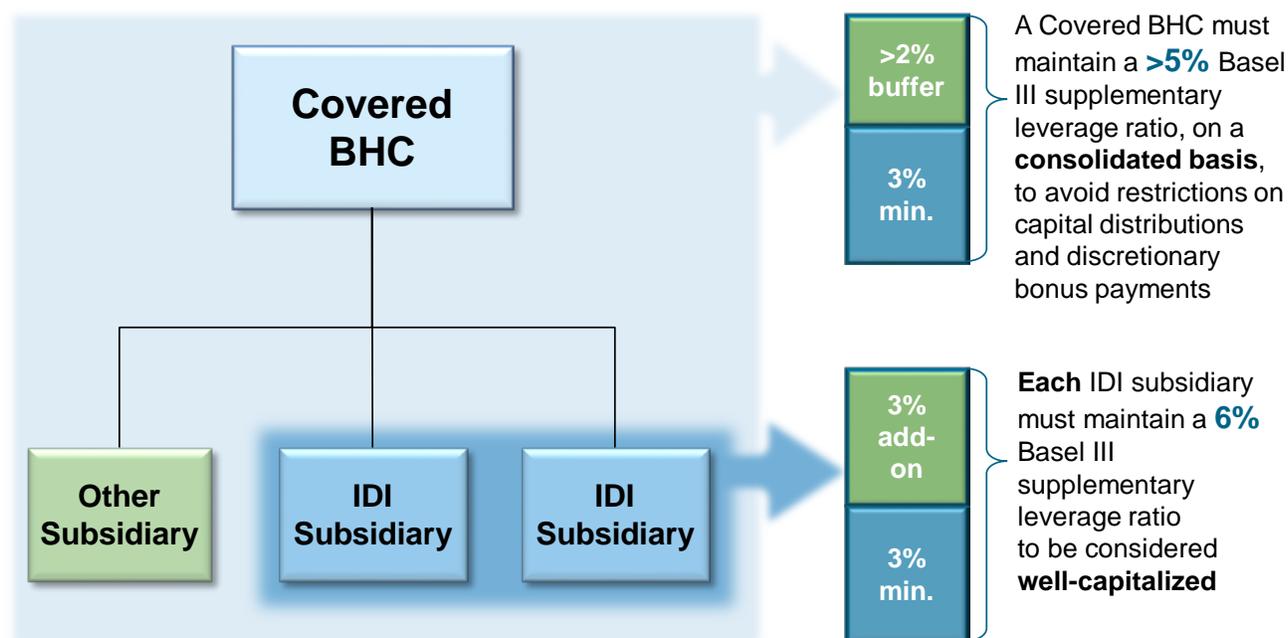


Basel III Leverage Ratio: U.S. Proposes American Add-on; Basel Committee Proposes Important Denominator Changes

July 19, 2013

On the heels of publishing the U.S. Basel III final rule,¹ the U.S. banking agencies have proposed higher leverage capital requirements for the eight U.S. bank holding companies that have been identified as global systemically important banks (“**Covered BHCs**”) and their insured depository institution (“**IDI**”) subsidiaries. The higher leverage capital requirements, which we are calling the American Add-on, build upon the minimum Basel III supplementary leverage ratio in the U.S. Basel III final rule.

The proposed American Add-on would require a Covered BHC’s IDI subsidiaries to maintain a Basel III supplementary leverage ratio of at least 6% to be considered well-capitalized under the prompt corrective action framework. The American Add-on also requires Covered BHCs to maintain a leverage buffer that would function in a similar way to the capital conservation buffer in the U.S. Basel III final rule. A Covered BHC that does not maintain a Basel III supplementary leverage ratio of greater than 5%, i.e., a buffer of more than 2% on top of the 3% minimum, would be subject to increasingly stringent restrictions on its ability to make capital distributions and discretionary bonus payments. The proposed effective date of the American Add-on is January 1, 2018.



The Basel III supplementary leverage ratio used in the proposed American Add-on is broadly similar to the leverage ratio contained in the 2010 version of Basel III. The Basel Committee on Banking Supervision has recently proposed important changes to the Basel III leverage ratio. As expected, most of these changes relate to the denominator of the ratio, the Exposure Measure, including how derivatives and

¹ Davis Polk’s visual memorandum and interactive web tool on the U.S. Basel III final rule are available at USBasel3.com.

securities financing transactions should be taken into account and the scope of consolidation for inclusion of exposures in the denominator. A number of the revisions are intended to neutralize key differences between U.S. and international accounting standards, particularly with respect to the accounting treatment of derivatives and securities financing transactions, by “grossing up” exposures in order to achieve a more consistent measure of leverage across banks that operate under different accounting regimes. The U.S. banking agencies stated that they will consider whether to revise the Basel III supplementary leverage ratio once the Basel Committee has finalized its revisions.

Using visuals, tables and formulas, this memorandum discusses the key aspects of the proposed American Add-on in [Part 1](#) and the Basel Committee’s proposed revisions to the Basel III leverage ratio in [Part 2](#).

Part 1: Proposed American Add-on

Scope of Application

The proposed American Add-on would apply to a U.S. top-tier bank holding company that has more than \$700 billion in total consolidated assets or more than \$10 trillion in assets under custody (Covered BHC) and any IDI subsidiary of a Covered BHC. The proposed asset thresholds are designed to capture the eight U.S. bank holding companies that were identified as global systemically important banking organizations (“**G-SIBs**”) by the Financial Stability Board (“**FSB**”) using methodology developed by the Basel Committee and year-end 2011 data.² The FSB intends to update the list of G-SIBs each November based on new data.³

The U.S. banking agencies noted that, over time, as the G-SIB risk-based capital surcharge is implemented in the United States or revised by the Basel Committee, they may consider modifying the scope of application of the American Add-on. The U.S. banking agencies sought comments on whether the American Add-on should also apply to advanced approaches banking organizations⁴ that have not been identified as G-SIBs.⁵

As proposed, the American Add-on would apply not only to a Covered BHC on a consolidated basis, but also to each of the Covered BHC’s IDI subsidiaries, regardless of the size of those subsidiaries.

Mechanics of the American Add-on

IDI Subsidiaries of Covered BHCs: The proposed American Add-on would require a Covered BHC’s IDI subsidiaries to maintain a Basel III supplementary leverage ratio of at least 6% to be considered well-capitalized under the prompt corrective action framework of the Federal Deposit Insurance Act. A bank holding company (“**BHC**”) that elects to become a financial holding company (“**FHC**”) must ensure, on an

² The U.S. bank holding companies that have been identified as G-SIBs by the FSB and that would be subject to the proposed American Add-on are Bank of America Corporation, The Bank of New York Mellon Corporation, Citigroup Inc., Goldman Sachs Group, Inc., JP Morgan Chase & Co., Morgan Stanley, State Street Corporation and Wells Fargo & Company. See FSB, *Update of group of global systemically important banks (G-SIBs)* (Nov. 1, 2012) available [here](#).

³ *Id.*

⁴ An advanced approaches banking organization is a banking organization that (1) has \$250 billion or more in total consolidated assets; (2) has \$10 billion or more of on-balance sheet foreign exposures; or (3) chooses, with approval by its primary federal banking regulator, to use the advanced approaches capital rules to calculate its risk-based capital ratios and risk-weighted assets.

⁵ Under the U.S. Basel III final rule, all advanced approaches banking organizations must comply with a 3% minimum Basel III supplementary leverage ratio.

ongoing basis, that it and all of its IDI subsidiaries are well-capitalized and well-managed.⁶ Accordingly, the 6% well-capitalized standard, if adopted, would become the *de facto* minimum leverage capital requirement for IDI subsidiaries of Covered BHCs. The U.S. banking agencies have also signaled that they are prepared to eliminate the current 5% well-capitalized standard for the U.S. leverage ratio because the new 6% Basel III supplementary leverage ratio would be a more stringent requirement.

Under the U.S. Basel III final rule, an advanced approaches IDI will be required to maintain a Basel III supplementary leverage ratio of at least 3% to be considered well-capitalized. The proposed American Add-on thus represents a doubling of this standard for IDI subsidiaries of Covered BHCs.

Covered BHCs: The American Add-on also introduces a leverage buffer for Covered BHCs, which would function in a similar way to the capital conservation buffer in the U.S. Basel III final rule. A Covered BHC’s leverage buffer is equal to its Basel III supplementary leverage ratio minus 3%, calculated as of the last day of the previous calendar quarter based on its most recent Form FR Y-9C. A Covered BHC that fails to maintain a leverage buffer of greater than 2% would be subject to increasingly stringent restrictions on its ability to make capital distributions and discretionary bonus payments as it dips into its leverage buffer, as illustrated below.

Leverage Buffer	Allowed Capital Distributions and Discretionary Bonus Payments
Buffer > 2.0%	No limit imposed by the proposed American Add-on
2.0% ≥ Buffer > 1.5%	Up to 60% of eligible retained income
1.5% ≥ Buffer > 1.0%	Up to 40% of eligible retained income
1.0% ≥ Buffer > 0.5%	Up to 20% of eligible retained income
0.5% ≥ Buffer	No capital distributions or discretionary bonus payments allowed

The leverage buffer’s constraints on distributions and discretionary bonus payments would be independent of any constraints imposed by the capital conservation buffer in the U.S. Basel III final rule (which could be expanded by a countercyclical buffer for advanced approaches banking organizations under certain circumstances) or other supervisory or regulatory measures. Accordingly, the proposed rule text for the American Add-on provides that a Covered BHC is subject to the **lower** of **(1)** the maximum payout amount as determined under the capital conservation buffer framework⁷ and **(2)** the maximum leverage payout amount as determined under the leverage buffer framework.⁸

⁶ See Section 4(j)(1) of the Bank Holding Company Act of 1956, as amended by Section 606(a) of the Dodd-Frank Act. See also 12 C.F.R. § 225.83 (consequences of failing to continue to meet the well-capitalized and well-managed standards).

⁷ Under the capital conservation buffer framework, a banking organization’s maximum payout amount for the current calendar quarter is equal to its eligible retained income multiplied by the applicable maximum payout ratio. The maximum payout ratio is the percentage of eligible retained income that a banking organization can pay out in the form of capital distributions and discretionary bonus payments during the current calendar quarter. The maximum payout ratio is based on the size of the banking organization’s capital conservation buffer.

⁸ Under the proposed leverage buffer framework, a Covered BHC’s maximum leverage payout amount for the current calendar quarter is equal to its eligible retained income multiplied by the applicable maximum leverage payout ratio. The maximum leverage payout ratio is the percentage of eligible retained income that a Covered BHC can pay out in the form of capital distributions and discretionary bonus payments during the current calendar quarter. The maximum payout ratio is based on the size of the Covered BHC’s leverage buffer.

Building upon the Basel III Supplementary Leverage Ratio

The proposed American Add-on builds upon the Basel III supplementary leverage ratio in the U.S. Basel III final rule. Under the U.S. Basel III final rule, an advanced approaches banking organization must disclose its Basel III supplementary leverage ratio beginning on January 1, 2015, and must comply with a minimum Basel III supplementary leverage ratio of 3% beginning on January 1, 2018.

The calibration of the Basel III supplementary leverage ratio in the U.S. Basel III final rule is broadly similar to the original version of the Basel III⁹ leverage ratio, agreed upon by the Basel Committee at the end of 2010. However, as discussed in **Part 2** of this memorandum, the Basel Committee has proposed significant revisions to the denominator of the Basel III leverage ratio. The U.S. banking agencies have stated that they will consider whether to revise the Basel III supplementary leverage ratio once the Basel Committee has finalized its revisions. We believe it is likely that any such revisions will ultimately be reflected in a revised U.S. Basel III supplementary leverage ratio.

Visual Overview of the Basel III Supplementary Leverage Ratio

U.S. Basel III Final Rule (July 2013)

U.S. Basel III final rule introduces new eligibility criteria for Tier 1 capital and new regulatory adjustments to and deductions from capital

**Basel III Supplementary
Leverage Ratio (%)**

=

Tier 1 Capital

Total Leverage Exposure

In contrast, the denominator of the U.S. leverage ratio does **not** take into account off-balance sheet exposures

Total leverage exposure equals the **sum** of the following exposures:

- Balance sheet carrying value of all of the banking organization's on-balance sheet assets minus amounts deducted from Tier 1 capital;
- Potential future credit exposure (PFE) amount for each derivative contract to which the banking organization is a counterparty (or each single-product netting set for such transactions) determined in accordance with the U.S. Basel III standardized approach (i.e., the current exposure method), but without regard to the credit risk mitigation benefits of collateral
- 10% of the notional amount of unconditionally cancellable commitments made by the banking organization; and
- Notional amount of all other off-balance sheet exposures of the banking organization (**excluding** securities lending, securities borrowing, reverse repurchase transactions, derivatives and unconditionally cancellable commitments).

An advanced approaches banking organization's Basel III supplementary leverage ratio is the simple arithmetic mean of the ratio of its Tier 1 capital to total leverage exposure calculated as of the last day of each month in the reporting quarter.

Comparison with the U.S. Leverage Ratio: U.S. banking organizations have long been subject to a leverage requirement based on the ratio of a banking organization's Tier 1 capital to its average total consolidated assets as reported in its regulatory report minus amounts deducted from Tier 1 capital ("**U.S. leverage ratio**"). The U.S. Basel III final rule imposes a minimum 4% U.S. leverage ratio on all banking

⁹ In this memorandum, "**Basel III**" refers to the regulatory capital standards agreed upon by the Basel Committee and set forth in *Basel III: A global regulatory framework for more resilient banks and banking systems* (Dec. 2010), available [here](#). The U.S. banking agencies' final rule to implement Basel III in the United States is referred to as the "**U.S. Basel III final rule**."

organizations subject to the rule and provides that an IDI must maintain a U.S. leverage ratio of 5% to be considered well-capitalized.

A key difference between the calculation of the Basel III supplementary leverage ratio and the U.S. leverage ratio is that the former takes into account both on-balance sheet and certain off-balance sheet assets and exposures, whereas the latter only measures a banking organization's on-balance sheet leverage. Accordingly, in the case of a banking organization that has substantial off-balance sheet exposures, the denominator of its Basel III supplementary leverage ratio would generally be higher than the denominator of its U.S. leverage ratio.

Based solely on data relating to a sample group of advanced approaches banking organizations as of the end of the third quarter 2012, the U.S. banking agencies estimated that the denominator of the Basel III supplementary leverage ratio is roughly 43% higher than the denominator of the U.S. leverage ratio. Assuming that this proportion would remain constant and apply to each banking organization on a consistent basis, the agencies estimated that:

- the 3% minimum Basel III supplementary leverage ratio for advanced approaches banking organizations would be roughly equivalent to a U.S. leverage ratio of 4.3%;
- the greater than 5% Basel III supplementary leverage ratio called for by the American Add-on's leverage buffer would be roughly equivalent to a U.S. leverage ratio of greater than 7.2%; and
- the 6% Basel III supplementary leverage ratio well-capitalized standard called for by the American Add-on would be roughly equivalent to a U.S. leverage ratio of 8.6%.

The agencies did not disclose whether the sample group of advanced approaches banking organizations contained some or all of the eight U.S. G-SIBs that would actually be subject to the proposed American Add-on.

These estimates illustrate the importance of the denominator of a given leverage ratio in determining its quantitative impact. As discussed in [Part 2](#) of this memorandum, the Basel Committee has recently proposed significant revisions to the denominator of the Basel III leverage ratio.

The U.S. Banking Agencies' Justification for the Size of the American Add-on

In proposing the size of the American Add-on, the U.S. banking agencies stated that they took into account the complementary nature of leverage capital requirements and risk-based capital requirements. The agencies claimed that the U.S. Basel III final rule strengthens U.S. banking organizations' risk-based capital requirements "considerably more" than it strengthens their leverage requirements. Accordingly, the agencies argued that the increase in stringency of the leverage and risk-based standards should be more closely calibrated to each other so that they remain in an effective complementary relationship. It is not clear whether, in determining the size of the proposed American Add-on, the agencies took into account any additional increase in stringency of the Basel III leverage ratio that would result from the Basel Committee's recent proposed revisions to the denominator of the ratio.

The agencies also asserted that roughly half of the Covered BHCs that were BHCs in 2006 would have met or exceeded a 3% minimum Basel III supplementary leverage ratio at the end of 2006, and the other half were "quite close" to the minimum. According to the agencies, this suggests that a 3% minimum Basel III supplementary leverage ratio would not have placed a significant constraint on the pre-crisis buildup of leverage at the largest banking organizations. But this comparison seems at best incomplete. It is not at all clear whether the agencies' hypothesis took into account the increased capital requirements, and consequent impact on leverage that would have been imposed by **(1)** the stringent Basel III risk-based capital standards and **(2)** the rigorous supervisory stress tests under the Dodd-Frank and Comprehensive Capital Analysis and Review ("**CCAR**") framework, had either or both of these measures been in place in 2006.

Required Capital and Credit Availability: Notwithstanding the significant increase in capital requirements embodied in the proposed American Add-on, the U.S. banking agencies dedicated less than a page and a half to discussing the potential impact of their proposal on the availability of credit and the amount of additional capital Covered BHCs would need to raise.

In estimating the potential capital shortfall, the agencies largely extrapolated data obtained from the Federal Reserve's 2013 CCAR process. The agencies observed that in the 2013 CCAR, all eight Covered BHCs met the 3% Basel III supplementary leverage ratio as of the end of the third quarter 2012, and almost all projected that their Basel III supplementary leverage ratios would exceed 5% at year-end 2017. The agencies claimed that if the proposed American Add-on had been in effect as of third quarter 2012, Covered BHCs that did not meet a 5% Basel III supplementary leverage ratio would have needed to increase their Tier 1 capital by about \$63 billion to meet that ratio.¹⁰

To estimate the impact of the proposed American Add-on on the IDI subsidiaries of Covered BHCs, the agencies merely assumed that an IDI has the same ratio of total leverage exposure to total assets as its ultimate parent. Using this assumption, which may be inaccurate with respect to certain IDI subsidiaries of Covered BHCs, the agencies claimed that if the proposed American Add-on had been in effect as of third quarter 2012, the *lead* IDI subsidiaries that did not meet a 6% Basel III supplementary leverage ratio would have needed to increase their Tier 1 capital by about \$89 billion to meet that ratio. It is noteworthy that the agencies' estimates of the potential capital shortfall for Covered BHCs and their IDI subsidiaries do not take into account the Basel Committee's proposed revisions to the Basel III leverage ratio.

In terms of the availability of credit, the agencies acknowledged that "[i]f actual capital held increases and this causes overall funding costs to increase, and if these costs are passed on to borrowers, then there would likely be an increase in the cost of credit that could affect lending. . . ." The agencies did not, however, attempt to quantify the adverse impact that the American Add-on would have on lending and the availability of credit.

Request for Comments Reveal Potential Alternative Approaches

The questions posed by the U.S. banking agencies in their request for comments reveal potential alternative approaches that the agencies may be contemplating or may have considered. Among other things, the agencies sought comments regarding:

- establishing a leverage buffer ranging between 4% and 5.5% in accordance with each Covered BHC's G-SIB capital surcharge, which ranges between 1% and 2.5% of their risk-weighted assets ("**RWAs**");
- the following alternative measures for the numerator of the Basel III supplementary leverage ratio: (1) Common Equity tier 1 capital; (2) Tier 1 capital; (3) total capital; and (4) tangible equity, which is defined in the U.S. Basel III final rule as Tier 1 capital plus the amount of perpetual preferred stock and related surplus not included in Tier 1 capital;
- whether all IDI subsidiaries of a Covered BHC should be subject to the proposed well-capitalized standard;
- whether the proposed American Add-on should apply to **all** advanced approaches banking organizations, not just the eight U.S. G-SIBs; and
- whether, in light of the proposed American Add-on and the Collins Amendment capital floor, the agencies should consider simplifying or eliminating portions of the advanced approaches capital rules.

¹⁰ Note that a Covered BHC would actually need to maintain a leverage buffer of **greater than** 5% to avoid restrictions on capital distributions and discretionary bonus payments.

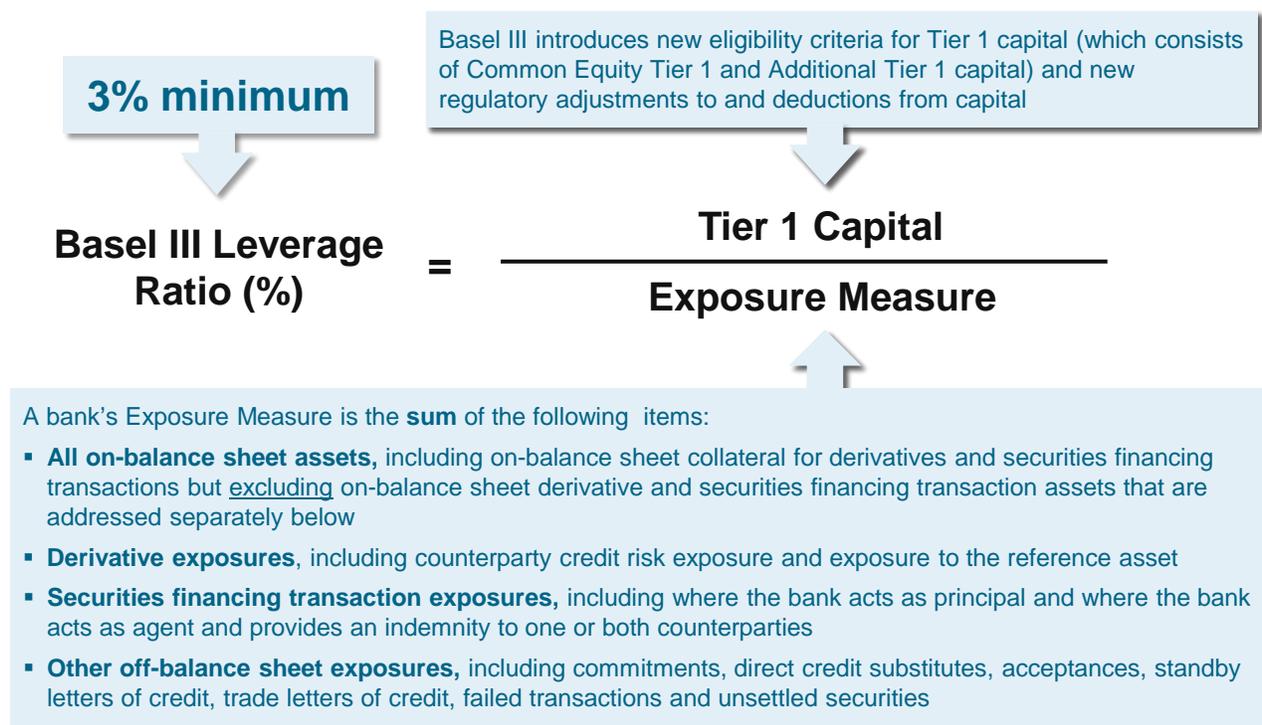
Comments on the proposed American Add-on are due 60 days following its publication in the Federal Register.

Part 2: Basel Committee’s Proposed Revisions to Basel III Leverage Ratio

The Basel Committee¹¹ has published a consultative document that proposes important changes to the Basel III leverage ratio. As expected, most of these changes relate to the denominator of the Basel III leverage ratio, including how derivatives and securities financing transactions (“SFTs”) should be taken into account and the scope of consolidation for inclusion of exposures in the denominator.

The Basel III leverage ratio remains at 3% and its numerator remains Tier 1 capital. The Basel Committee also has not altered the original implementation timeline. As a result, the Basel III leverage ratio is set to become a binding requirement beginning in 2018 and banks must make detailed Pillar 3 public disclosures regarding the components of their Basel III leverage ratio beginning in 2015. Comments on the consultative document are due by September 20, 2013.

Visual Overview of the Revised Basel III Leverage Ratio



¹¹ The Basel Committee on Banking Supervision is a committee of central bank officials and bank regulators from 27 major industrialized countries that meet under the auspices of the Bank for International Settlements in Basel, Switzerland to develop bank capital and other prudential standards and policy guidelines. The Basel Committee's standards and guidelines are not international treaties and are not legally binding. However, they are backed by the commitments of the senior officials who are members of the Basel Committee to implement those standards and guidelines in their home jurisdictions. The Basel Committee's capital standards, including Basel I and Basel II, have been implemented in many major jurisdictions, including the United States and the EU. Major jurisdictions are in the process of implementing Basel III.

Background on the Original Basel III Leverage Ratio

Basel III introduced, for the first time, an internationally agreed-upon leverage ratio to serve as a backstop to risk-based capital ratios. The Basel III leverage ratio is a non-risk based measure of the ratio of a bank's Tier 1 capital to its "Exposure Measure," which includes both on and off-balance sheet exposures. Basel III requires internationally active banks to maintain a minimum leverage ratio of 3%.

The original December 2010 version of the Basel III leverage ratio is a relatively simple measure of capital in so far as the rule text describing its calculation and calibration was only three pages in length. However, the intent was for the original Basel III leverage ratio to serve merely as the basis for testing and monitoring during a long parallel run period from January 1, 2013 to January 1, 2017. Based on the results of the parallel run period, adjustments to the definition and calibration of the ratio would be carried out by the first half of 2017 so that the Basel III leverage ratio would become a binding measure on January 1, 2018.

Following the publication of the Basel III rule text in December 2010, the Basel Committee continued to monitor and discuss the calibration of the Basel III leverage ratio, a process that culminated in the publication of the June 2013 consultative document on the revised Basel III leverage ratio.

Overview of the Revised Basel III Leverage Ratio

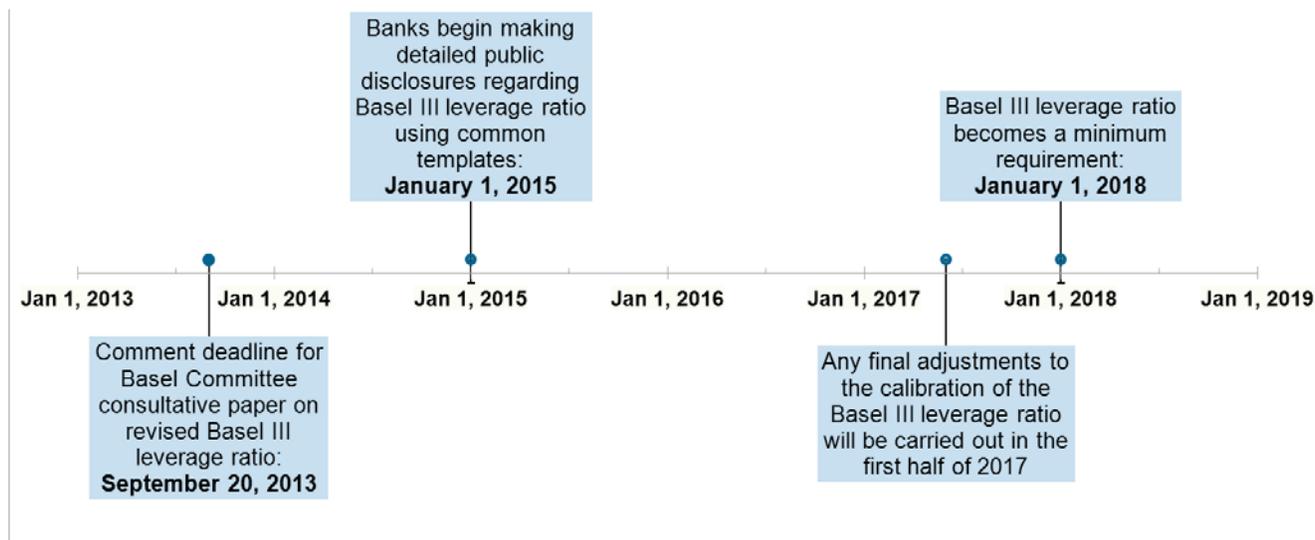
In contrast to the December 2010 rule text, the consultative document on the revised Basel III leverage ratio includes a highly detailed and technical discussion of the calculation of the ratio's denominator, or Exposure Measure, particularly with respect to the treatment of derivative and SFT exposures. The consultative document also contains common templates and detailed instructions on the extensive Pillar 3 public disclosures banks are required to make regarding the Basel III leverage ratio beginning on January 1, 2015.

- **Level of the Ratio:** The Basel Committee stated in its consultative document that it will continue to test a minimum requirement of 3% for the Basel III leverage ratio during the parallel run period from January 1, 2013 to January 1, 2017.
- **Numerator:** The Basel Committee has retained Tier 1 capital, which is the sum of Common Equity Tier 1 capital (e.g., common stock) and Additional Tier 1 capital (e.g., non-cumulative perpetual preferred stock), as the numerator of the Basel III leverage ratio. The Basel Committee stated that it will continue to collect data during the parallel run period to track the impact of using either total regulatory capital (which is the sum of Tier 1 capital and Tier 2 capital) or Common Equity Tier 1 as the numerator.
- **Denominator:** The denominator of the revised Basel III leverage ratio, the Exposure Measure, is the sum of a bank's:
 - (1) on-balance sheet exposures;
 - (2) derivative exposures,
 - (3) SFT exposures; and
 - (4) other off-balance sheet exposures.

The methods for calculating these four main exposure categories are discussed below.

- **Frequency of Calculation:** A bank is required to calculate its Basel III leverage ratio as the average of the three month-end leverage ratios over a quarter. Each month-end Basel III leverage ratio is calculated by dividing the month-end amount of Tier 1 capital by the month-end Exposure Measure.

Implementation Timeline for the Revised Basel III Leverage Ratio



Calculating Exposure Measure: Scope of Consolidation

The consultative document contains rules regarding the scope of consolidation for purposes of calculating the Exposure Measure. The Basel Committee stated that to ensure internal consistency within the Basel III leverage ratio framework, the Exposure Measure should be measured consistently with Tier 1 capital. This general principle has the following implications:

- **Entities within the Scope of Regulatory or Accounting Consolidation:** If an investment by a bank in the capital of an entity is included in the bank's Tier 1 capital, then the company's assets and exposures must be included in the bank's Exposure Measure. This applies to entities that are either within the scope of regulatory consolidation **or** within the scope of accounting consolidation, irrespective of whether these entities are banking, insurance, financial, commercial, or securitization entities. Moreover, the mere fact that a consolidated entity has issued capital to third-party investors (minority interest) is not a basis for excluding any portion of the entity's assets and exposures from the bank's Exposure Measure.
- **Implications of Basel III Deductions for Investments in the Capital of Unconsolidated Financial Institutions:** Under Basel III, where a banking, financial or insurance entity ("**financial institution**") is included in accounting consolidation but not in regulatory consolidation, a bank's investments in the capital of such entities are required to be deducted from the bank's regulatory capital to the extent such investments exceed certain thresholds.¹² If a capital deduction is required under Basel III, the assets

¹² Basel III distinguishes between (1) an investment in the capital of a financial institution that is outside the scope of regulatory consolidation where the bank owns 10% or less of the issued common stock of the financial institution ("**non-significant investment**") and (2) an investment in the capital of a financial institution that is outside the scope of regulatory consolidation where the bank owns more than 10% of the issued common stock of the financial institution ("**significant investment**").

Non-significant Investments: If the aggregate amount of a bank's non-significant investments exceeds 10% of the bank's Common Equity Tier 1 (after applying certain regulatory adjustments), then the amount above 10% must be deducted from the bank's regulatory (cont.)

and exposures of such entities should also be excluded from the bank's Basel III leverage ratio Exposure Measure on a *pro rata* basis. Specifically, the amount of a financial institution's assets and exposures to be excluded from the bank's Exposure Measure is based on the proportion of (1) the financial institution's Common Equity Tier 1 capital that is deducted from the bank's regulatory capital to (2) the total Common Equity Tier 1 capital of the financial institution.

- **Entities Outside the Scope of Both Regulatory and Accounting Consolidation:** If an entity is outside the scope of both regulatory consolidation and accounting consolidation, only a bank's investment in the capital of the entity (*i.e.*, only the carrying value of the bank's investment and not the entity's underlying assets and exposures) would be included in the bank's Basel III leverage ratio Exposure Measure.
- **Offsetting Intra-Group Exposures:** To avoid double counting of exposures **between** entities within the scope of accounting or regulatory consolidation, a bank may offset the on- and off-balance sheet exposures of these entities in order to calculate their Exposure Measure.¹³ The Basel Committee observed that most intra-group exposures may already have been consolidated as part of a bank's accounting or regulatory consolidation. Accordingly, a bank must ensure that offsetting of exposures between consolidated entities is carried out once.

Exposure Measure: General Measurement Principles

According to the Basel Committee, the Exposure Measure should *generally* follow the accounting measure of exposure, using the broader scope of consolidation discussed above and subject to the following general measurement principles:

- on-balance sheet, non-derivative and non-SFT exposures are included in the Exposure Measure net of specific provisions and valuation adjustments (e.g., credit valuation adjustments);
- netting of loans and deposits is **not** permitted; and
- physical or financial collateral, guarantees or credit risk mitigation purchased are **not** allowed to reduce on-balance sheet exposures.

As discussed further below, in relation to derivative and SFT exposures, the Basel Committee has proposed methods for calculating the Exposure Measure that attempt, by "grossing up" exposures, to neutralize the different extents to which netting and collateral can be taken into account under U.S. generally accepted accounting principles ("**U.S. GAAP**") and International Financial Reporting Standards ("**IFRS**"). This is intended to achieve a more consistent measure of leverage across banks that operate under different accounting regimes.

(cont.)

capital using a corresponding deduction approach. Under the corresponding deduction approach, a bank must make deductions from the component of capital for which the instrument would qualify if it were issued by the bank itself.

Significant Investments: All of a bank's significant investments that are **not** in the form of common stock must be fully deducted from the bank's regulatory capital using a corresponding deduction approach. All significant investments that are in the form of common stock are subject to the threshold deduction treatment. The threshold deduction treatment provides for limited recognition as Common Equity Tier 1 capital of the following three items, subject to a 10% individual limit and a 15% aggregate limit based on the bank's Common Equity Tier 1 capital (after applying certain regulatory adjustments): deferred tax assets arising from temporary differences; mortgage servicing rights net of associated deferred tax liabilities; and significant investments in the capital of unconsolidated financial institutions in the form of common stock.

¹³ The Basel Committee noted that where an entity's exposures are excluded on a *pro rata* basis from the bank's Exposure Measure, exposures of the entity that would otherwise be available for intra-group offsetting purposes must be excluded (*i.e.*, made unavailable for offsetting purposes) on the same *pro rata* basis.

1. On-balance Sheet Exposures

A bank must include all on-balance sheet assets in its Exposure Measure, including on-balance sheet derivative collateral and SFT collateral but **excluding** on-balance sheet derivative and SFT assets that are addressed separately below.

To ensure internal consistency within the Basel III leverage ratio framework, on-balance sheet assets deducted from Tier 1 capital under Basel III should also be deducted from the Exposure Measure.

2. Derivative Exposures

Under the revised Basel III leverage ratio, banks must calculate their derivative exposures, including where a bank *sells* protection in the form of a credit derivative, as the sum of the replacement cost, the potential future exposure (“**PFE**”) and the collateral associated with the derivatives.

There are different calculation methodologies for:

- (A) a single derivative transaction that is not subject to an eligible bilateral netting contract;
- (B) multiple derivatives subject to an eligible bilateral netting contract; and
- (C) credit derivatives sold by a bank.

However, the rules governing the treatment of collateral generally apply in all three instances.

A. Single Derivative Not Subject to an Eligible Bilateral Netting Contract

$$\text{Exposure Measure} = \text{Replacement cost for current exposure} + \text{Potential future exposure} + \text{Collateral}$$

Replacement Cost: For a single derivative transaction that is not subject to an eligible bilateral netting contract, the replacement cost of the contract is the greater of the mark-to-market value and zero.¹⁴

Potential Future Exposure: PFE is calculated by multiplying the stated notional amount of the derivative by the appropriate conversion factor, which is conceptually similar to the Current Exposure Method (“**CEM**”) used in the risk-based capital framework. Where the stated notional amount is leveraged or enhanced by the structure of the transaction, banks must use the effective notional amount when determining PFE. The PFE conversion factors for different types of derivatives, including credit derivatives, are provided further below.

In the context of the risk-based capital framework, the Basel Committee has proposed a non-model-based method to calculate credit exposure from derivatives, which would replace the CEM.¹⁵ If the new method is finalized, the Basel Committee will consider whether it is also appropriate for calculating the Exposure Measure of the Basel III leverage ratio.

Collateral: The treatment of collateral received and provided by a bank in connection with derivative transactions is discussed further below.

¹⁴ The Basel Committee stated that even if, under a particular country’s GAAP, there is no accounting measure of exposure for certain derivatives because they are held entirely off the balance sheet, banks must still use the positive fair value of these derivatives as the replacement cost.

¹⁵ See Basel Committee, *Non-internal Model Method for Capitalising Counterparty Credit Risk Exposures* (June 2013), available [here](#).

PFE Conversion Factors¹⁶

Remaining maturity ¹⁷	Interest rate ¹⁸	FX and gold	Equity	Precious metals (except gold)	Other commodities ¹⁹
1 year or less	0.0%	1.0%	6.0%	7.0%	10.0%
Over 1 year to 5 years	0.5%	5.0%	8.0%	7.0%	12.0%
Over 5 years	1.5%	7.5%	10.0%	8.0%	15.0%

PFE Conversion Factors for Single-name Credit Derivatives

	Protection buyer	Protection seller
Total return swap		
“qualifying” reference obligation	5.0%	5.0%
“non-qualifying” reference obligation	10.0%	10.0%
Credit default swap		
“qualifying” reference obligation	5.0%	5.0%*
“non-qualifying” reference obligation	10.0%	10.0%*

* The protection seller of a credit default swap shall be subject only to an add-on for PFE where it is subject to closeout upon the insolvency of the protection buyer while the underlying is still solvent. In that case, PFE should be capped to the amount of unpaid premiums.

PFE Factors for Credit Derivatives

The PFE conversion factors for credit derivatives distinguish between qualifying and non-qualifying reference obligations. Qualifying reference obligations include securities that are:

- issued by public sector entities and multilateral development banks;
- rated investment-grade by at least two credit rating agencies specified by the national authority;
- rated investment-grade by one rating agency and not less than investment-grade by any other rating agency specified by the national authority (subject to supervisory oversight);
- subject to supervisory approval, unrated but deemed to be of comparable investment quality by the bank and the issuer has securities listed on a recognized stock exchange;

¹⁶ For contracts with multiple exchanges of principal, the factors are to be multiplied by the number of remaining payments under the contract.

¹⁷ For contracts that are structured to settle outstanding exposure 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 derivatives with remaining maturities of more than one year that meet the above criteria, the add-on is subject to a floor of 0.5%.

¹⁸ No PFE would be calculated for single currency fixed/floating interest rate swaps; the credit exposure on these contracts would be evaluated solely on the basis of their mark-to-market value.

¹⁹ 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.”

- subject to the discretion of the national authority, debt securities issued by banks in countries that have implemented the Basel III capital framework, provided that supervisory authorities in those countries will take prompt remedial action if a bank fails to meet the Basel III capital standards;
- subject to the discretion of the national authority, debt securities issued by securities firms that are subject to capital standards that are equivalent to Basel III;²⁰ and
- issued by institutions that are deemed to be equivalent to investment grade quality and subject to supervisory and regulatory regimes that are comparable to the Basel III capital framework.

Non-qualifying reference obligations are not defined, but are presumed to be all reference obligations that are not qualifying reference obligations.

The Basel Committee noted that where a credit derivative is a first to default transaction, PFE will be determined by reference to the lowest credit quality underlying in the basket, i.e., if there are *any* non-qualifying securities in the basket, the non-qualifying reference obligation PFE conversion factor should be used. For second and subsequent to default transactions, underlying assets should continue to be allocated according to credit quality, e.g., the PFE conversion factor associated with the second lowest credit quality underlying will be used for a second to default transaction.

B. Multiple Derivatives Subject to an Eligible Bilateral Netting Contract

$$\text{Exposure Measure} = \text{Net replacement cost} + A_{\text{net}} + \text{Collateral}$$

The Exposure Measure for multiple derivatives subject to an eligible bilateral netting contract is determined as the sum of:

- (1) the net mark-to-market replacement cost, if positive;
- (2) the adjusted sum of the PFE amounts for all derivative contracts subject to the eligible bilateral netting contract (" A_{net} "); and
- (3) grossing up of any collateral that has reduced the bank's on-balance sheet derivatives assets under the applicable accounting rules (discussed further below).

A_{net} is determined using the following formula, which provides for limited recognition of the benefits of netting:²¹

$$A_{\text{net}} = (0.4 \times A_{\text{gross}}) + (0.6 \times \text{NGR} \times A_{\text{gross}}), \text{ where:}$$

A_{gross} = the gross PFE: the sum of the PFE amounts (as determined by multiplying the notional principal amount of the derivative contract by the appropriate conversion factor) for each individual derivative contract subject to the eligible bilateral netting contract; and

NGR = net to gross ratio: the ratio of net replacement cost to gross replacement cost.

²⁰ For example, CRD IV, which implements Basel III in the EU, will apply to both EU credit institutions and EU investment firms.

²¹ For the purposes of calculating A_{net} for forward foreign exchange contracts and other similar contracts in which the notional principal amount is equivalent to cash flows, notional principal is defined as the *net* receipts falling due on each value date in each currency. This treatment recognizes that offsetting contracts in the same currency maturing on the same date will have lower PFE as well as lower current exposure.

Bilateral Netting Rules: The Basel Committee stated that, for purposes of the Exposure Measure for derivatives, banks may **(1)** net transactions subject to any eligible bilateral netting contract; and **(2)** 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. However, cross-product netting may **not** be used to determine the Exposure Measure.

Eligible Bilateral Netting Contract: For purposes of the Exposure Measure for derivatives, an eligible bilateral netting contract is a netting contract or agreement with a counterparty:

- that creates a single legal obligation, covering all included transactions, such that the bank would have either a right to receive or an 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 default, bankruptcy, liquidation or similar circumstances;
- with respect to which the bank has written and reasoned legal opinions concluding that, in the event of a legal challenge, the relevant courts and administrative authorities would find the bank’s exposure to be the net amount described above under: (1) 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; (2) the law governing the individual transactions; and (3) the law governing the netting contract or agreement. 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 these relevant jurisdictions;
- with respect to which the bank has procedures to ensure that the legal characteristics of the netting arrangement are kept under review in light of possible changes in relevant law; and
- that does not contain a walkaway clause, which 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.

C. Credit Derivatives Sold by the Bank

For a single credit derivative sold by the bank that is not subject to an eligible bilateral netting contract:

Exposure Measure = Replacement cost + Collateral + Notional Amount

For multiple credit derivatives sold by the bank subject to an eligible bilateral netting contract:

Exposure Measure = Net replacement cost + Adjusted A_{net} + Collateral + Notional Amount

The Basel Committee stated that the sale of a credit derivative (e.g., a credit default swap or a total return swap) by a bank (a “**written credit derivative**”) gives rise to both counterparty credit exposure and a credit exposure to the reference entity. The Basel Committee believes that the Exposure Measure for a written credit derivative must capture both types of exposures.

To capture credit exposure to the reference entity, in addition to the above treatment for a single derivative and a netting set of derivatives and related collateral, the notional amount²² of a written credit derivative is incorporated into the Exposure Measure. However, the notional amount of a written credit derivative may be reduced by the notional amount of a purchased credit derivative on the same reference name and level of seniority²³ if the remaining maturity of the purchased credit derivative is equal to or greater than the remaining maturity of the written credit derivative.

Avoid Double Counting: In calculating the Exposure Measure, a bank does not need to include an add-on for the PFE of a written credit derivative that is not offset by an eligible purchased credit derivative and whose notional value is already included in the Exposure Measure. Where the written credit derivative is subject to an eligible bilateral netting contract, the calculation of A_{net} is adjusted. Specifically, A_{Gross} may be reduced by the PFE of any written credit derivative whose notional value is already included in the Exposure Measure. However, no adjustments should be made to NGR.

Treatment of Collateral

One of the most significant aspects of the revised Basel III leverage ratio relates to the treatment of collateral received and provided by a bank in connection with derivative transactions. The treatment attempts to neutralize differences in how collateral can be taken into account to determine the amount of on-balance sheet assets under U.S. GAAP and IFRS.

The treatment of collateral described below applies regardless of whether the collateral is cash or non-cash; received or provided under an eligible master netting agreement; or in connection with derivatives traded on an exchange or through a central counterparty.

- **Collateral Received:** For purposes of calculating the Exposure Measure for derivatives, collateral received (cash or non-cash) may **not** be netted against derivatives exposures whether or not netting is permitted under the accounting or risk-based capital rules applicable to a bank. A bank may not reduce its Exposure Measure for a derivative by any collateral received from the counterparty. Moreover, the replacement cost must be **grossed up** by any collateral amount used to reduce its value, including when collateral received by a bank has reduced the on-balance sheet derivatives assets reported by the bank under the applicable accounting rules.²⁴

²² For credit derivatives where the stated 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.

²³ According to the Basel Committee, 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 entities if the protection purchased is economically equivalent to buying protection separately on each of the individual entities in the pool. This would, for example, be the case if a bank were to buy protection on an entire securitization structure. If a bank purchases protection on a pool of reference entities, but the credit protection does not cover the entire pool (i.e., the protection covers only a subset of the pool, as in the case of an nth to default credit derivative or a tranche of a securitization), then offsetting is not permitted for protection sold on individual reference entities. However, such purchased protection may offset sold protection on a pool only if the purchased protection covers the entire subset of the pool on which protection has been sold. In other words, offsetting may only be recognized when the pool of reference entities and the level of subordination in both transactions are identical.

²⁴ The Basel Committee's rationale for this treatment of collateral received is that, although it reduces counterparty credit exposure, it may be re-used by the bank to leverage itself. For example, cash collateral can be lent or used to purchase securities in reverse repo transactions and non-cash collateral can be on-lent or sold in repo transactions.

- **Collateral Provided:** A bank must **gross up** its Exposure Measure by the amount of any derivatives collateral provided where the provision of such collateral reduced its on-balance sheet assets under the applicable accounting rules.²⁵

3. Securities Financing Transaction Exposures

Definition: For purposes of the Basel III leverage ratio, SFTs include repurchase agreements, reverse repurchase agreements, security lending and borrowing transactions and margin lending transactions. The Exposure Measure calculations for SFTs distinguish between:

- (A) situations where a bank is acting as principal; and
- (B) situations where a bank is acting as agent and provides an indemnity to one or both counterparties to the SFT.

A. SFTs Where the Bank is Acting as Principal

$$\text{Exposure Measure} = \text{Gross SFT Assets} + \max \{0, [\Sigma(E) - \Sigma(C)]\}$$

Where a bank is acting as principal on an SFT, the Exposure Measure is the sum of:

- (1) the bank's **gross** SFT assets recognized for accounting purposes (i.e., no recognition of accounting netting).²⁶ This means that cash payables would not be netted against cash receivables. In addition, for purposes of calculating gross SFT assets, a bank must deduct the value of securities it has purchased or received as collateral in connection with an SFT and has recognized as an asset **if** the bank has the right to rehypothecate the securities but has not done so. This is in line with the Basel Committee's overall approach of derecognizing sale accounting treatment for SFTs and requiring them to be treated as secured borrowing or lending transactions, as explained below.
- (2) the measure of counterparty credit risk calculated as the bank's current exposure *without* an add-on for PFE.

With respect to a netting set of SFTs subject to a qualifying master netting agreement, the current exposure for the netting set is calculated as the greater of:

- (1) the net current market value of securities and cash *provided* to a counterparty under the netting agreement ($\Sigma(E)$) **less** the net current market value of securities and cash *received* from the counterparty under the netting agreement ($\Sigma(C)$); and
- (2) zero.

²⁵ The Basel Committee observed that non-cash collateral provided is not generally netted against a bank's assets under the accounting rules. However, according to the Basel Committee, U.S. GAAP provides that, under certain circumstances, when a bank with derivative liabilities provides cash collateral, the bank's cash assets decrease and its derivatives liabilities fall by a corresponding amount. The Basel Committee noted that such a bank must gross up its Exposure Measure by the amount of the cash collateral it has provided. According to the Basel Committee, 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. As such, the bank's total accounting assets remain unchanged.

²⁶ The Basel Committee noted that the grossing up of SFT assets avoids netting inconsistencies across different accounting regimes.

Where no qualifying master netting agreement is in place, each individual SFT is treated as its own netting set for purposes of the current exposure calculation.

Qualifying Master Netting Agreement: For purposes of the current exposure calculation for SFTs, the effects of a bilateral netting agreement will be recognized on a counterparty-by-counterparty basis if the agreement:

- provides 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;
- provides for the netting of gains and losses on transactions (including the value of any collateral) terminated and closed out thereunder so that a single net amount is owed by one party to the other;
- allows for the prompt liquidation or set-off of collateral upon the event of default; and
- is legally enforceable in each relevant jurisdiction upon the occurrence of an event of default regardless of the counterparty's insolvency or bankruptcy.

Sale Accounting Transactions: Where a SFT is treated as a sale under the applicable accounting rules, a bank must first reverse all sales-related accounting entries, and then calculate the Exposure Measure as if the SFT had been treated as a secured borrowing or lending transaction under the accounting rules and the assets sold had remained on the bank's balance sheet. Recent amendments to U.S. GAAP *proposed* by the Financial Accounting Standards Board ("**FASB**") would narrow the circumstances under which repurchase agreements could be treated as sales.²⁷

B. SFTs Where the Bank is Acting as Agent and Provides an Indemnity

$$\text{Exposure Measure} = \max \{0, [\Sigma(E) - \Sigma(C)]\}$$

If a bank acts as an agent in an SFT (or netting set) and provides an indemnity or guarantee to one or more counterparties for any difference between the value of the security or cash provided under the SFT (or netting set) and the value of security or cash received, the bank will only be required to calculate its current exposure using the above formula. If, however, a bank's exposure to an SFT goes beyond a guarantee for the difference and includes the underlying cash or securities in the SFT, the bank would need to calculate its Exposure Measure as if it were acting as principal, i.e., by also including gross SFT assets recognized for accounting purposes. This would be the case where a bank manages collateral received in connection with an SFT for its own account rather than for the principal counterparty's account.

4. Other Off-balance Sheet Exposures

$$\text{Exposure Measure} = \text{Amount of Off-balance Sheet Item} \times 100\%$$

Under the revised Basel III leverage ratio, the Exposure Measure for off-balance sheet items is generally calculated by multiplying the amount of the off-balance sheet item by a credit conversion factor of 100%. There is an exception for a commitment that is unconditionally cancellable at any time by the bank without

²⁷ See FASB, Proposed Accounting Standards Update, Transfers and Servicing (Topic 860): Effective Control for Transfers with Forward Agreements to Repurchase Assets and Accounting for Repurchase Financings (Jan. 15, 2013).

prior notice, to which a 10% credit conversion factor applies.²⁸ The Basel Committee indicated that it intends to further review this treatment to ensure that the 10% credit conversion factor is appropriately conservative.

For purposes of the Basel III leverage ratio, off-balance sheet items include, but are not limited to, the following:

- commitments, including commitments that provide for automatic cancellation due to deterioration in a borrower's creditworthiness;
- direct credit substitutes, general guarantees of indebtedness, standby letters of credit and acceptances, including endorsements with the character of acceptances;
- forward asset purchases, forward deposits and partly-paid shares and securities, which represent commitments with certain drawdown;
- certain transaction-related contingent items, e.g., performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions;
- note issuance facilities and revolving underwriting facilities; and
- short-term self-liquidating trade letters of credit arising from the movement of goods, e.g., documentary credits collateralized by the underlying shipment.

Pillar 3 Public Disclosure Requirements

The Basel Committee has determined to require internationally-active banks, beginning in 2015, to make detailed public disclosures regarding their Basel III leverage ratio using common templates. According to the Basel Committee, the purpose of the common templates is to facilitate consistency of disclosures relating to the composition of the Basel III leverage ratio and to mitigate the risk of inconsistent formats undermining the objective of enhanced public disclosure.

The public disclosure requirements relating to the Basel III leverage ratio include, but are not limited to, the following:

- a **summary comparison table** that banks must use to provide a comparison of their total accounting assets and Basel III leverage ratio Exposure Measure;
- a **common disclosure template** that banks must use to disclose the breakdown of the key components of their Basel III leverage ratio; and
- a **qualitative reconciliation requirement** that banks disclose and detail the source of material differences between on-balance sheet exposures in the common disclosure template and total on-balance sheet assets in their financial statements.

Common Disclosure Templates: The Basel Committee's common disclosure templates are included in the [Appendix](#) to this memorandum.

Frequency of Disclosure: Pillar 3 disclosures relating to the Basel III leverage ratio must be published by banks with the same frequency as, and concurrent with, the publication of their financial statements.

Location of Disclosure: Pillar 3 disclosures relating to the Basel III leverage ratio must either be included in banks' published financial statements or the statements must provide a direct link to the completed

²⁸ As an example, the Basel Committee noted that retail commitments whose terms permit a bank to cancel them to the full extent allowable under consumer protection and related legislation in a jurisdiction may be assigned a 10% credit conversion factor.

disclosures on their websites or on publicly available regulatory reports. Banks must make available on their websites, or through publicly available regulatory reports, an ongoing archive of all reconciliation templates, disclosure templates, and explanatory tables relating to prior reporting periods. Irrespective of the location of the disclosure, all disclosures must be in the format prescribed by the Basel Committee.

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Appendix: Pillar 3 Disclosure Templates for Basel III Leverage Ratio

1. Summary Comparison Table of Accounting Assets and Leverage Ratio Exposure Measures

Internationally active banks must use the following summary comparison table, which compares total accounting assets with the key components of the Basel III leverage ratio Exposure Measure, to provide an introductory overview of the main differences.

	Item	Published Financial Statement Assets	Basel III Leverage Ratio Exposure Measure
1	On-balance sheet items (exclude derivatives and SFTs; include collateral)		
2	Derivatives		
3	Securities financing transactions		
4	Other off balance-sheet exposures		
5	Total on balance sheet assets and total leverage ratio exposures		

2. Basel III Leverage Ratio Common Disclosure Template

The common disclosure template requires a detailed breakdown of the key components of the Basel III leverage ratio under its scope of consolidation: on-balance sheet exposures; derivative exposures; SFT exposures; and other off-balance sheet exposures.

A bank’s Basel III leverage ratio must be reported in line 21 of the common disclosure template, calculated using the average of the monthly leverage ratios over the quarter. Where the value in line 21 differs materially from the value in line 20 (i.e., 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), a bank must provide a description of why these differences occurred and an itemization and explanation of their main sources.

A bank is also required to explain the key drivers of material changes in its Basel III leverage ratio observed from the end of the previous reporting period to the end of the current reporting period, including whether these changes stem from changes in the numerator, changes in the denominator, or both.

Qualitative Reconciliation with Financial Statements: A bank is required to qualitatively 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 sheet assets (net of on-balance sheet derivative and SFT assets) as reported on their financial statements.

	Item	Basel III Leverage Ratio Framework
<u>On-balance sheet exposures</u>		
1	On-balance sheet items (exclude derivative and SFT assets; include collateral)	
2	(Assets deducted in determining Basel III Tier 1 capital)	
3	Total on-balance sheet exposures (excluding derivative and SFT assets)	
<u>Derivative exposures</u>		
4	Replacement cost	
5	PFE add-on	
6	Gross up for derivatives collateral	
7	Gross notional of written credit derivatives	
8	(notional offsets and PFE deductions for written credit derivatives)	
9	Total derivative exposures	
<u>Securities financing transaction exposures</u>		
10	Gross SFT assets (with no recognition of accounting netting)	
11	SFT counterparty exposure	
12	Agent transaction exposures	
13	Adjustment for sales accounting transactions (if any)	
14	Total SFT exposures	
<u>Other off-balance sheet exposures</u>		
15	Off-balance sheet exposures with 100% credit conversion factor; <i>of which:</i>	
15a	<i>for example, "Commitments, including liquidity facilities"</i>	
...	...	
16	Off-balance sheet exposures with 10% credit conversion factor; <i>of which:</i>	
16a	<i>for example, "Credit card lines"</i>	
...	...	
17	Other off-balance sheet exposures	
<u>Capital and Total Exposures</u>		
18	Tier 1 capital (end of reporting period value)	
19	Total Exposure Measure (end of reporting period value)	
<u>Leverage Ratios</u>		
20	End of period leverage ratio (end of reporting period value)	
21	Basel III leverage ratio (average of the monthly leverage ratios over the quarter)	