



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Basel III Observation Period Reporting (Net Stable Funding Ratio)

Applicable to:

1. Licensed banks
2. Licensed investment banks
3. Licensed Islamic banks

TABLE OF CONTENTS

PART A	OVERVIEW.....	1
1	Introduction	1
2	Applicability	1
3	Legal provisions	1
4	Effective date	1
5	Interpretation.....	1
6	Related legal instruments and policy documents	2
7	Policy documents superseded	2
PART B	INSTRUCTIONS	3
8	Instructions for Net Stable Funding Ratio reporting.....	3

PART A OVERVIEW

1 Introduction

- 1.1 As part of the implementation of Basel III in Malaysia, an observation period has been initiated by Bank Negara Malaysia (the Bank) for the purposes of monitoring the Basel III Net Stable Funding Ratio (NSFR) positions of banking institutions prior to the formal implementation of the standard. This will allow the Bank to identify transitioning issues and assess any potential impact of the new standard on the financial system¹.
- 1.2 For the avoidance of doubt, compliance with the minimum NSFR requirements prescribed by the Basel Committee on Banking Supervision (BCBS) is not required before the NSFR standard is formally implemented in Malaysia.
- 1.3 The instructions and guidance provided as part of this exercise are intended to assist banking institutions in interpreting the parameters set out by the BCBS for purposes of completing the reporting templates and are not necessarily indicative of the final requirements that will be adopted by the Bank.

2 Applicability

- 2.1 This policy document is applicable to all banking institutions as defined in paragraph 5.2.

3 Legal provisions

- 3.1 This policy document is issued pursuant to—
- (a) section 143(2) of the Financial Services Act 2013 (FSA); and
 - (b) section 155(2) of the Islamic Financial Services Act 2013 (IFSA).

4 Effective date

- 4.1 This policy document comes into effect on 23 March 2018.
- 4.2 The Bank will review this policy document within 5 years from the date of issuance or the Bank's last review and, where necessary, amend or replace this policy document.

5 Interpretation

- 5.1 The terms and expressions used in this document shall have the same meanings assigned to them in the FSA and IFSA, unless otherwise defined in this document.

¹ Data collected is primarily intended for monitoring by the Bank. The Bank may further disseminate aggregated industry-wide information (but not individual-bank data) gathered to other parties (e.g. to the Basel Committee on Banking Supervision).

5.2 For the purpose of this policy document–

“**S**” denotes a standard, an obligation, a requirement, specification, direction, condition and any interpretative, supplemental and transitional provisions that must be complied with. Non-compliance may result in enforcement action;

“**G**” denotes guidance which may consist of statements or information intended to promote common understanding and advice or recommendations that are encouraged to be adopted;

“**banking institution**” refers to–

- (a) a licensed bank;
- (b) a licensed investment bank; and
- (c) a licensed Islamic bank, except for a licensed international Islamic bank;

“**Skim Perbankan Islam**” or “**SPI**” refers to a licensed bank or licensed investment bank that has been approved under section 15(1)(a) of the FSA to carry on Islamic banking business.

6 Related legal instruments and policy documents

- 6.1 This document must be read together with the following policy documents:
- (a) *Capital Adequacy Framework (Basel II – Risk-Weighted Assets)*;
 - (b) *Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets)*;
 - (c) *Capital Adequacy Framework (Capital Components)*;
 - (d) *Capital Adequacy Framework for Islamic Banks (Capital Components)*;
 - (e) *Liquidity Coverage Ratio*;
 - (f) *Investment Account*; and
 - (g) *STATsmart Reporting Requirements on Data Submission for Reporting Entities*.

7 Policy documents superseded

- 7.1 This policy document supersedes the policy document on *Basel III Observation Period Reporting (Net Stable Funding Ratio and Leverage Ratio)* issued on 7 August 2015.

PART B INSTRUCTIONS

8 Instructions for Net Stable Funding Ratio reporting

- S** 8.1 A banking institution shall report their NSFR positions to the Bank at the following levels:
- (a) entity level, which refers to the global operations of the banking institution (i.e. including its overseas branch operations) on a stand-alone basis;
 - (b) SPI level, as if it were a stand-alone banking institution; and
 - (c) consolidated level, which includes entities covered under entity level requirement, and the consolidation² of all subsidiaries, except insurance and/or takaful subsidiaries.
- S** 8.2 A banking institution shall submit all completed reporting templates through the Statistical Mart for Analysis and Reporting (STATsmart) on a quarterly basis, no later than 30 days from the quarter-end reporting date. Hardcopy submissions are not required.
- S** 8.3 Unless otherwise specified, a banking institution must refer to the following documents published by the BCBS for purposes of completing the reporting templates:
- (a) Basel III: the net stable funding ratio³;
 - (b) Instructions for Basel III monitoring⁴;
 - (c) Frequently asked questions on Basel III monitoring⁵; and
 - (d) Basel III – The Net Stable Funding Ratio: frequently asked questions⁶.
- S** 8.4 Where references are made to the BCBS Basel II Framework and Basel III Liquidity Coverage Ratio in the documents specified in paragraph 8.3, a banking institution must refer to the Bank's policy documents on *Capital Adequacy Framework (Basel II – Risk-Weighted Assets)*, *Capital Adequacy Framework for Islamic Banks (Risk-Weighted Assets)*, and *Liquidity Coverage Ratio* respectively.
- S** 8.5 With respect to completing the reporting templates for the purpose of paragraph 8.2, a banking institution shall–
- (a) fill all cells shaded in yellow;
 - (b) disregard the hidden columns and rows;
 - (c) report all amounts in thousands ('000) in Ringgit equivalents based on the prevailing exchange rate as at the reporting date; and
 - (d) unless otherwise specified, not tamper with the reporting templates in any way, including by adding rows and columns, and changing the formulae of the cell.

² Consolidation of financial reporting shall be in accordance with the Malaysian Financial Reporting Standards (MFRS).

³ <https://www.bis.org/bcbs/publ/d295.pdf>, October 2014.

⁴ https://www.bis.org/bcbs/qis/biiiimplmoninstr_aug17.pdf, August 2017.

⁵ https://www.bis.org/bcbs/qis/biiiimplmonifag_nov17.pdf, November 2017.

⁶ <https://www.bis.org/bcbs/publ/d396.pdf>, February 2017.

- G** 8.6 With respect to completing the reporting templates for the purpose of paragraph 8.2, a banking institution may fill in the cells shaded in green, where relevant.
- S** 8.7 Any enquiries on the interpretation of items may be directed to basel3@bnm.gov.my.
- S** 8.8 With respect to the worksheets entitled “NSFR_Main” and “NSFR_UAF”, a banking institution shall comply with the following interpretations on the specific items identified below:

Rows	Heading	Description	Basel III NSFR rules text reference
25, 46, 157	National Development Banks (NDBs)	For Malaysian operations, NDBs shall refer to development financial institutions prescribed under the Development Financial Institutions Act 2002.	24, 26
86	Required central bank reserves	Amount of reserves maintained in the banking institution’s statutory reserve account to meet the statutory reserve requirement.	36 (FN 17)
121, 127, 133	Securities eligible for HQLA	Assets that would have qualified as HQLA according to the policy document on <i>Liquidity Coverage Ratio</i> , but were excluded from the LCR due to the caps on Level 2A and 2B assets or for failing the operational requirements set out in paragraphs 11.1 to 12.8 of the policy document, shall be reported here.	27 (FN 12), 37, 39, 40
187	Exchange traded equities	As equities are not recognised as Level 2B assets in the policy document on <i>Liquidity Coverage Ratio</i> , all exchange-traded equities shall be reported here.	42
50, 55, 67, 214, 221, 226, 241	Derivative transactions with margin posted/ received to/from counterparties exempt from BCBS-IOSCO margin requirements	For the list of counterparties that are exempt from the margin requirements, refer to the BCBS-IOSCO document on “Margin requirements for non-centrally cleared derivatives” ⁷ .	N/A

- S** 8.9 A banking institution must provide supplementary information on the total funding from, and loans/financing to, public sector entities (PSEs) and NDBs separately for the row items under Panel D of the “NSFR_Main” worksheet. For the avoidance of doubt, the amounts provided in this panel must be a subset of the total values reported in the corresponding row items in Panels A and B of the “NSFR_Main” worksheet.

⁷ <http://www.bis.org/bcbs/publ/d317.pdf>, March 2015.

- S** 8.10 A banking institution which offers investment accounts (IA) and acts as either the *mudarib* or *wakeel* for the IA must comply with the following requirements:
- calculate the NSFR for **each individual** unrestricted IA (UA) fund⁸. As such, the available stable funding (ASF) and required stable funding (RSF) of a particular UA fund must not be aggregated at the banking institution level and with those of other IA funds;
 - where the NSFR for a specific UA fund is lower than the minimum level required which is 100%, add the shortfall amount to the total RSF for the calculation of the NSFR at the banking institution level⁹;
 - where there is a surplus NSFR from a particular UA fund, the banking institution must not recognise the excess amount in the computation of the NSFR at the banking institution level or for the computation of the NSFR of any other IA fund¹⁰;
 - report the consolidated amount of ASF and RSF for restricted IA (RA) funds under “interdependent assets and liabilities” at the banking institution level¹¹; and
 - report amounts arising from exposures funded by IA that would require deductions from regulatory capital¹² under “items deducted from regulatory capital” in Row 247 in the “NSFR_UAF” worksheet.
- A banking institution must report all IAs, regardless of whether the IAs are on- or off-balance sheet¹³.
- S** 8.11 With respect to paragraph 8.10(a), a banking institution must indicate in Cell O2 of each “NSFR_UAF” sheet whether the accounting treatment of the UA fund is on-¹⁴ or off-balance sheet.
- S** 8.12 With respect to paragraph 8.10(d), a banking institution shall provide supplementary information for “interdependent assets” (Row 249) and “interdependent liabilities” (Row 75) under Panel E of the “NSFR_Main” worksheet on the following:
- RA funds, where the accounting treatment is on balance sheet¹⁵;
 - RA funds, where the accounting treatment is off-balance sheet; and
 - other assets and liabilities.

⁸ For this purpose, each individual UA fund must be reported in separate worksheets in the reporting template. While five worksheets (i.e. “NSFR_UAF1” to “NSFR_UAF5”) have been prepared in the template, banking institutions can add more worksheets depending on the number of UA funds offered.

⁹ As per cell D271 in “NSFR_Main” worksheet.

¹⁰ Although paragraph 22.5 of the policy document on *Investment Account* allows surplus HQLA in a UA fund to be transferred to the banking institution or other IA funds on an arm's length basis, such transfers are not allowed for purposes of the NSFR observation period reporting.

¹¹ i.e. Row 75 and Row 249 in the “NSFR_Main” worksheet.

¹² For example, if the underlying assets funded by the IA consist of capital instruments of other financial institutions which require deduction from Tier 1 capital under the policy document on *Capital Adequacy Framework for Islamic Banks (Capital Components)*, such amounts shall be reported under this line item.

¹³ In accordance with the MFRS.

¹⁴ For the avoidance of doubt, these are exposures funded by UA that would be reported in the banking institution's balance sheet in accordance with the MFRS.

¹⁵ For the avoidance of doubt, these are exposures funded by RA that would be reported in the banking institution's balance sheet in accordance with the MFRS.