Basel Committee on Banking Supervision

Technical Amendment

Basel III: Treatment of extraordinary monetary policy operations in the Net Stable Funding Ratio

June 2018

BANK FOR INTERNATIONAL SETTLEMENTS

This publication is available on the BIS website (www.bis.org).

ISBN 978-92-9259-181-6 (online)

Technical amendment to the NSFR standard

At present, paragraph 31 of the net stable funding ratio (NSFR) standard refers to central bank liquidity-providing operations and, more specifically, to the treatment of the encumbered collateral for the term of the transaction. However, it is silent about central bank liquidity-absorbing operations and the required stable funding (RSF) factor for receivables (or claims) vis-à-vis the central bank. Under certain circumstances, the current treatment may negatively impact the ability or readiness of banks to participate in liquidity absorbing operations by central banks in the form of secured transactions with maturities longer than six months.

To introduce greater flexibility in the treatment of extraordinary central bank liquidity-absorbing monetary policy operations and ensure a balanced treatment of all central bank operations under the NSFR, the Committee has made a technical amendment to the NSFR standard to allow reduced RSF factors for central bank claims with a maturity of more than six months. The following text would be added to paragraph 29 and applies to extraordinary liquidity-absorbing monetary policy operations:

"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, supervisors need to closely monitor the ongoing impact on banks' 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 which must not be lower than the RSF factor applied to the equivalent asset that is unencumbered. In both cases, supervisors should discuss and agree on the appropriate RSF factor with the relevant central bank."