



BANK NEGARA MALAYSIA
CENTRAL BANK OF MALAYSIA

Basel III Observation Period Reporting (Net Stable Funding Ratio and Leverage Ratio)

Issued on: 7 August 2015

BNM/RH/PD 029-1	Prudential Financial Policy Department Islamic Banking and Takaful Department	Basel III Observation Period Reporting (Net Stable Funding Ratio and Leverage Ratio)
-----------------	--	---

PART A	Overview.....	1
1.	Introduction.....	1
2.	Applicability	2
3.	Legal provisions.....	2
4.	Effective date.....	2
5.	Interpretation	2
6.	Related legal instruments and policy documents	3
7.	Policy documents superseded.....	3
PART B	Instructions	4
8.	General instructions.....	4
9.	Specific instructions for Net Stable Funding Ratio	6
10.	Specific instructions for Leverage Ratio.....	9

BNM/RH/PD 029-1	Prudential Financial Policy Department Islamic Banking and Takaful Department	Basel III Observation Period Reporting (Net Stable Funding Ratio and Leverage Ratio)	Page 1/11
-----------------	--	---	-----------

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 leverage and liquidity positions of banking institutions prior to the formal implementation of the standards. This will allow the Bank to identify transitioning issues and assess any potential impact of the new standards on the financial system¹.
- 1.2. The Bank had previously issued a guidance document on *Basel III Observation Period Reporting Guidelines (Revised)* on 29 July 2013, which included the Net Stable Funding Ratio (NSFR) and Leverage Ratio (LR) components. Subsequently, the Basel Committee on Banking Supervision (BCBS) released a revised version of standards on both of those components in October and January 2014 respectively. This document sets out a revised set of reporting instructions and provides guidance on the interpretation of key reporting items, primarily those related to changes made by the BCBS to the NSFR and LR.
- 1.3. For the avoidance of doubt, compliance with the minimum NSFR and LR requirements prescribed by the BCBS is not expected before the respective standards are formally implemented. 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. A final determination of the parameters underpinning the standards will be made for the NSFR and LR before 2018.

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).

BNM/RH/PD 029-1	Prudential Financial Policy Department Islamic Banking and Takaful Department	Basel III Observation Period Reporting (Net Stable Funding Ratio and Leverage Ratio)	Page 2/11
-----------------	--	---	-----------

2. Applicability

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

3. Legal provisions

- 3.1 The requirements in this document are specified pursuant to section 143(2) of the Financial Services Act 2013 (FSA) and section 155(2) of the Islamic Financial Services Act 2013 (IFSA).

4. Effective date

- 4.1 This document comes into force on 7 August 2015.

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.

- 5.2 For purposes of this document—

“**S**” denotes a standard, requirement or specification that must be complied with. Failure to comply may result in one or more enforcement actions;

“**G**” denotes guidance which may consist of such information, advice or recommendation intended to promote common understanding and sound industry practices which are encouraged to be adopted;

BNM/RH/PD 029-1	Prudential Financial Policy Department Islamic Banking and Takaful Department	Basel III Observation Period Reporting (Net Stable Funding Ratio and Leverage Ratio)	Page 3/11
-----------------	--	---	-----------

“**banking institutions**” refers to licensed banks, licensed investment banks and licensed Islamic banks except for licensed international Islamic banks; and

“**Skim Perbankan Islam (SPI)**” refers to a licensed bank approved under section 15(1)(a) of the FSA to carry on Islamic banking business in accordance with the *Guidelines on Skim Perbankan Islam*.

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; and
 - (f) Investment Account.

7. Policy documents superseded

- 7.1 The guidance document on *Basel III Observation Period Reporting (Revised)* issued on 29 July 2013 is superseded.

BNM/RH/PD 029-1	Prudential Financial Policy Department Islamic Banking and Takaful Department	Basel III Observation Period Reporting (Net Stable Funding Ratio and Leverage Ratio)	Page 4/11
-----------------	--	---	-----------

PART B INSTRUCTIONS

8. General instructions

- S** 8.1 A banking institution shall report their NSFR and LR positions to the Bank at the following levels:
- entity level, which refers to the global operations of the banking institution (i.e. including its overseas branch operations) on a stand-alone basis;
 - SPI level, as if it were a stand-alone banking institution; and
 - consolidated level, which includes entities covered under entity (global), 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 Financial Institutions Network (FINET) to the Bank on a quarterly basis, with 30 June 2015 as the first reporting position, no later than–
- 7 September 2015, for the first reporting position; and
 - for all subsequent reporting positions, 30 days from the quarter-end reporting date.
- Hardcopy submissions are not required.
- S** 8.3 Unless otherwise specified in paragraphs 8.4, 9 and 10, a banking institution shall refer to the following documents published by the BCBS for purposes of completing the reporting templates:
- Basel III: the net stable funding ratio³;
 - Basel III leverage ratio framework and disclosure requirements⁴;
 - Instructions for Basel III monitoring⁵;

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

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

⁴ <http://www.bis.org/publ/bcbs270.pdf>, January 2014.

⁵ http://www.bis.org/bcbs/qis/biiiimplmoninstr_feb15.pdf, February 2015.

BNM/RH/PD 029-1	Prudential Financial Policy Department Islamic Banking and Takaful Department	Basel III Observation Period Reporting (Net Stable Funding Ratio and Leverage Ratio)	Page 5/11
-----------------	--	---	-----------

- (d) Frequently asked questions on Basel III monitoring⁶;
- (e) Frequently asked questions on the Basel III leverage ratio framework⁷.

- 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.
- 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.
- G** 8.7 Any enquiries on the interpretation of items may be directed to basel3@bnm.gov.my.

⁶ http://www.bis.org/bcbs/qis/biiiimplmonifag_2apr15.pdf, April 2015.

⁷ <http://www.bis.org/bcbs/publ/d327.pdf>, July 2015.

BNM/RH/PD 029-1	Prudential Financial Policy Department Islamic Banking and Takaful Department	Basel III Observation Period Reporting (Net Stable Funding Ratio and Leverage Ratio)	Page 6/11
-----------------	--	--	-----------

9. Specific instructions for Net Stable Funding Ratio

- S 9.1 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:

Net Stable Funding Ratio

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

BNM/RH/PD 029-1	Prudential Financial Policy Department Islamic Banking and Takaful Department	Basel III Observation Period Reporting (Net Stable Funding Ratio and Leverage Ratio)	Page 7/11
-----------------	--	--	-----------

Rows	Heading	Description	Basel III NSFR rules text reference
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 and 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” ⁸ .	N/A

- S** 9.2 A banking institution shall 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 shall be a subset of the total values reported in the corresponding row items in Panels A and B of the “NSFR_Main” worksheet.
- S** 9.3 A banking institution which offers investment accounts (IA) and acts as either the *mudarib* or *wakeel* for the IA shall comply with the following requirements:
- (a) calculate the NSFR for **each individual** unrestricted IA (UA) fund⁹. As such, the average stable funding (ASF) and required stable funding (RSF) of a particular UA fund shall not be aggregated at the banking

⁸ <http://www.bis.org/bcbs/publ/d317.pdf>, March 2015.

⁹ For this purpose, each individual UA fund shall 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.

BNM/RH/PD 029-1	Prudential Financial Policy Department Islamic Banking and Takaful Department	Basel III Observation Period Reporting (Net Stable Funding Ratio and Leverage Ratio)	Page 8/11
-----------------	--	--	-----------

institution level and with those of other IA funds;

- (b) 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 level¹⁰;
- (c) where there is a surplus NSFR from a particular UA fund, the banking institution shall 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 fund¹¹;
- (d) report the consolidated amount of ASF and RSF for restricted IA (RA) funds under “interdependent assets and liabilities” at the banking institution level¹²; and
- (e) report amounts arising from exposures funded by IA that would require deductions from regulatory capital¹³ under “items deducted from regulatory capital” in Row 247 in the “NSFR_UAF” worksheet.

A banking institution shall report all IAs, regardless of whether the IAs are on- or off-balance sheet¹⁴.

S 9.4 With respect to paragraph 9.3(a), a banking institution shall indicate in Cell O2 of each “NSFR_UAF” sheet whether the accounting treatment of the UA fund is on-¹⁵ or off-balance sheet.

S 9.5 With respect to paragraph 9.3(d), a banking institution shall provide supplementary information for “interdependent assets” (Row 249) and

¹⁰ As per cell D271 in “NSFR_Main” worksheet.

¹¹ 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.

¹² i.e. Row 75 and Row 249 in the “NSFR_Main” worksheet.

¹³ 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.

¹⁴ In accordance with the MFRS.

¹⁵ 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.

BNM/RH/PD 029-1	Prudential Financial Policy Department Islamic Banking and Takaful Department	Basel III Observation Period Reporting (Net Stable Funding Ratio and Leverage Ratio)	Page 9/11
-----------------	--	--	-----------

“interdependent liabilities” (Row 75) under Panel E of the “NSFR_Main” worksheet on the following:

- (a) RA funds, where the accounting treatment is on balance sheet¹⁶;
- (b) RA funds, where the accounting treatment is off-balance sheet; and
- (c) other assets and liabilities.

10. Specific instructions for Leverage Ratio

- S 10.1 With respect to the worksheet entitled “LR_Main”, a banking institution shall comply with the following interpretations on the specific items identified below:

Leverage Ratio

Cells	Heading	Description	Basel III leverage ratio rules text reference
J100	Tier 1 Capital	Amount of Tier 1 Capital after the application of regulatory adjustments as reported under the policy documents on <i>Capital Adequacy Framework (Capital Components)</i> and <i>Capital Adequacy Framework for Islamic Banks (Capital Components)</i> .	10
J102	Regulatory adjustments	Amount of regulatory adjustments (i.e. deductions) applied in the calculation of Tier 1 Capital as reported under the policy documents on <i>Capital Adequacy Framework (Capital Components)</i> and <i>Capital Adequacy Framework for Islamic Banks (Capital Components)</i> .	16

¹⁶ 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.

BNM/RH/PD 029-1	Prudential Financial Policy Department Islamic Banking and Takaful Department	Basel III Observation Period Reporting (Net Stable Funding Ratio and Leverage Ratio)	Page 10/11
-----------------	--	--	------------

Cells	Heading	Description	Basel III leverage ratio rules text reference
J105	Common Equity Tier 1 capital (CET1)	Amount of Common Equity Tier 1 capital after the application of regulatory adjustments as reported under the policy documents on <i>Capital Adequacy Framework (Capital Components)</i> and <i>Capital Adequacy Framework for Islamic Banks (Capital Components)</i> .	11

S 10.2 With respect to exposures funded by IAs, a banking institution shall comply with the following requirements:

- (a) where the banking institution offers IAs and acts as either the *mudarib* or *wakeel* for the IA, the banking institution shall–
 - (i) exclude exposures funded by the IA from the “LR_Main” worksheet, which shall be reported separately in the relevant worksheet as specified in paragraph 10.3; and
 - (ii) report the regulatory adjustments to the exposure measure arising from the IA in cell J103 of the relevant worksheet as specified in paragraph 10.3¹⁷; and
- (b) where the banking institution is the IA Holder, the banking institution shall report its exposures in the IA and the corresponding regulatory adjustments in the “LR_Main” worksheet, and not any of the worksheets specified in paragraph 10.3.

¹⁷ This refers to the amount of regulatory adjustments (i.e. deductions) applied in the calculation of Tier 1 Capital arising from exposures funded by IA. For example, if the underlying assets funded by 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 amount shall be reported in this line item.

BNM/RH/PD 029-1	Prudential Financial Policy Department Islamic Banking and Takaful Department	Basel III Observation Period Reporting (Net Stable Funding Ratio and Leverage Ratio)	Page 11/11
-----------------	--	---	------------

- S** 10.3 A banking institution shall report the exposures funded by IAs described in paragraph 10.2(a) in accordance with the following requirements:

Type of IA	Accounting treatment of IA in accordance with MFRS	Relevant worksheet
UA	On-balance sheet ¹⁵	LR_UA_On
	Off-balance sheet	LR_UA_Off
RA	On-balance sheet ¹⁶	LR_RA_On
	Off-balance sheet	LR_RA_Off