

## **GUIDELINES ON THE BANGKO SENTRAL IMPLEMENTATION OF THE NET STABLE FUNDING RATIO (NSFR) (Appendix to Sec. 145 on NSFR)**

The guidelines on the implementation of the NSFR are aligned with the provisions of the “Basel III: The Net Stable Funding Ratio” document issued by the Basel Committee on Banking Supervision (BCBS). National discretion is exercised in certain areas considering domestic conditions. For purposes of these guidelines, the definitions used in the Liquidity Coverage Ratio (LCR) Framework as provided in *Appendix 72* shall apply, unless otherwise explicitly provided.

### **A. Available Stable Funding**

1. The available stable funding (ASF) represents the portion of the covered bank’s capital and liabilities that are expected to be reliable sources of funds over a one-year time horizon. The amount of ASF is determined by assigning the carrying value of the covered bank’s capital and liabilities to different ASF categories, multiplying each category by an ASF factor and adding the weighted amounts. The carrying value of the covered bank’s capital and liabilities shall refer to the recorded amount before the application of any regulatory deductions and other adjustments.

#### Characteristics of Funding Stability

2. Under the NSFR framework, liabilities are accorded with presumed degree of stability as reflected in their corresponding ASF factor. The factors are scaled from 100% to zero percent (0%) with 100% representing the most stable account.
3. Three (3) characteristics are identified for funding stability, namely: tenor, type and counterparty:
  - a. *Funding Tenor*. Longer-term liabilities are assumed to be more stable than short term liabilities. As such, funding that matures in more than one (1) year is considered more stable than those maturing in less than a year.
  - b. *Funding type*. The framework recognizes that certain types of funding are inherently more stable than other types without considering the tenor. Retail deposits are generally considered more stable than wholesale deposits.
  - c. *Funding counterparty*. The covered bank’s counterparty influences the stability of funding such that retail customers or counterparties are considered more stable than similar types of funding provided by wholesale customers. Likewise, funds provided by non-financial corporates/entities are considered more stable than those provided by financial

corporate/entities.

#### Maturity of Funding

4. Funding instruments with options to redeem and deposits with withdrawal notice periods shall be assumed to be redeemed through the exercise of an option or withdrawn on the earliest date possible.
5. For long dated liabilities, only the portion of cash flows due beyond six (6) months and one (1) year time horizon shall receive an ASF based on residual maturity of six (6) months to less than one (1) year and one (1) year or more, respectively.

#### ASF Categories

##### Liabilities and capital with 100% ASF factor

6. Liabilities and capital instruments receiving 100% ASF factor include:
  - a. Total amount of regulatory capital<sup>1</sup> before the application of regulatory adjustments excluding Tier 2 instruments with residual maturities of less than one (1) year or those instruments with explicit or embedded options that, if exercised, would reduce the expected maturities to less than one (1) year.
  - b. Other capital instruments not included above, that have effective residual maturities of one (1) year or more, but excluding any instruments with explicit or embedded options that, if exercised, would reduce the expected maturity to less than one (1) year.
  - c. Secured and unsecured funding with residual maturities of one (1) year or more.
  - d. Wholesale non-operational deposits with residual maturities of one (1) year or more.
  - e. Retail term deposits with residual maturities of one (1) year or more.

##### Liabilities with ninety-five percent (95%) ASF factor

7. Retail non-maturity deposits and retail term deposits with residual maturities of less than one (1) year and that have an outstanding balance of P500 thousand and below.

##### Liabilities with ninety percent (90%) ASF factor

8. Retail non-maturity deposits and retail term with residual maturities of less than one (1) year and that have an outstanding balance of more than P500 thousand

##### Liabilities with fifty percent (50%) ASF factor

9. Wholesale non-operational deposits with residual maturities of less than one (1) year from the Philippine National Government (NG) and other sovereigns, Local Government Units (LGUs), Government Owned and Controlled Corporations (GOCCs), Philippine Stock Exchanges (PSEs) of Foreign Countries, and Multilateral Organizations including Multilateral Development Banks (MDBs).
10. Wholesale non-operational deposits with residual maturities of less than one (1) year from non-financial corporates.
11. Wholesale non-operational deposits with residual maturities of six (6) months to less than one (1) year from the Bangko Sentral, other central banks, banks and financial corporates.
12. Wholesale operational deposits. All Current Account and Savings Account (CASA) including negotiable order of withdrawal accounts are automatically categorized as operational deposits.
13. Secured and unsecured funding with residual maturities of less than one (1) year provided by the NG and other sovereigns, LGUs, GOCCs, PSEs of Foreign Countries, and Multilateral Organizations including MDBs.
14. Secured and unsecured funding with residual maturities of less than one (1) year provided by non-financial corporates.
15. Secured and unsecured funding with residual maturities of six (6) months to less than one (1) year provided by the Bangko Sentral, other central banks, banks and financial corporates.
16. Other sources of funding with residual maturities of six (6) months to less than one (1) year.
17. For foreign bank branches, any balance of "Net due to head office/branches/agencies abroad" excluding accumulated "unremitted profits" and "losses in operations".

*Liabilities and equities with zero percent (0%) ASF factor*

18. Wholesale non-operational deposits with residual maturities of less than six (6) months from the Bangko Sentral, other central banks, banks and financial corporates.
19. Secured and unsecured funding with residual maturities of less than six (6) months provided by the Bangko Sentral other central banks, banks and financial corporates.
20. Other sources of funding with residual maturities of less than six (6) months.

21. All other liabilities and equity items not included in the above categories. The liabilities shall include those without a stated maturity such as short positions and open maturity positions. Two (2) exceptions shall be recognized for liabilities without a stated maturity:

- First, deferred tax liabilities, which shall be treated according to the nearest possible date on which such liabilities could be realized; and
- Second, minority interest, which shall be treated according to the term of the instrument, usually in perpetuity.

These liabilities shall then be assigned either a 100% ASF factor if the effective maturity is one (1) year or greater or fifty percent (50%), if the effective maturity is between six (6) months and less than one (1) year.

22. Trade date payables arising from purchase of financial assets pending actual receipt/settlement of the underlying securities.

## **B. Required Stable Funding**

23. The amount of required stable funding (RDF) represents the amount of funding needed to support a covered bank's assets and off balance sheet (OBS) exposures based on their liquidity characteristics or liquidity risk profile. RSF is calculated by assigning the carrying value of assets and OBS exposures to the relevant RSF category. The carrying value is then multiplied by the corresponding RSF factor to arrive at the weighted amounts. The carrying value of an asset shall be gross of the GLLP and net of specific provisions.

### Considerations for Asset Liquidity

24. Similar to available stable funding, a set of standardized weightings shall be used to determine the amount of stable funding a covered bank must maintain. RSF factors shall be scaled from zero percent (0%) to 100% based on liquidity characteristics of asset and OBS exposures.

25. The RSF factor assigned to each asset represents the amount of a particular asset estimated to be funded, either because the asset will be rolled over or because it could not be monetized through sale or be used as collateral in secured borrowing transaction, over the course of one (1) year

26. The following characteristics are considered collectively for each asset, as applicable:

- a. Credit Quality. Asset with higher credit quality are perceived to attract more demand from market participants than those with lower credit quality, and thus more liquid than the latter.

Under the framework, assets with lower credit quality shall require more stable funding than those with higher credit quality.

- b. Tenor. Assets with longer maturities are expected to require more funding than those with shorter maturities. This is in view of the longer time necessary for the asset to be converted to cash or for cash inflows to be realized from the asset. Additionally, assets with longer tenor may liquidate at a discount because of the higher market and credit risks associated with the longer time to wait for cash inflows.
  - c. Counterparty. Relationships with counterparties are critical in continuing business. Covered banks would generally roll over certain exposures to non-financial counterparties to maintain business relationship and generate additional business in the future.
  - d. Market Characteristics. Assets that have traded in an exchange tend to exhibit a higher degree of liquidity, thus, shall require less stable funding.
  - e. Asset Encumbrance. In general, encumbered assets cannot be monetized during the period they are encumbered. The longer an asset is encumbered, the more stable funding it would require.
27. For purposes of determining the RSF, covered banks shall include financial instruments, foreign currencies, and commodities for which a purchase order has been executed and shall exclude those for which a sales order has been executed.

#### Maturity of assets

28. In determining the maturity of an instrument, it shall be assumed that investors will exercise any option to extend maturity. On the other hand, for assets with options exercisable at the discretion of the covered bank, the reputational factors which may limit a covered bank's ability not to exercise the option shall be considered. For amortizing loans, the portion that comes due within the one-year period shall be classified under the less than one (1) year residual maturity category.

#### Asset Encumbrance

29. The RSF factor for an encumbered asset is either the same as, or higher than the RSF factor for an equivalent unencumbered asset. The specific RSF factors for encumbered assets depend on the remaining period of encumbrance. On-balance sheet assets that are encumbered for one year or more shall have an RSF factor of 100% while assets encumbered for a period of six (6) months to less than one (1) year shall have a fifty percent (50%) RSF factor. Encumbered assets with less than six (6) months remaining in the encumbrance period shall receive the same RSF

factor as if the equivalent asset was encumbered.

30. Where beneficial ownership is retained in asset that are encumbered in a repo or other securities financing transactions, and these assets are included in the balance sheet, such assets shall be allocated in their respective RSF category.

#### RSF Categories

##### Asset assigned a zero percent (0%) RSF factor

31. Cash on hand, checks and other cash items.
32. Covered bank reserves in the Bangko Sentral and all claims on the Bangko Sentral (including demand), overnight, and term deposits and reverse repos where the Bangko Sentral is the counterparty) with residual maturities of less than six (6) months.
33. Trade date receivables arising from sale of financial assets pending actual settlement/delivery of the underlying securities.

##### Assets assigned a five percent (5%) RSF factor

34. Eligible securities representing claims on or guaranteed by the NG, the Bangko Sentral, sovereigns, other central banks and PSEs of Foreign Countries, and Multilateral Organizations including MDBs. These securities are assigned zero percent (0%) risk weight under the standardized approach for credit risk and are not direct obligations of a covered bank or any of a covered bank's financial allied undertakings

##### Assets assigned a ten percent (10%) RSF factor

35. Loans to banks, financial corporates and other central banks with residual maturities of less than six (6) months and where the loans are secured by Level 1 assets as defined in the LCR rules.

##### Assets assigned a fifteen percent (15%) RSF factor

36. Eligible securities representing claims on or guaranteed by the LGUs, GOCCs, sovereigns, other central banks, and PSEs of Foreign Countries, and Multilateral Organizations including MDBs. These securities are assigned a twenty percent (20%) risk weight under the standardized approach for credit risk and are not direct obligations of a covered bank or any of a covered bank's financial allied undertakings.
37. Corporate debt securities (including commercial papers) assigned with a credit rating equal or equivalent to at least AA- by a third-party credit assessment agency recognized by the Bangko Sentral, and not issued by a covered bank or any of a covered bank's financial allied

undertakings.

38. Loans to banks, financial corporates, and other central banks with residual maturities of less than six (6) months.
39. Non-operational deposits held at other banks with residual maturities of less than six (6) months

*Assets assigned a fifty percent (50%) RSF factor*

40. Eligible securities representing claims on or guaranteed by the LGUs, GOCCs, sovereigns, other central banks and PSEs of Foreign Countries, and Multilateral Organizations including MDBs. These securities are assigned a fifty percent (50%) risk weight under the standardized approach for credit risk and are not direct obligations of a covered bank or any of a covered bank's financial allied undertakings.
41. Corporate debt securities (including commercial papers) assigned with a credit rating of between A+ and BBB- or equivalent by a third-party credit assessment agency recognized by the Bangko Sentral, and not issued by a covered bank or any of a covered bank's financial allied undertakings.
42. Common equity share that are included in the main index of an organized exchange and not issued by a covered bank or any of a covered bank's financial allied undertakings.
43. Other debt securities with residual maturities of less than one (1) year.
44. Loans to banks, financial corporates, the Bangko Sentral and other central banks, with residual maturities of between six (6) months to less than one (1) year.
45. Non-operational deposits held at other banks with residual maturities of between six (6) month to less than one (1) year.
46. Operational deposits held at other banks.
47. Loans to the NG, LGUs, GOCCs, sovereigns, PSEs of Foreign Countries, and Multilateral Organizations including MDBs with residual maturities of less than one (1) year.
48. Loans to non-financial corporates and micro, small and medium enterprises (MSME) with residual maturities of less than one (1) year.
49. Consumer loans with residual maturities of less than one (1) year.

50. For foreign bank branches, any balance of “Net due from head office/branches/agencies abroad’ excluding accumulated “unremitted profits” and “losses in operation”.

Assets assigned a 65.0 percent (65%) RSF factor

51. Loans to the NG, LGUs, GOCCs, sovereigns, PSEs of Foreign Countries, and Multilateral Organizations including MDBs with residual maturities of one (1) year or more and would apply for a fifty percent (50%) or lower risk weight under the standardized approach for credit risk.

52. Loans to non-financial corporates with residual maturities of one (1) year or more and would qualify for a fifty percent (50%) or lower risk weight under the standardized approach for a credit risk.

53. Residential real estate loan with residual maturities of one (1) year or more and would qualify for a risk weight of fifty percent (50%) under the standardized approach for credit risk.

Assets assigned an eighty five percent (85%) RSF factor

54. Loans to the NG, LGUs, GOCCs, sovereigns, PSEs of Foreign Countries and Multilateral Organizations including MDBs with residual maturities of one year or more and would not qualify for a fifty percent (50%) risk weight under the standardized approach for credit risk.

55. Loans to non-financial corporates and MSMEs with residual maturities of one year or more and would not qualify for a fifty percent (50%) risk weight under the standardized approach for credit risk.

56. Residential real estate loans with residential maturities of one (1) year or more, which do not qualify for a risk weight of fifty percent (50%) under the standardized approach for credit risk.

57. Other consumer loans with residual maturities of one (1) year or more.

58. Other traded equity securities and debt securities with residual maturities of one (1) year or more and not issued by a covered bank or any of a covered bank’s financial allied undertakings.

Assets assigned a 100% RSF factor

59. Loans to banks, financial corporates, the Bangko Sentral and other central banks, with residual maturities of one (1) year or more.

60. Non-operational deposits held at other banks with residual maturities of one (1) year or more.

61. Non-traded equity shares which are not issued by a covered bank or any of a covered bank’s financial allied undertakings.

62. Non-performing loans and securities.

63. Items deducted from regulatory capital; and

64. All other assets.

### C. Off-Balance Sheet Exposures

65. For OBS exposures, the covered bank shall apply the RSF factor shown below:

<b>RSF Factor</b>	<b>Off-balance Sheet Items</b>
5%	Guarantees and financial stability letters of credit Irrevocable and conditionally revocable credit and liquidity facilities
1%	Other transaction and trade-related contingent items Unconditionally revocable credit and liquidity facilities
0%	Non contractual obligations

### D. Derivatives

66. The amount of the NSFR derivative assets is calculated based on the replacement cost for derivative contracts (obtained by marking to market) where the contract has a positive value. On the other hand, where the contract has a negative value, this shall be reflected as NSFR derivative liabilities. For contracts that inherently require net settlement (e.g., non-deliverable forward exchange contract), the expected derivatives exposure shall be reported on a net basis.

67. NSFR derivative assets are assigned a 100% RSF factor while NSFR derivative liabilities would not be considered a source of stable funding and would be assigned a zero percent (0%) available stable funding factor. When the NSFR derivative assets are greater than the NSFR derivative liabilities, a 100% RSF factor shall be assigned to five percent (5%) of the NSFR derivative liabilities.

#### Footnotes

1. Regulatory capital is the sum of Tier 1 and Tier 2 capital before the application of any regulatory deductions and other adjustments.