Deutsche Börse Group strongly welcomes the European Commission's resolve to make the current transitory NSFR regime for securities financing transactions (SFTs) permanent.

Upon the implementation of the NSFR in June 2021, European banks did not face significant challenges in adapting to the requirements due to the ECB's generous Targeted Long Term Refinancing Operations (TLTRO). As the TLTRO tranches have progressively expired, the pressure on banks' NSFRs has been growing, leading to a temporary provision whereby the required stable funding (RSF) factors for short term lending by banks to financial counterparties (<6mths) is set at 0% for lending collateralized by Level 1 HQLA and 5% for other lending. The impending expiry of this provision means the RSF factors will rise to 10% and 15% respectively, putting further pressure on banks' NSFRs.

This pressure has unintended consequences for centrally cleared SFT markets because the NSFR framework treats CCPs like any other financial counterparty, resulting in banks being actively disincentivized from trading in centrally cleared markets. In particular, centrally cleared transactions are treated in an equivalent manner to bilateral transactions and receive no preferential treatment (i.e. 0% credit for available stable funding - ASF). In contrast, banks receive highly favorable ASF benefits (50%) when borrowing short-term (<6mths) on a bilateral basis from government/public sector and non-financial (corporate) counterparties. Further, if banks centrally clear those same borrowings from government/public sector and non-financial (corporate) counterparties, the favorable ASF benefits are lost as the CCP becomes the counterparty for the purposes of NSFR.

This acts as a direct disincentive for cleared SFT markets and the expiry of the temporary provision is leading banks towards more aggressive management of their NSFR, including banks encouraging governments/public sector counterparties to move out of centrally cleared markets and into bilateral markets to realize the benefits.

Therefore, we fully support the banking industry's recommendation for the temporary provisions to be made permanent, as this will help mitigate the unintended consequences for SFT market structure of the simplified NSFR framework which provides no recognition of the stable funding benefits of centrally cleared markets. Furthermore, the EU should consider additional changes to the NSFR to promote the EU's clearing ecosystem for SFTs. In particular, EU financial institutions should be able to apply a 50% ASF and a 0% RSF in respect to centrally cleared SFT transactions when calculating the NSFR (see annex for details and data on the funding stability of centrally cleared SFT markets).

Centrally cleared SFT markets have seen significant demand in the EU in recent years due to various benefits and have proven to provide stable liquidity performing with minimal disruption through several periods of financial market dysfunction compared to bilateral markets. This demonstrated resilience and stability underpinned by several important features. Firstly, cleared SFT offers anonymous trading and the neutralization of counterparty risk, as all counterparties ultimately face the CCP. Secondly, trading takes place under standardised conditions with a comprehensive range of transparent general collateral baskets covering the liquidity portfolios of a wide range of banks and non-banks. Finally, collateral can be substituted, giving participants the flexibility to manage funding requirements under normal and stressed market conditions, which contributes significantly to maintaining the stability of funding markets.

Such regulatory incentives would facilitate a larger uptake of centrally cleared SFT markets, enhancing the EU's clearing ecosystem and systemic resilience by reducing risk exposure across all financial institutions.