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Blackline: Basel Committee's Basel III Leverage Ratio Framework and Disclosure Requirements

January 2014 Final Version vs. June 2013 Proposed Version

Introduction

1. An underlying ~~feature~~cause of the global financial crisis was the build-up of excessive on- and off-balance sheet leverage in the banking system. In many cases, banks built up excessive leverage while apparently maintaining strong risk-based capital ratios. At the height of the crisis, ~~the market~~financial markets forced the banking sector to reduce its leverage in a manner that amplified downward ~~pressure~~pressures on asset prices. This deleveraging process exacerbated the feedback loop between losses, falling bank capital~~,~~ and shrinking credit availability.

2. The Basel III ~~reforms~~framework introduced a simple, transparent, non-risk based leverage ratio to act as a credible supplementary measure to the risk-based capital requirements. ~~[1]~~ The leverage ratio is intended to:

• restrict the build-up of leverage in the banking sector to avoid destabilising deleveraging processes that can damage the broader financial system and the economy; and

• reinforce the risk-based requirements with a simple, ~~non-risk-based~~non-risk based "backstop" measure.

3. The Basel Committee is of the view that:

• a simple leverage ratio framework is critical and complementary to the risk-based capital framework; and

• a credible leverage ratio is one that ensures broad and adequate capture of both the on- and off-balance sheet ~~leverage~~sources of banks' leverage.

4. Implementation of the leverage ratio ~~requirement~~requirements has begun with bank-level reporting to national supervisors of the leverage ratio and its components from 1 January 2013, and will proceed with public disclosure starting 1 January 2015. ~~Any final~~The Committee will continue monitoring the impact of these disclosure requirements. The final calibration, and any further adjustments to the definition ~~and calibration of the leverage ratio will be made~~, will be completed by 2017, with a view to migrating to a Pillar 1 (minimum capital requirement) treatment on 1 January 2018 ~~based on appropriate review and calibration~~.

5. This document sets out the Basel III leverage ratio framework, along with the public disclosure requirements applicable as from 1 January 2015. These requirements supersede those in Section V of Basel III: A global regulatory framework for more resilient banks and banking systems.[1]

~~[1] For the preceding version of the leverage ratio framework, see paragraphs 151 to 167 of the Basel III standard, which is available at www.bis.org/publ/bcbs189.htm.~~

[1] For the preceding version of the leverage ratio framework, see paragraphs 151 to 167 of the Basel III framework, available at www.bis.org/publ/bcbs189.htm.

5. The revised Basel III leverage ratio framework is set out in the remainder of this document, along with the public disclosure requirements starting 1 January 2015. In summary, revisions to the framework relate primarily to the denominator of the leverage ratio, the Exposure Measure. The major changes to the Exposure Measure include:

- specification of a broad scope of consolidation for the inclusion of exposures;
- clarification of the general treatment of derivatives and related collateral;
- enhanced treatment of written credit derivatives; and
- enhanced treatment of Securities Financing Transactions (SFTs) (eg repos).

Definition and minimum requirement

6. The Basel III leverage ratio is defined as the Capital Measurecapital measure (the numerator) divided by the Exposure Measureexposure measure (the denominator), with this ratio expressed as a percentage. The basis of calculation is the average of the three month-end leverage ratios over a quarter.[2].

$$\text{Leverage ratio} = \frac{\text{Capital measure}}{\text{Exposure measure}}$$

7. The Committee will continue to test a minimum requirement of 3% for the leverage ratio during the parallel run period (ie from 1 January 2013 to 1 January 2017). Additional transitional arrangements are set out in paragraphs 6459 to 6661 below.

Capital Measure

8. The Capital Measure for the leverage ratio is the Tier 1 capital of the risk-based capital framework as defined in paragraphs 49 to 96 of the Basel III standard, taking account of the transitional arrangements.[3]

9. The Committee will also continue to collect data during the transition period to track the impact of using either total regulatory capital or Common Equity Tier 1 as the Capital Measure.

Exposure Measure

(i) **Scope of consolidation**

8. The Basel III leverage ratio framework follows the same scope of regulatory consolidation as is used for the risk-based capital framework. This is set out in Part I (Scope of Application) of the Basel II framework.[2]

10. To ensure the internal consistency of the leverage ratio framework, the Exposure Measure (the denominator of the leverage ratio) should be measured consistently with capital (the numerator of the leverage ratio) with respect to deductions from (and inclusions in) capital.[4]

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[2] Each month-end leverage ratio is calculated by dividing the month-end Capital Measure by the month-end Exposure Measure.

[3] Available at www.bis.org/publ/bcbs189.htm.

[2] Available at www.bis.org/publ/bcbs128.pdf.

~~11. Treatment of investees inside the scope of regulatory or accounting consolidation: where the investment by a bank in the capital of an investee is included in the definition of Tier 1 capital of the bank, the investee's assets and its other exposures (as set out in paragraphs 16 to 42 below) are to be included in the Exposure Measure of the bank. This applies to investees that are inside the scope of regulatory consolidation[5] or inside the scope of accounting consolidation, irrespective of whether these investees are banking, insurance, financial, commercial, or securitisation investees.[6]~~

~~12. Examples of the above requirement are provided below:~~

- ~~Where a banking, insurance and financial investee is included in the accounting consolidation but not in the regulatory consolidation, according to the treatment outlined in paragraphs 84 to 89 of the Basel III standard, the investments in the capital of these entities are required to be deducted to the extent that they exceed certain thresholds. Therefore the exposures of such investees (ie their assets and their other exposures as set out in paragraphs 16 to 42 below) should be excluded from the Exposure Measure of the bank on a pro-rata basis (ie in proportion to the capital[7] that is excluded under paragraphs 84 to 89 of the Basel III standard).~~

- ~~Where a commercial investee is inside the scope of accounting consolidation but outside the scope of regulatory consolidation, the commercial investee's assets and other exposures as set out in paragraphs 16 to 42 below must be included in the Exposure Measure of the bank, because the investment in the commercial investee remains included in the capital of the bank.[8]~~

- ~~Where a securitisation investee is inside the scope of the regulatory consolidation or inside the scope of the accounting consolidation, because the investment in the securitisation investee remains included in the capital of the bank, its underlying assets and other exposures as set out in paragraphs 16 to 42 below must be included in the Exposure Measure of the bank.~~

~~13~~9. Treatment of ~~investees~~investments in the capital of banking, financial, insurance and commercial entities that are outside the regulatory scope of consolidation: where a banking, financial, insurance or commercial entity is outside the scope of regulatory ~~and accounting consolidation: where an investee is neither inside the scope of regulatory consolidation nor accounting~~ consolidation, only the

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~~[4] Where there is a minority interest in an investee, consolidated accounting and risk-based regulatory assets are not to be reduced due to the presence of a minority interest, consistent with the approach in the risk-based framework because the Leverage Ratio measure of exposure should not be less prudent relative to both the risk-based and accounting consolidation frameworks.~~

~~[5] Refer to the scope of application as defined in the Basel II Framework, www.bis.org/publ/bcbs128.htm.~~

~~[6] The term securitisation investees includes securitisation exposures.~~

~~[7] Paragraphs 84 to 89 contemplate limited recognition of only the common shares of these entities. (According to paragraph 85, investments that are not common shares must be fully deducted following a corresponding approach.) As such, for the purposes of determining the exposure measure of the leverage ratio, the proportion of capital excluded means the proportion of common equity excluded over the total common equity of these entities.~~

~~[8] Basel II and III imply that no significant investments in commercial investees are to be deducted from a bank's capital. Paragraphs 35 and 36 of Basel II (and also paragraphs 37 to 39) provide for the treatment of significant investments in commercial entities. In particular, paragraph 35 states: "Significant minority and majority investments in commercial entities which exceed certain materiality levels will be deducted from banks' capital." This implies that those amounts which do not exceed the materiality thresholds need not be deducted from capital (and Basel III is silent on these amounts). Paragraph 90 of Basel III then provides for "Former deductions from capital" and states that significant investments in commercial entities which previously were deducted under Basel II will now receive a 1,250% risk weight. This implies that those amounts which do exceed the materiality thresholds under Basel II will no longer be deducted from capital.~~

investment in the capital of ~~the investee~~such entities (ie only the carrying value of the investment, as opposed to the underlying assets and other exposures of the investee) is to be included in the leverage ratio ~~Exposure Measure.[9]~~ exposure measure. However, investments in the capital of ~~investees~~such entities that are deducted from Tier 1 capital as ~~set~~ set out in paragraph ~~20 should not~~16 may be ~~included in~~excluded from the leverage ratio ~~Exposure Measure~~exposure measure.

Capital measure

10. The capital measure for the leverage ratio is the Tier 1 capital of the risk-based capital framework as defined in paragraphs 49 to 96 of the Basel III framework,[3] taking account of the transitional arrangements. In other words, the capital measure used for the leverage ratio at any particular point in time is the Tier 1 capital measure applying at that time under the risk-based framework.

11. The Committee will continue to collect data during the transition period to track the impact of using either Common Equity Tier 1 (CET1) or total regulatory capital as the capital measure for the leverage ratio.

Exposure measure

~~14. Permissible offsets to avoid double counting: to avoid double counting of exposures between entities in the scope of consolidation of the leverage ratio framework (as defined in paragraph 11), banks may offset the on- and off-balance sheet exposures of these entities in order to calculate their Exposure Measure. This treatment applies only to exposures which have not already been offset in this framework (refer to paragraph 20) or elsewhere.[10]~~

~~15. When the exposures of an entity are excluded on a pro-rata basis from the exposure measure of the bank (eg as in the banking, insurance and financial investee example above), exposures of the entity which would otherwise be available for offsetting purposes must be excluded (ie be made unavailable for offsetting purposes) on the same pro-rata basis.~~

~~(ii) General measurement principles~~

~~16~~12. ~~The Exposure Measure~~ The exposure measure for the leverage ratio should generally follow the accounting ~~measure of exposure (using the broader scope of consolidation defined above)~~value, subject to the following ~~principles~~:

• on-balance sheet, non-derivative exposures are included in the ~~Exposure Measure~~exposure measure net of specific provisions ~~and~~or accounting valuation adjustments (eg accounting credit valuation adjustments);

~~[9] In situations where a securitisation investee is neither consolidated under the accounting framework nor under the risk-based regulatory framework, a bank must not consolidate the underlying assets of the securitisation investee. Rather where derecognition is achieved under both the risk-based and accounting frameworks, investments in and retained positions (on- and off-balance sheet) in securitisations must instead be included in the leverage ratio measure of exposure.~~

[3] Available at www.bis.org/publ/bcbs189.htm.

~~[10] For example, most investments in the capital of financial investees are deducted from Tier 1 capital and therefore may already be deducted from a bank's exposure measure elsewhere in this Framework. Also, most intra-group exposures may already have been consolidated under a bank's accounting scope of consolidation or its risk-based regulatory scope of consolidation. Banks must therefore ensure that the offsetting of all exposures between entities in the scope of consolidation of the leverage ratio framework is effected prudently - and be certain that the offsetting of such an exposure is only done once.~~

• netting of loans and deposits is not allowed.

~~17~~13. ~~Physical~~ Unless specified differently below, banks must not take account of physical or financial collateral, guarantees or other credit risk mitigation ~~purchased are not allowed~~techniques to reduce ~~on-balance sheet exposures~~the exposure measure.

~~18~~14. A bank's total ~~Exposure Measure~~exposure measure is the sum of the following exposures: (a) on-balance sheet exposures~~,~~; (b) derivative exposures~~,~~; (c) securities financing transaction (SFT) exposures~~,~~; and (d) ~~other off- balance~~off-balance sheet ~~exposures~~(OBS) items. The specific ~~treatment~~treatments for these four main exposure ~~categories is~~types are defined below.

(a) On-balance sheet exposures

~~19~~15. Banks must include all ~~on-balance~~balance sheet assets in their ~~Exposure Measure~~exposure measure, including on-balance sheet ~~derivative~~derivatives collateral and collateral for ~~securities-financing transactions (SFTs) (but excluding on- balance~~SFTs, with the exception of on-balance sheet derivative and SFT assets that are covered in paragraphs ~~22~~18 to ~~39~~37 below~~)~~.[~~11~~4]

~~20~~16. However, to ensure consistency, ~~on-balance~~balance sheet assets deducted from Tier 1 capital (as set out in paragraphs 66 to 89 of the Basel III ~~standard) should~~framework) may be deducted from the ~~Exposure Measure~~exposure measure. Two examples follow:

• Where a banking, ~~insurance or~~ financial or insurance entity is not included ~~neither in the accounting-consolidation nor in the risk-based~~in the regulatory scope of consolidation as set out in paragraph 8, the amount of any investment in the capital of ~~the investee that is excluded from the~~that entity that is totally or partially deducted from CET1 capital or from Additional Tier 1 capital of the bank ~~under~~following the corresponding deduction approach in paragraphs 84 to 89 of the Basel III framework may also be ~~excluded~~deducted from the ~~measure of~~ exposure ~~of the bank~~measure.

~~• The shortfall of the stock of provisions to expected losses (paragraph 73 of Basel III) may be deducted from the exposure measure. For IRB portfolios, total expected loss in excess of total eligible provisions (as defined in paragraph 380 of Basel II) results in a deduction from Tier 1 capital (ie is deducted from Common Equity Tier 1 as per paragraph 73 of Basel III) and therefore the same amount should be deducted from Exposure Measure.~~

• For banks using the internal ratings-based (IRB) approach to determining capital requirements for credit risk, paragraph 73 of the Basel III framework requires any shortfall in the stock of eligible provisions relative to expected losses to be deducted from CET1 capital. The same amount may be deducted from the exposure measure.

~~21~~17. Liability items must not be deducted from the measure of exposure. For example, gains/losses ~~due to changes in own credit risk~~ on fair valued liabilities or accounting value adjustments on derivative liabilities due to changes in the bank's own credit risk as described in paragraph 75 of the Basel III ~~should~~framework must not be deducted from the ~~measure of~~ exposure measure.

(b) Derivative exposures

[~~11~~4] Where a ~~national GAAP~~bank according to its operative accounting framework recognises ~~on-balance sheet~~ fiduciary assets on the balance sheet, these assets can be excluded from the ~~Exposure Measure~~leverage ratio exposure measure provided that the assets meet the IAS 39 criteria for ~~de-recognition~~derecognition and, where applicable, IFRS 10 for ~~de- consolidation~~deconsolidation. When disclosing the leverage ratio, banks ~~should additionally~~must also disclose the extent of such de-recognised fiduciary items as set out in paragraph 52.

~~22~~18. Treatment of derivatives: derivatives create two types of exposure: (a) an exposure arising from the underlying of the derivative contract; and (b) a counterparty credit risk (CCR) exposure. The leverage ratio framework uses the method set out below to capture both of these exposure types.

~~23~~19. Banks must calculate their ~~derivatives~~derivative exposures,[~~12~~5] including where a bank sells protection using a credit derivative, as the replacement cost (RC)[~~13~~6] for the current exposure plus an add-on for potential future exposure (PFE), as described in paragraph ~~24 applying the regulatory~~20. If the derivative exposure is covered by an eligible bilateral netting ~~rules~~contract as specified in ~~paragraphs 8 to 11 of Annex 1,[14] and adjusting the exposure amount for the related collateral as set out in paragraphs 26 to 29 below.~~the Annex, an alternative treatment may be applied.[7] Written credit derivatives are subject to an additional treatment, as set out in paragraphs ~~30~~29 to ~~33~~31 below.

~~24~~20. For a single derivative exposure not covered by an eligible bilateral netting contract as specified in paragraphs 8 and 9 of the Annex ~~1~~, the amount to be included in ~~Total Exposures~~the exposure measure is determined as follows:

~~Total Exposure~~exposure measure = replacement cost (RC) + add-on

where

RC = the replacement cost of the contract (obtained by ~~marking-to-market~~marking to market), where the contract has a positive value.

add-on = an amount for ~~potential future credit exposure~~PFE over the remaining life of the contract calculated by applying an add-on factor to the notional principal amount of the derivative. The add-on factors are included in paragraphs 1 and 3 of the Annex ~~1~~.

~~25~~21. Bilateral netting: when an eligible bilateral netting contract is in place as specified in paragraphs 8 and 9 of the Annex ~~1~~, ~~replacement cost (~~the RC~~)~~ for the set of derivative exposures covered by the contract will be the net replacement cost and the add-on will be ANet as calculated in paragraph 10 of the Annex ~~1~~.

~~26~~22. Treatment of related collateral: collateral received in connection with derivative contracts has two countervailing effects on leverage:

• it reduces counterparty exposure; but

[~~12~~5] This approach makes reference to the Current Exposure Method (CEM) which is used under the Basel II ~~Framework to capture counterparty credit risk~~framework to calculate CCR exposure amounts associated with derivative exposures. The Committee is considering alternatives to the CEM. If an alternative approach is adopted as a replacement for the CEM, the Committee will consider whether that alternative approach is appropriate in the context of the need to capture both types of exposures created by derivatives as described in paragraph ~~22~~18.

[~~13~~] ~~Under a~~[6] If, under a bank's national ~~GAAP, even if~~accounting standards, there is no accounting measure of exposure for certain derivative instruments because they are held (completely) off-balance sheet, ~~banks~~the bank must use the sum of positive fair values of these derivatives as the replacement cost.

[~~14~~] ~~These are netting rules of the Basel II Framework excepting the rules for cross-product netting in Annex 4, Section 3 (ie cross- product netting is not permitted in determining the Leverage Ratio Exposure Measure).~~

[7] These are netting rules of the Basel II framework excepting the rules for cross-product netting in Annex 4, Section III (ie cross-product netting is not permitted in determining the leverage ratio exposure measure).

• it can also increase the economic resources at the disposal of the bank, as the bank can use the collateral to leverage itself (eg cash collateral can be on-lent, non-cash collateral can be on-lent or sold).

2723. Collateral received in connection with derivative contracts does not necessarily reduce the economic leverage inherent in a bank's derivatives position. In particular, the, which is generally the case if the settlement exposure arising from the contract underlying derivative contract is not reduced. As suchha general rule, collateral received (cash or non-cash) may not be netted against derivativesderivative exposures whether or not netting is permitted under the bank's operative accounting or risk- basedrisk-based framework. WhenHence, when calculating the exposure amount by applying paragraphs 2319 to 2521 above, a bank must not reduce the exposure amount by any collateral received from the counterparty. Furthermore, the replacement cost (RC) must be grossed up by any collateral amount used to reduce its value, including when collateral received by a bank has reduced the derivatives assets reported on- balance sheet under its operative accounting framework.

2824. Similarly, with regardsregard to collateral provided, all banks must gross up their Exposure Measureexposure measure by the amount of any derivatives collateral provided where the provision of that collateral has reduced the value of their on-balancebalance sheet assets under their operative accounting framework.[15]

29. The above treatments apply whether the collateral is cash or non-cash, whether or not the collateral was received or provided as part of an eligible master netting agreement, or whether it was received or provided in relation to derivatives traded on an exchange, through a central counterparty, or otherwise.

25. Treatment of cash variation margin: in the treatment of derivative exposures for the purpose of the leverage ratio, the cash portion of variation margin exchanged between counterparties may be viewed as a form of pre-settlement payment, if the following conditions are met:

(i) For trades not cleared through a qualifying central counterparty (QCCP)[8] the cash received by the recipient counterparty is not segregated.

(ii) Variation margin is calculated and exchanged on a daily basis based on mark-to-market valuation of derivatives positions.

(iii) The cash variation margin is received in the same currency as the currency of settlement of the derivative contract.

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[15] Non-cash collateral provided (or posted) is not generally netted from a bank's assets under the accounting frameworks. However, cash collateral posted often is netted, eg primarily under US GAAP. Generally, under IFRS, when a bank with derivatives liabilities posts cash collateral, the decrease in its cash assets is offset by a corresponding increase in receivables- assets. As such, its total accounting assets remain unchanged. Under US GAAP, which provides an exception to the intent to settle on a net basis criterion, when a bank with derivative liabilities posts cash collateral, the bank's cash assets decrease and its derivatives liabilities fall by a corresponding amount. Such banks must gross up their Exposure Measure by the amount of the posted cash collateral. This treatment is necessary to ensure a consistent policy treatment for reporting under US GAAP and IFRS. Finally, under IFRS or under other accounting frameworks, banks must gross-up their Exposure Measure by the amount of derivatives collateral provided if the provision of derivatives collateral reduced their on-balance sheet assets.

[8] A QCCP is defined as in Annex 4, Section I, A. General Terms of the BCBS document *International Convergence of Capital Measurement and Capital Standards: A Revised Framework – Comprehensive Version*, June 2006 as amended.

(iv) Variation margin exchanged is the full amount that would be necessary to fully extinguish the mark-to-market exposure of the derivative subject to the threshold and minimum transfer amounts applicable to the counterparty.

(v) Derivatives transactions and variation margins are covered by a single master netting agreement (MNA)[9,10] between the legal entities that are the counterparties in the derivatives transaction. The MNA 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 involving either counterparty. The MNA must be legally enforceable and effective in all relevant jurisdictions, including in the event of default and bankruptcy or insolvency.

26. If the conditions in paragraph 25 are met, the cash portion of variation margin received may be used to reduce the replacement cost portion of the leverage ratio exposure measure, and the receivables assets from cash variation margin provided may be deducted from the leverage ratio exposure measure as follows:

• In the case of cash variation margin received, the receiving bank may reduce the replacement cost (but not the add-on portion) of the exposure amount of the derivative asset by the amount of cash received if the positive mark-to-market value of the derivative contract(s) has not already been reduced by the same amount of cash variation margin received under the bank's operative accounting standard.

• In the case of cash variation margin provided to a counterparty, the posting bank may deduct the resulting receivable from its leverage ratio exposure measure, where the cash variation margin has been recognised as an asset under the bank's operative accounting framework.

Cash variation margin may not be used to reduce the PFE amount (including the calculation of the net-to-gross ratio (NGR) as defined in paragraph 10 of the Annex).

27. Treatment of clearing services: where a bank acting as clearing member (CM)[11] offers clearing services to clients, the clearing member's trade exposures[12] to the central counterparty (CCP) that arise when the clearing member is obligated to reimburse the client for any losses suffered due to changes in the value of its transactions in the event that the CCP defaults, must be captured by applying the same treatment that applies to any other type of derivatives transactions. However, if the clearing member, based on the contractual arrangements with the client, is not obligated to reimburse the client for any losses suffered due to changes in the value of its transactions in the event that a QCCP defaults, the clearing member need not recognise the resulting trade exposures to the QCCP in the leverage ratio exposure measure.

28. Where a client enters directly into a derivatives transaction with the CCP and the CM guarantees the performance of its clients' derivative trade exposures to the CCP, the bank acting as the clearing member for the client to the CCP must calculate its related leverage ratio exposure resulting from the

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[9] A Master MNA may be deemed to be a single MNA for this purpose.

[10] To the extent that the criteria in this paragraph include the term "master netting agreement", this term should be read as including any "netting agreement" that provides legally enforceable rights of offsets. This is to take account of the fact that for netting agreements employed by CCPs, no standardisation has currently emerged that would be comparable with respect to OTC netting agreements for bilateral trading.

[11] For the purposes of this paragraph, a clearing member (CM) is defined as in Annex 4, Section I, A. General Terms of the BCBS document International Convergence of Capital Measurement and Capital Standards: A Revised Framework – Comprehensive Version, June 2006 as amended.

[12] For the purposes of paragraphs 27 and 28, "trade exposures" includes initial margin irrespective of whether or not it is posted in a manner that makes it remote from the insolvency of the CCP.

guarantee as a derivative exposure as set out in paragraphs 19 to 26, as if it had entered directly into the transaction with the client, including with regard to the receipt or provision of cash variation margin.

~~30~~29. Additional treatment for written credit derivatives: in addition to the CCR exposure arising from the fair value of the contracts, written credit derivatives create a notional credit exposure arising from the creditworthiness of the reference entity~~, in addition to the counterparty credit exposure arising from the fair value of contracts~~. The Committee therefore believes that it is appropriate to treat written credit derivatives consistently with cash instruments (eg loans, bonds) for the purposes of the ~~Exposure Measure~~exposure measure.

~~31~~30. In order to capture the credit exposure to the underlying reference entity, in addition to the above CCR treatment for derivatives and related collateral, the ~~full~~ effective notional ~~value~~[16] amount[13] referenced by a written credit derivative is to be ~~incorporated into~~included in the ~~Exposure Measure~~exposure measure. The effective notional amount of a written credit derivative may be reduced by any negative change in fair value amount that has been incorporated into the calculation of Tier 1 capital with respect to the written credit derivative. The resulting amount may be further reduced by the effective notional amount of a purchased credit derivative on the same reference name~~ and level of seniority~~[17] ~~if~~,[14,15] provided:

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[16] ~~For credit derivatives where the notional amount differs from the effective notional amount, banks must use the greater of the effective notional amount and the notional amount. The effective notional amount is obtained by adjusting the notional amount to reflect the true exposure of contracts that are leveraged or otherwise enhanced by the structure of the transaction.~~

[13] The effective notional amount is obtained by adjusting the notional amount to reflect the true exposure of contracts that are leveraged or otherwise enhanced by the structure of the transaction.

[17] ~~Two reference names are considered identical only if they refer to the same legal entity and level of seniority. Protection purchased on a pool of reference entities may offset protection sold on individual reference names if the protection purchased is economically equivalent to buying protection separately on each of the individual names in the pool (this would, for example, be the case if a bank were to buy protection on an entire securitisation structure). If a bank purchases protection on a pool of reference names, but the credit protection does not cover the entire pool (ie the protection covers only a subset of the pool, as in the case of an n-th to-default credit derivative or a tranche of a securitisation), then offsetting is not permitted for protection sold on individual reference names. However, such purchased protection may offset sold protection on a pool only if the purchased protection covers the entirety of the subset of the pool on which protection has been sold. In other words, offsetting may only be recognised when the pool of reference entities and the level of subordination in both transactions are identical.~~

[14] Two reference names are considered identical only if they refer to the same legal entity. For single-name credit derivatives, protection purchased that references a subordinated position may offset protection sold on a more senior position of the same reference entity as long as a credit event on the senior reference asset would result in a credit event on the subordinated reference asset. Protection purchased on a pool of reference entities may offset protection sold on individual reference names if the protection purchased is economically equivalent to buying protection separately on each of the individual names in the pool (this would, for example, be the case if a bank were to purchase protection on an entire securitisation structure). If a bank purchases protection on a pool of reference names, but the credit protection does not cover the entire pool (ie the protection covers only a subset of the pool, as in the case of an nth-to-default credit derivative or a securitisation tranche), then offsetting is not permitted for the protection sold on individual reference names. However, such purchased protections may offset sold protections on a pool provided the purchased protection covers the entirety of the subset of the pool on which protection has been sold. In other words, offsetting may only be recognised when the pool of reference entities and the level of subordination in both transactions are identical.

[15] The effective notional amount of a written credit derivative may be reduced by any negative change in fair value reflected in the bank's Tier 1 capital provided the effective notional amount of the offsetting purchased credit protection is also reduced by any resulting positive change in fair value reflected in Tier 1 capital. Where a bank buys credit protection through a total return swap (TRS) and records the net payments received as net

• the credit protection purchased is on a reference obligation which ranks pari passu with or is junior to the underlying reference obligation of the written credit derivative in the case of single name credit derivatives;[16] and

• the remaining maturity of the purchased credit derivativeprotection purchased is equal to or greater than the remaining maturity of the written credit derivative.

32. The treatment described in paragraph 31 recognises a difference between cash instruments and credit derivatives; namely that a bank closes a long cash position by selling the position, whereas with a credit derivative, a bank generally closes a long position by entering into an offsetting derivative transaction. Therefore, this treatment allows a bank which purchases credit protection on the same reference name on which it sold credit protection to net the bought and sold protection to reduce its Exposure Measure.

3331. Since written credit derivatives are included in the Exposure Measureexposure measure at their effective notional amounts, and are also subject to add-on amounts for PFE, the exposure measure for written credit derivatives are also included in the Exposure Measure, exposure to written credit derivatives could be double countedmay be overstated. Banks may therefore choose to deduct the individual PFE add-on amount relating to a written credit derivative (which is not offset as described inaccording to paragraph 3130 and whose effective notional valueamount is included in the Exposure Measureexposure measure), from their gross add-on in paragraphs 2319 to 2521.[18][17]

(c) Securities financing transaction (SFT) exposures

3432. Securities financing transactions (SFTs)[19][18] are included in the Exposure Measureexposure measure according to the following treatment described below. The treatment recognises that secured lending and borrowing in the form of SFTs is an important source of leverage, and ensures consistent international implementation by recognisingproviding a common measure for dealing with the main differences acrossin the operative accounting frameworks.

3533. General treatment (bank acting as principal): the sum of the amounts in subparagraphs (i) and (ii) below are to be included in Total Exposuresthe leverage ratio exposure measure:

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income, but does not record offsetting deterioration in the value of the written credit derivative (either through reductions in fair value or by an addition to reserves) reflected in Tier 1 capital, the credit protection will not be recognised for the purpose of offsetting the effective notional amounts related to written credit derivatives.

[16] For tranched products, the purchased protection must be on a reference obligation with the same level of seniority.

[18][17] In these cases, where effective bilateral netting contracts are in place, and when calculating ANet = 0.4*AGross + 0.6*NGR*AGross as per paragraphs 2319 to 2521, AGross may be reduced by the individual add-on amounts (ie notionals multiplied by the appropriate add-on factors) which relate to written credit derivatives whose notional valuesamounts are included as exposures of the Leverage Ratio. Noin the leverage ratio exposure measure. However, no adjustments shouldmust be made to NGR. Where effective bilateral netting contracts are not in place, the PFE add-on canmay be set to zero in order to avoid the double-countingdouble-counting described in this paragraph 33.

[19] Securities Financing Transactions[18] SFTs are transactions such as repurchase agreements, reverse repurchase agreements, security lending and borrowing, and margin lending transactions, where the value of the transactions dependdepends on market valuations and the transactions are often subject to margin agreements.

(i) Gross SFT assets[19] recognised for accounting purposes (ie with no recognition of accounting netting)~~.~~,[20] adjusted as follows:

~~Remove the value of securities received in an SFT and recognised as an asset by the transferor if the transferor has the right to hypothecate but has not done so (eg under US GAAP).~~[21]

• excluding from the exposure measure the value of any securities received under an SFT, where the bank has recognised the securities as an asset on its balance sheet;[21] and

• cash payables and cash receivables in SFTs with the same counterparty may be measured net if all the following criteria are met:

(a) Transactions have the same explicit final settlement date;

(b) 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: (i) default; (ii) insolvency; and (iii) bankruptcy; and

(c) 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 intraday credit facilities intended to ensure that settlement of both transactions will occur by the end of the business day and the linkages to collateral flows do not result in the unwinding of net cash settlement.[22]

(ii) A measure of ~~counterparty credit risk~~CCR calculated as the current exposure without an add-on for ~~potential future exposure (~~PFE~~)~~., calculated as follows:

~~• Where no qualifying master netting agreement (MNA) is in place, the current exposure for transactions with a counterparty must be calculated on a transaction by transaction basis: that is, each transaction is treated as its own netting set, as shown in the following formula:~~

~~E* = max {0, [(E) - (C)]}~~

• Where a qualifying MNA[~~22~~23] is in place, the current exposure (E*) is the greater of zero and the total fair value of securities and cash lent to a counterparty for all transactions included in the qualifying

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[19] For SFT assets subject to novation and cleared through QCCPs, "gross SFT assets recognised for accounting purposes" are replaced by the final contractual exposure, given that pre-existing contracts have been replaced by new legal obligations through the novation process.

[20] Gross SFT assets recognised for accounting purposes ~~should reflect no recognition of the~~must not recognise any accounting netting of ~~(~~cash~~)~~ payables against ~~(~~cash~~)~~ receivables (eg as currently permitted under the IFRS and US GAAP accounting frameworks). This regulatory treatment ~~is prudent and~~ has the ~~additional~~ benefit of avoiding inconsistencies from netting which may arise across different accounting regimes.

~~[21] This corrects for a major difference in the recognition of assets and liabilities between US GAAP and IFRS.~~

[21] This may apply, for example, under US GAAP where securities received under an SFT may be recognised as assets if the recipient has the right to rehypothecate but has not done so.

[22] This latter condition ensures that any issues arising from the securities leg of the SFTs do not interfere with the completion of the net settlement of the cash receivables and payables.

[~~22~~23] A "qualifying" MNA is ~~a MNA meeting~~one that meets the requirements under paragraphs 12 and 13 of the Annex ~~1~~.

MNA (~~∑ (E~~ΣEi)~~)~~, less the total fair value of cash and securities received from the counterparty for those transactions (~~∑(C)~~ΣCi). This is illustrated in the following formula:

E* = max {0, [~~1(E)~~ΣEi – ~~1(C)~~ΣCi]}

• Where no qualifying MNA is in place, the current exposure for transactions with a counterparty must be calculated on a transaction by transaction basis: that is, each transaction i is treated as its own netting set, as shown in the following formula:

Ei* = max {0, [Ei – Ci]}

~~36~~34. Sale accounting transactions: leverage may remain with the lender of the security in an SFT whether or not sale accounting is achieved under the operative accounting framework. As such, where sale accounting is achieved for an SFT under the bank's operative accounting framework, the bank must ~~first~~ reverse all sales-related accounting entries, and then calculate its exposure as if the SFT had been treated as a financing transaction under the operative accounting framework (ie ~~in this last step,~~ the bank must include the sum of amounts in subparagraphs (i) and (ii) ~~above~~of paragraph 33 for such an SFT) for the purposes of determining its ~~Exposure Measure~~exposure measure.

~~37~~35. Bank acting as agent: a bank acting as agent in an SFT generally provides an indemnity or guarantee to only one of the two parties involved, and only for the difference between the value of the security or cash its customer has lent and the value of collateral the borrower has provided. In this situation, the bank is exposed to the counterparty of its customer for the difference in values rather than ~~fully exposed~~to the full exposure to the underlying security or cash of the transaction (as is the case where the bank is one of the principals in the transaction). Where the bank does not own/control the underlying cash or security resource, that resource cannot be leveraged by the bank. ~~The following exceptional treatment therefore applies for~~

36. Where a bank acting as agent in an SFT ~~and providing~~provides an indemnity or guarantee~~. 38. Where a bank acting as an agent in an SFT provides a guarantee~~ to a customer or counterparty for any difference between the value of the security or cash the customer has lent and the value of collateral the borrower has provided, then the bank will be required to calculate its ~~Exposure Measure~~exposure measure by applying only ~~section~~subparagraph (ii) of paragraph ~~35~~33.[24]

~~39~~37. A bank acting as agent in an SFT and providing ~~a~~an indemnity or guarantee to a customer or counterparty will be considered eligible for ~~this~~the exceptional treatment set out in paragraph 36 only ~~when~~if the bank's exposure to the transaction is limited to the guaranteed difference between the value of the security or cash its customer has lent and the value of the collateral the borrower has provided. In situations where the bank is further economically exposed (ie beyond the guarantee for the difference) to the underlying security or cash in the transaction[23]-[25] a further exposure equal to the full amount of the security or cash must be included in the ~~Exposure Measure~~exposure measure.

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[24] Where, in addition to the conditions in paragraphs 35 to 37, a bank acting as an agent in an SFT does not provide an indemnity or guarantee to any of the involved parties, the bank is not exposed to the SFT and therefore need not recognise those SFTs in its exposure measure.

[23] ~~For example, due to the bank managing collateral received in the bank's name or on its own account rather than on the customer's or borrower's account (eg by on-lending or managing unsegregated collateral, cash or securities etc).~~

[25] For example, due to the bank managing collateral received in the bank's name or on its own account rather than on the customer's or borrower's account (eg by on-lending or managing unsegregated collateral, cash or securities).

(d) Other off-balanceOff-balance sheet exposuresitems

4038. This section explains the incorporation into the Exposure Measure for off-balance sheet (of OBS) items, as defined underin the risk-basedBasel II framework. For example, into the leverage ratio exposure measure. OBS items include commitments (including liquidity facilities), whether or not unconditionally cancellable commitments, direct credit substitutes, acceptances, standby letters of credit, and trade letters of credit, failed transactions and unsettled securities.[24]

41. The Committee recognises that these OBS items are a source of potentially significant leverage. Therefore, banks should include the above OBS items in the Exposure Measure by applying a uniform 100% credit conversion factor (CCF).

42. Exceptional treatment: for any commitments that are unconditionally cancellable at any time by the bank without prior notice, banks must apply a CCF of 10% to include such commitments in the Exposure Measure.[25] The Committee will conduct further review to ensure that the 10% CCF is appropriately conservative based on historical experience.

39. In the risk-based capital framework, OBS items are converted under the standardised approach into credit exposure equivalents through the use of credit conversion factors (CCFs). For the purpose of determining the exposure amount of OBS items for the leverage ratio, the CCFs set out in paragraphs 14 to 22 of the Annex must be applied to the notional amount.[26]

Disclosure requirements

4340. Public disclosure by banks of Banks will be required to publicly disclose their Basel III leverage ratio starts on a consolidated basis from 1 January 2015. Paragraphs 44 to 63 set out these disclosure requirements.

4441. To enable market participants to reconcile leverage ratio disclosures with banks' published financial statements from period to period, and to compare the capital adequacy of banks across jurisdictions with varying accounting frameworks, it is important that banks adopt a consistent and common disclosure of the main components of the leverage ratio, while also reconciling tothese disclosures with their published financial statements.

4542. To facilitate consistency and ease of use of disclosures relating to the composition of the leverage ratio, and to mitigate the risk of inconsistent formats undermining the objective of enhanced disclosure, the Basel Committee has agreed that internationally-activeinternationally active banks across Basel-member

jurisdictions will be required to publish their leverage ratio according to a common templateset of templates.

4643. The public disclosure requirements include:

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[24] See paragraph 14 of Annex 1 for details.

[25] Retail commitments whose terms permit the bank to cancel them to the full extent allowable under consumer protection and related legislation in a jurisdiction may receive exceptional the treatment described under this paragraph. Commitments that effectively provide for automatic cancellation *only* due to deterioration in a borrower's creditworthiness do not qualify for the exceptional treatment described under this paragraph.

[26] These correspond to the CCFs of the standardised approach for credit risk under the Basel II framework, subject to a floor of 10%. The floor of 10% will affect commitments that are unconditionally cancellable at any time by the bank without prior notice, or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness. These may receive a 0% CCF under the risk-based capital framework.

• a summary comparison table that ~~banks must disclose providing~~provides a comparison of ~~their~~banks' total accounting assets amounts and leverage ratio exposures;

• a common disclosure template that ~~banks must use to disclose the~~provides a breakdown of the main leverage ratio regulatory elements;

• a reconciliation requirement ~~by which banks must disclose and detail the source~~that details the source(s) of material differences between banks' total balance sheet assets in their financial statements and on-balance sheet exposures in the common disclosure template~~ and total on-balance sheet assets in their financial statements~~; and

• other disclosures as set out below.

(i) Implementation date, frequency and location of ~~reporting~~disclosure

~~47~~44. National authorities will give effect to the public disclosure requirements set out in this document by no later than 1 January 2015. Banks will be required to comply with these requirements from the date of publication of their first set of financial statements relating to a balance sheet on or after 1 January 2015.

~~48~~45. Frequency of disclosure~~. With~~: with the exception of the mandatory quarterly frequency requirement in paragraph ~~49~~46 below, disclosures required ~~by~~according to this document must be published by banks ~~with~~at the same frequency as, and concurrent with, the publication of their financial statements (ie typically quarterly or ~~half yearly~~half-yearly).

~~49~~46. Under Pillar 3 (market discipline) of the Basel II framework, large banks are ~~required~~subject to ~~make certain~~ minimum ~~disclosures~~disclosure requirements with respect to ~~certain~~ defined key capital ratios and elements on a quarterly basis, regardless of the frequency of ~~financial statement~~ publication of their financial statements.[~~26~~27] As the leverage ratio is an important supplementary measure to the risk-based capital requirements, the Committee has agreed that ~~this~~the same Pillar 3 requirement also applies to ~~the disclosure of~~ the leverage ratio. In order for a bank to meet this additional requirement, at a minimum, ~~four~~three items must be publicly disclosed quarterly irrespective of the frequency of ~~financial statement~~ publication~~: the Basel III leverage ratio (ie based on the average of the monthly leverage ratios over the quarter), along with three end of quarter figures~~ of the financial statements: (i) the numerator (Tier 1 capital)~~,~~; (ii) the denominator (~~Exposure Measure), and the end of quarter leverage ratio.~~exposure measure); and (iii) the Basel III leverage ratio according to paragraph 6. At a minimum, these disclosures should be on a quarter-end basis, along with the figures of the prior three quarter-ends. However, banks may, subject to supervisory approval, use more frequent calculations (eg daily or monthly averaging), as long as they do so consistently.

~~50~~47. Location of disclosure~~. Disclosures~~: disclosures required by this document must either be included in banks' published financial statements or, at a minimum, ~~these statements must~~ provide a direct link to the completed disclosures on ~~their~~the banks' websites or ~~on~~in publicly available regulatory reports.

~~51~~48. Banks must make available on their websites, or through publicly available regulatory reports, an ~~on-going~~ongoing archive of all reconciliation templates, disclosure templates~~,~~ and explanatory tables relating to prior reporting periods. Irrespective of the location of the disclosure (published financial ~~reports~~statements, bank websites or publicly available regulatory reports), all disclosures must be ~~in the format required by this document~~made according to the templates defined below.

[~~26~~27] For the relevant Pillar 3 disclosure requirements, see paragraph 818 of the Basel II ~~Framework: International Convergence of Capital Measurement and Capital Standards: A Revised Framework - Comprehensive Version (June 2006)~~framework.

Summary table, disclosure template, reconciliation and other requirements

(ii) Disclosure templates

5249. The summary comparison table, common disclosure template and explanatory table, qualitative reconciliation and other requirements which the Basel Committee has developed are set out in the following sections which follow. Together, these ensure transparency between the numbersvalues used for the calculation of the Basel III leverage ratio and the numbersvalues used in banks' published financial statements.

50. The scope of consolidation of the Basel III leverage ratio as set out in paragraph 8 may be different from the scope of consolidation of the published financial statements. Also, there may be differences between the measurement criteria of assets on the accounting balance sheet in the published financial statements relative to measurement criteria of the leverage ratio (eg due to differences of eligible hedges, netting or the recognition of credit risk mitigation). Further, in order to adequately capture embedded leverage, the framework incorporates both on- and off-balance sheet exposures.

53. The Basel III leverage ratio framework's scope of application is broader than that of the published financial statements due to its inclusion of exposures of entities consolidated in the risk-based framework which may not be consolidated in the published financial statements. Also there may be differences between the measurement criteria of values on-balance sheet in the published financial statements relative to those criteria required by the leverage ratio framework (eg netting and credit risk mitigation permitted under an accounting framework or a risk-based framework but not under the leverage ratio framework). Further, in order to adequately capture imbedded leverage, the framework incorporates both the on-balance sheet assets and the off-balance sheet exposures of these entities. Finally, the basis of calculation of the Basel III leverage ratio is the average of the monthly leverage ratio over the quarter rather than the quarter-end leverage ratio. To ensure adequate transparency of disclosure in this context:

(i) the summary comparison table compares total accounting assets to total leverage ratio exposures to provide an introductory overview of the main differences;

(ii) the disclosure template provides the breakdown of the main leverage ratio regulatory items incorporating all on- and off-balance sheet exposures (all values are end-of-period); and in the last row, the reconciliation of the leverage ratio from its end-of-period value to its average of month-end value; and

(iii) there is a reconciliation requirement to disclose and detail the source of material differences between on-balance sheet exposures in the common disclosure template and on-balance sheet assets in their financial statements.

5451. The approach is The templates set out below are designed to be flexible enough to be used under any accounting standard, and isare consistent yet proportionate, varying with the complexity of the balance sheet of the reporting bank.[2728]

(iii) Summary comparison table

[2728] Specifically, a common template is set out. However, with respect to reconciliation, banks are to qualitatively reconcile any material difference between total on-balancebalance sheet assets in their reported financial statements and on-balance sheet Leverage Ratio Framework exposures. Similarly, flexibility is provided in the reporting of other off-balance sheet exposures in order to increase bank-specific relevance and transparency while limiting disclosure complexity as prescribed in the leverage ratio.

~~55~~52. Applying values at the ~~end-of-period~~end of period (eg ~~end-of-quarter~~quarter-end)~~ only~~, banks must report a reconciliation of their ~~on-~~balance sheet assets from their published financial statements ~~(third column) adjacent to the related exposure values under the scope of consolidation of~~with the leverage ratio ~~framework (fourth column[28])~~exposure measure as shown in Table 1. Specifically:

~~• on-balance sheet items (excluding derivatives and SFTs; but including related on-balance sheet collateral) on line 1;~~

• ~~derivative financial instruments on line 2~~ line 1 should show the bank's total consolidated assets as per published financial statements;

• line 2 should show adjustments related to investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes, but outside the scope of regulatory consolidation as set out in paragraphs 9 and 16;

• line 3 should show adjustments related to any fiduciary assets recognised on the balance sheet pursuant to the bank's operative accounting framework but excluded from the leverage ratio exposure measure, as described in footnote 4;

• lines 4 and 5 should show adjustments related to derivative financial instruments and securities financing transactions (ie repos and other similar secured lending)~~ on line 3~~, respectively;[29]

• line 6 should show the credit equivalent amount of OBS items, as determined under paragraph 39;

• line 7 should show any other adjustments; and

• line 8 should show the leverage ratio exposure, which should be the sum of the previous items. This should also be consistent with line 22 of Table 2 below.

~~[28] The amounts reported in the fourth column of the summary comparison table (ie lines 1, 2, 3 and 4) must be the same as the amounts reported in the disclosure template (ie as on lines, 3, 9, 14, and 17, respectively).~~

~~[29] Should a bank not have derivative or SFT assets included in its published financial statements, a value of 0 must be entered in lines 2 and/or 3, in the third column of the summary comparison table. Similarly, should a bank not have derivative or SFT exposures included in its Leverage Ratio Framework exposures, a value of 0 should be entered in lines 2 and/or 3.~~

Summary comparison of accounting assets vs leverage ratio exposure measure — Table 1

	Item	In relevant currency
1	Total consolidated assets as per published financial statements	
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	
4	Adjustments for derivative financial instruments	
5	Adjustment for securities financing transactions (ie repos and similar secured lending)	
6	Adjustment for off-balance sheet items (ie conversion to credit equivalent amounts of off-balance sheet exposures)	
7	Other adjustments	
8	**Leverage ratio exposure**	

~~other off-balance sheet items on line 4, fourth column only (do not report in third column);~~

~~on line 5, total on balance sheet assets (third column) equal to the sum of lines 1 to 3, and total leverage ratio framework exposures (fourth column) equal to the sum of lines 1 to 4.~~

(iv) ~~Disclosure~~Common disclosure template and explanatory table, reconciliation and other requirements

~~56~~53. ~~On lines 1 to 17,~~ Banks must report, in accordance with Table 2 below, and applying values at the ~~end-of-period~~end of period (eg ~~end-of-quarter~~quarter-end), ~~banks must report~~ a breakdown of the following exposures under the ~~scope of consolidation of the~~ leverage ratio framework: (i) on-balance sheet exposures~~,~~; (ii) derivative exposures~~, securities financing transaction~~; (iii) SFT exposures~~, and other off-balance sheet exposures. On lines 18 to 20, also applying values at the end-of-period, banks~~; and (iv) OBS items. Banks must also report their Tier 1 capital, ~~Total Exposures,~~total exposures and the leverage ratio.

54. The Basel III leverage ratio for the quarter, expressed as a percentage and calculated according to paragraph 6, is to be reported in line 22.

~~57. The Basel III leverage ratio is to be reported in line 21 calculated using the average of the monthly leverage ratios over the quarter. Accompanying the template, where the value in line 21 differs materially from the value in line 20 (ie where there is a material difference between the Basel III leverage ratio calculated as the average of the monthly leverage ratios over the quarter relative to the end-of- period leverage ratio), banks must provide a description of why these differences occurred and an itemisation and explanation of their main sources.~~

~~58. The titles of sub-lines 15a and 16a in the disclosure template below are illustrative only; banks are to choose their material off-balance sheet items and report a breakdown of those such that an adequate level of granularity of disclosure is achieved – creating additional sub-lines if necessary (eg 15b, c, etc; and 16b, etc).~~

~~59~~55. Reconciliation with public financial statements~~ - Banks~~: banks are required to disclose and detail the source of material differences between their ~~on-balance sheet exposures in line 1 of the common disclosure template and their total on-balance~~total balance sheet assets (net of on-balance sheet derivative and SFT assets) as reported ~~on~~in their financial statements and their on-balance sheet exposures in line 1 of the common disclosure template.

~~60~~56. Material periodic changes in the leverage ratio~~ Banks~~: banks are required to explain the key drivers of material changes in their Basel III leverage ratio observed from the end of the previous reporting period to the end of the current reporting period (whether these changes stem from changes in the numerator and/or from changes in the denominator).

Leverage ratio common disclosure template — Table 2

	Item	Leverage ratio framework
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	
3	**Total on-balance sheet exposures** (excluding derivatives and SFTs) (sum of lines 1 and 2)	
	Derivative exposures	
4	Replacement cost associated with *all* derivatives transactions (ie net of eligible cash variation margin)	
5	Add-on amounts for PFE associated with *all* derivatives transactions	
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	
8	(Exempted CCP leg of client-cleared trade exposures)	
9	Adjusted effective notional amount of written credit derivatives	
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	
11	**Total derivative exposures (sum of lines 4 to 10)**	
	Securities financing transaction exposures	
12	Gross SFT *assets* (with no recognition of netting), after adjusting for sales accounting transactions	
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
14	CCR exposure for SFT assets	
15	Agent transaction exposures	
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	
18	(Adjustments for conversion to credit equivalent amounts)	
19	**Off-balance sheet items (sum of lines 17 and 18)**	
	Capital and total exposures	
20	**Tier 1 capital**	
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	
	Leverage ratio	
22	**Basel III leverage ratio**	

~~61.~~

~~Regarding the shading in the template set out below:~~

- ~~Dark grey rows introduce new sections detailing main components of the leverage ratio.~~
- ~~Light grey rows with no thick borders represent a sum cell in the relevant section.~~

- ~~Light grey rows with thick borders show the end-of-period numerator, denominator, or leverage ratio; and the Basel III leverage ratio.~~

~~62~~57. ~~Set out in the~~The following table ~~is an explanation of~~sets out explanations for each row of the disclosure template referencing the ~~appropriate~~relevant paragraphs of the ~~Revised~~ Basel III leverage ratio framework detailed in this document.

Explanatory table for the common disclosure template — Table 3

Explanation of each row of the common disclosure template

Row number	Explanation
1	On-balance sheet assets according to paragraph 15.
2	Deductions from Basel III Tier 1 capital determined by paragraphs 9 and 16 and excluded from the leverage ratio exposure measure, reported as negative amounts.
3	Sum of lines 1 and 2.
4	Replacement cost (RC) associated with *all* derivatives transactions (including exposures resulting from transactions described in paragraph 28), net of cash variation margin received and with, where applicable, bilateral netting according to paragraphs 19–21 and 26.
5	Add-on amount for all derivative exposures according to paragraphs 19–21.
6	Grossed-up amount for collateral provided according to paragraph 24.
7	Deductions of receivables assets from cash variation margin provided in derivatives transactions according to paragraph 26, reported as negative amounts.
8	Exempted trade exposures associated with the CCP leg of derivatives transactions resulting from client-cleared transactions according to paragraph 27, reported as negative amounts.
9	Adjusted effective notional amount (ie the effective notional amount reduced by any negative change in fair value) for written credit derivatives according to paragraph 30.
10	Adjusted effective notional offsets of written credit derivatives according to paragraph 30 and deducted add-on amounts relating to written credit derivatives according to paragraph 31, reported as negative amounts.
11	Sum of lines 4–10.
12	Gross SFT assets with no recognition of any netting other than novation with QCCPs as set out in footnote 19, removing certain securities received as determined by paragraph 33 (i) and adjusting for any sales accounting transactions as determined by paragraph 34.
13	Cash payables and cash receivables of gross SFT assets netted according to paragraph 33 (i), reported as negative amounts.
14	Measure of counterparty credit risk for SFTs as determined by paragraph 33 (ii).
15	Agent transaction exposure amount determined according to paragraphs 35 to 37.
16	Sum of lines 12–15.
17	Total off-balance sheet exposure amounts on a gross notional basis, before any adjustment for credit conversion factors according to paragraph 39.
18	Reduction in gross amount of off-balance sheet exposures due to the application of credit conversion factors in paragraph 39.
19	Sum of lines 17 and 18.
20	Tier 1 capital as determined by paragraph 10.
21	Sum of lines 3, 11, 16 and 19.
22	Basel III leverage ratio according to paragraph 54.

~~63~~58. In general, to ensure that the summary comparison table, common disclosure template and explanatory table ~~(individual banks need not disclose the explanatory table)~~ [29] remain comparable

[29] Individual banks need not disclose the explanatory table.

across jurisdictions, there should be no adjustments ~~to the version~~made by banks ~~use~~ to disclose their leverage ratio. However, ~~the following exceptions apply to take account of language differences and to reduce the reporting of unnecessary information:~~

national authorities may choose, for the local version of ~~• The template and the two tables above can be translated by the relevant national authorities into the relevant national language(s) that implement the Basel standards. The translated versions will retain all of the rows indicated.~~

~~•~~ ~~Regarding~~ the explanatory table, ~~the national version can~~to reference the national rules that implement the relevant sections of the Basel III ~~(however as noted above it must retain~~framework, provided the ~~same~~row numbering remains unchanged in order to permit market participants to easily map the national templates to the ~~common international version)~~internationally agreed one. Banks are not permitted to add, delete or change the definitions of any rows from the summary comparison table and common disclosure template implemented in their jurisdiction. This will prevent a divergence of tables and templates that could undermine the objectives of consistency and comparability.

Transitional arrangements

~~64~~59. The transition period for the leverage ratio commenced 1 January 2011. The Committee is using the transition period to monitor banks' leverage ratio data on a ~~semi-annual~~semiannual basis in order to assess whether the proposed design and calibration of ~~the~~a minimum Tier 1 leverage ratio of 3% is appropriate over a full credit cycle and for different types of business models. The Committee will also ~~will~~ closely monitor accounting standards and practices to address any differences in national accounting frameworks that are material to the definition and calculation of the leverage ratio.

~~65~~60. The transition period comprises a supervisory monitoring period and a parallel run period:

• The supervisory monitoring period commenced 1 January 2011. The supervisory monitoring process focused on developing templates to track the underlying components of the agreed definitions and resulting ratio in a consistent manner.

• The parallel run period commenced 1 January 2013 and runs until 1 January 2017. During this period, the leverage ratio and its components are being reported and tracked, including its behaviour relative to the risk-based capital requirement. Also, as noted ~~earlier,~~above, the public disclosure requirements start on 1 January 2015~~ and the~~. The Committee will closely monitor the implementation of these ~~disclosures~~disclosure requirements.

~~66~~61. Based on the results of the parallel run period, any final adjustments to the definition and calibration of the Basel III leverage ratio will be carried out ~~in the first half of~~by 2017, with a view to migrating to a Pillar 1 treatment on 1 January 2018 based on appropriate review and calibration.

Annex 1

References

To improve the ~~readability~~understanding of the Basel III leverage ratio framework, this Annex includes the relevant Basel II ~~text~~provisions applicable for the purposes of calculating the leverage ratio.

Derivative exposures

Add-on factors for determining potential future exposure

1. The following add-on factors apply to financial derivatives, based on residual maturity:

	Interest rates	FX and gold	Equities	Precious metals except gold	Other commodities
One year or less	0.0%	1.0%	6.0%	7.0%	10.0%
Over one year to five years	0.5%	5.0%	8.0%	7.0%	12.0%
Over five years	1.5%	7.5%	10.0%	8.0%	15.0%

Notes:

1. For contracts with multiple exchanges of principal, the factors are to be multiplied by the number of remaining payments in the contract.

2. For contracts that are structured to settle outstanding ~~exposure~~exposures following specified payment dates and where the terms are reset such that the market value of the contract is zero on these specified dates, the residual maturity would be set equal to the time until the next reset date. In the case of interest rate contracts with remaining maturities of more than one year that meet the above criteria, the add-on is subject to a floor of 0.5%.

3. Forwards, swaps, purchased options and similar derivative contracts not covered by any of the columns in this matrix are to be treated as “other commodities”.

4. No potential future credit exposure would be calculated for single currency ~~fixed~~floating / floating interest rate swaps; the credit exposure on these contracts would be evaluated solely on the basis of their mark-to-market value.

2. Supervisors will take care to ensure that add-ons are based on effective rather than apparent notional amounts. In the event that the stated notional amount is leveraged or enhanced by the structure of the transaction, banks must use the effective notional amount when determining potential future exposure.

3. The following add-on factors apply to single-name credit derivatives:

	Protection buyer	Protection seller
Total return ~~swap~~swaps		
"qualifying" reference obligation	5%	5%
"non-qualifying" reference obligation	10%	10%
Credit ~~Default Swap~~default swaps		
"qualifying" reference obligation	5%	5%**
"non-qualifying" reference obligation	10%	10%**

There will be no difference depending on residual maturity.

** The protection seller of a credit default swap shall only be subject ~~only~~ to the add-on factor where it is subject to closeout upon the insolvency of the protection buyer while the underlying is still solvent. ~~Add-on~~The add-on should then be capped to the amount of unpaid premiums.

4. Where the credit derivative is a ~~first to default~~first-to-default transaction, the add-on will be determined by the lowest credit quality underlying the basket, ie if there are any non-qualifying items in the basket, the non-qualifying reference obligation add-on should be used. For second and subsequent ~~to default~~nth-to-default transactions, underlying assets should continue to be allocated according to the credit quality, ie the second or, respectively, nth lowest credit quality will determine the add-on for a ~~second to default~~second-to-default or an nth-to-default transaction~~ etc~~, respectively.

5. The “qualifying” category includes securities issued by public sector entities and multilateral development banks, plus other securities that are:

• rated ~~investment-grade~~investment grade[30] by at least two credit rating agencies specified by the national authority; or

• rated ~~investment-grade~~investment grade by one rating agency and not less than ~~investment-grade~~investment grade by any other rating agency specified by the national authority (subject to supervisory oversight); or

• subject to supervisory approval, unrated, but deemed to be or comparable to investment grade credit quality by the reporting bank, and the issuer has securities listed on a recognised ~~stock~~ exchange.

6. Each supervisory authority will be responsible for monitoring the application of these qualifying criteria, particularly in relation to the last criterion where the initial classification is essentially left to the reporting banks. National authorities will also have discretion to include within the qualifying category debt securities issued by banks in countries which have implemented the current framework, subject to the express understanding that supervisory authorities in such countries undertake prompt remedial action if a bank fails to meet the ~~capital~~leverage ratio standards set forth in this framework. Similarly, national authorities will have discretion to include within the qualifying category debt securities issued by securities firms that are subject to equivalent rules.

[30] Eg rated Baa or higher by Moody’s and BBB or higher by Standard ~~and~~& Poor’s.

7. Furthermore, the "qualifying" category shall include securities issued by institutions that are deemed to be equivalent to investment grade quality and subject to supervisory and regulatory arrangements comparable to those under this framework.

Bilateral netting

8. For the purposes of the leverage ratio, the following will apply:

(a) Banks may net transactions subject to novation under which any obligation between a bank and its counterparty to deliver a given currency on a given value date is automatically amalgamated with all other obligations for the same currency and value date, legally substituting one single amount for the previous gross obligations.

(b) Banks may also net transactions subject to any legally valid form of bilateral netting not covered in (a), including other forms of novation.

(c) In both cases (a) and (b), a bank will need to satisfy its national supervisors that it has:[31]

(i) a netting contract or agreement with the counterparty that creates a single legal obligation, covering all included transactions, such that the bank would have either a claim to receive or obligation to pay only the net sum of the positive and negative mark-to-market values of included individual transactions in the event a counterparty fails to perform due to any of the following: default, bankruptcy, liquidation or similar circumstances;

(ii) written and reasoned legal opinions that, in the event of a legal challenge, the relevant courts and administrative authorities would find the bank's exposure to be such a net amount under:

• the law of the jurisdiction in which the counterparty is chartered and, if the foreign branch of a counterparty is involved, then also under the law of jurisdiction in which the branch is located;

• the law that governs the individual transactions; and

• the law that governs any contract or agreement necessary to effect the netting.

The national supervisor, after consultation when necessary with other relevant supervisors, must be satisfied that the netting is enforceable under the laws of each of the relevant jurisdictions;[32][31] and

(iii) procedures in place to ensure that the legal characteristics of netting arrangements are kept under review in the light of possible changes in relevant law.

9. Contracts containing walkaway clauses will not be eligible for netting for the purpose of calculating capitalthe leverage ratio requirements pursuant to this framework. A walkaway clause is a provision that permits a non-defaulting counterparty to make only limited payments, or no payment at all, to the estate of a defaulter, even if the defaulter is a net creditor.

10. Credit exposure on bilaterally netted forward transactions will be calculated as the sum of the net mark-to-market replacement cost, if positive, plus an add-on based on the notional underlying principal. The add-on for netted transactions (ANet) will equal the weighted average of the gross add-

[31] In cases where an agreement as described in paragraph 96(ii) (a) has been recognised prior to July 1994, the supervisor will determine whether any additional steps are necessary to satisfy itself that the agreement meets the requirements set out below.

[32][31] Thus, if any of these supervisors isare dissatisfied about enforceability under its laws, the netting contract or agreement will not meet the condition and neither counterparty could obtain supervisory benefit.

on (AGross) and the gross add-on adjusted by the ratio of net current replacement cost to gross current replacement cost (NGR). This is expressed through the following formula:

ANet = 0.4~~*~~ · AGross + 0.6~~*~~ · NGR~~*~~ · AGross

where:

NGR = level of net replacement cost/level of gross replacement cost for transactions subject to legally enforceable netting agreements~~33~~[32]

AGross = sum of individual add-on amounts (calculated by multiplying the notional principal amount by the appropriate add-on factors set out in paragraphs 1 to ~~3~~7 of this Annex) of all transactions subject to legally enforceable netting agreements with one counterparty.

11. For the purposes of calculating potential future credit exposure to a netting counterparty for forward foreign exchange contracts and other similar contracts in which the notional principal amount is equivalent to cash flows, the notional principal is defined as the net receipts falling due on each value date in each currency. The reason for this is that offsetting contracts in the same currency maturing on the same date will have lower potential future exposure as well as lower current exposure.

Securities financing transaction ~~(SFT)~~ exposures[33]

12. Qualifying master netting agreement: the effects of bilateral netting agreements for covering ~~repo-style transactions~~SFTs will be recognised on a ~~counterparty-by-counterparty~~counterparty by counterparty basis if the agreements are legally enforceable in each relevant jurisdiction upon the occurrence of an event of default and regardless of whether the counterparty is insolvent or bankrupt. In addition, netting agreements must:

(a) provide the non-defaulting party with the right to terminate and close out in a timely manner all transactions under the agreement upon an event of default, including in the event of insolvency or bankruptcy of the counterparty;

(b) provide for the netting of gains and losses on transactions (including the value of any collateral) terminated and closed out under it so that a single net amount is owed by one party to the other;

(c) allow for the prompt liquidation or setoff of collateral upon the event of default; and

(d) be, together with the rights arising from provisions required in (a) and (c) above, legally enforceable in each relevant jurisdiction upon the occurrence of an event of default regardless of the counterparty's insolvency or bankruptcy.

~~33~~[32] National authorities may permit a choice of calculating the NGR on a ~~counterparty-by-counterparty~~counterparty by counterparty or on an aggregate basis for all transactions that are subject to legally enforceable netting agreements. If supervisors permit a choice of methods, the method chosen by the institution is to be used consistently. Under the aggregate approach, net negative current exposures to individual counterparties cannot be used to offset net positive current exposures to others, ie for each counterparty the net current exposure used in calculating the NGR is the maximum of the net replacement cost or zero. Note that under the aggregate approach, the NGR is to be applied individually to each legally enforceable netting agreement so that the credit equivalent amount will be assigned to the appropriate counterparty risk weight category.

[33] The provisions related to qualifying master netting agreements (MNAs) for SFTs are intended for the calculation of the counterparty add-on of the exposure measure of SFTs as set out in paragraph 33 (ii) only.

13. Netting across positions held in the banking book and trading book will only be recognised when the netted transactions fulfil the following conditions:

(a) ~~All~~ all transactions are marked to market daily~~,~~; and

(b) ~~The~~ the collateral instruments used in the transactions are recognised as eligible financial collateral in the banking book.

~~Examples of other off-balance~~**Off-balance sheet** ~~exposures~~**items**

~~14. The following off-balance sheet items will receive 100% credit conversion factor (CCF) for the purposes of the leverage ratio:~~

14. For the purpose of the leverage ratio, OBS items will be converted into credit exposure equivalents through the use of credit conversion factors (CCFs).

~~(i)~~ 15. Commitments other than securitisation liquidity facilities with an original maturity up to one year and commitments with an original maturity over one year ~~[that~~will receive a CCF~~%~~ of 20% and 50%, respectively~~, under the Basel II framework]~~.

. However, any commitments that are unconditionally cancellable at any time by the bank without prior notice, or ~~(ii)~~ ~~Commitments~~ that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness, will receive a 10% CCF.[34]

~~(iii)~~ 16. Direct credit substitutes, eg general guarantees of indebtedness (including standby letters of credit serving as financial guarantees for loans and securities) and acceptances (including endorsements with the character of acceptances) will receive a CCF of 100%.

~~(iv)~~ 17. Forward asset purchases, forward forward deposits and ~~partly-paid~~partly paid shares and securities, which represent commitments with certain drawdown, will receive a CCF of 100%.

~~(v)~~ 18. Certain transaction-related contingent items (eg performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions) will receive a CCF of 50%.

~~(vi)~~ 19. Note issuance facilities (NIFs) and revolving underwriting facilities (RUFs) will receive a CCF of 50%.

~~(vii)~~ ~~Short-term~~20. For short-term self-liquidating trade letters of credit arising from the movement of goods (eg documentary credits collateralised by the underlying shipment), a 20% CCF will be applied to both issuing and confirming banks.

21. Where there is an undertaking to provide a commitment on an OBS item, banks are to apply the lower of the two applicable CCFs.

22. All off-balance sheet securitisation exposures, except an eligible liquidity facility or an eligible servicer cash advance facility as set out in paragraphs 576 and 578 of the Basel II framework, will receive a CCF of 100% conversion factor. All eligible liquidity facilities will receive a CCF of 50%. At national discretion, undrawn servicer cash advances or facilities that are unconditionally cancellable without prior notice may be eligible for a 10% CCF.

[34] In certain countries, retail commitments are considered unconditionally cancellable if the terms permit the bank to cancel them to the full extent allowable under consumer protection and related legislation.