**Banks Face New Funding Rule**

So-called Net Stable Funding Ratio to Start in 2018
**VIKTORIA DENDRINOU, WSJ.com,** Updated Oct. 31, 2014 12:37 p.m. ET

BRUSSELS—Banks will have to hold enough cash, or assets that can reliably be converted into cash, to cover their expected outflows over a one-year horizon, global banking regulators said Friday.

The rules on the so-called **Net Stable Funding Ratio**, which were published Friday by the Basel Committee on Banking Supervision, the Switzerland-based group that **sets global banking standards, aim to make lenders more resilient by keeping them from relying too heavily on short-term borrowing to fund long-term loans.**

The NSFR, which will **kick in at the start of 2018**, requires banks to fund their activities with sufficiently stable sources to mitigate the risk of future stress.

It **forces banks to fund long-term loans from sources that won’t dry up in a stress scenario, such as high-quality capital and term deposits.**

The aim is to secure so-called stable funding **for over one year to cover an extended stress scenario.**

“A key lesson from the crisis has been the need to prevent overreliance on short-term, volatile sources of funding,” said Stefan Ingves, chairman of the Basel Committee and governor of the Swedish central bank. “The NSFR does this by **limiting the use of volatile short-term borrowings to fund illiquid assets.”**

These rules will complete the committee’s overhaul agenda aimed at building a more resilient financial sector that was drawn up after the 2008 financial crisis, Mr. Ingves said.

Under the NSFR, bank assets such as gold, mortgages and other loans are assigned different weightings to determine the extent to which they must be backed by so-called stable funding sources.

Regulators developed the NSFR alongside another short-term measure, the liquidity-coverage ratio, to ensure that banks have enough liquid assets to withstand a shock loss of access to funding markets, such as the one that followed the collapse of Lehman Brothers in 2008.

The new rule broadly follows a draft consultation document published by the Basel Committee in January but includes changes in the treatment of some loan and derivative exposures. The earlier draft didn’t require bank loans with residual maturities of less than six months to be backed by any stable funding, but the final rules require lenders to back such loans with 10% of stable funds.

The standard also includes some changes to the rules for assets posted as initial margin for derivatives contracts and reduces the allowed amount of offsetting of derivative assets by derivative liabilities.

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SMITH COMMENT: A more complete description of the ratio may be found at <http://www.bis.org/bcbs/publ/d295.pdf>.