

## Frequently asked questions on Basel III implementation monitoring\*

### LCR

1. How should derivatives be reported in the LCR?

**Answer:** Any known (ie non-contingent) cashflows that will take place within 30 days on derivative positions should be included on a net basis in either line 121 (if a net payable results) or line 201 (if a net receivable results). The cashflows should be net of Level 1 and Level 2 collateral to the extent that this collateral is not already counted in the stock of high-quality liquid assets (to avoid double counting). Note that the known cashflows do not equal the marked-to-market value, since the marked-to-market value also includes estimates for contingent inflows and outflows and may include cashflows that occur beyond the 30-day horizon.

Contingent cash outflows on derivative positions should be reported in line 165. The bank may include its estimate for the contingent cash outflows based on its internal models, unless its national supervisor has provided other instructions. Inflows and outflows can only be netted if they occur on transactions executed under the same master netting agreement. Otherwise, contingent outflows must not be netted with contingent inflows. Other contingent inflows are not taken into account in the LCR framework.

The market value of any collateral that the bank has posted to secure derivatives (and other transactions) should be reported in lines 125 or 126.

2. How should short positions be reported in the LCR?

**Answer:** In case the bank holds short positions in any asset (not part of secured funding or lending transactions or collateral swaps) that may be closed within 30 days, it should be reported as an outflow in line 166 (“other contractual cash outflows”) equal to the current market value of the assets the bank is shorting to cover the outflow necessary to purchase the assets to return to the lender or deliver to the buyer.

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3. What is meant by “if the collateral received is re-used and tied up for 30 days or longer to cover short positions” in the treatment of reverse repos maturing within 30 days?

**Answer:** The LCR framework assumes that a reverse repo can only roll off if the collateral received on the reverse repo is available or will become available within 30 days to be returned to the counterparty on the reverse repo.

The bank may choose from the following options concerning the collateral received on reverse repos maturing within 30 days:

(a) The bank could retain the collateral which would thereby be available for return when the reverse repo matures. In this case, the collateral may be included in the stock of high-quality liquid assets (if it satisfies the qualifying criteria) and repo transactions may roll-off in which case an inflow may be taken into account. The reverse repos should then be reported in lines 176 to 178.

(b) The bank could sell the collateral to another party, in which case the bank would take a short position (it has sold assets it does not own outright). The collateral then cannot be included in the stock of high-quality liquid assets.

- If the short positions can be closed out within 30 days, the outflow must be reported in line 166 (see treatment of short positions above). In that case, the collateral would return within 30 days and the reverse repo could unroll, resulting in an inflow (unless the collateral consists of Level 1 assets, in which case the reverse transaction is assumed to roll-over in full). The reverse repos should then be reported in lines 176 to 178.
- If the short position cannot be closed out within 30 days, there is no need to report an outflow, but the reverse repo cannot roll-off either, so there will not be an inflow of the cash extended in the reverse repo. The reverse repos should then be reported in lines 180 to 182.

(c) The bank could rehypothecate the collateral in a repo transaction. The collateral then cannot be included in the stock of high-quality liquid assets.

- If the repo transaction matures within 30 days, the collateral may return within 30 days and the reverse repo could unroll resulting in an inflow (unless the collateral consists of Level 1 assets, in which case the reverse repo is assumed

to roll-over in full). The reverse repos should then be reported in lines 176 to 178.

- If the repo transaction matures beyond the 30-day horizon, the collateral will not return within 30 days and the reverse repo is assumed to continue to roll-over in full and not generate any inflows. The reverse repos should then be reported in lines 180 to 182.

### **Stock of highly liquid assets**

4. Section 6.1.1 of the instructions states “All assets ... should be under the control of the specific function or functions charged with managing the liquidity risk ... and should be managed with the clear and sole intent for use as a source of contingent funds”. Can unencumbered high-quality trading assets qualify for the stock of liquid assets if internal procedures exist such that these trading assets would be put under the control of the liquidity risk management function in times of stress?

**Answer:** Assets qualifying for the stock of liquid assets should meet all of the following operational requirements at all times (not just in times of stress):

- (a) It is expected that the stock of liquid assets should not be co-mingled with trading positions (paragraph 28 of the Basel III liquidity rules text);
- (b) The stock of liquid assets should be managed with the clear and sole intent for use as a source of contingent funds (paragraph 28 of the Basel III liquidity rules text);
- (c) The stock of liquid assets should at all times be under the control of the specific function(s) charged with managing the liquidity risk of the bank (paragraph 29 of the Basel III liquidity rules text).

5. Regarding Section 6.1.1 of the instructions, does “with the clear and sole intent for use as a source of contingent funds” include assets that the bank holds for multiple purposes (eg liquidity and trading)?

**Answer:** Please refer to paragraph 28 of the Basel III liquidity rules text. The classification of the accounting treatment of the stock of liquid assets is at the discretion of the bank and its national regulators. The stock of liquid assets should

not be co-mingled with or used as hedges on trading positions, be designated as collateral or be designated as credit enhancements in structured transaction or be designated to cover operation costs. An asset cannot be included in the stock while it is pledged (explicitly or implicitly) to secure, collateralise or credit-enhance any transaction other than as detailed in paragraph 27 of the Basel III liquidity rules text.

6. The “additional requirements of cash outflows” measure the cash outflows under several preconditions or in times of stress. However, the instructions do not define the preconditions and the calculation of cash outflows. We suggest the instructions specify the preconditions and stressed situations.

**Answer:** Some of the preconditions/situations have been highlighted in the instructions under “Additional requirements”, for example, loss of funding on ABS, other structured financing instruments and covered bonds. Banks are expected to read the instructions in conjunction with the Basel III liquidity rules text; however, references to the rules text are also provided in the instructions. Unless otherwise specified, the stress scenario should be that which is outlined in paragraph 17 of the Basel III liquidity rules text.

7. According to Section 6.1.1 of the instructions, liquid assets must be unencumbered and should be: (1) under the control of treasury; (2) not co-mingled with trading assets; and (3) managed with the clear and sole intent for use as a source of contingent funding. Are only centrally managed and segregated assets eligible for the liquid asset buffer?

**Answer:** Yes, only those assets which meet all the operational requirements as stated in the Basel III liquidity rules text are eligible for inclusion in the stock of high-quality liquid assets.

8. In lines 10 to 17 and 24 to 30, are securities received as collateral on reverse repos to be included in panel A?

**Answer:** Securities serving as collateral on reverse repos are to be included in cells D10 to D17 or D24 to D30 if all qualifying conditions are fulfilled and the securities are available for the bank to raise cash and have not been re-used or rehypothecated.

9. How should assets be distinguished among lines 39, 40 and 41?

**Answer:** First report any assets qualifying for line 39 in that line. Then, report any assets not yet reported in line 39 that qualify for line 40. Finally, report any assets not yet reported in lines 39 or 40 that qualify for line 41. Therefore, no assets should be double-counted.

10. Cell D6: Does “cash” include money in automatic cash dispensers?

**Answer:** If it meets all other requirements, cash held at retail branches *or automatic cash dispensers* is included in the stock of high-quality liquid assets.

11. How should unencumbered assets that are held in a pool at a major electronic collateral management system be treated?

**Answer:** Assets available to fund gaps between inflows and outflow from day 1 and that meet all the other criteria are eligible for the stock of high-quality liquid assets. To decide which assets in the pool should be considered encumbered and unencumbered, please refer to the “definition of unencumbered” provided in section 6.1.1 of the instructions.

12. Cell D41: When an asset’s market risk is hedged by a derivative (eg by an interest rate swap or a futures contract), does the asset still qualify for the stock of high-quality liquid assets.

**Answer:** A bank can hedge the price risk of its stock of high-quality liquid assets through the use of derivatives or by transacting in other assets. The cash outflows that would arise if the hedge were prematurely closed (in the event of the asset being sold) should be reflected in the liquidity value of those assets (ie deducted from their market value) in accordance with paragraph 28 of the Basel III liquidity rules text.

13. Cell D41: “A bank is permitted to hedge the price risks associated with ownership of the stock of liquid assets and still include the assets in the stock. If it chooses to hedge the associated risks, the bank should take into account (in the market value applied to each asset) the cash outflow that would arise if the hedge were to be

closed out early.” Does this also apply to the case where a cash inflow would arise from the closeout of the hedge (the text only mentions “cash outflow”).

**Answer:** No, cash inflows from price risk hedges associated with the stock of liquid assets should not be reflected as an inflow.

14. (a) Regarding Level 1 and Level 2 assets excluded from stock of liquid assets (row 41): what is the treatment of Level 1 and Level 2 securities held by the business but are available to generate liquidity and are under the control of the treasurer in the event of stress? We assume these positions do not need to be excluded from the buffer even if held in a business portfolio.

(b) Do assets pledged with the central bank (eg for RTGS purposes) qualify as high-quality liquid assets (row 41)?

**Answer (a):** There should be clear operational and procedural delineation of assets that are included as part of the stock of high-quality liquid assets. Liquid assets held in the business portfolio can be counted as part of the stock of liquid assets if the requirements in paragraphs 26 to 30 of the rule text are met. For instance, the assets must be unencumbered, managed as part of a stock of liquid asset pool, and under the control of the specific function(s) charged with managing the liquidity risk of the bank.

**Answer (b):** The unused portion of the collateral pledged at central banks can be counted as part of the stock of liquid assets in accordance with paragraph 27 of the Basel III liquidity rules text.

15. What is the meaning of paragraph 28 of the Basel III liquidity rules text, “Client pool securities or cash received from a repo backed by client pool securities should not be treated as liquid assets”?

**Answer:** The bank should not include client pool securities in its stock of high-quality liquid assets, regardless of whether the bank holds rehypothecation rights to these assets, unless the bank has received such assets through official reverse repo contracts with the client. In the latter case, the assets can be included if they satisfy all necessary criteria, including those of unencumbrance specified in paragraph 27 of the Basel III liquidity rules text. Further, the bank may not include in its stock of high-

quality liquid assets any cash or other assets received from any transaction (such as a repo or collateral swap) backed by client pool collateral, if the bank has not received the securities used to back the transaction through a formal reverse repo transaction or collateral swap with its clients.

### Cash outflows

16. Transactional accounts are defined, for example, as those where salaries are automatically deposited. Is this sufficient to consider an account as transactional or must it also have an additional product linked to it?

**Answer:** An account is not required to be linked to another product to be considered a transactional account. Account activity for transaction accounts should include ongoing, frequent transactions. For example, a non-financial company that regularly deposits amounts into the payroll account would have an account with ongoing and frequent transactions.

17. Do “transactional accounts” in row 65 include “current accounts” from retail customers?

**Answer:** Yes, if the retail customers use these current accounts for regular transactions and they have, for instance, their salaries automatically deposited to these accounts.

18. Regarding a relationship account “where the customer has another relationship with the bank”, does this include a situation where the customer has more than one product apart from a “non-transactional account” (eg more than just one savings account)?

**Answer:** Yes, the term “relationship” in this context refers to the customer having other products (ie loans, other deposit accounts) that makes it less likely that the customer will withdraw the deposits were the LCR stress scenario to unfold.

19. Cell C41: The stock of high-quality liquid assets should not be designated to cover operational costs (such as rents and salaries): Does this effectively mean that 30-day expected operational costs are treated as an outflow?

**Answer:** No, the expected operational expenses are not included in outflows and the means held to pay them are not reflected in the stock of high-quality liquid assets.

20. What collateral is to be reported in rows 125 and 126? The actual provided collateral, the collateral that is expected to be provided by the bank, or something else?

**Answer:** The market value of the actual posted collateral should be reported in lines 125 and 126.

21. Regarding “other contractual cash outflows”, should this item also capture contractual interest payments?

**Answer:** Yes, all contractual cash outflows should capture contractual interest payments.

22. Regarding “notes, bonds and other debt securities issued by the bank are included in this category regardless of the holder, unless the bond is sold exclusively in the retail market and held in retail accounts”:

(a) Are retail accounts in this context limited to those held by individuals (or natural persons), or more broadly to those held by small business customers as well as individuals?

(b) Can such bonds be treated as retail or small business customer deposits if they have been sold to a primary bank and from the primary bank sold to retail customers or small business customers?

**Answer (a):** Since deposits placed by individuals and small business customers are treated consistently, debt instruments held in accounts limited to individuals and small business customers may both be excluded from this line and included in the retail and small business customers deposits (lines 63 to 75 and 80 to 92).

**Answer (b):** No, if such bonds are sold to a primary bank, they cannot exclusively be sold to retail and small business customers and would therefore not qualify for treatment as retail or small business customer deposits.

23. How should liquidity lines be distinguished from credit lines?

**Answer:** Please refer to paragraphs 93 to 96 of the Basel III liquidity rules text.

24. In row 116, are the counterparties BIS, IMF, EC or MDBs treated the same as domestic sovereigns, central banks or 20% risk-weighted PSEs, or do they fall into the category “other counterparties”?

**Answer:** Only transactions with specific domestic counterparties should be included in line 116. The institutions listed in the question are not domestic but international counterparties.

25. Regarding debt buyback requests in row 160, how should “potential requests for debt repurchases” be assessed and quantified?

**Answer:** This refers to potential requests for debt repurchases of the bank's own debt or that of related conduits, securities investment vehicles and other such financing facilities. In case debt amounts qualify for both lines 160 and 164, please enter them in just one of these lines.

26. Regarding Section 6.1.2 of the instructions on unsecured wholesale funding run-off, does “where the market expects certain liabilities to be redeemed before their legal final maturity date” mean that where the counterpart expects a liability to be redeemed with applying established methods of financial mathematics, then this liability should be modelled with early termination in the LCR?

**Answer:** Yes, banks and supervisors should assume such behaviour for the purpose of the LCR and include these liabilities as outflows. Also, for funding with options exercisable at the bank's discretion, supervisors should take into account reputational factors that may limit a bank's ability to not exercise the option. This could reflect a case where a bank may imply that it is under liquidity stress if it did not exercise an option on its own funding.

27. Regarding section 6.1.2 (page 49) of the instructions on credit and liquidity lines: the definition of “general working capital facilities” suggests that facilities without an explicit function that can be used for various products (money market for short-term business, loans for longer-time business) should be defined as credit facilities. Is that correct?

**Answer:** Yes, general working capital facilities for corporate entities (eg revolving credit facilities in place for general corporate and/or working capital purposes) will not be classified as liquidity facilities but as credit facilities.

28. How should balances in savings accounts which can be withdrawn at any time be treated? Should we assume such accounts mature within 30 days?

**Answer:** These should be treated similarly to demand deposits if the bank allows depositors to withdraw such balances without applying a penalty that is significantly greater than the loss of interest.

29. Please clarify what exactly belongs in the category, “other contractual obligations to extend funds” (rows 142 to 148).

**Answer:** This category should capture all other contractual lending obligations to financial institutions, retail clients, small business customers, non-financial corporates, and other parties not captured elsewhere in the template.

### Cash inflows

30. Regarding cash inflows by counterparty (rows 187 to 195): since demand loans are contractually repayable immediately, can some portion of these be recognised as cash inflows?

**Answer:** No, demand loans are non-maturing and are assumed not to represent a cash inflow for the purposes of the LCR.

31. Regarding contractual cash inflows (row 204): while equities do not qualify as liquid assets, can consideration be given to recognising contractual cash inflows arising from the maturity of an equity TRS or an equity TRS with a contractually cancellable date (option of early redemption) that may fall within the 30-day window? Should such instances be reported as other contractual cash inflows in row 204?

**Answer:** No, contingent inflows are excluded from the LCR framework. Consideration should not be given to recognising cash inflows for maturing equity TRS transactions

or equity TRS transactions with a contractually cancellable date that could fall within the 30 day LCR window.

32. Should actually-paid interest payments and accumulated-saved interest payments be included in lines 188 to 195?

**Answer:** Interest payments should be reported in the values provided in panel B2b (“other cash inflows by counterparty”). Interest payments on fully performing loans from the relevant counterparties that are contractually due within the 30-day LCR horizon should be included.

33. What is the purpose for row 208 regarding the cap on cash inflows compared to cash outflows?

**Answer:** Row 208 calculates the maximum amount of cash inflows – ie 75% of cash outflows – to be taken into account in the quantification of net cash outflows, in line with paragraph 107 of the Basel III liquidity rules text. A cap on total inflows is introduced to prevent banks from relying solely on anticipated inflows to meet their outflows and also to ensure that a minimum amount of liquid assets is held by the bank (ie a minimum of 25% of cash outflows). Row 207 of the template includes the amount of cash inflows before application of the cap, whereas row 209 of the template includes the amount of cash inflows after application of the cap. In cases where the cap on inflows is binding, row 209 will be less than row 207 (and will equal row 208), whereas in cases where the cap on inflows is not binding, row 209 will be equal to row 207.

34. Regarding contractual inflows from fully performing loans not reported in lines 174 to 182: does this item include overdrafts that are due for repayment in 30 days and where there is no reason to expect default or non-performance?

**Answer:** Yes, outstanding overdrafts (whether authorised or not) should not be included in the inflows, unless they have to be returned within 30 days and no defaults or late payments have occurred with that client in the past.

35. Regarding line 203 “contractual inflows from securities maturing within 30 days and not included above”: what is the rationale in the instructions for excluding

inflows from securities held for trading purposes when no such exclusion is mentioned in the Basel III liquidity rules text? Does this mean that any inflow from maturing securities held in the trading book would need to be excluded?

**Answer:** The rationale for including these additional aspects in the instructions is to be consistent with the definition of the stock of high-quality liquid assets. Paragraph 28 of the Basel III liquidity rules text forbids assets being used to hedge a bank's traded position or co-mingled with trading inventory from being included in the stock of high-quality liquid assets. This is because, in practice, such assets might not be "available for the bank to convert into cash at any time" as they are needed to hedge other exposures or maintain the institution's trading franchise. However, this should not be read as excluding from the stock of liquid assets which are in the trading book for accounting purposes. Inflow from maturing securities held in the trading book can therefore be included.

36. Regarding line 194, where should interest payments from performing "secured" loans from financial institutions that are due in 30 days be allocated?

**Answer:** Interest payments on extended secured loans should be included in line 194.

### **NSFR**

37. Regarding encumbrance greater than one year in rows 44, 53 and 71, is it simultaneously possible to have securities with maturities less than one year?

**Answer:** It is technically possible to encumber assets for longer than their maturity. For example, a bank may transact a one-year repo against a basket of securities and pledge a security that matures in six months. The bank would therefore be required to replace matured covered assets. The same effect could occur in securitisations of revolving assets, such as credit card receivables. If a bank does not undertake this type of activity then it has nothing to report.

38. Regarding secured borrowing in line 18, are repos, collateral lending and covered bonds included in this field?

**Answer:** Yes, the definition of secured borrowing is the same as that used in the LCR: it defines secured funding as “those liabilities and general obligations that are collateralised by legal rights to specifically designated assets owned by the borrowing institution in the case of bankruptcy, insolvency, liquidation or resolution”.

39. Line 55 concerning securities reported on balance sheet that are borrowed in reverse repo: does this refer only to on-balance sheet securities sourced in reverse repos? Usually the collateral sourced in reverse repos is reported off balance sheet, would be reported in line item 64.

**Answer:** Yes, as stated in the instructions, reverse repos to financial counterparties are reported in line 64. The category described in line 55 is included in the Basel III liquidity rules text to capture any transactions taking place in jurisdictions whose accounting principles differ from those of most Basel Committee members.

40. Regarding Section 6.2 and in particular Section 6.2.2 of the instructions, please provide additional guidance on how we should treat encumbrances that result from reasons other than pledging or secured funding transactions (ie tied positions).

**Answer:** Encumbrance should be treated in the same manner regardless of the reason.

41. Regarding “RSF – All other assets not included in the above categories (row 164)”: there is no specific guidance for loans to financial institutions, where the lender does not have a right to call. Are these to be classified line 164?

**Answer:** Yes, loans to financial institutions where the lender does not have a right to call and where the effective maturity of the loan is greater than or equal to one year should be reported in line 164. Loans to financial entities that are less than one year and do not have the right to call are reported in lines 37 to 44.

42. Should the amount captured in line 36 correspond with the cash amount populated in the stock of high-quality liquid assets in the LCR (as they appeared to correspond in the comprehensive QIS)? Also, the definition of cash in the LCR and the NSFR in the latest guidelines appears to differ slightly.

**Answer:** Cash in the NSFR is defined to exclude cash “held for planned use (as

contingent collateral, salary payments or for other reasons)” (see Table 2 of the Basel III liquidity rules text). In the LCR, operational expenses are not included in the standard.

43. Rows 8 and 9 do not seem well defined when compared to the LCR template. What is the definition of “less stable” funding? Is “less stable” funding equal to unsecured funding?

**Answer:** The instructions cross reference to the definitions in the LCR.

44. Are data for insurance companies, investment companies etc supposed to be reported in row 16?

**Answer:** No, they should be reported in row 15 as they are funding from “other legal entities”.

45. Please provide examples of types of securities to be reported in row 47.

**Answer:** Some examples are listed in footnote 34 of the Basel III liquidity rules text (note these also include some Level 1 and 2 assets which would not be reported in this row).

46. Does row 170 contain all types of guarantees? For example, are land registration guarantees treated differently from payment guarantees in any liquidity statements?

**Answer:** All guarantees should be reported in this row.

47. In what row should the market value of financial instruments be reported? Are the reported figures supposed to be net figures?

**Answer:** Assuming that “financial instruments” means derivatives, they should be reported as outlined in Section 6.2 of the instructions.

48. Concerning reverse repos, the instructions say they should be treated as secured cash loans.

- In which line(s) should they be reported? As loans depending on the counterparty? If so, this treatment does not seem to agree with paragraph 131 of

the Basel III liquidity rules text (if the bank will receive cash, then the RSF of the transaction would be 0%).

**Answer:** Reverse repos should be reported as cash loans. Paragraph 131 is only applicable to assets on balance sheet. Most accounting standards do not result in such assets being recorded on a bank's balance sheet.

- What distinction is made for the different underlying assets (level 1, level 2, others?)

**Answer:** No distinction is made.

- What maturity should be considered for RSF, the maturity corresponding to the reverse repo or that of the underlying security?

**Answer:** The maturity of the reverse repo (secured loan).

- If the asset received in the reverse repo has been sold or re-hypothecated (thereby creating a short position), how should it be reported?

**Answer:** The loan should be reported as encumbered.

49. In the case of covered bonds, there are no specific assets encumbered, but rather a pool of eligible mortgages. In this scenario, what should the relationship be between the encumbrance period and the maturity of the loans?

**Answer:** Please see the final instructions. Banks can assume the most favourable treatment (ie highest RSF assets of those eligible are encumbered). The maturity of the encumbrance would usually be the same as the secured borrowing.

50. How are assets excluded from Level 1 and level 2 in the LCR because they are outside the control of the treasurer (line 40 of the "LCR" worksheet) treated in the NSFR?

**Answer:** Operational restrictions which apply to the LCR are not relevant in the NSFR.

51. The current definition of line 164 (all other assets not included in the above categories) could potentially generate misleading results. A more granular approach

would be beneficial for a better understanding and a more accurate reporting of balances.

**Answer:** Firms can provide to their national supervisors explanatory notes detailing significant exposures in this category upon request.

52. Rows 136 to 143 refer to “residential mortgages of any maturity that would qualify for the 35% or lower risk weight under the Basel II standardised approach for credit risk”. Among the “encumbered” classification, it would be useful for analysis purposes to insert a specific sub-category (“of which”) with the self-securitisations.

**Answer:** As this type of encumbrance is not treated differently from other types, no distinction is made in the template. Assets encumbered in self-issued or synthetic (own-name) securitisations should only be reported as encumbered if the securities have been encumbered outside of the reporting entity. For example, if the securities being held by the institution have not been pledged and are still available to raise funding, then the underlying assets can be reported as unencumbered.

53. Regarding securities with stated remaining maturities less than one year, do these include non-central bank eligible securities?

**Answer:** Yes, it is not a requirement that securities in row 46 be central bank eligible.

54. Concerning net derivatives payables/receivables in lines 27 and 163, is there a reporting distinction for differences in maturity?

**Answer:** No distinction is made for maturity.

55. Should the time buckets fit the generally binding accounting standards and include the upper bound ( $\leq 3$  months,  $> 3$  months and  $\leq 6$  months etc)?

**Answer:** The standard is measured at one year or greater, and the quarterly buckets were calibrated accordingly.

56. Regarding cell C7 “preferred stock not included above”: the Basel III liquidity rules text states “and capital instruments in excess of Tier 2 allowable amount”. Please confirm that this portion of funding is reported under line 10 “unsecured debt securities issued”.

**Answer:** The language is not in Table 1 (and the text in paragraph 124(b)) of the Basel III liquidity rules text, but rather in Annex 2. For the purposes of the monitoring 20 Frequently asked questions on Basel III implementation monitoring study, we have followed the language in the main body of the text, so any other instruments would be reported in line 10.

57. Please clarify how covered pools collateralising covered bonds or tri-party baskets are broken down among line items 19 to 25 (note that the assets in the pool are not designated on a one-by-one basis to the associated covered bonds).

**Answer:** We have clarified the treatment of encumbrance in Section 6.2.2.

58. Please clarify how voluntary over-collateralisation required to achieve a target rating is treated in lines 19 to 25.

**Answer:** We have clarified the treatment of encumbrance in the instructions in Section 6.2.2. If over-collateralisation is *required* for the target rating, those assets should be reported as encumbered. In addition, regardless of the target rating, if the assets have been transferred to an SPV and, therefore, they are not available for further securitisations, the assets should be reported as encumbered.

59. Regarding net derivatives payables (cell C27), what is the applicable amount that has to be reported in column E? How should dual currency contracts, contracts with no deterministic cashflow, and physical delivery be treated?

**Answer:** Derivatives are treated according to the instructions in Section 6.2.

60. Cell C36: Concerning “all cash immediately available not held for planned use (as contingent collateral, salary payments, or for other reasons)”: is any “cash currently encumbered as collateral or held for planned use (as contingent collateral, salary payments, or for other reasons)” considered an “other asset” receiving a 100% RSF factor?

**Answer:** Cash not currently encumbered as collateral or specifically set aside to cover operational costs would be reported in the “All other assets” category.

61. What is the applicable RSF for a plain vanilla reverse repo on a level 1 asset? Is it 100% as we have to look at the long-term claim which is on the balance sheet or 5%

for the collateral held unencumbered? In the first case, is there any liquidity value considered in the NSFR for the Level 1 asset?

**Answer:** For the purpose of the Basel III implementation monitoring exercise, a reverse repo of any asset for longer than one year is 100%. Therefore, no liquidity value is assigned to the borrowed asset.

62. Does the clause “loans to non-financial corporate clients, sovereigns, central banks and PSEs having a remaining maturity of less than one year” (cell C128) mean that deposits at central banks require a 50% RSF? Is cash at the deposit facility a loan to the central bank?

**Answer:** Overnight or demand deposits placed at the central bank can be regarded as “reserves with central bank”. The instructions for line item 37 have provided that the short-term unsecured instruments include “reserves with central bank” (ie they require 0% RSF). Term deposits with central banks are reported in rows 127 to 134.

63. Some mortgages and loans are only partially secured and are therefore separated into secured and unsecured portions with different risk weights under Basel II. How should these portions be treated in the NSFR template?

**Answer:** Only the portion of the loan with the appropriate risk weight should be reported. The separate portion at a different risk weight should be reported in the row to which it relates.

64. Should cash (line 36) held for minimum reserve requirements be included in this item or elsewhere?

**Answer:** The instructions for line item 37 provide that reserves with central banks should be reported as “short-term unsecured instruments and transactions with outstanding maturities of less than one year”.

65. Residential mortgages that are encumbered for greater than one year (eg part of a collateral pool) receive a 100% RSF rather than 65% RSF (rows 136 to 143). Can any over-collateralisation in the cover pool be “encumbered” and therefore require 100% RSF?

**Answer:** If over-collateralisation is required as part of the contractual conditions, it should be considered encumbered.

66. Regarding encumbered positions, how are encumbered positions and encumbrance periods identified.

**Answer:** Please see “treatment of encumbrance” in the instructions.

67. Where are “short” selling transactions (Level 1 asset) reported in the NSFR template?

**Answer:** If the counterparty is a financial institution, please fill in lines 67 to 71 according to the period of the reverse repo transaction (cash inflow and outflow will be offset).

68. Where are FX-related payables and receivables entered in the NSFR template?

**Answer:** Please enter in lines 27 and 163 as they contain derivative payables and receivables.