [Basel Framework, NSF 10.3]

12 For clarity, central counterparties should be categorized as financial institutions under the NSFR.

13 Derivative transactions with central banks arising from the latter's short term monetary policy and liquidity operations can be excluded from the reporting institution's NSFR computation and can offset unrealized capital gains and losses related to these derivative transactions from ASF. These transactions include foreign exchange derivatives such as foreign exchange swaps, and should have a maturity of less than six months at inception. As such, the institution's NSFR would not change due to entering a short-term derivative transaction with its central bank for the purpose of short-term monetary policy and liquidity operations. [Basel Framework, NSF 10.6]

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

15 For the purposes of calculating the NSFR, HQLA are defined as all HQLA without regard to LCR operational requirements and LCR caps on Level 2 and Level 2B assets that may otherwise limit the ability of some HQLA to be included as eligible HQLA in calculation of the LCR. HQLA are defined in LAR Chapter 2, paragraph 12-47. Operational requirements are specified in LAR Chapter 2, paragraphs 16-31.

16 Sovereign bonds issued in foreign currencies which are excluded from HQLA according to LAR Chapter 2 paragraph 43(e) because their amount exceeds the institution's stressed net cash outflows in that currency and country can be treated as Level 1 and assigned to the corresponding bucket. [Basel Framework, NSF 30.26]

17 Open maturity secured financing transactions (including open maturity prime brokerage margin loans) can be treated as overnight maturity provided the institution can demonstrate to OSFI: i) that it can contractually and operationally collapse an open maturity trade on the next business day without incurring legal or reputational risk; and ii) that the trades are priced similarly to overnight trades.

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

19 Encumbered assets include but are not limited to assets backing securities or covered bonds and assets pledged in securities financing transactions or collateral swaps. "Unencumbered" is defined in LAR Chapter 2, paragraph 19.

20 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.

21 https://www.osfi-bsif.gc.ca/Eng/fi-if/rg-ro/gdn-ort/gl-ld/Pages/LR22.aspx.

22 The term "claims" includes but is not limited to "loans"; it also includes central bank bills and the asset account created on the institution's balance sheet by entering into repo transaction with central banks. [Basel Framework, NSF 30.25]

23 Non-operational deposits held at other financial institutions should have the same treatment as loans to financial institutions, taking into account the term of the operation. [Basel Framework, NSF 99.6]

24 Initial margin posted on behalf of a customer, where the institution does not guarantee performance of the third party, would be exempt from this requirement. This refers to the cases in which the institution provides 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 institution does not guarantee the performance of this third party. [Basel Framework, NSF 30.31]

25 To the extent that an institution's accounting framework reflects on balance sheet, in connection with a derivative contract, an asset associated with collateral posted as initial margin for purpose of the NSFR, that asset should not be counted as encumbered asset in the calculation of the institution's RSF to avoid any double-counting. [Basel Framework, NSF 30.24]

26 Performing loans are considered to be those that are not past due for more than 90 days in accordance with CAR Chapter 4, paragraph 138. Conversely, non-performing loans are considered to be loans that are more than 90 days past due.

27 On-balance sheet unsecured loans in precious metals extended by an institution or deposits in precious metals placed by an institution that are settled by cash payment should receive the same RSF factors as other (cash) deposits and loans depending on the relevant characteristics such as counterparty type, maturity and encumbrance. Where physical delivery is assumed, loans extended in precious metals and deposits placed in precious metals should be treated like physically traded commodities and are subject to a 85% RSF factor unless the loan (or deposit) is (i) extended to (or placed with) a financial counterparty and has a residual maturity of one year or greater or (ii) encumbered for a period of one year or more or (iii) non-performing, in which cases a 100% RSF factor should be applied. The assumed type of settlement should be determined in accordance with the approach to determine inflows applied in the LCR.

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

29 The replacement cost amount of "settled-to-market" derivatives should be calculated as if no settlement payments and receipts had been made to account for the changes in the value of a derivative transaction or a portfolio of derivative transactions. [Basel Framework, NSF 30.32]