Feedback on the Leverage Ratio Discussion Paper

1. Introduction

1.1. Feedback received was generally positive with most respondents content with the proposed scope, method of calculation and reporting. Banks continued to express the need for careful consideration of any possible future introduction of a minimum leverage ratio standard.

Sections

2. Proposed reporting format

- *Question: Do you agree that the proposed scope of application of the framework is appropriate?*
- *Question: Do you agree that the proposed frequency of reporting is appropriate?*

2.1. Feedback

2.1.1. There was broad agreement from respondents that the proposed scope of application of the leverage ratio, to locally incorporated banks only, was appropriate.

2.1.2. All respondents agreed that the proposed quarterly reporting frequency was reasonable.

2.1.3. One bank suggested excluding highly liquid assets when calculating the leverage ratio because of the low risk posed by such assets.

2.2. Response

2.2.1. The CD supervisors note respondents' comments on the proposals for scope and reporting frequency and will continue to work towards these proposals.

2.2.2. The suggested exclusion of highly liquid assets is contrary to the design of the leverage ratio: a non-risk weighted ratio is not intended to take into account the safety or soundness of asset classes.

3. Leverage ratio definition and reporting guidance

- *Question: Do you agree that Tier 1 capital is the appropriate numerator for the leverage ratio?*
- *Question: Are there any obstacles to calculation of the leverage ratio?*

3.1. Feedback

3.1.1. Two respondents indicated a preference for the inclusion of Tier 2 capital in the leverage ratio numerator but the majority were in favour of the use of Tier 1 capital with several indicating a desire to comply with international standards.

3.1.2. No bank indicated any obstacle to calculation of the leverage ratio but certain comments were received with respect to the proposed reporting template and guidance.

3.1.3. One respondent highlighted the absence of provisions, available under the Basel III framework, relating to netting of derivative positions where a bilateral netting agreement is in place.

3.1.4. Another respondent proposed that where a bilateral netting agreement was in place that collateral on derivatives should be recognised in the calculation of Replacement Cost.

3.2. Response

3.2.1. The CD supervisors propose to continue to use Tier 1 Capital as the numerator for the leverage ratio in line with the views of the majority of respondent and international standards.

3.2.2. The DP attempted to simplify the treatment of derivatives by referencing the current rules on the Standardised Approach to Credit Risk, as implemented in the CDs. These do not address netting in the calculation of the add-on for Potential Future Exposure. To ensure consistency with the international standard, the relevant provisions contained in the Annex to the Basel III standard[1] relating to bilateral netting for derivatives will be incorporated into the framework.

3.2.3. In summary, this will allow the netting of derivatives and relevant collateral (the cash portion of variation margin), where they are governed by a bilateral netting agreement.

[1] Basel III leverage ratio framework and disclosure requirements, January 2014

4. Other comments

4.1. Feedback

4.1.1. Several respondents raised concerns about the potential impact of inclusion of up-streamed funding to group in the calculation of the leverage ratio. Various suggestions were made including that up-streaming should be fully or partially excluded from the calculation, that up-streaming banks should be set a lower leverage ratio requirement or that there should be further monitoring before finalising the leverage ratio requirement.

4.1.2. One respondent asked if any notification limit will be set under the financial implementation of the leverage ratio.

4.1.3. One respondent sought further guidance on possible inclusion of the leverage ratio in the Pillar 2 supervisory review process.

4.2. Response

4.2.1. Up-streaming banks' concerns with respect to the introduction of the leverage ratio as a minimum regulatory requirement are noted. The Tri-party Group continues to propose that the leverage ratio be introduced as a reporting requirement only. A minimum regulatory requirement based on the leverage ratio will not be introduced until the impact on all affected banks, including those up-streaming to group, is fully understood and an appropriate calibration is set.

4.2.2. As there is no proposal to introduce a minimum regulatory leverage ratio requirement at this time there is no related "notification limit" or buffer proposal. In the event that the leverage ratio was introduced as a minimum standard then the approach to notification limits would likely be set at jurisdictional level as it is today across the CDs for the current risk-based capital requirements.

4.2.3. The approach to Pillar 2 is currently set at jurisdictional level. Proposals with respect to any consideration of the leverage ratio in the Pillar 2 process will be made in further direct consultation from the local supervisor, where applicable.