Net Stable Funding Ratio

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1. Introduction, Scope, and Definitions

Introduction

1.1 This document presents one of the main reforms that the Basel Committee introduced to improve the resilience of the banking sector: the net stable funding ratio (NSFR).

1.2 This Directive adopts the Basel III recommendations on the NSFR and applies it to the Israeli banking system. It reflects the stance of the Supervisor of Banks (hereinafter: the Supervisor) on each of the topics in which the Supervisor has discretion.

1.3 The Directive sets a minimum liquidity ratio for banking corporations. The Supervisor may require a specific banking corporation to adopt more stringent standards that, in his or her assessment, reflect said banking corporation's funding risk profile and its compliance with the qualitative requirements that pertain to liquidity-risk management.

1.4 While complying with this ratio, banking corporations must also maintain the liquidity coverage ratio specified in Proper Conduct of Banking Business Directive no. 221 (hereinafter: the LCR Directive) and must comply with the qualitative requirements for liquidity-risk management established in Proper Conduct of Banking Business Directive no. 342.

Scope

1.5 This Directive shall be implemented by banking corporations with the exception of joint service companies and foreign banks.

1.6 The Directive shall be applied on a consolidated basis.

1.6.1 Notwithstanding the foregoing, a banking corporation shall also actively monitor and control its NSFR at the level of the individual legal entity, at the level of branches and subsidiaries abroad, in consideration of legal, regulatory, and operational restrictions to the ability to transfer liquidity.

1.6.2 A banking group shall recognize surplus available stable funding relative to its net stable funding only if said surplus is transferable in consideration of legal, regulatory, and operational restrictions. For this purpose, "surplus available stable funding" means that a subsidiary's available stable funding exceeds its required stable funding.

1.7 A foreign bank branch shall comply with the terms set forth in Section 5.1 below.

1.8 The Supervisor may serve notice of special treatment of the NSFR for transactions in foreign-currency derivatives with original time to maturity of six months or less with the central bank, stemming from short-term monetary policy of the central bank and its short-term liquidity activity. The Supervisor shall accompany said notice with terms for its implementation.

Definitions

1.9 The definitions of the NSFR are identical to those in the LCR Directive unless noted otherwise.

1.10 **"Financial institution"**— An entity that deals in financial activity, including banks, securities companies, insurance companies, trustees (in this regard, a legal entity that is authorized to manage assets for a third party, including asset management entities such as pension funds and other collective investment instruments), and beneficiaries (in this regard, a legal entity (that is not an "natural person" as described in the Directive) that receives or could be eligible to receive payments based on a will, insurance policy, retirement plan, annuity, provident fund, or other contract). In addition, a holding company whose main activity is a holding in one or more financial institutions is considered a financial instituton in this Directive. For this purpose, use may be made of the classification by the Central Bureau of Statistics ("financial services and insurance services" economic industry).

2. Calculation and Reporting

2.1 The NSFR requires banking corporations to maintain a stable funding profile commensurate with the composition of their assets and off-balance-sheet activities. The purpose of maintaining a long-term sustainable funding structure is to lower the probablity that disruptions of a banking corporation's regular funding sources will erode the corporation's liquidity position in a way that will make failure more likely and cascade into a broader system scenario. An NSFR limits overreliance on short-term wholesale funding, encourages better assessment of funding risk in all on-balance-sheet and off-balance-sheet items, and promotes funding stability.

2.2 The NSFR is defined as available stable funding divided by required stable funding. This ratio should equal at least 100 percent on a regular basis. "Available stable funding" is defined as the portion of capital and liabilities that can be relied upon during the time frame that the NSFR takes into account, which is one year. The amount of stable funding that a given bank much maintain ("required stable funding") is a function of the liquidity characteristics and the residual maturity of the various assets that the corporation holds, as well as its off-balance-sheet exposures. The NSFR shall be calculated for all currencies together; however, a banking corporation shall also actively monitor and control its NSFR in the main currencies in which it is active.

$$\frac{\text{Available stable funding}}{\text{Required stable funding}} \geq 100\%$$

2.3 The NSFR shall be reported to senior management and the Board of Directors at least once per quarter.

3. Available Stable Funding and Required Stable Funding

3.1 The amounts of available stable funding and required stable funding specified in the Directive are calibrated such as to reflect the approximate level of stability of liabilities and the approximate liquidity of assets.

3.2 This calibration reflects the stability of liabilities in two dimensions:

3.2.1 Funding tenor—the NSFR is usually calibrated on the basis of the assumption that long-term liabilities are more stable than short-term liabilities.

3.2.2 Type of funding and counterparty—the NSFR is calibrated on the basis of the assumption that short-term deposits (with maturities of less than one year) of retail customers and funding from small-business customers are behaviorally more stable than is wholesale funding from other counterparties with equal residual maturity.

3.3 To determine the appropriate amounts of required stable funding for different assets, the following criteria are taken into account, recognizing the possible trade-off between them:

3.3.1 Resilience of credit creation—the NSFR requires stable funding for a certain share of credit to the real economy in order to assure the continued existence of this kind of intermediation.

3.3.2 Behavior of banking corporations—the NSFR is calibrated on the basis of the assumption that banking corporations may wish to roll over a large share of loans that come due in order to maintain relations with their customers.

3.3.3 Asset tenor—the NSFR is based on the assumption that certain short-term assets (with less than one year residual maturity) require a smaller share of stable funding because banking corporations can allow some of these assets to mature instead of rolling them over.

3.3.4 Asset quality and liquidity value—the NSFR is based on the assumption that unencumbered high-quality assets that can be securitized or traded, and, therefore, can serve immediately as collateral for obtaining further funding or be sold in the market, need not be fully funded by means of stable funding.

3.4 Additional sources of stable funding are also needed for support of at least a small share of liquidity requirements arising from off-balance-sheet liabilities and contingent funding commitments.

Definition of available stable funding

3.5 Available stable funding (ASF) is measured on the basis of the general characteristics of the relative stability of the corporation's sources of funding, including the contractual maturation of its liabilities and differences in the propensity of different funding providers to withdraw their funding.

3.6 To calculate ASF, the balance-sheet carrying value of the corporation's capital and liabilities is first attributed to one of the five categories presented below. The sum attributed to each category is multiplied by the ASF factor and the total ASF is the sum of the weighted sums. The carrying value represents the sum of the liabilities or the capital instruments as are recorded before regulatory deductions or other adjustments.

3.7 When determining residual maturity of a capital instrument or liability, a banking corporation shall assume that investors will exercise a call option at the earliest possible date. For funding that comes with options that may be exercised at the banking corporation's discretion, the banking corporation shall take into account reputational factors that may limit its ability to refrain from exercising the option.[1] In particular, when the market expects certain liabilities to be reedmed before their legal final maturity date, banking corporations shall presume that this behavior will occur for the purpose of their NSFR and shall include these liabilities in the appropriate category of ASF. In accordance with this principle, when the NSFR is calculated for options by the banking corporation to extend the residual maturity of its liabilities, the corporation should usually presume that said options will not be exercised if reputational aspects are involved. In the case of long-term liabilities, only the portion of cash

[1] As in a case where a banking corporation signals that it will be exposed to liquidity funding risk unless it exercises the option.

flows falling exactly or after six months or one year shall be dealt with as having an effective residual maturity of six months or more and one year or more, respectively.

Calculating derivatives liabilities

3.8 Derivatives liabilities are first calculated on the basis of the replacement cost of derivative contracts (obtained by marking to market) when the contract has a negative value. When a qualified bilateral offset agreement that satisfies the terms set forth in Paragraphs 96(ii) and 96(iii) of Appendix C of Proper Conduct of Banking Business Directive no. 203 exists, the replacement cost for the group of derivatives exposures that is covered by said agreement shall be the net replacement cost.

3.9 When a derivatives liability is calculated for the NSFR, collateral posted as variation-margin in connection to derivative contracts shall be subtracted from the negative replacement cost irrespective of the type of asset.[2]

3.10 Liabilities and capital instruments that receive a 100 percent ASF factor include:

3.10.1 total regulatory capital before adjustments and deductions, as described in Proper Conduct of Banking Business Directive no. 202,[3] not including Tier 2 capital instruments with residual maturity less than one year;

3.10.2 the total sum of all capital instruments not included in 3.10.1 with effective residual maturity of one year or more, not including an instrument with explicit or embedded options that, if exercised, will shorten expected residual maturity to less than one year; and also

[2] A NSFR derivatives liability = (derivatives liabilities) - (total collateral posted as variation margin for derivatives liabilities). In connection with a derivative contract: if, according to the Reporting to the Public Directives that apply to a banking corporation, an asset associated with collateral posted as variation margin that is subtracted from the sum of the replacement cost for NSFR purposes is reflected in the balance sheet, said asset shall not be included in the calculation of the banking corporation's required stable funding in order to prevent double-counting.

[3] The capital instruments reported here must satisfy all requirements specified in Proper Conduct of Banking Business Directive no. 202 and shall include only amounts that are recognized after the transitional arrangements of the Basel III standards are fully expaired (i.e., from 2022 onward).

3.10.3 the total sum of secured and unsecured borrowings and liabilities (including term deposits) with effective residual maturities of one year or more. Cash flows that have a time horizon of less than one year but originate in liabilities with final maturity of more than one year do not qualify for a 100 percent ASF; and also

3.10.4 deposits from retail and small-business customers with residual maturity of one year or more that can not be withdrawn early without a significant penalty.

3.11 Liabilities that receive a 95% ASF factor include "stable" deposits (as defined in the LCR Directive, Sections 75–78) of retail and small-business customers[4] with no maturity (on demand), time deposits with residual maturity of less than one year, or time deposits with residual maturity of one year or more that may be withdrawn early with no significant penalty.

3.12 Liabilities that receive a 90% ASF factor include "less stable" deposits (as defined in the LCR Directive, Sections 79–80) of retail customers and small-business customers with no maturity (on demand), time deposits with residual maturity of less than one year, or time deposits with residual maturity of one year or more that may be withdrawn early with no significant penalty.

3.13 Liabilities that receive a 50% ASF factor include:

3.13.1 funding (secured and unsecured) from nonfinancial wholesale customers with residual maturity of less than one year;

3.13.2 operational deposits (as defined in the LCR Directive, Sections 93–104);

3.13.3 funding from sovereigns, public-sector entities, and multilateral and national development banks, with residual maturity of less than one year[5]; and also

[4] Canceled.

[5] The Supervisor shall instruct banking corporations as to whether national development banks qualify for this treatment. Unlike multilateral development banks, in which several countries participate and are involved in their activity, national development banks usually belong to or are controlled by the country in which they are incorporated.

3.13.4 other funding (secured and unsecured) not included in the foregoing categories and with residual maturity between six months to less than one year, including funding from central banks and financial institutions.

3.14 Liabilities that receive a 0% ASF factor include:

3.14.1 all other categories of liabilities and capital not included in the foregoing categories, including other funding from central banks and financial institutions with residual maturity of less than six months[6];

3.14.2 other liabilities that have no stated maturity. This category includes short positions and open-maturity positions not included in Sections 3.10–3.13 *supra*. For liabilities that have no stated maturity, two exceptions may be recognized to which a 100% ASF factor may be assigned if their effective residual maturity is one year or more, or a 50% ASF factor if their effective residual maturity ranges from six months to less than one year:

(a) deferred tax liabilities, which shall be treated in accordance with the nearest date on which these liabilities may be liquidated; and

(b) minority rights, which shall be treated commensurate with the term of the instrument, which is usually perpetual;

3.14.3 NSFR derivatives liabilities as calculated under Sections 3.8–3.9, less NSFR derivatives assets as calculated under Sections 3.23–3.24, if NSFR derivatives liabilities exceed NSFR derivatives assets[7]; and also

3.14.4 trade date payables arising from acquisitions of financial instruments, foreign currencies, and commodities that:

(a) are expected to settle within the standard settlement cycle or during the standard term for the relevant exchang or type of transaction, or

(b) failed to settle but are still expected to settle.

[6] Canceled.

[7] ASF = 0% x MAX ((NSFR derivative liabilities – NSFR derivative assets), 0).

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

3.15 Required stable funding is measured on the basis of the broad characteristics of the liquidity-risk profile of the corporation's assets and off-balance-sheet exposures. To calculate required stable funding, one first assigns the corporation's outstanding balance of assets to the categories on the list that follows. The value of an asset is usually its carrying value on the financial statements, i.e,. net of specific provisions. The sum assigned to each category is multiplied by the required stable funding (RSF) factor of the relevant category, and the total RSF is the sum of the weighted sums plus the sum of off-balance-sheet activity (or potential exposure to liquidity), multiplied by its respective RSF factor. As stated in Section 1.9 *supra*, the definitions reflect those described in the LCR Directive unless otherwise noted.[8]

3.16 Unless explicitly stated otherwise in the Directive, assets are allocated to maturity-date bands commensurate with their contractual residual maturity. This, however, should take into account embedded optionality, such as put or call options, that may affect the actual residual maturity described in Sections 3.17 and 3.7. The RSF factors allocated to the various types of assets are intended to approximate the sum of a specific asset that would have to be funded, whether this is because it will be rolled over or because it could not be monitized via sale or used as collateral in a secured borrowing transaction over the course of one year without significant cost. According to the Directive, such sums should be backed by stable funding.

3.17 Assets shall be assigned their appropriate stable-funding factor on the basis of their residual maturity or liquidity value. When determining the maturity of an instrument, it should be assumed that investors will exercise any option that will extend maturity. For assets with options exercisable at a banking corporation's

[8] For the purpose of NSFR calculation, high-quality liquid assets are defined as all high-quality liquid assets irrespective of the operational requirements of the LCR and the restrictions of the LCR on Level 2 and Level 2B assets, whch may limit the ability to include certain high-quality liquid assets as qualifying for the calculation of the LCR. High-quality liquid assets are defined in the LCR Directive, Sections 24–54(c). The operational requirements are specified in the LCR Directive, Sections 28–43.

discretion, reputational factors that may limit its ability to refrain from exercising the option should be taken into account.[9] In particular, where the market expects the assets' maturity to be extended, banking corporations should assume that this behavior will take place for NSFR purposes and assign these assets to the appropriate RSF category. As for loans repaid in installments (or demands for payment of principal on other debts), the portion that matures within a one-year horizon may be dealt with in the category of items that have residual maturity of less than one year. Unencumbered loans with no stated final maturity, even if the borrower may repay them fully and without penalty on the date of the next interest change, are considered as having an effective maturity of more than one year and shall receive a RSF factor of 65 percent or 85 percent depending on their credit-risk weights.

3.18 In the case of exceptional liquidity-absorption activity of the central bank, the Supervisor may establish a reduced RSF factor for central banks' debts. In the event of activity with residual maturity equal to or greater than six months, the RSF factor shall be at least 5 percent. Additionally, as specified in Section 3.20, the Supervisor may set a reduced RSF factor for assets encumbered as collatoral for exceptional liquidity-injecting activity by the central bank; said factor shall be no lower than the RSF factor applyed to an identical asset that is not encumbered.

3.19 To determine the requisite RSF, a banking corporation shall include financial instruments, foreign currency, and commodities for which a purchase order has been issued, and shall not include financial instruments, foreign currency, and commodities for which a sale order has been executed, even if such transactions are not included on a balance sheet that uses a settlement date accounting model. This, so long as:

[9] As in, for example, a case in which a banking corporation signals that it will be exposed to liquidity-funding risk unless it exercises an option on this asset in its possession.

3.19.1 said transactions are not reflected as derivitives transactions or as secured-funding transactions on the corporation's balance sheet, and also:

3.19.2 the effects of said transactions will be reflected on the corporation's balance sheet once they are settled.

3.20 Balance-sheet assets encumbered[10] to one year or more shall receive a 100% RSF factor. Assets encumbered to six months to less than one year, that would have received an RSF factor lower than or equal to 50 percent had they not been encumbered, shall receive a 50% RSF factor. Assets encumbered from six months to less than one year that would have received an RSF factor greater than 50 percent had they not been encumbered shall forgo the higher RSF factor. When the residual encumbrance period of the assets is less than six months, these assets may receive the same RSF factor that an identical unencumbered asset would receive. In addition, for the purpose of calculating the RSF, assets encumbered for exceptional liquidity operations by the central bank[11] may receive a reduced RSF factor (subject to determination by the Supervisor, as stated in Section 3.18 *supra*) that shall be no lower than the RSF factor that would apply to an identical unencumbered asset. Assets encumbered to a central bank but not used to obtain credit, shall receive the RSF factor that would apply to an identical unencumbered asset.

3.21 For secured funding arrangements, the balance-sheet and accounting treatment is such that banking corporations will rarely include among their assets securities that they borrowed in securities-funding transactions (e.g., reverse repos and collateral swaps) in which they have do not beneficial ownership. In contrast, banking corporations shall include securities that they lent in

[10] Encumbered assets include, *inter alia,* assets backing securities or covered bonds and assets encumbered in securities-funding transactions or collateral swaps. The term "unencumbered" is defined in Section 31 of the LCR Directive.

[11] As a rule, exceptional liquidity operations of the central bank are temporary and extraordinary actions that a central bank takes in order to carry out its mandate at a time of systematic financial pressure and/or exceptional macroeconomic challenges.

securities-funding transactions wherever they retain beneficial ownership. Additionally, banking corporations shall refrain from including any securities that they received via collateral swap if said securities are not included on their balance sheets. Wherever banking corporations encumber securities in repo transactions or other securities funding transactions but retain beneficial ownership and said securities remain on their balance sheets, they must assign said securities to the appropriate RSF category.

3.22 Receivables and payables on account of these securities-funding transactions shall be reported gross in most cases, i.e., the gross sums shall be included on the RSF side and the ASF side, respectively. The only exception relates to securities funding transactions with a sole counterparty, which may be measured net as long as the offset conditions specified in Section 33(i) of Proper Conduct of Banking Business Directive no. 218 are obtained.

3.23 Derivatives assets are calculated first on the basis of replacement cost in derivatives contracts (obtained by marking to market) when the contract has positive value. When a qualifying bilateral netting agreemennt exists that satisfies the terms in Paragraphs 96(ii) and 96(iii) of Appendix C of Proper Conduct of Banking Business Directive no. 203, the replacement cost for the group of exposures to derivatives covered by the contract shall be the net replacement cost.

3.24 For NSFR derivatives assets , collateral received in connection with derivatives contracts shall not offset the sum of the positive replacement cost whether the banking corporation's accounting rules or risk-based framework allow the offset or not, unless the collateral was received in the form of cash variation margin and satisfies the terms specified in Section 25 of Proper Conduct of Banking Business Directive no. 218 for the cash portion of the variation margin that the counterparties exchange and that constitutes a pre-settlement payment.[12] Any residual balance-sheet liability associated with (a) variation margin received

[12] NSFR derivatives assets = (derivatives assets) - (cash collateral received as cash variation margin for derivatives assets).

that does not meet the foregoing criteria, or (b) initial margin received, shall not set off derivatives assets and shall receive a 0% RSF factor.

3.25 Assets receiving a 0% RSF factor include the following:

3.25.1 coins and banknotes immediately available for fulfillment of obligations;

3.25.2 all reserves at the Bank of Israel and other central banks[13] (including demand and surplus reserves);

3.25.3 claims on central banks[14] with less than six months' residual maturity; and also

3.25.4 trade date receivables originating in sales of financial instruments, currencies, and commodities that:

(a) are expected to settle during the standard settlement cycle or during the custom term for the relevant exchange transaction or type of transaction, or

(b) failed to settle but are still expected to settle.

3.26 Assets that are assigned a 5% RSF factor include Level 1 unencumbered assets as defined in Section 50 of the LCR Directive, with the exception of assets that are assigned a 0% RSF factor as aforesaid, including:

3.26.1 tradable securities that represent debts of the following entities, or that the following entities have guaranteed: sovereigns, central banks, public sector entities (PSEs), the Bank for International Settlement, the International Monetary Fund, the European Central Bank, and the European Community, or multilateral development banks, which have been assigned a zero risk weight under Proper Conduct of Banking Business Directive no. 203; and also

[13] Reserves at another central bank shall be treated in accordance with the rules established by the regulator at the location of the other central bank for the purpose of the net stable funding ratio.

[14] The expression "claims on" is broader than "loans" and also includes bills of a central bank and assets orginated from repo transactions with central banks.

3.26.2 certain sovereign or central-bank debt instruments that have a risk weight other than 0 percent and qualify as Level 1 high-quality liquid assets (HQLA) under the LCR Directive (with the exception of those included in Section 3.25.3 *supra*).

3.27 Assets that receive a 10 percent RSF factor include unencumbered loans to financial institutions with residual maturity of less than six months, if the loan is secured by Level 1 assets as defined in Section 50 of the LCR Directive, and if the banking corporation can freely rehypothecate the collateral obtained during the lifetime of the loan.

3.28 Assets assigned a 15% RSF factor include:

3.28.1 Unencumbered Level 2A assets as defined in Section 52 of the LCR Directive, including:

(a) tradable securities that represent debts of the following entities or that the following entities have guaranteed: sovereigns, central banks, PSEs or multilateral development banks that have been assigned a 20 percent risk weight under Proper Conduct of Banking Business Directive no. 203; and also

(b) corporate debt securities (including commercial papers) and covered bonds rated at least AA- or equivalent.

3.28.2 All other loans that are not encumbered to financial institutions and have less than six months residual maturity and are not included in Section 3.27.

3.29 Assets assigned a 50 percent RSF factor include:

3.29.1 Unencumbered Level 2B assets as defined in Section 54 of the LCR Directive;

3.29.2 All HQLA as defined in the LCR Directive that are encumbered to a term of six months to less than one year;

3.29.3 All loans to financial institutions and central banks that have residual maturity of six months to less than one year;

3.29.4 Deposits held at other financial institutions for operational purposes as defined in Sections 93–104 of the LCR Directive and subject to a 50% ASF factor under Section 3.13; and also

3.29.5 All other non-HQLA assets that are not included in the foregoing categories and have residual maturity of less than one year, including loans to nonfinancial wholesale clients, retail loans (i.e., to individuals), small-business loans, and loans to sovereigns, national development banks, and public-sector entities.

3.30 Assets that are assigned a 65 percent RSF factor include the following:

3.30.1 unencumbered housing loans that are secured by a mortgage, have residual maturity of one year or more, and qualify for 35 percent risk weighting under Proper Conduct of Banking Business Directive no. 203; and also

3.30.2 other unencumbered loans including loans to sovereigns, multilateral development banks, public-sector entities, and national development banks, that are not included in the foregoing categories, with the exception of loans to financial institutions, that have residual maturity of one year or more and qualify for 35 percent or lower risk weighting under Proper Conduct of Banking Business Directive no. 203.

3.31 Assets that are assigned an 85% RSF factor include:

3.31.1 cash, securities, or other assets posted as intial margin for derivatives contracts[15] and cash or other assets posted to the default fund of a central counterparty (CCP), in both cases irrespective of whether recorded on or off balance sheet. Where securities or other assets posted as initial margin for derivatives contracts or posted to a default fund would

[15] Initial margin posted on behalf of a customer, where the banking Corporation gives the customer access to a third party (e.g., a central counterparty) for the purpose of settling derivatives, with the transactions carried out in the customer's name and the banking corporation not a guarantor of the third party's performance, shall be exempt from this requirement.

otherwise receive a higher RSF factor, this higher factor shall be invoked;

3.31.2 other unencumbered loans that are not in default[16]; that do not qualify for a 35 percent or lower risk weight under Proper Conduct of Banking Business Directive no. 203; and that have residual maturity of one year or longer, not including loans to financial institutions;

3.31.3 unencumbered securities with residual maturity of one year or more and equities traded on stock exchange that are not in default and do not qualify for HQLA status under the LCR Directive; and also

3.31.4 physically traded commodities, including gold.

3.32 Assets that are assigned a 100% RSF factor include:

3.32.1 all assets encumbered to a one-year term or longer;

3.32.2 NSFR derivatives assets as calculated in accordance with Sections 3.23–3.24, net of NSFR derivatives liabilities as calculated in accordance with Sections 3.8–3.9, if NSFR derivatives assets basis are larger than NSFR derivatives liabilities[17];

3.32.3 assets without stated maturity that are not included in Sections 3.32.1–3.32.2 *supra* (including non-maturity reverse repo, unless the banking corporation can demonstrate to the Supervisor of Banks that non-maturity reverse repo transactions will be effectively settled within less than one year);

3.32.4 all other assets not included in the foregoing categories, including defaulted loans, loans to financial institutions with residual maturity of one year or more, non-exchanged traded equities, fixed assets, items deducted from regulatory capital, retained interest in the context of structured funance transactions, subsidiary interests, and defaulted securities, and also

[16] Loans not in default are loans not ninety days or more in arrears and/or not classified as past due, in line with Section 75 of Proper Conduct of Banking Business Directive no. 203.
[17] RSF = 100% x maximum ((NSFR derivatives assets – NSFR derivatives liabilities), 0).

3.32.5 5 percent of derivatives liabilities (i.e., negative replacement costs) as calculated under Section 3.8 *supra* (before subtraction of variation margin posted).

3.33 Many off-balance-sheet liquidity exposures require little direct or immediate funding but may lead to major liquidity drains in the long term. The net stable funding ratio assigns an RSF factor to various off-balance-sheet activities in order to ensure that corporations hold stable funding for that part of the off-balance-sheet exposures that is expected to require funding within a one-year horizon.

3.34 Like the liquidity coverage ratio, the net stable funding ratio identifies categories of off-balance-sheet exposures on the basis of the liability being a credit facility, a liquidity facility, or other contingent funding obligation. Table 1 presents the types of off-balance-sheet exposures attributed to the categories of off-balance-sheet exposures and their corresponding RSF (required stable funding) factors.

Table 1. Off-balance-sheet exposure categories and corresponding RSF factors

RSF factor	RSF category
1%	Guarantees for homebuyers (guarantee for homebuyer under the Sale [Apartments] [Assurance of Investments of Persons Acquiring Apartments] Law 5735-1974), if the dwelling has been handed to the buyer.
3%	Guarantees for homebuyers (guarantee for homebuyer under the Sale [Apartments] [Assurance of Investments of Persons Acquiring Apartments] Law 5735-1974), if the dwelling has not yet been handed to the buyer.
5% of unused portion at time of calculation	Irrevocable, conditionally revocable and unconditionally revocable credit and liquidity facilities to any customer.

5%	• Obligations associated with trade finance (including guarantees and letters of credit). • Guarantees and letters of credit not associated with trade funding obligations.
Banking corporation sets RSF factor on the basis of the circumstances of each exposure.	Non contractual obligations, such as: • potential request for repurchases of banking corporation's debt or conduits, securities investment vehicles, and similar other funding vehicles associated with the corporation; • structured products of which customers expect ready marketability, such as adjustable-rate notes and variable rate demand notes (VRDNs); funds managed and marketed for the purpose of preserving a stable value.

Interdependent assets and liabilities

3.35 The Supervisor may, under certain circumstances, recognize the interdependency of certain asset and liability items due to contractual arrangements. Interdependency means that no liability can mature as long as the asset remains on the balance sheet, that principal payment flows from the asset cannot serve as anything other than payback of the liability, and that the liability cannot be used to fund other assets. Subject to the Supervisor's prior approval and satifaction of the criteria listed below, a banking corporation may assign 0% RSF and ASF factors to the interdependent items.

3.35.1 Asset and liability items that are interdependent shall be clearly identified.

3.35.2 The maturity date and the principal amount of the interdependent liability and the asset should be identical.

3.35.3 The banking corporation operates only as a pass-through unit to chanel the funding received (interdependent liability) into the corresponding interdependent asset.

3.35.4 The counterparties to each pair of interdependent asset and liability must not be the same.

4. Summary and Issues in Applying the Net Stable Funding Ratio

4.1 Table 1 below summarizes the components of each of the available stable funding categories and the corresponding stable funding factor that shall be applied in calculating the corporation's total available stable funding under this Directive.

Table 1. Summary of liability categories and corresponding available stable funding factors

ASF factor	Components of ASF category
100%	• Total supervisory capital under Section 3.10 (not including Level 2 capital 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 retail and small-business deposits with no maturity date (on demand) and time deposits with residual maturity of less than one year.
90%	Less-stable retail and small-business deposits with no maturity date and time deposits with residual maturity of less than one year.
50%	• Funding from wholesale nonfinancial customers with residual maturity of less than one year; • Operational deposits; • Funding from sovereigns, public-sector entities, and multilateral and national development banks with residual maturity of less than one year;

ASF factor	Components of ASF category
	• Other funding with residual maturity of six months to less than one year that is not included in the foregoing categories, including funding from central banks and financial institutions.
0%	• All other liabilities and capital not included in the foregoing categories, including liabilities with no stated maturity date (perpetual) (with specific treatment for deferred-tax liabilities and minority rights); • NSFR derivatives liabilities less NSFR derivatives assets, if NSFR derivatives liabilities are greater than the NSFR derivatives assets ; • Trade date payables arising from acquisitions of financial instruments, foreign currencies, and commodities.

4.2 Table 2 below summarizes the specific types of assets that shall be assigned to each asset category and their corresponding RSF factors.

Table 2. Summary of asset categories and corresponding RSF factors

RSF factor	Components of RSF category
0%	• Coins and banknotes; • All central bank reserves ; • All central-bank debts with residual maturity of less than six months; • Trade date receivables arising from sale of financial instruments, foreign currencies, and commodities.

RSF factor	Components of RSF category
5%	Unencumbered Level 1 assets except coins, banknotes and central-bank reserves.
10%	Unencumbered loans to financial institutions with residual maturity of less than six months, if the loan is secured by Level 1 assets as these are defined in Section 50 of the LCR Directive, and if the banking corporation can freely rehypothecate the collateral obtained during the lifetime of the loan.
15%	• All other unencumbered loans to financial institutions with residual maturity of less than six months that are not included in the foregoing categories; • Unencumbered Level 2A assets.

RSF factor	Components of RSF category
50%	• Unencumbered Level 2B assets. • High-quality liquid assets encumbered to a term of six months or more and less than one year; • Loans to financial institutions and central banks with residual maturity of six months to less than one year; • Deposits held at other financial institutions for operational purposes; • All other assets that are not included in the foregoing categories and have residual maturity of less than one year, e.g., loans to nonfinancial wholesale customers, loans to retail and small-business customers, and loans to sovereigns, national development banks, and public-sector entities.
65%	• Unencumbered mortgage-secured housing loans with residual maturity of one year or more and 35% risk weighting under Proper Conduct of Banking Business Directive no. 203; • Other unencumbered loans including loans to sovereigns, multilateral development banks, public-sector entities, and national development banks, not included in the foregoing categories, excluding loans to financial institutions, with residual maturity of one year or more and 35% or less risk weighting under Proper Conduct of Banking Business Directive no. 203.

RSF factor	Components of RSF category
85%	• Cash, securities, or other assets posted as initial margin for derivatives contracts and cash or other assets posted to the default fund of a central counterparty (CCP); • Other unencumbered loans not in default with a higher than 35% risk weighting under Proper Conduct of Banking Business Directive no. 203 and residual maturity of one year or more, not including loans to financial institutions; • Other unencumbered securities not in default that do not qualify for consideration as HQLA, with residual maturity of one year or more, and exchange traded equities; • Physically traded commodities, including gold.
100%	• All assets encumbered to a term of one year or more; • NSFR derivatives assets less NSFR derivatives liabilities, if NSFR derivatives assets are greater than NSFR derivatives liabilities; • 5% of derivatives liabilities calculated in the manner set forth in Section 3.8; • All other assets not included in the foregoing categories, including defaulted loans, loans to financial institutions with residual maturity of one year or more, equities not traded on a stock exchange, fixed assets, items deducted from regulatory capital, retained interest with the banking corporation in the context of structured funding transactions, subsidiary rights, and defaulted securities.

4.3 For a ssummary of the treatmentof off-balance-sheet exposures, see Table 1 above.

Instructions for treatment of specific instruments

4.4 Certain loans are only partly secured and, therefore, are divided into a secured portion and an unsecured portion that have different risk weights under Proper Conduct of Banking Business Directive no. 203. The specific characteristics of these loan portions should be taken into account in calculating the net stable funding ratio: Each portion, the secured and the unsecured, shall be dealt with according to its characteristics and shall be assigned the appropriate RSF factor. If the secured part of the loan cannot be differentiated from the unsecured part, the higher RSF factor shall be assigned to the entire loan.

4.5 Assets owned by the banking corporation but separated due to regulatory requirements for the protection of customers' assets in margin trading accounts shall be reported in accordance with the underlying exposure, whether or not the segregation requirement is separately classified on a bank's balance sheet . However, these assets shall also be dealt with in accordance with Section 3.20, i.e., they may be subject to a higher RSF factor contingent upon the period of the encumbrance. Said period shall be determined in consideration of the corporation's ability to sell or swap such assets freely and the period of liabilities to the customer(s) that creates the demand for separation.

4.6 Non-operational deposits held at other financial institutions shall be dealt with equivalently as are loans to financial institutions, taking into account the term of the deposit.

5. Branch of Foreign Bank

5.1 A branch of a foreign bank (hereinafter: foreign branch), the assets of which do not exceed NIS 15 billion on annual average, need not comply with and monitor the net stable funding ratio set forth in this Directive, provided it complies with the requirements for an exemption from the LCR ratio as specified in Annex 3 of the LCR Directive.
If the assets of the foreign branch exceed NIS 15 billion, the Supervisor shall consider broadening the liquidity requirements and applying the net stable funding ratio to the branch.

Updates

Circular no. 06	Version	Details	Date
2662	1	Original Circular	June 21, 2021
2710	2	Update	May 25, 2022