Basel Committee
on Banking Supervision

Consultative Document

Revised Basel III leverage ratio framework and disclosure requirements

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Introduction

1. An underlying feature of the 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 maintaining strong risk-based capital ratios. At the height of the crisis, the market forced the banking sector to reduce its leverage in a manner that amplified downward pressure on asset prices. This deleveraging process exacerbated the feedback loop between losses, falling bank capital, and shrinking credit availability.

2. The Basel III reforms 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 "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 of banks.

4. Implementation of the leverage ratio requirement has begun with bank-level reporting to supervisors of the leverage ratio and its components from 1 January 2013, and will proceed with public disclosure starting 1 January 2015. Any final adjustments to the definition and calibration of the leverage ratio will be made by 2017, with a view to migrating to a Pillar 1 treatment on 1 January 2018 based on appropriate review and calibration.

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).

[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.

Definition and minimum requirement

6. The Basel III leverage ratio is defined as the Capital Measure (the numerator) divided by the Exposure 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]

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 64 to 66 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

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]

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

[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.

[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.

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. *Treatment of investees outside the scope of regulatory and accounting consolidation*: where an investee is neither inside the scope of regulatory consolidation nor accounting consolidation, only the investment in the capital of the investee (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] However, investments in the capital of investees that are deducted from Tier 1 capital as set-out in paragraph 20 should not be included in 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.

[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.

[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.

[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.

(ii) General measurement principles

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

- on-balance sheet, non-derivative exposures are included in the Exposure Measure net of specific provisions and valuation adjustments (eg credit valuation adjustments);
- netting of loans and deposits is not allowed.

17. Physical or financial collateral, guarantees or credit risk mitigation purchased are not allowed to reduce on-balance sheet exposures.

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

(a) On-balance sheet exposures

19. Banks must include *all* on-balance sheet assets in their Exposure Measure including on-balance sheet derivative collateral and collateral for securities financing transactions (SFTs) (but excluding on-balance sheet derivative and SFT assets that are covered in paragraphs 22 to 39 below).[11]

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

- Where a banking, insurance or financial entity is included neither in the accounting consolidation nor in the risk-based regulatory consolidation, the investment in the capital of the investee that is excluded from the capital of the bank under paragraphs 84 to 89 may also be excluded from the measure of exposure of the bank.
- 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.

21. 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 as described in paragraph 75 of Basel III should not be deducted from the measure of exposure.

(b) Derivative exposures

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

23. Banks must calculate their derivatives exposures,[12] including where a bank sells protection using a credit derivative, as the replacement cost (RC)[13] for the current exposure plus an add-on for potential

[11] Where a national GAAP recognises on-balance sheet fiduciary assets, these assets can be excluded from the Exposure Measure provided that the assets meet the IAS 39 criteria for de-recognition and, where applicable, IFRS 10 for de-consolidation. When disclosing the leverage ratio, banks should additionally disclose the extent of such de-recognised fiduciary items.

future exposure as described in paragraph 24 applying the regulatory bilateral netting rules 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. Written credit derivatives are subject to additional treatment as set out in paragraphs 30 to 33 below.

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

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

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

add-on = an amount for potential future credit exposure 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 Annex 1.

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

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

- it reduces counterparty exposure; but
- 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).

27. C*ollateral received* in connection with derivative contracts does not reduce the economic leverage inherent in a bank's derivatives position. In particular, the exposure arising from the contract underlying is not reduced. As such, collateral received (cash or non-cash) may not be netted against derivatives exposures whether or not netting is permitted under the bank's operative accounting or risk-based framework. When calculating the exposure amount by applying paragraphs 23 to 25 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.

28. Similarly, with regards to *collateral provided*, all banks must gross up their Exposure Measure by the amount of any derivatives collateral provided where the provision of that collateral reduced their on-balance sheet assets under their operative accounting framework.[15]

[12] This approach makes reference to the Current Exposure Method (CEM) which is used under the Basel II Framework to capture counterparty credit risk 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.

[13] Under a national GAAP, even if there is no accounting measure of exposure for certain derivative instruments because they are held (completely) off-balance sheet, banks 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).

[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

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.

30. *Additional treatment for written credit derivatives*: 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 believes that it is appropriate to treat written credit derivatives consistently with cash instruments (eg loans, bonds) for the purposes of the Exposure Measure.

31. In order to capture the credit exposure to the reference entity, in addition to the above treatment for derivatives and related collateral, the full effective notional value[16] referenced by a written credit derivative is to be incorporated into the Exposure Measure. The effective notional amount of a written credit derivative may be reduced by the effective notional amount of a purchased credit derivative on the same reference name and level of seniority[17] if the remaining maturity of the purchased credit derivative 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.

33. Since written credit derivatives are included in the Exposure Measure at their effective notional amounts and add-on amounts for written credit derivatives are also included in the Exposure Measure, exposure to written credit derivatives could be double counted. Banks may therefore choose to deduct the individual add-on amount relating to a written credit derivative (which is not offset as described in paragraph 31 and whose effective notional value is included in the Exposure Measure), from their gross add-on in paragraphs 23 to 25.[18]

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.

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.

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.

18 In these cases, where effective bilateral netting contracts are in place, and when calculating $A_{Net}=0.4*A_{Gross}+0.6*NGR*A_{Gross}$ as per paragraphs 23 to 25, A_{Gross} 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 values are included as exposures of the Leverage Ratio. No adjustments should be made to NGR. Where effective bilateral netting contracts are not in place, the add-on can be set to zero in order to avoid the double counting described in paragraph 33.

(c) Securities financing transaction (SFT) exposures

34. Securities financing transactions (SFTs)[19] are included in the Exposure Measure according to the following treatment. 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 recognising the main differences across accounting frameworks.

35. *General treatment (bank acting as principal)*: the sum of the amounts in (i) and (ii) below are to be included in Total Exposures:

(i) Gross SFT assets recognised for accounting purposes (ie with no recognition of accounting netting).[20]

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]

(ii) A measure of counterparty credit risk calculated as current exposure without an add-on for potential future exposure (PFE).

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

$$E^* = \max \{0, [\sum(E) - \sum(C)]\}$$

36. *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 accounting framework (ie in this last step, the bank must include the sum of amounts in (i) and (ii) above for such an SFT) for the purposes of determining its Exposure Measure.

37. *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 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

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

[20] Gross SFT assets recognised for accounting purposes should reflect no recognition of the 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.

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

security resource, that resource cannot be leveraged by the bank. The following exceptional treatment therefore applies for a bank acting as agent in an SFT and providing 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 by applying only section (ii) of paragraph 35.

39. A bank acting as agent in an SFT and providing a guarantee to a customer or counterparty will be considered eligible for this exceptional treatment *only* when 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] a further exposure equal to the full amount of the security or cash must be included in the Exposure Measure.

(d) Other off-balance sheet exposures

40. This section explains the incorporation into the Exposure Measure for off-balance sheet (OBS) items, as defined under the risk-based framework. For example, the OBS items include commitments (including liquidity facilities), unconditionally cancellable commitments, direct credit substitutes, acceptances, standby letters of credit, 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.

Disclosure requirements

43. Public disclosure by banks of their Basel III leverage ratio starts on 1 January 2015. Paragraphs 44 to 63 set out these disclosure requirements.

44. 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 reconciling to their published financial statements.

45. 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

[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).

[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.

disclosure, the Basel Committee has agreed that internationally-active banks across Basel-member jurisdictions will be required to publish their leverage ratio according to a common template.

46. The public disclosure requirements include:

- a **summary comparison table** that banks must disclose providing a comparison of their total accounting assets and leverage ratio exposures;
- a **common disclosure template** that banks must use to disclose the breakdown of the main leverage ratio regulatory elements;
- a **reconciliation requirement** by which banks must 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; and
- **other disclosures** as set out below.

(i) Implementation date, frequency and location of reporting

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

49. Under Pillar 3, large banks are required to make certain minimum disclosures with respect to certain defined key capital ratios and elements on a quarterly basis, regardless of the frequency of financial statement publication.[26] As the leverage ratio is an important supplementary measure to the risk-based capital requirements, the Committee has agreed that this Pillar 3 requirement applies to the disclosure of the leverage ratio. In order for a bank to meet this additional requirement, at a minimum, four 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 – the numerator (Tier 1 capital), the denominator (Exposure Measure), and the end of quarter leverage ratio.

50. *Location of disclosure* – 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 websites or on publicly available regulatory reports.

51. Banks must make available on their websites, or through publicly available regulatory reports, an on-going 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, bank websites or publicly available regulatory reports), all disclosures must be in the format required by this document.

[26] 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).

(ii) Summary table, disclosure template, reconciliation and other requirements

52. 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 sections which follow. Together, these ensure transparency between the numbers used for the calculation of the Basel III leverage ratio and the numbers used in banks' published financial statements.

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.

54. The approach is flexible enough to be used under any accounting standard, and is consistent yet proportionate, varying with the complexity of the balance sheet of the reporting bank.[27]

(iii) Summary comparison table

55. Applying values at the end-of-period (eg end-of-quarter) only, banks must report their on-balance sheet assets from their published financial statements (third column) adjacent to the related exposure values under the scope of consolidation of the leverage ratio framework (fourth column[28]):

- on-balance sheet items (excluding derivatives and SFTs; but including related on-balance sheet collateral) on line 1;
- derivative financial instruments on line 2;
- securities financing transactions (repos and other similar secured lending) on line 3;[29]

[27] Specifically, a common template is set out. However, with respect to reconciliation, banks are to qualitatively reconcile any material difference between total on-balance 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.

[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).

- 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.

Summary comparison of accounting assets and leverage ratio exposures — Figure 1

	Item	Published Financial Statement Assets	Leverage Ratio Framework Exposures
1	On-balance sheet items (exclude derivatives and SFTs; include collateral)		
2	Derivative financial instruments		
3	Securities financing transactions (repos and similar secured lending)		
4	Other off balance-sheet exposures		
5	**Total on balance sheet assets and total leverage ratio exposures**		

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

56. On lines 1 to 17, applying values at the end-of-period (eg end-of-quarter), banks must report a breakdown of the following exposures under the scope of consolidation of the leverage ratio framework: on-balance sheet exposures, derivative exposures, securities financing transaction exposures, and other off-balance sheet exposures. On lines 18 to 20, also applying values at the end-of-period, banks must report their Tier 1 capital, Total Exposures, and leverage ratio.

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. *Reconciliation with public financial statements* - 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 sheet assets (net of on-balance sheet derivative and SFT assets) as reported on their financial statements.

60. *Material periodic changes in the leverage ratio* - 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).

[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.

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.

Leverage ratio common disclosure template

Figure 2

	Item	Leverage Ratio Framework
	On-balance sheet exposures	
1	On-balance sheet items (exclude derivatives and SFTs; include collateral)	
2	(Assets deducted in determining Basel III Tier 1 capital)	
3	**Total on-balance sheet exposures** (excluding derivatives and SFTs)	
	Derivative exposures	
4	Replacement cost	
5	Add-on amount	
6	Gross up for derivatives collateral provided	
7	Gross notional credit derivatives sold	
8	(Notional offsets and add-on deductions for written credit derivatives)	
9	**Total derivative exposures**	
	Securities financing transaction exposures	
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 securities financing transaction exposures**	
	Other off-balance sheet exposures	
15	Off-balance sheet exposures with 100% credit conversion factors; *of which:*	
15a	*for example, "Commitments including liquidity facilities"*	
...	...	
16	Off-balance sheet exposures with 10% credit conversion factor; *of which:*	
16a	*for example, " Credit card lines"*	
...	...	
17	**Other off-balance sheet exposures**	
	Capital and Total Exposures	
18	**Tier 1 capital** (end of reporting period value)	
19	**Total Exposures** (end of reporting period value)	
	Leverage Ratios	
20	**End of period leverage ratio** (end of reporting period value)	
21	**Basel III leverage ratio** (avg of the monthly leverage ratios over the quarter)	

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

Explanatory table for the common disclosure template

Figure 3

Explanation of each row of the common disclosure template

Row number	Explanation
1	On-balance sheet assets as per paragraph 19.
2	Negative amount with the amount determined by paragraph 20 and 21.
3	Sum of line 1 and line 2.
4	This is a bank's replacement cost (RC) for all of its derivatives exposures as calculated by paragraphs 23 to 27.
5	This is a bank's add-on for all of its derivatives exposures as calculated by paragraphs 23 to 27.
6	Gross-up amount for collateral provided as per paragraph 28.
7	Gross effective notional amounts referenced by all credit derivatives sold as per paragraph 31.
8	Negative amount with the amount determined as the sum of 1) the effective notional amounts which may be reduced by purchased credit protection as per paragraph 31, and 2) the exposure amount that is double counted as determined by paragraph 33.
9	Sum of lines 4 to 8.
10	Gross SFT assets with no recognition of accounting netting, and removing certain securities received as determined by paragraph 35 (i).
11	Measure of counterparty exposure as determined by paragraph 35 (ii).
12	Agent transaction exposure amount determined as per paragraph 37 to 39.
13	Adjustment for sales accounting transactions (if any) as determined by paragraph 36.
14	Sum of lines 10 to 13.
15	Off-balance sheet exposures as determined by paragraphs 40 and 41. Sub-lines of line 15 are to be titled and reported as per paragraph 58.
16	Off-balance sheet exposures as determined by paragraph 42. Sub-lines of line 16 are to be titled and reported as per paragraph 58.
17	Sum of lines 15 and 16.
18	Tier 1 capital as determined by paragraph 8 (using the end-of-reporting period value).
19	Sum of lines 3, 9, 14 and 17 (all end-of-reporting period values).
20	Line 18 divided by line 19 with this ratio expressed as a percentage.
21	Basel III leverage ratio for the quarter expressed as a percentage and calculated as per paragraph 6 by averaging three month-end leverage ratios (one for each month of the latest quarter).

63. In general, to ensure that the summary comparison table, common disclosure template and explanatory table (individual banks need not disclose the explanatory table) remain comparable across jurisdictions there should be no adjustments to the version 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:

- 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 reference the national rules that implement the relevant sections of Basel III (however as noted above it must retain the same

row numbering to permit market participants to easily map the national templates to the common international version).

- 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. 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 basis in order to assess whether the proposed design and calibration of the minimum Tier 1 leverage ratio of 3% is appropriate over a full credit cycle and for different types of business models. The Committee 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. 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 requirement. Also as noted earlier, public disclosure requirements start on 1 January 2015 and the Committee will closely monitor these disclosures.

66. 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 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 of the Basel III leverage ratio framework, this Annex includes the relevant Basel II text 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 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 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		
"qualifying" reference obligation	5%	5%
"non-qualifying" reference obligation	10%	10%
Credit Default Swap		
"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 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 should then be capped to the amount of unpaid premiums.

4. Where the credit derivative is a 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 transactions, underlying assets should continue to be allocated according to the credit quality, ie the second lowest credit quality will determine the add-on for a second to default transaction etc.

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

- rated investment-grade[30] by at least two credit rating agencies specified by the national authority; or
- 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); or
- subject to supervisory approval, unrated, but deemed to be or comparable investment 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 framework, subject to the express understanding that supervisory authorities in such countries undertake prompt remedial action if a bank fails to meet the capital 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.

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

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

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] and

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

9. Contracts containing walkaway clauses will not be eligible for netting for the purpose of calculating capital 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 (A_{Net}) will equal the weighted average of the gross add-on (A_{Gross}) 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:

$$A_{Net}=0.4*A_{Gross}+0.6*NGR*A_{Gross}$$

where:

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

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

A_{Gross} = 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 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 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. 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

12. *Qualifying master netting agreement*: the effects of bilateral netting agreements covering repo-style transactions will be recognised on a 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.

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

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

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

Examples of other off-balance sheet exposures

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

[33] National authorities may permit a choice of calculating the NGR on a 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.

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

(ii) Commitments that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness.

(iii) 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).

(iv) Forward asset purchases, forward forward deposits and partly-paid shares and securities, which represent commitments with certain drawdown.

(v) Certain transaction-related contingent items (eg performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions).

(vi) Note issuance facilities (NIFs) and revolving underwriting facilities (RUFs).

(vii) Short-term self-liquidating trade letters of credit arising from the movement of goods (eg documentary credits collateralised by the underlying shipment).