Ministerie van Financiën

Response to call for evidence on the Net Stable Funding Ratio (NSFR) – March 10, 2025
Targeted amendment on the prudential treatment of securities financing transactions under the Net Stable Funding Ratio

The Ministry of Finance of the Netherlands has taken note of the call for evidence on amendment of the treatment of securities financing transactions under the NSFR. Please find below our position on the proposed changes and some additional considerations.

- **We reaffirm our commitment to the implementation of the BCBS standards.** Global cooperation and the global implementation of these standards contributes to financial stability and a level playing field, essential conditions for the proper functioning of European financial institutions in highly globalized financial markets.

- **We do however share the concerns raised by the European Commission on the potential effects of increasing the required stable funding (RSF) factors for short-term securities financing (SFTs) on the liquidity of sovereign bond markets.** Increasing the capital burden and the cost of providing liquidity in these essential markets could disincentivize European banks performing market making activities to remain active in these markets. Liquidity is essential for the proper functioning of sovereign bond markets, especially in times of stress or market turmoil.

- **Moreover, we are concerned about an unlevel playing-field for European banks in the sovereign bond markets in case lower RSF factors are not maintained.** The UK, US and Japan have permanently introduced less stringent RSF factors for short-term securities financing. As the sovereign bond market is highly globalized, an unlevel playing field could directly impact the competitiveness of European banks performing market making activities.

- **Furthermore, we are cautious that ending this exemption could result in higher funding costs for the issuance of sovereign bonds.** Increasing the RSF factor for these repo transaction may negatively impact demand for sovereign bonds in primary markets, as it can reduce the balance sheet absorption capacity of banks. Additionally, increasing costs of capital for these activities in the secondary market can lead to higher borrowing costs for issuers by potentially raising liquidity premiums.

- **In light of these concerns for liquidity, a level playing field and funding costs, we can accept a proposal of the European Commission to introduce a targeted amendment of the CRR.** In our opinion, it is both warranted and proportionate to extend or make permanent the transitional arrangements for the RSF factors for SFTs. We agree with the Commission that concerns on the functioning of repo markets and the sovereign bond market outweigh financial stability and supervisory related concerns in this specific case.

- **Having said that, we hold the view that we should remain very reserved in introducing such amendments to the CRR, which result in a (permanent) deviation from the BCBS standards.** Any other transitional arrangement should remain out of scope in case an amendment to the CRR is proposed.

- **As the end of the transitory arrangement for RSF factors is approaching, we are open to a swift and limited legislative proposal by the European Commission to amend the CRR.** In our opinion, the legislative proposal should solely address the transitory arrangement of the RSF factors, in order for the required legislative process to be concluded in a timely manner.