

## **Completion Instructions**

### **Return of Stable Funding Position of an Authorized Institution (MA(BS)26)**

#### **INTRODUCTION**

1. This document provides instructions for category 1 institutions and category 2A institutions to calculate and report the Net Stable Funding Ratio (NSFR) and Core Funding Ratio (CFR) respectively by using Return MA(BS)26. The terms used in this document should be ascribed to the interpretations provided in the Banking (Liquidity) Rules (BLR) unless otherwise specified.
2. The Return consists of 3 Parts:
  - Part 1 captures certain key information relating to the reporting institution's NSFR or CFR during the quarterly reporting period.
  - Part 2 captures the details pertaining to the calculation of the NSFR on the quarter-end date. This Part should be completed by all category 1 institutions.
  - Part 3 captures the details pertaining to the calculation of the CFR on the quarter-end date. This Part should be completed by all category 2A institutions.

#### **GENERAL INSTRUCTIONS**

##### **Bases of Reporting**

3. A reporting institution should complete this Return on one or more of the following bases as the case may require –
  - Hong Kong office basis for every reporting institution irrespective of its place of incorporation;
  - unconsolidated basis for a locally incorporated institution that is subject to rule 10(1)(b) of the BLR for the purpose of NSFR or CFR;
  - consolidated basis for a locally incorporated institution that is subject to rule 11(1) for the purpose of NSFR or CFR.

## **Reporting frequency and submission timeline**

4. A reporting institution should submit this Return (with a separate copy for each applicable reporting basis) to the HKMA quarterly within one month after each quarter-end. If the submission deadline falls on a public holiday, it will be deferred to the next working day.

## **Valuation of assets, liabilities and off-balance sheet items**

5. For the calculation of the NSFR or CFR:
- the value of a derivative contract should be measured at replacement cost as defined in rule 54(1);
  - other on-balance sheet assets and liabilities (including capital) should be measured in the following ways –
    - marketable assets should be measured by fair value irrespective of the applicable accounting standards;
    - assets that are not marketable and liabilities<sup>1</sup> should be measured by book value (including any accrued interest<sup>2</sup> where applicable) according to the applicable accounting standards; and
  - off-balance sheet obligations should be measured according to the contracted amount of an obligation or, in the case of an undrawn or partially drawn facility, the undrawn amount.

The valuation should be based on the “trade-date approach”.

6. To avoid doubt, forward deposit or forward loan (including forward placements with any counterparties) should be included in the calculation of the NSFR or CFR as soon as the reporting institution enters into the relevant transaction. For example, if the institution enters into a forward interbank placement transaction on 31 December 2018

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<sup>1</sup> In this document, the meaning of “liability” includes capital unless otherwise specified.

<sup>2</sup> “Accrued interest” means the amount of interest accrued on an asset or liability up to the Return’s position date. In general, accrued interest and the underlying asset or liability should be reported under the same item. Whether accrued interest and the underlying asset or liability can be reported under the same time bucket will depend on the timing of interest receipt or payment. For example, if an institution has granted a loan that has a remaining term to maturity of 12 months while the interest accrued on the loan will be payable to the institution in one month, that amount of accrued interest should be reported under the time bucket of “< 6 months or repayable on demand”, whilst the loan should be reported under the time bucket of “12 months or more”.

and the placement will mature on 31 December 2019, the institution should include the placement in the calculation of its NSFR (or CFR) at the position of 31 December 2018. The placement should be reported according to its final maturity date (31 January 2019), which would fall under the time bucket of “12 months or more”.

### **Reporting currencies**

7. The figures to be reported in this Return should be rounded up to the nearest thousand in Hong Kong dollars (HKD), or HKD equivalent in the case of foreign currency items. The closing middle market T/T rates prevailing at the close of business on the position date should be used for conversion purposes.

### **Determination of “remaining term to maturity”**

8. For determining the “remaining term to maturity”, reference should be made primarily to the contractual term to maturity of the item unless otherwise specified ([Ref: NSFR FAQ 20](#)). Example of date count: If an institution calculates its NSFR (or CFR) for the position of 31 December 2018, an asset or liability item maturing between 30 June 2019 and 30 December 2019 (both days inclusive) should be reported as having a remaining term to maturity of 6 months to less than 12 months. An item maturing on 31 December 2019 should be reported as having remaining term to maturity of 12 months or more.
9. If an asset or liability item will mature by instalments (e.g. instalment loan, or debt securities or capital instruments that will be redeemed in phases), it should be reported according to the remaining term to maturity of each instalment. ([Ref: NSFR FAQ 25](#))
10. If a reporting item is embedded with options that may alter its maturity date, determine the remaining term to maturity as follows:
  - For an ASF or ACF item that is callable –
    - at the option of the reporting institution – assume the option would be exercised if the market has such an expectation or if the otherwise may cause reputational concerns;<sup>3</sup>
    - at the option of a person other than the institution – assume the option

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<sup>3</sup> For example, debt securities issued by the institution, which can be redeemed early at the option of the institution.

would be exercised.<sup>4</sup>

(Ref: Rules 65(6) and 77(6))

- For an ASF or ACF item that is extendable –
  - at the option of the reporting institution – assume the option would not be exercised if the market has such an expectation or if the otherwise may cause reputational concerns;
  - at the option of a person other than the institution – assume the option would not be exercised.

(Ref: NSFR FAQ 27)
- For an RSF or RCF item that is extendable –
  - at the option of the reporting institution – assume the option would be exercised if the market has such an expectation or if the otherwise may cause reputational concerns <sup>5</sup>
  - at the option of a person other than the institution – assume the option would be exercised.<sup>6</sup>

(Ref: Rules 68(5) and 80(5))
- For an RSF item that is callable–
  - at the option of the reporting institution – assume the option would not be exercised if the market has such an expectation or if the otherwise may cause reputational concerns;
  - at the option of a person other than the institution – assume the option would not be exercised.

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<sup>4</sup> For example, deposits taken by the institution, where the timing of deposit withdrawal is determined at the option of depositors.

<sup>5</sup> For example, an institution's nostro balance placed at another bank, where the timing of withdrawing or using the balance is determined at the option of the institution.

<sup>6</sup> For example, non-maturity loan granted by an institution. Please refer to the specified instructions provided in paragraphs 59 and 60-58 and 59 for the reporting of non-maturity loans.

## **No double counting of reported items**

11. No asset or liability can be double counted in the calculation of the NSFR or CFR. To avoid double-counting, the reporting institution should adopt the following reporting approach unless otherwise specified:
- if a liability can be covered by more than one ASF or ACF item, report that liability under the item that is subject to a lower ASF or ACF factor; and
  - if an asset or off-balance sheet obligation can be covered by more than one RSF or RCF item, report that asset or obligation under the item that is subject to a higher RSF or RCF factor.

## **SPECIFIC INSTRUCTIONS**

### **PART 1: SUMMARY CERTIFICATE**

12. Category 1 institutions and category 2A institutions must complete Section (I) and Section (II) of this Part respectively.

#### **(I) Reporting of NSFR shortfall by category 1 institutions**

13. In this Section, a category 1 institution should report in item 1 whether self-rectification under rule 8B has become applicable during the quarter. If the answer is “yes”, complete sub-items 2(a) to (d). For sub-items 2(c) and (d), if self-rectification was still in force on the quarter-end reporting date, insert “N/A”.

14. A category 1 institution should also report in items 3(a) and 3(b) the additional information regarding cryptoasset<sup>7</sup> exposures for NSFR purposes. Item 3(a) collects the total weighted amounts of tokenised claims from customers or counterparties (that meet the criteria set out in paragraph 4 of Annex 3 of Supervisory Policy Manual (SPM) module LM-1) reported under items (I)1 to (I)7 of Part 2 as ASF. Item 3(b) collects the total weighted amounts of cryptoassets as reported under items (II)(A)1 to (II)(A)8, (II)(A)11 and (II)(B) of Part 2 as RSF.

#### **(II) Reporting of average CFR by category 2A institutions**

- 14.15. In this Section, a category 2A institution should report item 1 “Average ACF” and item 2 “Average RCF” for each calendar month during the quarter. The two items should

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<sup>7</sup> The term “cryptoasset” has the meaning given by section 2(1) of the Banking (Capital) Rules (BCR). Please refer to Annex 3 of SPM module LM-1 for further guidance on the treatment of cryptoasset exposures under the NSFR and CFR.

be calculated by dividing the sum of the weighted amounts of ACF, or the sum of the weighted amounts of RCF, as the case may be, maintained by the reporting institution at the close of business on each working day during the reporting calendar month, by the number of working days during that month. If the institution has been approved by the HKMA to calculate its average CFR on the basis of specified days during a calendar month, it should calculate the average ACF and RCF by dividing the sum of the weighted amounts of ACF, or the sum of the weighted amounts of RCF, as the case may be, maintained by the institution at the close of business on each of the specified days during the reporting month by the number of such specified days during that month. If any such specified day is a public holiday, the immediately preceding working day should be taken for the purposes of such calculation.

Item 3 “Average CFR” will be generated automatically from that reported by the reporting institution in items 1 and 2.

In addition, a category 2A institution should report in items 4(a) and 4(b) the additional information regarding cryptoasset exposures for CFR purposes. Item 4(a) collects the total weighted amounts of tokenised claims from customers or counterparties (that meet the criteria set out in paragraph 4 of Annex 3 of SPM module LM-1) reported under items (I)1 to (I)4 of Part 3 as ACF. Item 4(b) collects the total weighted amounts of cryptoassets as reported under items (II)1 to (II)7 and items (II)10 of Part 3 as RCF.

## **PART 2: NET STABLE FUNDING RATIO**

### **General requirements for NSFR**

#### **Interdependent assets and liabilities**

~~15.16.~~ A category 1 institution must not treat any pair of asset and liability as “interdependent” unless –

- (a) in the case of a note-issuing bank, it can recognise “certificates of indebtedness” held and “legal tender notes” issued as “interdependent”;
- (b) in other cases, that permission for treating such asset and liability as interdependent under rule 70(1) has been given by the HKMA.

If the HKMA has given permission for treating a pair of asset and liability as interdependent, a category 1 institution can treat the weighted amounts of both the asset and liability in the pair as \$0, and must report the aggregate value and other required information of the interdependent asset and liability in Annex 4.

The HKMA will grant permission to treat any pair of asset and liability as interdependent only if the criteria set out in rule 70(2) are fully met. In making the decision, the HKMA will also consider whether perverse incentives and unintended consequences are being created. For example, the HKMA will not grant permission if it is of the view that the asset and liability pair is structured with the primary objective to circumvent the NSFR requirement, or if the asset and liability pair still poses considerable funding risk to the institution.

As noted in NSFR FAQ 9, derivative assets and derivative liabilities do not qualify for the treatment of interdependent assets and liabilities.

A category 1 institution should preliminarily discuss its case with the HKMA before submitting any formal application for permission to treat any pair of asset and liability as interdependent. If the HKMA considers that there may be a case for treating the asset and liability pair as interdependent, the institution will be asked to submit a formal application for permission, supported by a comprehensive assessment conducted independently by its compliance department to demonstrate that the criteria set out in rule 70(2) are satisfied fully on a contractual basis.

## Securities financing transactions

~~16.17.~~ Securities financing transactions should be treated as follows (Ref: NSFR standard 32 and NSFR FAQ 5.1):

- (a) NSFR treatment of collateral received in a secured lending (e.g. reverse repo and securities borrowing) transaction is determined by the collateral's balance sheet and accounting treatments, which should generally result in institutions excluding, from their assets, securities which they have received or borrowed in secured lending transactions where they do not have beneficial ownership and keep off-balance sheet. In this case, there is no NSFR treatment for the collateral. If, however, the collateral received is kept on-balance sheet, such collateral should receive an RSF factor according to its characteristics (the asset type, its term, issuers etc.)
- (b) Institutions should include in their assets securities they have posted or lent in secured funding (e.g. repo and securities lending) transactions where they retain beneficial ownership. Where institutions have encumbered securities in secured funding transactions, but have retained beneficial ownership and those assets remain on the institution's balance sheet, the institution should apply the appropriate RSF factor to the encumbered securities.
- (c) In a secured lending transaction where the collateral received does not appear on the institution's balance sheet, and it has been re-hypothecated or sold outright, since the liquidation of the on-balance sheet cash receivable related to the original secured lending transaction is contingent on the return of collateral that is no longer held by the institution, the receivable should be considered as encumbered and reported in Annex 3:
  - If the collateral received has been re-hypothecated, the receivable related to the original secured lending transaction should be considered encumbered for the term of the re-hypothecation of the collateral.
  - If the collateral received has been sold outright, thereby creating a short position, the receivable related to the original secured lending transaction should be considered encumbered for the term of the residual maturity of the secured lending transaction.
- (d) In a secured lending transactions where the collateral received appears on the institution's balance sheet:

- If the collateral has been re-hypothecated, the collateral should be treated as encumbered for the term of the re-hypothecation of the collateral.
- If the collateral has been sold outright, thereby creating a short position, but the cash receivable under the original secured lending transaction remains on the institution's balance sheet under the applicable accounting standards, the receivable should be considered encumbered for the term of the residual maturity of the secured lending transaction.

~~17.18.~~ If the reporting institution has entered into more than one securities financing transaction (e.g. repo or reverse repo transaction) with a counterparty that are covered by a bilateral netting agreement that meets the conditions specified in the second bullet in paragraph 10.3(b)(ii) of Annex 1 of the Completion Instructions for the Return of Leverage Ratio (MA(BS)27),<sup>8</sup> the funding provided and received by the institution arising from those securities financing transactions may be reported on a net basis (Ref: NSFR FAQ 5).

~~18.19.~~ If an asset (e.g. loan) is partially secured by “recognized collateral”<sup>9</sup> and is eligible to be separated into two portions for receiving different levels of risk-weights<sup>10</sup> pursuant

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<sup>8</sup> The required conditions are –

- the relevant securities financing transactions have the same explicit final settlement date; in particular, transactions with no explicit end date but which can be unwound at any time by either party to the transaction are not eligible for netting;
- the right to set off the amount owed to the counterparty with the amount owed by the counterparty is legally enforceable both currently in the normal course of business and in the event of the counterparty's (i) default; (ii) insolvency or (iii) bankruptcy; and
- the counterparties intend to settle net, settle simultaneously, or the transactions are subject to a settlement mechanism that results in the functional equivalent of net settlement, that is, the cash flows of the transactions are equivalent, in effect, to a single net amount on the settlement date. To achieve such equivalence, both transactions are settled through the same settlement system and the settlement arrangements are supported by cash and/or intra-day credit facilities intended to ensure that settlement of both transactions will occur by the end of the business day, and any issues arising from the securities legs of the securities financing transactions do not interfere with the completion of the net settlement of the cash receivables and payables. In particular, this latter condition means that the failure of any single securities transaction in the settlement mechanism may delay settlement of only the matching cash leg or create an obligation to the settlement mechanism, supported by an associated credit facility. If there is a failure of the securities leg of a transaction in such a mechanism at the end of the window for settlement in the settlement mechanism, then this transaction and its matching cash leg must be split out from the netting set and treated gross.

It should be noted that the above conditions are not the same as those governing the netting of derivative transactions under a “valid bilateral netting agreement”.

<sup>9</sup> Please refer to section 77 of the BCR for the meaning of “recognized collateral”.

<sup>10</sup> For NSFR purposes, if a reference is made to the “risk-weight” of an asset, the risk-weight must be determined by the reporting institution according to the standardized (credit risk) approach provided in the

to Part 4 of the BCR-Banking (Capital) Rules (BCR), the asset can also be separated into two portions to receive different levels of RSF factors for NSFR purposes. If the asset will mature by instalments, it can be separated into two portions as if the portion containing instalments maturing later were secured fully while the other portion containing instalments maturing sooner should be treated as if this portion were unsecured. This treatment is subject to the condition that the collateral is contractually pledged to the reporting institution throughout the remaining term to maturity of the asset (Ref: Basel QIS FAQ 40<sup>11</sup>). If the asset cannot be treated separately under the BCR (e.g. the relevant criteria are not met fully), apply the higher RSF factor to the whole asset. (Ref: NSFR FAQ 6)

## **Specific requirements for NSFR**

### **Section (I): Available Stable Funding (ASF)**

#### **Item 1. Capital**

~~19.20.~~ If the reporting institution is incorporated in Hong Kong (hence subject to the HKMA's capital adequacy requirements), follow the instructions below. Otherwise, report "0" in this item.<sup>12</sup>

##### (a) Tier 1 capital (before regulatory adjustments)

~~20.21.~~ Report the book value of Tier 1 capital (before regulatory adjustments), which covers CET1 capital (before regulatory adjustments) and Additional Tier 1 capital (before regulatory adjustments).

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BCR, irrespective of whether the institution is actually using this approach to calculate its credit risk exposures for regulatory capital purposes. (Ref: NSFR FAQ 28)

<sup>11</sup> [http://www.bis.org/bcbs/qis/biiiimplmonifaq\\_sep17.pdf](http://www.bis.org/bcbs/qis/biiiimplmonifaq_sep17.pdf)  
[https://www.bis.org/bcbs/qis/biiiimplmonifaq\\_5.3.pdf](https://www.bis.org/bcbs/qis/biiiimplmonifaq_5.3.pdf)

<sup>12</sup> To calculate the NSFR (or CFR) on the Hong Kong office basis and unconsolidated basis, the reporting institution should report sub-item (a) Tier 1 capital (before regulatory adjustments) and sub-item (b) Tier 2 capital (before regulatory adjustments) on the solo basis (or solo-consolidated basis where applicable) as defined in section 2(1) of the BCR. For the calculation of the NSFR (or CFR) on a consolidated basis that may not be the same as the consolidated basis for the regulatory capital purposes, the reporting institution should report these two sub-items according to the consolidated basis for the regulatory capital purposes. Any capital arising from an associated entity that is not consolidated for regulatory capital purposes should not be reported under sub-item (a) or (b). Such capital should be reported under sub-item (d).

(b) Tier 2 capital (before regulatory adjustments)

~~21.22.~~ Report the book value of Tier 2 capital (before regulatory adjustments) under appropriate columns according to the remaining terms to maturity. To avoid doubt,

- collective provisions<sup>13</sup> and Tier 2 capital instruments without specified terms to maturity should be reported under the column of “No specified term to maturity”. For the collective provisions, report the total amount set aside by the institution in its financial accounts. Disregard the limit of 1.25% under the STC Approach or 0.6% under the IRB Approach specified in section 42 of the BCR;
- regulatory reserves should not be included in the reporting of Tier 2 capital (before regulatory adjustments), as such reserves are not deducted in the calculation of Tier 1 Capital (before regulatory adjustments); and

(c) minority interests not covered by sub-item (a) or (b)

~~22.23.~~ Report the book value of minority interests not covered by sub-item (a) or (b). If there is any minority interest that has a specified term to maturity, report it under the relevant column. Otherwise, report under the column of “No specified term to maturity”. (Ref: NSFR standard paragraph 25(b))

(d) capital instruments not covered by sub-item (a), (b) or (c)

~~23.24.~~ Report the book value of any other capital instruments not covered by sub-item (a), (b) or (c). For example, capital instruments not meeting the criteria set out in Schedules 4A, 4B and 4C (hence not qualified for recognition as CET1 capital, Additional Tier 1 capital or Tier 2 capital) should be reported under this sub-item according to the instruments’ remaining terms to maturity.

## **Item 2. Debt securities or prescribed instruments issued by the institution**

~~24.25.~~ Report the book value of outstanding debt securities and prescribed instruments issued by the reporting institution according to their remaining terms to maturity. To avoid doubt, this item also covers stablecoins issued by the institution that meet the criteria set out in paragraph 6 of Annex 3 of SPM module LM-1. However, debt securities and prescribed instruments issued and held by the institution (or the institution’s

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<sup>13</sup> In line with the capital treatment, the provisions made by the reporting institution at “Stage 1” and “Stage 2” under HKFRS9 are regarded as “collective provisions”. For NSFR and CFR purposes, these provisions are included in the calculation of “Tier 2 capital instruments (before regulatory adjustments)” by a locally incorporated institution. In the case of an overseas-incorporated institution’s Hong Kong branch, please refer to paragraph 38-37.

~~overseas branch or specified associated entities included in the calculation of NSFR on an unconsolidated or consolidated basis) — To avoid doubt, debt securities and prescribed instruments issued and held by the institution (or the institution’s overseas branch or specified associated entities included in the calculation of NSFR on an unconsolidated or consolidated basis)~~ should be reported under item 11 (if not derecognised under the applicable accounting standard).

### Item 3. Retail deposits

~~25.26.~~ Report the book value of stable retail deposits under sub-item (a). Such deposits may include both demand deposits and term deposits that fall within the definition of “stable retail deposits” under rule 39<sup>14</sup> (Ref: NSFR FAQ 22). Other retail deposits (including demand deposits and term deposits taken from retail customers but not recognised as “stable”) should be reported under sub-item (b).

~~26.27.~~ For completing this item, deposits withdrawable on demand (hence without a specified term to maturity) should be reported under the column of “< 6 months or repayable on demand”. Term deposits should be reported according to the contractual remaining terms to maturity. If, however, a term deposit may be withdrawn before the maturity date without entailing a withdrawal penalty significantly greater than the loss of interest accrued on the deposits<sup>15</sup>, that deposit should be reported under the column of “<6 months or repayable on demand”.

~~27.28.~~ For compliance with rule 64, if a category 1 institution incorporated in Hong Kong has any overseas branch or overseas-incorporated associated entity that takes retail deposits in a host country and the requirements applicable to the relevant deposits under the host country’s NSFR framework are different from (but not less stringent than) the requirements set out in the BLR, the institution should, for the calculation of its NSFR on the unconsolidated basis or consolidated basis covering the branch or entity, apply the host country’s requirements to account for the relevant deposits. For example, whether the relevant deposits should be classified as “stable retail deposit” (hence covered by item 3(a) instead of item 3(b)) would be determined according to the host country’s classification criteria. For example, if the institution has the following retail deposit positions and the retail deposits taken by its overseas operation are subject to a

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<sup>14</sup> The definition of “stable retail deposit” provided in rule 39 has been amended such that term deposits taken from retail customers having a remaining term beyond 30 days may also be recognised as “stable retail deposits” under both the NSFR and LCR, provided that the other criteria for this class of deposits are met fully.

<sup>15</sup> See the HKMA’s guidance provided in paragraphs 5.8.12 to 5.8.14 of ~~SPM Supervisory Policy Manual~~ (SPM) module LM-1.

set of ASF factors that is more stringent than that prescribed in the BLR, the institution should complete item 3 in the following way:

Retail deposits taken by HK office (classified according to BLR)	< 6 months or repayable on demand	6 months to <12 months	12 months or more	No specified term to maturity	ASF factor under BLR			Weighted amount
					90%	95%	100%	
(a) stable retail deposits	1,000	900	800		90%	95%	100%	2555
(b) retail deposits not covered by sub-item (a)	2,000	1800	1600		90%	90%	100%	5110

Retail deposits taken by overseas operation (classified according to host country's requirements)	< 6 months or repayable on demand	6 months to <12 months	12 months or more	No specified term to maturity	ASF factor in host country			Weighted amount
					80%	90%	100%	
(a) stable retail deposits	500	400	300		80%	90%	100%	1060
(b) retail deposits not covered by sub-item (a)	250	200	150		70%	80%	100%	485

3. Retail deposits	< 6 months or repayable on demand	6 months to <12 months	12 months or more	No specified term to maturity	ASF factor (insert N/A for each cell)			Weighted amount
(a) stable retail deposits	1,500	1,300	1,100		N/A	N/A	N/A	3,615
(b) retail deposits not covered by sub-item (a)	2,250	2,000	1,750		N/A	N/A	N/A	5,595

#### Item 4. Small business funding

~~28.29.~~ Complete this item in a manner similar to item 3.

#### Item 5. Operational deposits

~~29.30.~~ Report the book value of operational deposits taken by the reporting institution. An operational deposit without a specified term to maturity should be reported under the column of “<6 months or repayable on demand”. If an operational deposit has a specified term to maturity, report that deposit under the appropriate column.

#### Item 6. Funding (other than operational deposits) provided to the institution

~~30.31.~~ Report the book value of funding (other than operational deposits) provided to the institution by the specified types of counterparties.

~~31.32.~~ Report under sub-item (a) funding provided by corporates (other than small business customers), sovereigns, multilateral development banks, national development banks<sup>16</sup> and public sector entities.

<sup>16</sup> Pursuant to rule 59(1), “national development bank” (NDB) means an entity specified in Schedule 7 of BLR or specified by the relevant banking supervisory authority of a place outside Hong Kong. While the HKMA has not yet specified any entity as an NDB in Schedule 7, we will keep under review the need to make such specifications. For reporting funding received from overseas NDBs, category 1 institutions should verify if their funding counterparties have been specified as NDBs by the relevant overseas banking supervisory authorities for NSFR calculation purposes.

**32.33.** Report under sub-item (b) funding provided to the institution by the HKMA or central banks.

**33.34.** Funding provided by financial institutions and other entities not covered by sub-item (a) or (b) should be reported under sub-item (c). According to NSFR FAQ 2, “financial institutions” for the application of the NSFR standard include banks, securities firms, insurance companies, fiduciaries (defined in this context as a legal entity that is authorised to manage assets on behalf of a third party, including asset management entities such as pension funds and other collective investment vehicles) and beneficiaries (defined in this context as a legal entity that receives, or may become eligible to receive, benefits under a will, insurance policy, retirement plan, annuity, trust or other contract). **To avoid doubt, the book value of liabilities arising from tokenised claims from customers or counterparties (that meet the criteria set out in paragraph 4 of the Annex 3 of SPM module LM-1) should also be reported under sub-item (c) if the reporting institution cannot identify, at all times, the holders of the cryptoassets issued.**

#### **Item 7. Funding provided to the institution not covered by items 1 to 6**

**34.35.** Report the book value of funding provided to the reporting institution but not covered by items 1 to 6, if any.

**35.36.** In the case of an overseas-incorporated institution, the earnings of its Hong Kong branch should also be covered by this item. Report the earnings according to the earliest possible date on which such earnings may cease to be retained at the branch. For example, earnings retained at the branch for a specified period should be reported under the appropriate column. If the earnings may be transferred out of the branch (e.g. to its head office) on demand, report the earnings under the column of “< 6 months or repayable on demand”. If the transfer is subject to a specified period of advance notice, report the earnings according to the specified period of advance notice. If the earliest possible date of transfer cannot be determined practically (e.g. the transfer is subject to an advance notice period but the notice period has not been specified), report the earnings under the column of “no specified term to maturity”.

**36.37.** If a foreign bank branch is incurring a loss, follow the above instruction to report the loss, which should be presented with a negative figure.

**37.38.** Collective provisions set aside by an overseas-incorporated institution’s Hong Kong branch can also be reported under this item (under the time bucket of “12 months or more”).

## Item 8. Deferred tax liabilities

38.39. For a deferred tax liability that has no specified term to maturity, report the item according to rule 65(4) as follows:

- if the earliest possible realisation of the liability is in less than 6 months, the liability is to be treated as having a remaining term to maturity of less than 6 months or being repayable on demand;
- if the earliest possible realisation of the liability is in less than 12 months but not less than 6 months, the liability is to be treated as having a remaining term to maturity of 6 months to less than 12 months; or
- if the earliest possible realisation of the liability is in not less than 12 months, the liability is to be treated as having a remaining term to maturity of 12 months or more.

39.40. If the institution cannot determine the earliest possible realisation date of a deferred tax liability, report the liability under the column of “< 6 months or repayable on demand”.

## Item 9. Net derivative liabilities

40.41. Complete Annex 1, which will generate a figure for this item.

## Item 10. Trade-date payables

41.42. Report the book value of trade-date payables according to the definition of such payables provided in rule 54(1).

## Item 11. Liabilities not covered by items 1 to 10

42.43. Report the value of other on-balance sheet liabilities not covered by items 1 to 10. For example, operating expenses payable by the institution should be covered by this item. Also, any liability or funding denominated in the other group 2 cryptoassets (as referred to in paragraph 8(b) of Annex 3 of SPM module LM-1) should also be covered by this item.

## **Section (II): Required Stable Funding (RSF)**

### **(A) Unencumbered assets, off-balance sheet obligations and total derivative liabilities (before adjustments)**

~~43.44.~~ The assets covered by items 1 to 11 of this Section should be free from encumbrance unless otherwise specified (see items 2 and 8). An asset is not free from encumbrance if the asset is pledged by the institution, either explicitly or implicitly, to secure, collateralise or provide credit enhancement to a transaction, or the asset is designated by the institution to cover specific expenses.

#### **Item 1. Currency notes and coins**

~~44.45.~~ Report the book value of currency notes and coins held by the institution. Such notes and coins should be immediately available to meet the institution's obligations.

#### **Item 2. Claims on the Monetary Authority for the account of the Exchange Fund or central banks**

~~45.46.~~ Report under sub-item (a) the book value of the reporting institution's fund maintained at the HKD CHATS Account. This sub-item also covers the institution's reserves placed at a central bank (including the portion for meeting the central bank's reserve requirement and any excess portion).

~~46.47.~~ Report under sub-item (b) all other claims on the HKMA or central banks not covered by sub-item (a), having a remaining term to maturity of less than 6 months or being repayable on demand (Ref: NSFR FAQ 19). For example, such claims may arise from short-term money market transactions or securities financing transactions conducted by the institution with the HKMA or central banks, or the institution's holding of marketable debt securities issued by the HKMA or central banks where such securities have remaining terms to maturity of less than 6 months. Other debt securities issued by the HKMA or central banks with a maturity period of 6 months or more should be reported under item 3. (Ref: NSFR FAQ 1)

~~47.48.~~ To avoid doubt, RMB funds placed at the institution's RMB Fiduciary Account can be reported under sub-item (b) if the funds are withdrawable on demand or within a period of less than 6 months.

~~48.49.~~ Report under sub-item (c) the book value of loans (if any) provided to the HKMA or central banks, having a remaining term to maturity of 6 months or more, or having no specified term to maturity (other than those repayable on demand that are covered by sub-item (a)). If a loan covered by this sub-item is subject to a risk-weight of 20% or

less under section 55 of the BCR, report it under sub-item (c)(i). Otherwise, report under sub-item (c)(ii).

### **Item 3. Securities held by the institution (other than securities representing the institution's claims covered by item 2(b))**

~~49.50.~~ Report under sub-items (a) to (c) the fair value of securities falling within the classes of level 1 assets, level 2A assets and level 2B assets specified in Part 2 of Schedule 2 to the BLR.

~~50.51.~~ Report under sub-item (d) any debt securities not covered by sub-item (a), (b) or (c). Debt securities or prescribed instruments that are not marketable should be covered by this sub-item. To avoid doubt, stablecoins (meeting the criteria set out in paragraph 6 of Annex 3 of SPM module LM-1) held should also be reported under this sub-item.

~~51.52.~~ Report under sub-item (e) the fair value of listed equities not covered by sub-item (c) held by the institution. To avoid doubt, listed derivative products (such as exchange-traded futures, options and warrants) should not be covered by this item, but by Annex 1.

~~52.53.~~ The reporting of securities long and short positions under item 3 should depend on the applicable accounting standards. For example, if an institution is required under the accounting standards to recognise its securities long position as its on-balance sheet asset on a gross basis, it should also report its securities holding position on a gross basis under this item. Securities holding position should not be reported on a net long basis under this item, unless this is allowed under the applicable accounting standards.

### **Item 4. Physical traded commodities held by the institution**

~~53.54.~~ Report the fair value of physical traded commodities (e.g. gold) held by the reporting institution. Commodity-related derivative contracts should not be covered by this item, but by Annex 1.

### **Item 5. Operational deposits placed by the institution at other financial institutions**

~~54.55.~~ Report the book value of operational deposits placed by the reporting institution at other financial institutions. If an operational deposit covered by this item is repayable on demand or has a specified term to maturity, report it under the appropriate column. Otherwise, report it under the column of "No specified term to maturity".

**Item 6. Loans and funds (other than operational deposits) provided by the institution to other financial institutions**

55-56. Report the book value of loans and funds (other than the operational deposits covered by item 5) provided by the reporting institution to other financial institutions. For example, such loans and funds include the reporting institution's placements at, and other secured or unsecured funding granted to, financial institutions. Sub-item (a) covers loans and funds secured by level 1 assets that can be re-hypothecated by the reporting institution for the life of the loan. Other loans and funds are covered by sub-item (b).

56-57. If the loans and funds covered by this item are repayable on demand (e.g. nostro balances that are repayable to the institution on demand) or have a specified term to maturity, report them under the appropriate column. Otherwise, report them under the column of "No specified term to maturity".

**Item 7. Loans and funds provided by the institution to retail customers and wholesale customers (other than the Monetary Authority for the account of the Exchange Fund, central banks and financial institutions)**

57-58. This item covers all loans and funds provided by the institution to retail customers, and wholesale customers (e.g. small business customers, corporates, sovereigns, multilateral development banks, national development banks and public sector entities) other than the Monetary Authority, central banks and financial institutions. Report under sub-item (a) the book value of loans and funds which are subject to a risk-weight of 35% or less under Division 3 of Part 4 of the BCR. Otherwise, report the loans and funds under sub-item (b).

58-59. Report the loans and funds under the appropriate columns according to their remaining terms to maturity. Loans without a stated maturity (such as overdraft and credit card balances except the periodic repayment portion that is addressed separately in paragraph 60-59) granted by the reporting institution should be reported under the column of "no specified term to maturity" (Ref: NSFR FAQ 18). If a loan is drawn under a facility and there is a contractual provision that the loan or facility is subject to periodic review to determine whether it is renewed or not, the institution may regard the next review date as the loan's maturity date. In doing so, the institution should consider the actual likelihood of terminating the loan or facility (e.g. the institution has decided not to renew the facility). In particular, options by an institution not to renew a facility should generally be assumed not to be exercised when there may be reputational concerns. (Ref: NSFR FAQ 21)

~~59.60.~~ To avoid doubt, loans drawn under revolving facilities but repayable according to predefined schedules (whether by instalments or by one single bullet) can be reported according to the schedules. Such loans include, for example, the monthly minimum repayment portions of credit card balances, fixed-term trade-financing loans, and any other fixed term personal or corporate loans drawn under revolving facilities.

#### **Item 8. Assets posted by the institution as initial margins or default fund contributions**

~~60.61.~~ Report the book value of assets (whether in the form of cash or other types of asset) posted by the reporting institution to counterparties as initial margins (IM) or default fund contributions (DFC) under all derivative contracts regardless of whether the assets are maintained on the institution's balance sheet (Ref: NSFR FAQ 15).

~~61.62.~~ If an asset posted by the institution as IM or DFC falls within a type of assets that would have been subject to an RSF factor of 100% had it not been posted by the institution, report that asset under sub-item (a). Otherwise, report under sub-item (b).

~~62.63.~~ Exclude those IM or DFC posted on behalf of the institution's customers if the institution does not provide guarantee to its customer on its counterparty's performance, meaning that the customer (but not the institution) is exposed to the risk of default of the counterparty.<sup>17</sup>

~~63.64.~~ If the IM or DFC posted by the reporting institution is not separable from variation margins (VM), follow the instructions below:

- for non-centrally cleared over-the-counter derivative contracts, any fixed independent amount an institution is contractually required to post at the inception of the derivative transaction should be considered as IM, regardless of whether any portion of this amount is returned to the institution in the form of VM. If the IM level is formulaically determined on a portfolio basis (i.e. based on the aggregate value of all derivative contracts between the reporting institution and its counterparty), the amount considered as IM should be determined according to the portfolio value at the time when the institution calculates its NSFR, notwithstanding that the amount of margin actually posted by the institution to its counterparty may be lower because of VM payments received.

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<sup>17</sup> For example, this may refer to a situation where the reporting institution provides a customer access to a third party (e.g. a central counterparty) for clearing derivative contracts, where the contracts are executed in the name of the customer and the institution does not guarantee the performance of the third party. (Ref: NSFR FAQ 10)

- for centrally cleared derivative contracts, the IM reported under this item should reflect the total amount of margin posted (IM and VM) by the reporting institution less any mark-to-market losses on the applicable portfolio of cleared transactions.

(Ref: NSFR FAQ 13)

### **Item 9. Net derivative assets**

~~64.65.~~ Complete Annex 1, which will generate a figure for this item.

### **Item 10. Trade-date receivables**

~~65.66.~~ Report the book value of trade-date receivables according to the definition of such receivables provided in rule 54(1).

### **Item 11. Assets not covered by items 1 to 10**

~~66.67.~~ Report under sub-item (a) the book value of fixed assets, investments in associated entities and other unlisted equities, goodwill and other intangible assets, assets of any defined benefit pension fund or plan, investments in own capital instruments (if not derecognised under applicable accounting standards), insurance assets, retained interests, non-performing assets (net of specific provisions<sup>18</sup>), and other assets that do not have specified terms to maturity. In addition, report the fair value (or book value where applicable) of all other group 2 cryptoassets (as referred to in paragraph 8(b) of Annex 3 of SPM module LM-1) held, regardless of their residual maturity, under this sub-item.

~~67.68.~~ Report under sub-item (b) the book value of other assets that are repayable on demand or have specified terms to maturity.

### **Item 12. Off-balance sheet obligations**

~~68.69.~~ Complete Annex 2, which will generate a figure for this item.

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<sup>18</sup> The meaning of “specific provisions” provided in section 2(1) of the BCR is also applicable for NSFR and CFR purposes. In line with the capital treatment, such provisions are made by the reporting institution at “Stage 3” (or for purchased or originated credit-impaired financial assets at initial recognition) under the HKFRS 9.

### **Item 13. Total derivative liabilities (before adjustments)**

68A. Complete this item in a manner similar to item 4 of Annex 1. For the purposes of calculating this item, derivatives structured as “settled-to-market”<sup>19</sup> should be included. The replacement cost of these derivatives should be calculated as if no settlement payments and receipts had been made to account for the changes in the value of the derivative transaction or a portfolio of derivative transactions.

#### **(B) Encumbered assets**

~~69.70.~~ Complete Annex 3, which will generate the total weighted amount of encumbered assets for this item.

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<sup>19</sup> Derivative contracts are said to be “settled to market” when the variation margin on cleared derivatives is recorded as settlement payments rather than as transfer of collateral. This practice allows the banks to take ownership of the collateral they receive. Under these contracts, daily payments of mark-to-market variation margin are recorded as settlements of the derivatives transactions rather than transfers of collateral and the market value of the derivatives is reset daily to zero. [Explanatory note: the treatment of “settled-to-market” derivatives was originally set out in item 2 of the responses of the Basel Committee on Banking Supervision to FAQs issued on 20 September 2018.]

## **PART 3: CORE FUNDING RATIO**

### **General requirements for reporting of CFR**

#### **Securities financing transactions**

~~70.71.~~ For the CFR, securities financing transactions should be treated as follows:

- (a) CFR treatment of collateral received in a secured lending (e.g. reverse repo and securities borrowing) transaction is determined by the collateral's balance sheet and accounting treatments, which should generally result in institutions excluding, from their assets, securities which they have received or borrowed in secured lending transactions where they do not have beneficial ownership and keep off-balance sheet. In this case, there is no CFR treatment for the collateral. If, however, the collateral received is kept on-balance sheet, such collateral should receive an RCF factor according to its characteristics (the asset type, its term, issuers etc.)
- (b) Institutions should apply the appropriate RCF factor to securities they have posted or lent in secured funding (e.g. repo and securities lending) transactions where they retain beneficial ownership and keep the securities on the institutions' balance sheet.

~~71.72.~~ If the asset received under a secured lending transaction is re-hypothecated or sold outright under another secured funding transaction, treat the two transactions separately according to the instructions provided in paragraph ~~71-70~~.

~~72.73.~~ If the reporting institution has entered into more than one securities financing transaction (e.g. repo or reverse repo transaction) with a particular counterparty that are covered by a bilateral netting agreement that meets the conditions specified in the second bullet in paragraph 10.3(b)(ii) of Annex 1 of the Completion Instructions for the Return of Leverage Ratio (MA(BS)27), the funding provided and received by the institution arising from those securities financing transactions may be reported on a net basis.

### **Section (I): Available Core Funding (ACF)**

#### **Item 1. Capital**

~~73.74.~~ To complete this item, follow the instructions provided for item 1 of Section (I) of Part 2.

## Item 2. Debt securities or prescribed instruments issued by the institution

~~74.75.~~ Report the book value of outstanding debt securities and prescribed instruments issued by the reporting institution according to their remaining terms to maturity. **To avoid doubt, this item also covers stablecoins issued by the institution that meet the criteria set out in paragraph 6 of Annex 3 of SPM module LM-1. However, debt securities and prescribed instruments issued and held by the reporting institution (or the institution's overseas branch or specified associated entities included in the calculation of CFR on an unconsolidated or consolidated basis) ~~To avoid doubt, debt securities and prescribed instruments issued and held by the reporting institution (or the institution's overseas branch or specified associated entities included in the calculation of NSFR on an unconsolidated or consolidated basis)~~ should be reported under item 8 (if not derecognised under the applicable accounting standard) (receiving an ACF factor of 0%).**

## Item 3. Deposits

~~75.76.~~ Report the book value of deposits taken by the reporting institution from non-bank customers. Deposits without a specified term to maturity should be reported under the column of “< 6 months or repayable on demand”. Term deposits should be reported according to their contractual remaining terms to maturity.

## Item 4. Funding provided to the institution not covered by item 1, 2 or 3

~~76.77.~~ Report the book value of funding provided to the reporting institution but not covered by item 1, 2 or 3. This item covers the secured or unsecured non-deposit funding provided to the institution by all type of counterparties.

~~77.78.~~ Funding provided to the institution for a specified period should be reported under the appropriate column according to its remaining terms to maturity. Perpetual funding provided to the institution (e.g. by its parent or head office) can be reported under the column of “12 months or more”. Otherwise, report any funding without specified terms to maturity according to the earliest possible day of repayment. If the funding is repayable on demand, report the funding under the column of “< 6 months or repayable on demand”. If the repayment is subject to a specified period of advance notice, report the funding according to the specified period of advance notice. If the earliest possible repayment date cannot be determined practically (e.g. the repayment is subject to an advance notice period but the notice period has not been specified), report the funding under the column of “no specified term to maturity”.

78.79. The earnings and collective provisions of an overseas-incorporated institution's Hong Kong branch should also be covered by this item. The relevant instructions provided in paragraphs 36 to 38-35 to 37 for item 7 of Section (I) for the NSFR are also applicable for reporting this item under the CFR.

#### **Item 5. Deferred tax liabilities**

79.80. For a deferred tax liability that has no specified term to maturity, report the item according to rule 77(4) as follows:

- if the earliest possible realisation of the liability is in less than 6 months, the liability is to be treated as having a remaining term to maturity of less than 6 months or being repayable on demand;
- if the earliest possible realisation of the liability is in less than 12 months but not less than 6 months, the liability is to be treated as having a remaining term to maturity of 6 months to less than 12 months; or
- if the earliest possible realisation of the liability is in not less than 12 months, the liability is to be treated as having a remaining term to maturity of 12 months or more.

80.81. If the institution cannot determine the earliest possible realisation date of a deferred tax liability, report the liability under the column of "< 6 months or repayable on demand".

#### **Item 6. Net derivative liabilities**

81.82. Complete Annex 1, which will generate a figure for this item.

#### **Item 7. Trade-date payables**

82.83. Report the book value of trade-date payables according to the definition of such payables provided in rule 54(1).

#### **Item 8. Liabilities not covered by items 1 to 7**

83.84. Report the book value of other on-balance sheet liabilities not covered by items 1 to 7. For example, operating expenses payable by the institution should be covered by this item. Also, any liability or funding denominated in the other group 2 cryptoassets (as referred to in paragraph 8(b) of Annex 3 of SPM module LM-1) should also be covered by this item.

## **Section (II): Required Core Funding (RCF)**

### **Item 1. Currency notes and coins**

**84.85.** Report the book value of currency notes and coins held by the institution.

### **Item 2. Gold bullion**

**85.86.** Report the fair value of gold bullion held by the institution.

### **Item 3. Claims on, or reserves maintained with, the Monetary Authority for the account of the Exchange Fund or central banks**

**86.87.** Report the book value of claims on, or reserves maintained with, the Monetary Authority or central banks, irrespective of the remaining terms to maturity of such claims or reserves.

**87.88.** To avoid doubt, RMB funds placed at the institution's RMB Fiduciary Account can be reported under this item.

### **Item 4. Export bills**

**88.89.** Report the book value of export bills according to their remaining terms to maturity.

### **Item 5. Securities or prescribed instruments held by the institution**

**89.90.** Report under sub-item (a) the fair value of securities or prescribed instruments mentioned in item 5(a) of Table 4 to Schedule 6 (which refers to item 6 of Table A of Section 2 of Schedule 5) to the BLR. Report under sub-item (b) the fair value of listed ordinary shares mentioned in item 5(ab) of Table 4 to Schedule 6 (which are the same as those referred to in item 6A of Table A of section 2 of Schedule 5) to the BLR. Other securities and instruments **(including stablecoins meeting the criteria set out in paragraph 6 of Annex 3 of SPM module LM-1)** should be reported under sub-item (c) according to their remaining terms to maturity. Report perpetual securities or prescribed instruments under the column of "no specified term to maturity". For example, listed equities not covered by sub-item (b) should be covered by sub-item (c) under this column.

**90.91.** The reporting of securities long and short positions under item 5 should depend on the applicable accounting standards. For example, if an institution is required under the accounting standards to recognise its securities long position as its on-balance sheet

asset on a gross basis, it should also report its securities holding position on a gross basis under this item. Securities holding position should not be reported on a net long basis under this item, unless this is allowed under the applicable accounting standards.

#### **Item 6. Loans and funds provided by the institution to banks**

91.92. Report the book value of loans and funds provided by the reporting institution to banks according to the remaining terms to maturity of the loans and funds. Loans and funds repayable on demand should be covered by the column of “< 6 months or repayable on demand”. For example, nostro balances placed at other banks that are repayable on demand should be covered by this column (unless there are any embedded options that may change the maturity profile of the loans and funds – see general instructions provided in paragraph 10).

92.93. In the cases of loans and funds provided by the institution to a bank with no specified term to maturity but not repayable to the institution on demand (e.g. intragroup loans and funds provided to affiliate banks), reported the loans and funds under the column of “no specified term to maturity”.

#### **Item 7. Loans and funds provided by the institution to customers (other than the Monetary Authority for the account of the Exchange Fund, central banks and banks)**

93.94. Report under sub-item (a) the book value of residential mortgage loans mentioned in item 7 of Table A in section 2 of Schedule 5 to the BLR. Other loans and funds provided by the reporting institution to non-bank and non-central-bank customers should be reported under sub-item (b) according to their remaining terms to maturity.

94.95. To report non-maturity loans under this item, follow the instruction provided in paragraphs 59 and 60-58 and 59.

#### **Item 8. Net derivative assets**

95.96. Complete Annex 1, which will generate a figure for this item.

#### **Item 9. Trade-date receivables**

96.97. Report the book value of trade-date receivables according to the definition of such receivables provided in rule 54(1).

#### **Item 10. Assets not covered by items 1 to 9**

**97.98.** Report under sub-item (a) the book value of fixed assets, investments in associated entities and other unlisted equities, goodwill and other intangible assets, assets of any defined benefit pension fund or plan, investments in own capital instruments (if not derecognised under applicable accounting standards), insurance assets, retained interests, non-performing assets (net of specific provisions), and other assets that do not have specified terms to maturity. In addition, report the fair value (or book value where applicable) of all other group 2 cryptoassets (as referred to in paragraph 8(b) of Annex 3 of SPM module LM-1) held, regardless of their residual maturity, under this sub-item.

**98.99.** Report under sub-item (b) the book value of other assets that are repayable on demand or have specified terms to maturity.

### **Item 11. Off-balance sheet obligations**

**99.100.** Complete Annex 2, which will generate a figure for this item.

### **Item 12. Total derivative liabilities (before adjustments)**

**100.101.** Complete this item in a manner similar to item 4 of Annex 1. For the purposes of calculating this item, derivatives structured as “settled-to-market”<sup>20</sup> should be included. The replacement cost of these derivatives should be calculated as if no settlement payments and receipts had been made to account for the changes in the value of the derivative transaction or a portfolio of derivative transactions.

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<sup>20</sup> See Footnote **19-18**

**Annex 1**  
**Derivative assets, liabilities and margins**

1. Annex 1 covers all derivative contracts, whether traded over-the-counter or with a central counterparty. Each reporting institution must complete this Annex, which will generate the required figures to complete item 9 of section (I) and item 9 of section (II) of Part 2 (in case of a category 1 institution), or item 6 of section (I) and item 8 of section (II) of Part 3 (in case of a category 2A institution).

**Item 1. Total derivative assets**

2. Report the sum of the replacement costs of derivative contracts between the reporting institution and its counterparties, where each of those contracts has a positive replacement cost.
3. If the institution has entered into 2 or more derivative contracts with a particular counterparty that are subject to a valid bilateral netting agreement, the institution must determine the aggregate net value of those contracts according to rule 58. If the aggregate net value of these contracts is positive, include that value in reporting under item 1. (Otherwise, report that value in absolute term under item 4.)

**Item 2. Cash variation margin received by the institution under the derivative contracts covered by item 1**

4. Report the book value of variation margin (VM) received in the form of cash by the reporting institution under the derivative contracts covered by item 1, provided that the conditions set out in Paragraph 10.2(h) of Annex 1 of the Completion Instructions for the Return of Leverage Ratio (MA(BS)27) are satisfied. <sup>21</sup>

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<sup>21</sup> These conditions are:

- (i) For trades not cleared through a qualifying central counterparty, the cash received by the recipient counterparty is not segregated (i.e. if the recipient counterparty has no restrictions by law, regulation or any agreement with the counterparty on the ability to use the cash received. In other words, the cash variation margin received is used as its own cash);
- (ii) the cash variation margin is calculated and exchanged on a daily basis based on mark-to-market valuation of derivative positions. To meet this criterion, derivative positions must be valued daily and cash variation margin must be transferred daily to the counterparty or the counterparty's account, as appropriate. Cash variation margin exchanged on the morning of the subsequent trading day based on the previous, end-of-day market values would meet this criterion;
- (iii) the cash variation margin is received in any currency of settlement specified in the derivative contract, governing qualifying bilateral netting agreement, the credit support annex to the qualifying bilateral netting agreement, or as defined by the netting agreement with a central counterparty;
- (iv) variation margin exchanged is the full amount that would be necessary to extinguish the mark-to-

5. In the memorandum item 2A, report, if any, the book value of non-cash VM received by the institution where this portion of VM is not covered by item 2. This item will facilitate the HKMA's future policy study.
6. To avoid doubt, if any amount of the cash VM received by the institution covered by item 2 is recognised as the institution's on-balance sheet liability under the applicable accounting standards, that amount should not be reported under any ASF (or ACF) item in order to avoid double-counting. If there is any VM received by the institution (and recognised as on-balance sheet liability) but not covered by item 2 (e.g. non-cash VM and excess cash VM received), report such VM under item 11 of section (I) of Part 2 (for the NSFR) or item 8 of section (I) of Part 3 (for the CFR).

#### **Item 4. Total derivative liabilities**

7. Report the sum of the replacement costs of derivative contracts between the reporting institution and its counterparties, where each of those contracts has a negative replacement cost before adjustment for any variation margin posted by the institution to the counterparty under the contract. If the institution has entered into 2 or more derivative contracts with a particular counterparty that are subject to a valid bilateral netting agreement, the institution must determine the aggregate net value of those contracts according to rule 58. If the aggregate net value of these contracts is negative, include the absolute value under item 4.

#### **Item 5. Variation margin posted by the institution under the derivative contracts covered by item 4**

8. Report the amount of VM (whether in form of cash or any other type of asset) posted by the reporting institution under the derivative contracts covered by item 4.

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market exposure of the derivative contract subject to the threshold and minimum transfer amounts applicable to the counterparty; and

- (v) derivative contracts and the variation margins are covered by a single bilateral netting agreement between the legal entities that are the counterparties in the derivative transaction. The bilateral netting agreement must explicitly stipulate that the counterparties agree to settle net any payment obligations covered by such a netting agreement, taking into account any variation margin received or provided, if a credit event occurs as to either counterparty. For the purpose of this paragraph, the term "bilateral netting agreement" includes any netting agreement or arrangement that provides legally enforceable rights of offset and a master bilateral netting agreement may be deemed to be a single bilateral netting agreement. The bilateral netting agreement must be legally enforceable and effective (i.e. it meets the relevant conditions set out in the definition of "valid bilateral netting agreement" under section 2(1) of the BCR) in all relevant jurisdictions, including in the event of default and bankruptcy or insolvency. Any bilateral netting agreement that can satisfy the conditions described in this paragraph is referred to as "qualifying bilateral netting agreement".

9. To avoid doubt, if any amount of VM posted by the institution covered by item 4 is recognised as the institution’s on-balance sheet asset under the applicable accounting standards, that amount should not be reported under any RSF (or RCF) item in order to avoid double-counting. (Ref: NSFR standard footnote 7)

### Numerical Example

10. Assuming that an institution has entered into a valid bilateral netting agreement with a particular counterparty “C” and the institution has the following derivative positions arising from the derivative transactions with C:

	Outstanding value
(a) Derivative assets arising from transactions with C	1,000
(b) Derivative liabilities arising from transactions with C	(5,000)
(c) Variation margins posted by the institution to C	800
(d) Cash variation margins received by the institution from C	100
<b>(e) Aggregate net value of all derivative contracts with C</b> (Negative sign represents the liability nature of the calculation result.)	<b>1,000-5,000+800-100 =</b> <b>(3,300)</b>

These contracts with C should be singled out to calculate the aggregate net value. The calculation result is -3,300, meaning that the institution has net derivative liabilities of 3,300 arising from the derivative contracts with C.

11. Separately, the institution has the following derivative positions arising from the derivative transactions with other counterparties which are not subject to a valid bilateral netting agreement:

	Outstanding value
(f) Derivative assets arising from transactions with other counterparties	20,000
(g) Derivative liabilities arising from transactions with other counterparties	(30,000)
(h) Variation margins posted by the institution to other counterparties	7,000
(i) Cash variation margins received by the institution from other counterparties	4,000
(j) Non-cash variation margins received by the institution from other counterparties	1,500

12. In Annex 1, the institution should report –

Item 1 = (f) = 20,000

Item 2 = (i) = 4,000

Item 2A = (j) = 1,500  
Item 3 (auto) = Item 1 – Item 2 = 16,000  
Item 4 = Absolute value [(e)<sup>22</sup> + (g)] = 33,300  
Item 5 = (h) = 7,000  
Item 6 (auto) = Item 4 – Item 5 = 26,300  
Item 7 (auto) = 0 (In this example, the institution does not have net derivative assets.)  
Item 8 (auto) = Absolute value [Item 3 – Item 6] = 10,300

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<sup>22</sup> In this example, since the aggregate net value of all derivative contracts with C is a negative value, it is included in item 4. If the aggregate net value is a positive value, it must be included in item 1 instead.

**Annex 2**  
**Off-balance sheet obligations**

1. Each reporting institution must complete Annex 2, which will generate the required figures to complete item 12 of section (II) of Part 2 (for the NSFR) or item 11 of section (II) of Part 3 (for the CFR).

**Item 1. Potential drawdown of undrawn committed facilities**

2. Report under item 1 the amount of undrawn committed facilities which are not unconditionally revocable as assessed reasonably by the reporting institution.<sup>23</sup>

**Item 2. Potential drawdown of uncommitted facilities**

3. Report under item 2 the amount of undrawn uncommitted facilities which are unconditionally revocable as assessed reasonably by the reporting institution.

**Item 3. Trade-related contingencies**

4. Report under item 3 the contracted amount of trade-related contingencies that are related to import or export trade transactions conducted by the reporting institution's customers. To avoid doubt, this item does not capture undrawn commitments under trade financing facilities, which should be reported under item 1 or 2.

**Item 4. Guarantees and letters of credit unrelated to trade-related contingencies**

5. Report under item 4 the contracted amount of guarantees and letters of credit issued by the reporting institution, other than those covered by item 3.

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<sup>23</sup> For the assessment of "revocability" of a credit facility or liquidity facility, please refer to the guidance provided in paragraph 5.8.22 of SPM module LM-1.

**Annex 3**  
**Encumbered assets**

1. Annex 3 should be completed by category 1 institutions for NSFR purposes. If the reporting institution has assets that are not free from encumbrances, report the assets in this Annex taking into account their remaining terms to maturity and periods of encumbrance, which will generate the total weighted amount of “encumbered assets” for item (B) of section (II) of Part 2.
2. To avoid double, this Annex does not cover those assets posted by the reporting institution as IM or DFC under derivative contracts, which have been covered by item 8 of Section (II) of Part 2; (Ref: NSFR FAQ 16)
3. For the completion of this Annex,
  - if an asset of the reporting institution is segregated in a margin trading account to satisfy statutory requirements for the protection of customer interests, the asset should be treated as “encumbered”. In determining the asset’s encumbrance period, the institution should take into account the contractual term of the transaction that generates the segregation requirement, and whether and when the asset can be re-hypothecated by the institution. If the transaction does not have a specified term to maturity and the institution cannot determine the early possible time of the asset’s re-hypothecation, report that asset under the encumbrance period of “12 months or more”; (Ref: NSFR FAQ 23)
  - if an asset is collateralised by the reporting institution in a secured funding transaction (e.g. repo transaction) that has a remaining term to maturity longer than that of the collateral, the collateral should be considered “encumbered” throughout the transaction’s remaining term to maturity;<sup>24</sup> (Ref: NSFR FAQ 4)
  - if the reporting institution has used a common pool of assets to secure more than one funding transaction, the institution should, to the extent practicable, identify which asset in the pool is used to secure which specific transaction taking into account the relevant contractual specifications. If this is not practically feasible, the institution may adopt the following assumptions:
    - the funding carrying the highest ASF factor would be secured first;
    - the asset in the collateral pool carrying the highest RSF factor would be used to cover a funding first.

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<sup>24</sup> For example, if the institution has collateralised an issue of securities having a remaining term to maturity of 3 months to secure a funding transaction where the borrowed fund has a remaining term to maturity of 12 months, the institution should treat the collateralised securities as encumbered for a period of 12 months.

**Annex 4**  
**Interdependent assets and liabilities**

1. This Annex must be completed by a category 1 institution that has been permitted by the HKMA to specify a pair of asset and liability as “interdependent” under rule 70(1). To avoid doubt, certificates of indebtedness held and legal tender notes issued by note-issuing banks do not need to be covered by this Annex.
2. A pair of interdependent asset and liability should be reported under the same item number in this Annex.
3. Provide the information specified in this Annex, including –
  - the type of the interdependent asset and liability;<sup>25</sup>
  - the value of the asset and liability; and
  - the date of the Monetary Authority’s permission given to the institution with respect to the specified pair of asset and liability.

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<sup>25</sup> For example, if the reporting institution has been permitted to treat a pair of asset and liability and as “interdependent”, where the asset and liability would have been covered by a specified RSF item and ASF item respectively, the institution should report the RSF item number under the column of “type of asset” in Table 1 and the ASF item number under the column of “type of liability” in Table 2.