March 20, 2015

Mr. Jürgen Janssens
Deputy Advisor
Prudential Policy, National Bank of Belgium

Ms. Li Wenhong
Deputy Director General, Policy Research Department
China Banking Regulatory Commission

Sent by email to: jurgen.janssens@nbb.be ; liwenhong@cbrc.gov.cn
c.c. fsb@bis.org

Subject: BCBS NSFR derivatives margin review

Dear Mr Janssens and Ms Wenhong,

The undersigned Associations write with regard to the final net stable funding ratio ("NSFR") that was published by the Basel Committee for Banking Supervision ("BCBS") on 31 October 2014[1], and in particular the next phase of the Basel Committee's work to evaluate the treatment of margining of derivatives in the NSFR, conduct a quantitative analysis and consider alternative approaches, if necessary.

We appreciate the Basel Committee's effort to continue work on the treatment of derivatives margin in the NSFR, and encourage the Committee to conduct further empirical and analytical reviews of the treatment of initial margin, in particular the 85 percent Required Stable Funding applied to initial margin.

In addition, the Associations strongly believe that in order to fully understand its impact and consequences, the treatment of derivatives in the NSFR needs to be reviewed holistically. In particular, as part of the review, we believe that two components of the NSFR derivatives methodology should receive further attention, with the goal of potentially modifying elements of this methodology after more complete empirical and analytical reviews are conducted.

1. Recognition of margin received by banks (para. 35)

Under the final framework, and provided certain conditions are met, NSFR derivative assets and liabilities are calculated after counter-party netting and deduction of variation margin. However, the rules introduce an asymmetry between posted and received collateral.

For derivatives liabilities all (posted) collateral must be netted, whereas received collateral related to derivatives assets can only be netted when it is allowable cash collateral (not all cash collateral is allowed pursuant to leverage ratio rules and no securities collateral is allowed).

We believe this asymmetry is unwarranted where the margin received by the bank, cash or non-cash, actually provides funding to the bank. For example, high-quality sovereign securities are regularly used

[1] http://www.bis.org/bcbs/publ/d295.htm

as derivatives margin and provide funding value equivalent to cash. Indeed, it would be odd for high-quality sovereign securities to receive recognition as Level 1 assets in the Liquidity Coverage Ratio while receiving no funding credit in the NSFR. Non-sovereign securities similarly provide funding value, although supervisory haircuts in the NSFR may be warranted to account for potential volatility in the value of these assets.

2. The 20% RSF for derivative liabilities (para. 43(d))

In addition to margin recognition issues, a further 20% RSF applies for derivatives liabilities before the netting of posted collateral. The 20% liability formula was not included in any NSFR consultative document and hence industry did not have an opportunity to comment on it. The Associations are uncertain how the Basel Committee developed this methodology and whether its impact is understood.

We believe that all prudential regulations should have a transparent, empirical foundation supported by a meaningful comment process, and encourage the Basel Committee to provide more information on the development of the 20% liability formula. In addition, we would welcome the opportunity to discuss the policy goals driving the 20% liability formula and whether these goals are best advanced in the current formulation of the NSFR or if technical revisions to the framework would be appropriate.

Conclusion

We fully support the ongoing evaluation by the BCBS and strongly believe that further analysis, transparency and review of these provisions is warranted. This will allow any potential unintended consequences related to systemic risk, regulatory harmonization and pro-cyclicality concerns, as well as impact on end users, to be identified before implementation of the NSFR.

Needless to say, the industry stands ready to work with you to further elaborate on these concerns and would be happy to provide any further information they can.

Sincerely,

Mark Gheerbrant	David Strongin	David Schraa
Head of Risk and Capital	Executive Director	Regulatory Counsel
ISDA	GFMA	IIF

c.c. Secretariat of the Financial Stability Board.