Client Update
U.S. Agencies Propose Net Stable Funding Ratio

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On June 1, 2016, the Office of the Comptroller of the Currency (the "OCC"), Federal Deposit Insurance Corporation (the "FDIC") and Board of Governors of the Federal Reserve System (the "Federal Reserve," collectively with the OCC and FDIC, the "Agencies") published a proposed rule to implement the Net Stable Funding Ratio (the "NSFR").[1] The proposal would require large U.S. banking organizations to maintain what the Agencies have determined to be a stable funding profile over a one-year horizon. Comments on the proposed rule are due by August 5, 2016.

The proposed rule comes approximately one and a half years after the Basel Committee on Banking Supervision (the "Basel Committee") finalized its version of the NSFR in October 2014.[2]

The Agencies intend the NSFR to complement the Liquidity Coverage Ratio (the "LCR"), finalized by the Agencies on September 3, 2014.[3] While the LCR aims to promote short-term liquidity resilience by requiring affected banking organizations to hold a minimum amount of high-quality liquid assets ("HQLA") to fund their liquidity needs over a 30-day horizon, the NSFR is designed to reduce funding risk over a one-year horizon.

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1 Net Stable Funding Ratio: Liquidity Risk Measurement Standards and Disclosure Requirements, 81 Fed. Reg. 35,124 (June 1, 2016).

2 Basel Committee, *Basel III: the Net Stable Funding Ratio* (Oct. 2014), *available at* http://www.bis.org/bcbs/publ/d295.pdf; *see also* Debevoise & Plimpton, *Client Update: Basel Committee Adopts Net Stable Funding Ratio: How Much Liquidity Is Enough?* (Dec. 4, 2014), *available at* http://www.debevoise.com/insights/publications/2014/12/basel-committee-adopts-net-stable-funding-ratio.

3 Liquidity Coverage Ratio: Liquidity Risk Management Standards, 79 Fed. Reg. 61,440 (Oct. 10, 2014); *see also* Debevoise & Plimpton, *Client Update: Questions and Answers on the Liquidity Coverage Ratio* (Sept. 17, 2014), *available at* http://www.debevoise.com/insights/publications/2014/09/questiosn-and-answers-lcr.

Both the LCR and NSFR address perceived risks arising from excessive dependence on unstable short-term funding. To mitigate these perceived risks, the LCR and NSFR impose quantitative funding requirements on banking organizations, thereby seeking to ensure that banking organizations have sufficient cash and cash equivalents to operate during times of significant stress and market dislocation.

We summarize key aspects of the NSFR in a series of questions and answers below. Although the proposed rule is largely consistent with the Basel Committee's NSFR, it departs from the Basel NSFR in several key respects. Consequently, we also highlight a number of comparison points between the U.S. NSFR and the Basel NSFR.

Roadmap to the NSFR and this Q&A

Full NSFR. For each of the largest covered U.S. banking organizations, described in more detail in Section I.A below, the NSFR would require an amount of available stable funding ("ASF") that is no less than the amount of its required stable funding ("RSF"). ASF would be calculated by multiplying a banking organization's liabilities and regulatory capital by the percentages, or factors, assigned to them by the Agencies and then adding the weighted figures. RSF would be calculated by multiplying a banking organization's assets, commitments and derivatives exposures by the factors assigned to them by the Agencies and then adding the weighted figures. The NSFR would be expressed as a ratio of a banking organization's ASF to its RSF. In formulaic terms, for each banking organization, the requirement is:

$$\frac{ASF}{RSF} \geq 1$$

"Modified" NSFR. Smaller U.S. banking organizations, described in more detail in Section I.A below, would be subject to a "modified" NSFR, whereby the banking organization would be required to maintain a lower minimum amount of stable funding, equal to 70% of the amount required for banking organizations subject to the full NSFR. The "modified" NSFR only would apply to the top-tier holding company, and not to its subsidiary banks. In formulaic terms, for each banking organization subject to the "modified" NSFR, the requirement is:

$$\frac{ASF}{RSF} \geq 0.7$$

Foreign Banks. Foreign banking organizations ("FBOs") without a U.S. bank holding company ("BHC"), described in more detail in Section I.A below, would not be subject to the proposed NSFR, although FBOs with U.S. operations with $50 billion or more in combined U.S. assets likely will be subject to a future rulemaking in this area. U.S. subsidiaries of FBOs that are U.S. BHCs would be subject to the full or "modified" NSFR to the same extent as a U.S. BHC.

Section I provides an overview of which banking organizations are subject to the proposed rule and the rule's tiered application.
Section II breaks down the ASF, the numerator in the NSFR.
Section III breaks down the RSF, the denominator in the NSFR.
Section IV describes what happens when there is an NSFR shortfall.
Section V discusses the NSFR's disclosure requirements.

I. APPLICABILITY AND SCOPE

A. To which entities does the NSFR apply?

Identical to the LCR, the proposed rule would impose a two-tiered system of application: (1) a more stringent NSFR would apply to U.S. BHCs, savings and loan holding companies ("SLHCs") without significant commercial or insurance operations, and depository institutions with $250 billion or more in total consolidated assets or $10 billion or more in on-balance sheet foreign exposure, and to such entities' consolidated subsidiary depository institutions with $10 billion or more in total consolidated assets; and (2) a less stringent "modified" NSFR requirement would apply to BHCs and SLHCs with $50 billion or more, but less than $250 billion, in total consolidated assets, and also less than $10 billion in total on-balance sheet foreign exposure. The entities subject to the NSFR are, collectively, "Covered Companies" and each, a "Covered Company." If the modified NSFR applies at the holding company level, underlying subsidiary depository institutions would not be subject to a separate NSFR requirement.

Like the LCR, the NSFR would not apply to an FBO, although if the FBO has a U.S. subsidiary that meets the requirements described in the above paragraph, then that U.S. subsidiary would be subject to the same full or "modified" NSFR as a U.S. banking organization. If the FBO's U.S. subsidiary does not meet those requirements, then the NSFR would not apply, but the Agencies indicated in the preamble to the NSFR that they anticipate implementing an NSFR requirement through a future, separate rulemaking for the U.S. operations of FBOs with $50 billion or more in combined U.S. assets.

Basel NSFR Comparison*: The Basel NSFR expressly applies to "internationally active" banks on a consolidated basis, but gives national regulators the discretion to tailor the scope of applicability. Historically, the Agencies have interpreted "internationally active banks" to include banking organizations with $250 billion or more in total consolidated assets or $10 billion or more in total on-balance sheet foreign exposure.*

B. What is the implementation time frame?

Like the Basel NSFR, the U.S. NSFR would have an effective date of January 1, 2018. The Covered Companies that become subject to the full NSFR after the effective date would have a one-quarter transition period to comply, meaning they would be required to comply with the proposed NSFR requirement beginning on April 1 of the following year. The Covered Companies that become subject to the "modified" NSFR after the effective date would have a one-year transition period after the date they meet the applicable thresholds.

C. How does the NSFR relate to U.S. GAAP?

Unlike the LCR, the NSFR is a balance sheet metric. The NSFR's calculations would generally be based on the carrying value, as determined under GAAP, of a Covered Company's assets, liabilities and equity. In particular, the Agencies proposed a rule of construction specifying that, unless otherwise expressly provided, a transaction or exposure that is not recorded on the balance sheet of a Covered Company would not be assigned an ASF or RSF factor (as described below), and conversely, a transaction or exposure that is recorded on the balance sheet of the Covered Company would be assigned an ASF or RSF factor (as further described below).

II. AVAILABLE STABLE FUNDING (NUMERATOR)

A. What is the ASF framework?

ASF would be composed of liabilities and regulatory capital. Different categories of liabilities and regulatory capital would be multiplied by different assigned factors, each of which would be assigned based on the stability of each category over the one-year time horizon of the NSFR. The products of the liability and regulatory capital categories with their assigned factors would be added together to determine ASF.

As described in more detail in Table 1, the primary categories of liabilities and regulatory capital that make up ASF would include borrowings of different maturities and from different sources and certain capital instruments.

B. What are some examples of liabilities relevant to banks that constitute ASF?

As detailed in Table 1, liabilities relevant to banks that constitute ASF would include (i) "stable" retail deposits held at the Covered Company (regardless of maturity or collateralization),[4] (ii) retail deposits (regardless of maturity or collateralization) provided by retail customers and counterparties other than stable retail deposits or brokered deposits, (iii) reciprocal brokered deposits provided by retail customers and counterparties where the entire amount is covered by deposit insurance, (iv) other brokered deposits with maturities of one year or more which are not held in transactional accounts and (v) operational deposits placed at the Covered Company.

[4] The NSFR would utilize definitions found in the LCR. The LCR defines "stable retail deposits" as retail deposits fully covered by deposit insurance which are held by the depositor in a transactional account or by other depositors which have other established relationships with the Covered Company. *See* 12 CFR 249.3.

***Basel NSFR Comparison**: Unlike the Basel NSFR, the U.S. NSFR explicitly includes various types of brokered deposits. This inclusion of brokered deposits by the Agencies appears to be an effort to synchronize the LCR with the NSFR.*

C. What are some examples of liabilities relevant to broker-dealers that constitute ASF?

As detailed in Table 1, liabilities relevant to broker-dealers that constitute ASF would include (i) unsecured wholesale funding with maturities of six months or more, but less than one year, that are provided by a financial sector entity or a central bank and are not securities issued by the Covered Company or operational deposits, (ii) secured funding with maturities of six months or more, but less than one year, that are not collateralized deposits that are operational deposits and where the counterparty is a financial sector entity or a central bank and (iii) securities issued by the Covered Company with maturities of six months or more, but less than one year. For example, both a seven-month evergreen repo and a subordinated loan pursuant to Securities and Exchange Commission ("SEC") Rule 15c3-1 (where the ASF factor would depend on the remaining term) would constitute a liability for ASF purposes.

D. Once a Covered Company has categorized appropriate liabilities and capital, how does it calculate ASF?

To calculate ASF, a Covered Company's liabilities and capital would be assigned one of five percentage factors based on the stability of the funding over the one-year time horizon: 100%, 95%, 90%, 50% and 0%. Refer to Table 1 for a list of liabilities and capital that fall into each percentage bucket.

In particular, the liabilities and capital would be categorized based on three characteristics relating to the stability of the funding: the funding tenor, the funding type and the counterparty type. Funding would be considered to be less stable if there is a greater chance that a Covered Company would need to replace or repay the funding during the one-year horizon and thus would be assigned a lower percentage weighting.

After multiplying the Covered Company's liabilities and capital by their factors, the weighted amounts would be added together to determine ASF.

III. REQUIRED STABLE FUNDING (DENOMINATOR)

A. What is the RSF framework?

RSF would be composed of assets, undrawn amounts of a Covered Company's commitments and certain derivatives exposures. Like with ASF, different categories of assets, commitments and derivative exposures would be multiplied by different assigned factors, each of which would be assigned based on the liquidity characteristics of each category. The products of the assets, commitments and derivative exposure categories with their assigned factors would be added together to determine RSF.

As described in more detail in Tables 2 and 3, the primary categories of assets that compose RSF would include currency and coin, securities, loans (*e.g.*, to financial sector institutions), the undrawn amount of any committed credit facility or committed liquidity facility extended by the Covered Company and derivative assets.

Under the LCR, banking organizations must maintain a minimum amount of HQLA. For NSFR purposes, that HQLA constitutes assets that are subject to varying RSF factors, depending on the "level" or quality of the particular HQLA. For example, U.S. Treasuries, as Level 1 HQLA, attract an RSF factor of 10%, while an equity security meeting the Level 2 HQLA test would attract an RSF factor of 50%. Accordingly, any Covered Companies should prepare for this tension between what the LCR and NSFR each require.

B. What are some examples of assets relevant to banks that constitute RSF?

As detailed in Tables 2 and 3, assets relevant to a bank that constitute RSF would include (i) loans made to different types of entities (*e.g.*, financial institutions, central banks) with varied maturities and with assorted designations under the Basel II Standardized Approach for credit risk and (ii) certain unencumbered retail mortgages with maturities of one year or more.

C. What are some examples of assets relevant to broker-dealers that constitute RSF?

As detailed in Tables 2 and 3, assets relevant to broker-dealers that constitute RSF would include (i) securities of all types held on the balance sheet, (ii) cash and (iii) unencumbered securities with a remaining maturity of one year or more. Margin loans, like the loans made by banks, would attract RSF, as would extensions of "non-purpose" credit (which means the loan may be used to purchase anything except other securities). In addition, customer free credit balances that are segregated in a broker-dealer's reserve account pursuant to SEC Rule 15c3-3 would be treated as assets for RSF purposes. The preamble to the proposed U.S. NSFR specifically notes that cash that a Covered Company places on deposit with a third-party depository institution in accordance with segregation requirements would be treated as a short-term loan to a financial sector entity.

The Agencies also proposed a rule of construction specifying that when a Covered Company, acting as a securities lender, receives collateral in an asset exchange and does not rehypothecate the collateral, then the Covered Company would not be required to assign an RSF factor to the collateral it received and would not be permitted to assign an ASF factor to any liability to return the collateral. Because the proposed rule would not require stable funding for the collateral received, the proposed rule would not treat a Covered Company's obligation to return the collateral as stable funding and would not assign an ASF factor to this obligation. If a Covered Company sells or rehypothecates the collateral, however, then it would be required to assign the appropriate RSF factor(s) to the proceeds of the sale or, in the case of rehypothecation where the collateral remains on the Covered Company's balance sheet, to the collateral itself.

D. Once a Covered Company has categorized appropriate assets, how does it calculate RSF?

Similar to liabilities and capital under ASF, a Covered Company's assets would be assigned a percentage factor based on the liquidity characteristics of the asset. There are eight RSF factors: 0%, 5%, 10%, 15%, 50%, 65%, 85% and 100%. Refer to Tables 2 and 3 for a list of assets that fall into each percentage bucket. After multiplying assets by their multipliers, the weighted amounts would be added to the derivatives RSF amount to determine a Covered Company's RSF.

The derivatives RSF amount equals the sum of (i) the current derivative transaction values, (ii) the variation margin provided by the Covered Company, (iii) the excess variation margin provided by the Covered Company, (iv) the variation margin received by the Covered Company, (v) potential valuation changes, (vi) contributions to central counterparty mutualized loss sharing arrangements and (vii) the initial margin provided by the Covered Company. The methodology to calculate each of these items comprising the derivatives RSF amount is set out in Table 4.

E. Are interdependent assets and liabilities assigned a 0% RSF factor and a 0% ASF factor, respectively?

Not under the proposed U.S. framework. Under the Basel NSFR, at the discretion of the national regulator, an interdependent asset and liability may be assigned a 0% RSF factor and a 0% ASF factor if the following circumstances are met:

- the interdependence of the asset and liability must be established on the basis of contractual arrangements;
- the liability cannot fall due while the asset remains on the balance sheet;
- the principal payment flows from the asset cannot be used for purposes other than repaying the liability;
- the liability cannot be used to fund other assets;
- the individual interdependent asset and liability must be clearly identifiable;
- the maturity and principal amount of both the interdependent liability and asset must be the same;
- the bank must be acting solely as a pass-through unit to channel the funding received from the liability into the corresponding interdependent asset; and
- the counterparties for each pair of interdependent liabilities and assets must not be the same.

In the preamble to the U.S. NSFR, the Agencies considered the interdependence of assets and liabilities and concluded that a Covered Company does not engage in transactions that would meet the conditions required under the Basel NSFR. For example, the Agencies state that a securities borrowing transaction to facilitate a customer short sale would not appear to meet the Basel NSFR conditions for interdependent treatment because (i) the interdependence of the asset and liability may not be established on the basis of contractual arrangements, (ii) the liability could fall due while the asset remained on the balance sheet and (iii) the maturity and principal amount of both the interdependent liability and asset may not be the same.

Basel NSFR Comparison*: The Basel NSFR permits national regulators to recognize interdependent assets and liabilities, but the Agencies have declined to do so.*

IV. NSFR SHORTFALL

A. What are the consequences of noncompliance?

The NSFR would require a Covered Company to notify its appropriate Federal regulator of an NSFR shortfall or potential shortfall no later than 10 business days following the occurrence of an event that has caused or would cause the Covered Company's NSFR to fall below the appropriate threshold.

In the event of a shortfall, the NSFR would require the Covered Company to develop a plan to remediate the shortfall and submit said plan to the appropriate Federal regulator. The plan would be required to include an assessment of the Covered Company's liquidity profile, the actions the Covered Company would take to comply with the NSFR (including how any operational or management issues would be fixed) and an estimated time frame for remediation. Further, the Covered Company would be required to provide progress reports to the appropriate Federal regulator on at least a monthly basis.

The Agencies would retain the authority to take supervisory action against a noncompliant Covered Company. Like the LCR, the NSFR would not prescribe any particular supervisory response to a shortfall, but rather provide the regulators with the flexibility to respond to each shortfall as appropriate given the circumstances of the situation.

V. QUANTITATIVE AND QUALITATIVE DISCLOSURE REQUIREMENTS

A. To which entities do the disclosure requirements apply?

Any Covered Companies that are BHCs or SLHCs ("Covered Holding Companies") would be required to disclose certain information, which would enable market participants to compare funding characteristics of the entities. The disclosure requirements would not apply to any Covered Companies that are depository institutions, although the Agencies may develop a different or modified reporting form that would be required for both depository institutions and depository institution holding companies.

B. What items would need to be disclosed?

A Covered Holding Company would be required to disclose components of its ASF and RSF calculations, in addition to its ASF amount, its RSF amount and the NSFR itself. Both the "unweighted" (*i.e.*, before the application of the ASF or RSF factor) and "weighted" ASF and RSF components would generally be required to be disclosed.

In addition to quantitative elements relating to the NSFR, a Covered Holding Company would be required to provide a qualitative discussion of its NSFR in order to facilitate understanding of the numbers. Examples of content for this discussion include how the Covered Holding Company's NSFR has changed over time and the drivers of those changes and where the Covered Holding Company may have concentrations of funding sources. Such qualitative discussion may be combined with the similar discussion required under the LCR.

Basel NSFR Comparison*: The U.S. NSFR would require disclosure of certain ASF categories that are not separately broken out under the Basel NSFR, like retail brokered deposits. The U.S. disclosure template would also differ from the Basel Committee template by requiring disclosure of additional components that comprise the ASF and RSF calculations, like the total derivatives liabilities amount.*

C. When would disclosures need to be made?

A Covered Holding Company would be required to provide timely disclosures after each calendar quarter. For any Covered Holding Companies that do not have fiscal years or quarters corresponding to a calendar quarter, the Agencies would consider disclosures made within 45 days of the end of the calendar quarter to be timely.

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Please do not hesitate to contact us with any questions.

TABLE 1 Summary of Liability Categories and Associated ASF Factors	
ASF Factor	**Components of ASF Category**
100%	• Any capital elements in the Covered Company's common equity Tier 1 capital, additional Tier 1 capital and Tier 2 capital, with certain adjustments as specified in more detail in the proposed rule (such capital elements, "NSFR regulatory capital elements") • Any liabilities or equity reported on the Covered Company's balance sheet that are not NSFR regulatory capital elements ("NSFR liabilities"), which have maturities of 1 year or more, are not NSFR liabilities owed to a retail customer or counterparty that are not deposits and not securities issued by the Covered Company, and are not retail deposits or brokered deposits provided by a retail customer or counterparty
95%	• Stable retail deposits held at the Covered Company (regardless of maturity or collateralization)
90%	• Retail deposits (regardless of maturity or collateralization) provided by retail customers and counterparties other than stable retail deposits or brokered deposits • Reciprocal brokered deposits provided by retail customers and counterparties where the entire amount is covered by deposit insurance • Brokered sweep deposits provided by retail customers and counterparties deposited in accordance with a contract between the retail customer or counterparty and the Covered Company, a controlled subsidiary of the Covered Company or a company that is a controlled subsidiary of the same top-tier company of which the Covered Company is a controlled subsidiary, where the entire amount of the deposit is covered by deposit insurance • Brokered deposits (other than reciprocal brokered deposits and brokered sweep deposits) provided by retail customers and counterparties with maturities of 1 year or more which are not held in transactional accounts
50%	• Unsecured wholesale funding with maturities of less than 1 year that are not provided by a financial sector entity, a consolidated subsidiary of a financial sector entity or a central bank and are not securities issued by the Covered Company or operational deposits placed at the Covered Company • Secured funding with maturities of less than 1 year that are not collateralized deposits that are operational deposits placed at the Covered Company and where the counterparty is not a financial sector entity, a consolidated subsidiary of a financial sector entity or a central bank • Unsecured wholesale funding with maturities of 6 months or more, but less than 1 year that are provided by a financial sector entity, a consolidated financial sector entity or a central bank and are not securities issued by the Covered Company or operational deposits • Secured funding with maturities of 6 months or more, but less than 1 year that are not collateralized deposits that are operational deposits and where the counterparty is a financial sector entity, a consolidated subsidiary of a financial sector entity or a central bank • Securities issued by the Covered Company with maturities of 6 months or more, but less than 1 year

TABLE 1 Summary of Liability Categories and Associated ASF Factors	
ASF Factor	**Components of ASF Category**
	• Operational deposits placed at the Covered Company • Brokered deposits provided by a retail customer or counterparty that are not otherwise placed in the 90% or 0% categories • Any other NSFR liabilities with maturities of 6 months or more, but less than 1 year which are not otherwise placed in a different category
0%	• Trade date payables resulting from a purchase by the Covered Company of a financial instrument, foreign currency or commodity that is contractually required to settle within the lesser of the market standard settlement period for the particular transaction and five business days from the date of the sale • Brokered deposits with maturities of less than 6 months provided by a retail customer or counterparty that are not reciprocal brokered deposits or brokered sweep deposits and which are not held in a transactional account • NSFR liabilities owed to a retail customer or counterparty that are not deposits and are not securities issued by the Covered Company • Securities issued by the Covered Company with maturities of less than 6 months • NSFR liabilities with maturities of less than 6 months or open maturities that are not securities issued by the Covered Company or operational deposits placed at the Covered Company and where the counterparty is a financial sector entity, a consolidated subsidiary or a central bank • Any other NSFR liabilities with maturities of less than 6 months that are not otherwise placed in a different category • The Covered Company's NSFR derivatives liability amount (as set out in Table 5 below) • The carrying value of NSFR liabilities in the form of an obligation to return initial margin or variation margin received by the Covered Company

<table>
<tr><th colspan="2">TABLE 2
Summary of Unencumbered Asset and Commitment Categories and Nonperforming Asset Categories and Associated RSF Factors</th></tr>
<tr><th>RSF Factor</th><th>Components of RSF Category</th></tr>
<tr><td>0%</td><td>Currency and coin
Cash items in the process of collection
Reserve Bank balances or other claims on a Reserve Bank with maturities of less than 6 months
Claims on foreign central banks with maturities of less than 6 months
Trade date receivables due to the Covered Company arising from its sales of financial instruments, foreign currencies and commodities and which are required to settle within the lesser of the market standard settlement period and five business days from the date of the sale (and which have not failed to settle during the required settlement period)</td></tr>
<tr><td>5%</td><td>Level 1 liquid assets, other than Level 1 liquid assets described in the 0% RSF factor category above
The undrawn amount of any committed credit facility or committed liquidity facility extended by the Covered Company</td></tr>
<tr><td>10%</td><td>Secured lending transactions with maturities of less than 6 months where the borrower is a financial sector entity (or consolidated subsidiary thereof) and the loan is secured against Level 1 assets, and where the Covered Company retains the right to rehypothecate the collateral provided by the counterparty for the duration of the secured lending transaction</td></tr>
<tr><td>15%</td><td>Level 2A liquid assets
Secured lending transactions or unsecured wholesale lending where the assets have maturities of less than 6 months, the borrower is a financial sector entity (or consolidated subsidiary thereof), the asset is not an operational deposit placed by the Covered Company at a financial sector entity (or consolidated subsidiary thereof) and the asset is not otherwise described in the 10% RSF factor category above</td></tr>
<tr><td>50%</td><td>Level 2B liquid assets
Secured lending transactions or unsecured wholesale lending where the assets have maturities of 6 months or more but less than 1 year, the borrower is a financial sector entity (or consolidated subsidiary thereof) or a central bank and the asset is not an operational deposit placed by the Covered Company at a financial sector entity (or consolidated subsidiary thereof)
Operational deposits placed by the Covered Company at a financial sector entity (or a consolidated subsidiary thereof)
General obligation securities issued by or guaranteed as to the timely payment of principal and interest by a public sector entity and which are not Level 2B liquid assets
All other assets not described in the above categories with maturities of less than 1 year, including:
Secured lending transactions or unsecured wholesale lending where the borrower is a wholesale customer or counterparty that is not a financial sector entity (or consolidated</td></tr>
</table>

TABLE 2 Summary of *Unencumbered* Asset and Commitment Categories and Nonperforming Asset Categories and Associated RSF Factors	
RSF Factor	**Components of RSF Category**
	subsidiary thereof) or a central bank; and ○ Loans to retail customers or counterparties
65%	• Retail mortgages with maturities of 1 year or more and with a risk weight of no greater than 50% under the standardized approach for determining risk-weighted assets • Secured lending transactions, unsecured wholesale lending or lending to a retail customer or counterparty where the asset is not described in any of the above RSF categories or items, the asset has a maturity of 1 year or more and the asset is assigned a risk weight of no greater than 20% under the standardized approach for determining risk-weighted assets, and where the borrower is not a financial sector entity (or consolidated subsidiary thereof)
85%	• Retail mortgages with maturities of 1 year or more and with a risk weight of greater than 50% under the standardized approach for determining risk-weighted assets • Secured lending transactions, unsecured wholesale lending or lending to a retail customer or counterparty where the asset is not described in any of the above RSF categories or items, the asset has a maturity of 1 year or more and the asset is assigned a risk weight of greater than 20% under the standardized approach for determining risk-weighted assets, and where the borrower is not a financial sector entity (or consolidated subsidiary thereof) • Publicly traded common equity that does not qualify as HQLA • Securities other than common equity shares with maturities of 1 year or more and which do not qualify as HQLA • Commodities for which derivative transactions are traded on a U.S. board of trade, a contract market or a swap execution facility
100%	• All other assets not described in the above categories, including secured lending transactions or unsecured wholesale lending with maturities of 1 year or more where the borrower is a financial sector entity (or consolidated subsidiary thereof) • All assets that are past due by more than 90 days or nonaccrual

TABLE 3 **Summary of Rules to Determine RSF Factors of *Encumbered* Assets and Off-Balance Sheet Rehypothecated Assets[5]**
Rule to Determine RSF Factor
• For an encumbered asset with less than 6 months remaining in the encumbrance period, the same RSF factor is assigned to the asset as would be assigned if the asset were not encumbered.
• For an encumbered asset with 6 months or more, but less than 1 year, remaining in the encumbrance period: o If the asset would normally be assigned an RSF factor of 50% or less if the asset were not encumbered (see Table 2 above), then an RSF factor of 50% is assigned to the asset. o If the asset would be assigned an RSF factor of greater than 50% if the asset were not encumbered (see Table 2 above), then the same RSF factor is assigned to the asset as would be assigned if it were not encumbered.
• For an encumbered asset with 1 year or more remaining in the encumbrance period, an RSF factor of 100% is assigned to the asset.
• If an asset is encumbered for an encumbrance period longer than the asset's maturity, the asset is assigned an RSF factor under one of the above rules in this Table 3 based on the length of the encumbrance period.
• For an NSFR liability of the Covered Company that is secured by an off-balance sheet asset or results from the Covered Company selling an off-balance sheet asset (for instance, in the case of a short sale): o If the Covered Company received the off-balance sheet asset under a lending transaction, an RSF factor is assigned to the lending transaction as if it were encumbered for the longer of (A) the remaining maturity of the NSFR liability and (B) any other encumbrance period applicable to the lending transaction; o If the Covered Company received the off-balance sheet asset under an asset exchange, an RSF factor is assigned to the asset provided by the Covered Company in the asset exchange as if the provided asset were encumbered for the longer of (A) the remaining maturity of the NSFR liability and (B) any other encumbrance period applicable to the provided asset; or o If the Covered Company did not receive the off-balance sheet asset under a lending transaction or asset exchange, the off-balance sheet asset is assigned an RSF factor as if it were included on the balance sheet of the Covered Company and encumbered for the longer of (A) the remaining maturity of the NSFR liability and (B) any other encumbrance period applicable to the off-balance sheet asset.

5 Assets held in segregated accounts maintained pursuant to statutory or regulatory requirements for the protection of customer assets are not considered encumbered for the purposes of Table 3 solely because such assets are held in segregated accounts.

TABLE 4
Methodology to Calculate Each Component of the NSFR Derivatives Amount

Component	Calculation
Item (i): Current derivative transaction values	• The Covered Company's NSFR derivatives asset amount (as set out in Table 5 below), multiplied by an RSF factor of 100%.
Item (ii): Variation margin provided	• The carrying value of variation margin provided by the Covered Company under each derivative transaction not subject to a qualifying master netting agreement ("QMNA") and each QMNA netting set, to the extent the variation margin reduces the Covered Company's derivatives liability value under the derivative transaction or QMNA netting set, multiplied by an RSF factor of 0%.
Item (iii): Excess variation margin provided	• The carrying value of variation margin provided by the Covered Company under each derivative transaction not subject to a QMNA and each QMNA netting set in excess of the variation margin provided (as described in the row immediately above) for each derivative transaction or QMNA netting set, multiplied by the RSF factor assigned to each asset comprising the variation margin pursuant to Tables 2 and 3 above.
Item (iv): Variation margin received	• The carrying value of variation margin received by the Covered Company, multiplied by the RSF factor assigned to each asset comprising the variation margin pursuant to Tables 2 and 3 above.
Item (v): Potential valuation changes	• An amount equal to 20% of the sum of the gross derivative values of the Covered Company that are liabilities for each of the Covered Company's derivative transactions not subject to a QMNA and each of its QMNA netting sets, multiplied by an RSF factor of 100%.
Item (vi): Contributions to central counterparty mutualized loss sharing arrangements	• The fair value of the Covered Company's contribution to a central counterparty's mutualized loss sharing arrangement (regardless of whether the contribution is included on the Covered Company's balance sheet), multiplied by an RSF factor of 85%.
Item (vii): Initial margin provided	• The fair value of initial margin provided by the Covered Company for derivative transactions (regardless of whether the initial margin is included on the Covered Company's balance sheet), which does not include initial margin provided by the Covered Company for cleared derivative transactions with respect to which the Covered Company is acting as agent for a customer and the Covered Company does not guarantee the obligations of the customer's counterparty to the customer under the derivative transaction (such initial margin would be assigned an RSF factor pursuant to Tables 2 and 3 above to the extent the initial margin is included on the Covered Company's balance sheet), multiplied by an RSF factor equal to the higher of 85% or the RSF factor assigned to each asset comprising the initial margin pursuant to Tables 2 and 3.

<table>
<tr><th colspan="2">TABLE 5
Methodology to Calculate the NSFR Derivatives Asset and Liability Amounts</th></tr>
<tr><th>Item</th><th>Calculation</th></tr>
<tr><td>NSFR derivatives asset amount

NSFR derivatives liability amount</td><td>• The Covered Company’s NSFR derivatives asset amount is the greater of:
○ Zero; and
○ The Covered Company’s total derivatives asset amount (as described in the row immediately below) less the Covered Company’s total derivatives liability amount (as described in the row immediately below).
• The Covered Company’s NSFR derivatives liability amount is the greater of:
○ Zero; and
○ The Covered Company’s total derivatives liability amount (as described in the row immediately below) less the Covered Company’s total derivatives asset amount (as described in the row immediately below).</td></tr>
<tr><td>Total derivatives asset amount

Total derivatives liability amount</td><td>• The Covered Company’s total derivatives asset amount is the sum of the Covered Company’s derivatives asset values (as described in the row immediately below) for each derivative transaction not subject to a QMNA and each QMNA netting set.
• The Covered Company’s total derivatives liability amount is the sum of the Covered Company’s derivatives liability values (as described in the row immediately below) for each derivative transaction not subject to a QMNA and each QMNA netting set.</td></tr>
<tr><td>Derivatives asset value

Derivatives liability value</td><td>• For each derivative transaction not subject to a QMNA and each QMNA netting set:
○ The derivatives asset value is equal to the asset value to the Covered Company, after taking into account certain variation margin received[6] by the Covered Company.
○ The derivatives liability value is equal to the liability value to the Covered Company, after taking into account any variation margin provided by the Covered Company.</td></tr>
</table>

6 This includes cash variation margin received by the Covered Company that meets the conditions of §__.10(c)(4)(ii)(C)(1) through (7) of the supplementary leverage ratio rule.