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From:	CZ Delegation
To:	Working Party on Financial Services (Risk Reduction Measures)
Subject:	CZ note on simplified NSFR reporting requirements for small institutions

CZ note on simplified NSFR reporting requirements for small institutions

This note is a follow up to the RRM discussion at the Council Working Party (“CWP”) held on 29 September 2017. At the meeting, the CZ delegation suggested providing the CWP with an example of a draft NSFR template, which would demonstrate that the NSFR reporting requirements can be made proportionate with regard to small institutions even within the fully fledged NSFR, i.e. without the necessity to introduce any other separate regulatory rules/standard the NSFR.

Introduction

The proportionality issue was discussed at the 28 and 29 September CWP meetings also on the basis of the DE non-paper. The DE delegation prepared and presented a non-paper to address NSFR reporting issues in which the Simplified NSFR proposal was presented.

CZ delegation generally agrees with the DE delegation on the necessity to reduce the administrative burden associated with NSFR reporting. However, CZ delegation believes the reduction of the reporting burden can be well achieved within the fully fledged NSFR without the necessity to introduce a new standard for small institutions, with the aim to avoid fragmentation of the prudential framework in the single market. CZ delegation has also noted that some delegations have reservations for using a non-fully fledged NSFR standard. With respect to the above stated, CZ delegation comes with the following proposal.

The objective of this note is neither to address the proportionality issue in terms of setting the threshold to be used in the definition of a “small institution” where CZ delegation expects a separate discussion, nor to deal with the question ~~on of~~ a possible discretion of the supervisory authorities ~~regarding the application of stricter or moderate requirements to impose the use of the fully-fledged NSFR.~~

State of play - NSFR reporting

The Article 415 of the CRR stipulates that institutions shall report items on stable funding specified in Title III of CRR. The requirement is implemented via templates C60.00 and C61.00 of ITS No 680/2014.

The template C60.00 consists of 1389 data points and captures items requiring stable funding (Art. 428 of CRR). C61.00 consists of 113 data points and captures items providing stable funding (Art. 427 of CRR). The total number of data points on stable funding is, therefore, 1502 at the moment.

In order to understand the reasons for such an extensive reporting requirement, we must go back to 2013. The CRR was being finalized when no definition of liquid assets existed and it was not clear how a standard on a stable funding in the EU will finally look like. Therefore, there was an understandable demand from stakeholders to have highly granular templates delivering as much data as possible (particularly on the asset side, given the absence of a HQLAs definition) in order to allow the EBA a thorough analysis of a future standard according to the expectations in Art. 510 of CRR. The inevitable side effect of this approach was a burdensome reporting requirement.

The templates C60.00 and C61.00 will be replaced by new templates for credit institutions, once reporting requirements according to the CRR2 are implemented. The CRR2 reporting requirements will be dealt with in Art. 99. Particularly, Art. 99(6)¹ stipulates a mandate for the EBA to develop draft implementing standards on reporting, which will reflect changes in the CRR2, including the NSFR. Furthermore, Art. 99(6) letter (d) stipulates that the EBA shall develop simplified templates for small institutions referred to in paragraph 8 of the same article.

¹ As proposed in the Presidency non-paper circulated for the 28 and 29 September RRM Working Party meeting (Proportionality: Reporting and Disclosure, WK 10406/2017 INIT)

DE-non paper context

The DE non-paper on a simplified NSFR argued that a new standard is necessary in order to be able to reduce the amount of data points required for the supervision of the fully-fledged NSFR. The DE non-paper assumed 319 data points for a template of the fully fledged NSFR. The estimate was based on the BCBS NSFR template. However, it should be noted in this regard, the BCBS template was developed for the monitoring of large, internationally active banks and is built around time buckets rather than applicable factors. That effectively means that items, although having the same available/required funding factor, will be reported in several data points depending on their maturity/encumbrance period. This technique, of course, highly inflates the number of data points. Therefore, the high number of data points is not mainly driven by the standard itself, but rather by the drafting technique used for the template.

Simplified template for small credit institutions

Since the NSFR will be defined in CRR2, the related reporting requirement will no more have to be as granular as is the case of C60.00 and C61.00. Particularly in the case of small credit institutions, the new templates may focus purely on the basic components of the standard, enabling a minimalistic reporting approach with regard to the structure of the templates without compromising its supervisory value.

In this sense, a simplified template can be drafted around items having the same available/required funding factors, which, in our view, represent the lowest level of information necessary for the proper conduct of off-site supervision of the compliance with the NSFR standard by small credit institutions.

Based on the abovementioned, the CZ delegation encloses (in the Annex of this note) an example of an NSFR template for small institutions within the meaning of Art. 99(6) (d) of CRR2. This example is based on the NSFR legal text circulated by the Presidency table for written comments (with the 30 September 2017 deadline). The example may be used by the EBA when performing its mandate according to Article 99(6) (d) of CRR2 with regard to simplified reporting requirements for small institutions.

As already indicated, the NSFR items in the simplified template are grouped according to available/required funding factors, resulting in a template of just 60 data points. That represents only 4 % of the current EU stable funding data points.

For eliminating possible concerns that the simplified template does not allow a proper assessment of a maturity mismatch (either stemming from different maturities or from encumbrance periods), it can be pointed out that competent authorities have/will soon have tools for the assessment of those aspects. Particularly, the templates on asset encumbrance² are already applicable in the Union and a maturity ladder template³ will be introduced in the Union in March 2018.

² [ITS No 2015/79 on asset encumbrance](#)

³ [Draft ITS amending ITS on additional liquidity monitoring metrics](#), see Annex XXIV – maturity ladder

Example of possible replacement for C60.00 for small credit institutions:

C XX.00 - STABLE FUNDING - ITEMS REQUIRING STABLE FUNDING				
				Carrying amount
Row	ID	Item	Legal references	010
		ITEMS REQUIRING 0% STABLE FUNDING		
		Cash and exposures to central banks up to 6m	Art. 428r(1)(c),(d) of CRR2	
		Unencumbered (or encum. up to 6m) LEVEL 1 assets eligible for 0% LCR haircut	Art. 428r(1)(a),(b) of CRR2	
		Trade date receivables	Art. 428r(1)(e) of CRR2	
		Interdependent assets	Art. 428r(1)(f) of CRR2	
		ITEMS REQUIRING 5% STABLE FUNDING		
		Unencumbered (or encum. up to 6m) LEVEL 1 assets eligible for 5% LCR haircut	Art. 428s (a) of CRR2	
		Loans to financial customers secured by L1 assets (excl. covered bonds) up to 6m	Art. 428s (b) of CRR2	
		Committed credit and liquidity facilities	Art. 428s (c) of CRR2	
		Off-balance trade finance items up to 6m	Art. 428s (d) of CRR2	
		ITEMS REQUIRING 7% STABLE FUNDING		
		Unencumbered (or encum. up to 6m) LEVEL 1 assets eligible for 7% LCR haircut	Art. 428t of CRR2	
		ITEMS REQUIRING 10% STABLE FUNDING		
		Loans to financial customers secured by other collateral up to 6m	Art. 428u(1)(a) of CRR2	
		Other assets to financial customers up to 6m	Art. 428u(1)(b) of CRR2	
		Trade finance: assets up to 6m and off-balance items from 6m up to 1y	Art. 428u(1)(c), (d) of CRR2	
		Netting sets (without margining) with negative market value	Art. 428u(2) of CRR2	
		ITEMS REQUIRING 12% STABLE FUNDING		
		Unencumbered (or encum. up to 6m) LEVEL 1 assets eligible for 12% LCR haircut	Art. 428v of CRR2	
		ITEMS REQUIRING 15% STABLE FUNDING		
		Unencumbered (or encum. up to 6m) LEVEL 2A assets eligible for 15% LCR haircut	Art. 428w (a) of CRR2	
		Off-balance trade finance items with maturity of 1 year or longer	Art. 428w (b) of CRR2	
		ITEMS REQUIRING 20% STABLE FUNDING		
		Unencumbered (or encum. up to 6m) LEVEL 2A assets eligible for 20% LCR haircut	Art. 428x(1) of CRR2	
		Netting sets (with margining) with negative market value	Art. 428x(2) of CRR2	

C XX.00 - STABLE FUNDING - ITEMS REQUIRING STABLE FUNDING

				Carrying amount
Row	ID	Item	Legal references	010
		ITEMS REQUIRING 25% STABLE FUNDING		
		Unencumbered (or encum. up to 6m) LEVEL 2B securitizations eligible for 25% LCR haircut	Art. 428y of CRR2	
		ITEMS REQUIRING 30% STABLE FUNDING		
		Unencumbered (or encum. up to 6m) LEVEL 2B assets eligible for 30% LCR haircut	Art. 428z(a),(b) of CRR2	
		ITEMS REQUIRING 35% STABLE FUNDING		
		Unencumbered (or encum. up to 6m) LEVEL 2B assets eligible for 35% LCR haircut	Art. 428aa (a),(b) of CRR2	
		ITEMS REQUIRING 40% STABLE FUNDING		
		Unencumbered (or encum. up to 6m) LEVEL 2B assets eligible for 40% LCR haircut	Art. 428ab of CRR2	
		ITEMS REQUIRING 50% STABLE FUNDING		
		Unencumbered (or encum. up to 1y) LEVEL 2B assets eligible for 50% LCR haircut	Art. 428ac (a) of CRR2	
		Operational deposits at financial institutions	Art. 428ac (b) of CRR2	
		Loans and receivables to non-financial customers up to 1 year	Art. 428ac (c)(i)(ii)(iii)(iv)(vi), (g) of CRR2	
		Loans and receivables to credit unions and PICs up to 1 year	Art. 428ac (c)(vii) of CRR2	
		Loans and receivables between 6M and 1y year to		
		central banks	Art. 428ac (d)(i)(ii) of CRR2	
		financial customers	Art. 428ac (d)(iii) of CRR2	
		Trade finance assets between 6m and 1 year	Art. 428ac (e) of CRR2	
		Assets encumbered for a period between 6 and 12 months	Art. 428ac (f) of CRR2	
		ITEMS REQUIRING 55% STABLE FUNDING		
		Unencumbered or encumbered for less than 1y LEVEL 2B assets eligible for 55% LCR haircut	Art. 428ad of CRR2	
		ITEMS REQUIRING 65% STABLE FUNDING		
		Loans secured by mortgages with a 35% RW (unencumbered or encum. up to 12 months) maturing in 1 year or longer	Art. 428ae (a) of CRR2	
		Other loans to non-financial customers with a 35% RW (unencumbered or encum. up to 12 months)	Art. 428ae (b) of CRR2	
		ITEMS REQUIRING 85% STABLE FUNDING		
		Posted initial margin for derivatives	Art. 428af (a) of CRR2	
		Contributions to the default fund of a CCP	Art. 428af (b) of CRR2	
		Loans to non-financial customers with RW higher than 35 % RW (unencumbered or encum. up to 12 months) maturing in 1 year or longer	Art. 428af (c) of CRR2	
		Trade finance assets	Art. 428af (d) of CRR2	
		Non- HQLA securities (unencumbered or encum. up to 12 months)	Art. 428af (e)(f) of CRR2	
		Physical traded commodities (unencumbered or encum. up to 12 months)	Art. 428af (g) of CRR2	
		ITEMS REQUIRING 100% STABLE FUNDING		
		Assets encumbered for a period of one year or longer	Art. 428ag (1)(a) of CRR2	
		Positive difference between all netting sets	Art. 428ag (3) of CRR2	
		Any other assets not included above	Art. 428ag (1)(b), Art 428x (3) of CRR2	

Example of possible replacement for C61.00 for small credit institutions:

C XX+1.00 - STABLE FUNDING - ITEMS PROVIDING STABLE FUNDING				
				Carrying amount
Row	ID	Item	Legal references	010
		ITEMS PROVIDING 100% STABLE FUNDING		
		Capital instruments maturing in 1 year or longer including T1 capital	Art. 428o (a)(b)(c)(d) of CRR2	
		Liabilities over one year	Art. 428o (e), Art. 428k(1)(iii) of CRR2	
		ITEMS PROVIDING 95% STABLE FUNDING		
		Stable retail deposits	Art. 428n of CRR2	
		ITEMS PROVIDING 90% STABLE FUNDING		
		Less stable retail deposits	Art. 428m of CRR2	
		ITEMS PROVIDING 50% STABLE FUNDING		
		Operational deposits	Art. 428l (a) of CRR2	
		Liabilities with less than one year by non-financial customers, credit unions and PICs	Art. 428l (b) of CRR2	
		Liabilities between 6 months and 1 year by		
		central banks	Art. 428l (c)(i)(ii) of CRR2	
		financial customers	Art. 428l (c)(iii) of CRR2	
		Other liabilities between 6 months and 1 year	Art. 428l (d), Art. 428k(1)(ii) of CRR2	
		ITEMS PROVIDING 0% STABLE FUNDING		
		short positions	Art. 428k (1) of CRR2	
		open maturity positions	Art. 428k (1) of CRR2	
		deferred tax and minority interest liabilities less than 6 months	Art. 428k (1) of CRR2	
		trade date payables	Art. 428k (2)(a) of CRR2	
		Interdependent liabilities	Art. 428k (2)(b) of CRR2	
		Liabilities maturing in less than 6 months by		
		central banks	Art. 428k (2)(c)(i)(ii) of CRR2	
		financial customers	Art. 428k (2)(c)(iii) of CRR2	
		Negative difference between all netting sets	Art. 428k (3) of CRR2	
		All other liabilities or capital instruments not captured above	Art. 428k (2)(d) of CRR2	