

Bank of England PRA

Appendices to CP28/23 – Leverage ratio treatment of omnibus account reserves and minor amendments to the leverage ratio framework

December 2023

Draft for consultation



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1: Draft amendments to PRA Rulebook

PRA RULEBOOK: CRR FIRMS: LEVERAGE RATIO INSTRUMENT 2024

Powers exercised

- A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137G (The PRA’s general rules);
 - (2) section 137T (General supplementary powers);
 - (3) section 144H(1) (Relationship with CRR); and
 - (4) section 192XA (Rules applying to holding companies).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instruments) of the Act.

PRA Rulebook: CRR FIRMS: LEVERAGE RATIO INSTRUMENT 2024

- C. The PRA makes the rules in Annexes to this instrument.

Part	Annex
Glossary	A
Leverage Ratio (CRR)	B
Disclosure (CRR)	C
Reporting (CRR)	D

Instruction documents

- D. The rules in this Instrument include any instruction document referred to in the rules. Where indicated by “here”, the rules when published electronically will include a hyperlink to the appropriate document.

Commencement

- E. This instrument comes into force on [date].

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms: Leverage Ratio Instrument 2024.

By order of the Prudential Regulation Committee

[DATE]

Annex A

Amendments to Glossary

In this Annex the text is all new and not underlined.

...

central bank claim

means a *firm's* exposures to a *central bank* that are denominated in the national currency of the *central bank* and represented by:

- (1) banknotes and coins constituting legal currency in the jurisdiction of the *central bank*;
- (2) reserves held by the *firm* at the *central bank*;
- (3) reserves held by or on behalf of the *firm* in an *omnibus account* at the *central bank*; or
- (4) any assets representing debt claims on the *central bank* with a maturity of no longer than three *months*.

...

omnibus account

means an account at a *central bank* in which comingled funds can be held by, or on behalf of, more than one entity.

...

Principles for Financial Market Infrastructures

means the Principles for Financial Market Infrastructures issued by the Committee on Payment and Market Infrastructures and the International Organisation of Securities Commissions in April 2012.

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Annex B

Amendments to Leverage Ratio (CRR) Part

In this Annex, new text is underlined and deleted text is struck through.

1 APPLICATION AND DEFINITIONS

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1.2 In this Part, the following definitions shall apply:

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participant entity

means an entity which holds funds, or has funds held on its behalf, in an omnibus account.

...

3 LEVERAGE RATIO (PART SEVEN CRR)

...

ARTICLE 429a EXPOSURES EXCLUDED FROM THE TOTAL EXPOSURE MEASURE

A1 ...

- (a) the *central bank claim* and liability are denominated in the same currency; ~~and~~
- (b) where applicable, the date of contractual maturity of the *central bank claim* is the same as, or is before, the date of contractual maturity of the liability; ~~and~~
- (c) where the *central bank claim* is represented by reserves in an omnibus account, the conditions in A2 are met.

A2 The conditions relating to an omnibus account referred to in A1(c) are as follows.

- (a) There are effective legal, operational, risk management and governance arrangements relating to the omnibus account.
- (b) The arrangements ensure that:
 - (i) a participant entity's entitlement to funds in the omnibus account is discrete from any other participant entity's entitlement;
 - (ii) each participant entity always has access to details of such entitlement; and
 - (iii) the funds in the omnibus account to which a participant entity is entitled are not available to any other participant entity or any other participant entity's creditors.
- (c) If a third-party holds the omnibus account on behalf of the participant entities, the arrangements ensure that the funds in the omnibus account are:
 - (i) segregated from any other assets held by the third-party; and
 - (ii) not available to any creditors of the third-party (except insofar as the central bank can debit charges from the omnibus account).
- (d) If the central bank where the omnibus account is held can debit charges from the omnibus account, the arrangements ensure that:
 - (i) each participant entity has access to details of the method of calculating its due portion of any charge levied by the central bank on the omnibus account,
 - (ii) the method of apportionment is not unfair and unreasonable; and

- (iii) the central bank does not debit the funds in the omnibus account to which a participant entity is entitled with an amount greater than the total of:
- a. the participant entity's due portion of the charges in respect of the omnibus account; and
 - b. if the central bank can also deduct charges relating to any other account that the participant entity holds at the central bank, the amount of any such due charges.
- (e) If the omnibus account is used for the purpose of settling obligations between participant entities through a payment system, the arrangements ensure that the participant entities' balances in the payment system are always fully funded with funds held in the omnibus account.
- (f) If the omnibus account is used as part of the operation of a payment system (whether for the purpose of settlement or otherwise), the payment system is subject to oversight, including through oversight of any operator of such payment system, by a regulatory body in the jurisdiction of the central bank, in accordance with the Principles for Financial Market Infrastructures.
- (g) The requirements in Liquidity Coverage Ratio (CRR) Articles 7(2) and 8(2) are met in respect of the funds held by or on behalf of the firm in the omnibus account.

...

EXTERNALLY DEFINED TERMS

Term	Definition source
operator (external definition applies in the Leverage Ratio (CRR) Part only)	Section 183 of the Banking Act 2009
payment system (external definition applies in the Leverage Ratio (CRR) Part only)	Section 182 of the Banking Act 2009

Annex C

Amendments to Disclosure (CRR) Part

In this Annex, new text is underlined and deleted text is struck through.

1 APPLICATIONS AND DEFINITIONS

1.2 In this Part, the following definitions shall apply:

...

central bank claim

means the following exposures of a *firm* to a central bank, provided these are denominated in the national currency of such *central bank*;

~~(1) banknotes and coins constituting legal currency in the jurisdiction of the *central bank*;~~

~~(2) reserves held by a *firm* at the *central bank*; and~~

~~(3) any assets representing debt claims on the *central bank* with a maturity of no longer than 3 months.~~

...

6 PILLAR 3 TEMPLATES AND INSTRUCTIONS

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6.25 Annex XII can be found ~~here~~here.

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Annex D

Amendments to Reporting (CRR) Part

In this Annex, new text is underlined and deleted text is struck through.

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6 TEMPLATES AND INSTRUCTIONS

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Annex XI

6.255 Annex XI can be found ~~here~~here.

...

Draft for consultation

2: Draft amendments to supervisory statement (SS)45/15 – The UK leverage ratio framework

In this appendix, new text is underlined and deleted text is struck through.

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1.A Overview – the UK leverage ratio

~~1.A.1 Until Saturday 31 December 2022, the Leverage Ratio – Capital Requirements and Buffers Part applies to the following firms:~~

- ~~i. All banks and building societies with retail deposits in excess of £50 billion when calculated on an individual basis.~~
- ~~ii. CRR consolidation entities of groups containing banks or building societies meeting the threshold referred to in (i) on the basis of their consolidated situation.~~
- ~~iii. A ring-fenced body that has been required by the PRA to comply with the CRR on an RFB sub-consolidated basis and that is a member of a group containing an entity referred to in (i) or (ii) above.~~

1.A.2 From Sunday 1 January 2023, the The Leverage Ratio – Capital Requirements and Buffers Part applies to the following firms on the following bases:

...

1.A.3 The minimum leverage ratio capital requirement, which must be met at all times, is 3.25% of the leverage exposure measure (LEM) defined in the Leverage Ratio (CRR) Part of the PRA Rulebook. The LEM excludes assets constituting claims on central banks, where they are matched by liabilities, denominated in the same currency and of identical or longer maturity. Further conditions apply where claims on central banks are held in omnibus accounts – these are described in Chapter 7. Mirroring the risk-weighted capital framework, three quarters of this requirement must be met with Common Equity Tier 1 (CET1) capital instruments. The requirement must otherwise be met with Tier 1 capital, but additional Tier 1 capital must have a conversion trigger in relation to a firm's risk-weighted CET1 ratio of at least 7% in order to count towards the leverage ratio minimum. CRR transitional measures affecting Tier 1 capital apply to the definition of Tier 1 for the purposes of the leverage ratio, including the IFRS 9 transitional the PRA encouraged firms to use as part of the Covid-19 response,⁴ and the continued eligibility of certain AT1 instruments.⁵

4 Article 473a of the CRR.

5 Article 494b of the CRR.

...

2 Leverage Ratio Buffers

...

2.3A The PRA considers that ring-fenced body (RFB) group risk⁹ may arise when an RFB is subject to the ALRB at the level of the RFB sub-group,¹⁰ but the consolidated group is either not subject to the ALRB, or its consolidated ALRB rate is lower than the ALRB rate applicable to the RFB sub-group. The PRA expects firms to take this RFB group risk into account by holding additional capital (the 'Leverage Ratio Group Add-on') on a consolidated basis. This is to ensure there is sufficient capital within the consolidated group, and distributed appropriately across it, to address both global systemic risks and domestic systemic risks. Where the ALRB applicable on a sub-consolidated basis for the RFB sub-group is higher than the RFB sub-group's share¹¹ of the ALRB on a consolidated basis, the difference will generally be reflected in the Leverage Ratio Group Add-on, in order to take account of the associated RFB group risk at the consolidated group level. The PRA calculates the 'Leverage Ratio Group Add-on' as the positive difference between the ALRB set for the RFB at a sub-consolidated level, and (if any) the ALRB set for the consolidated group at a consolidated level, scaled by the relative size of the RFB sub-group in terms of its LEM. This add-on is expressed in percentage points. The ALRB is floored at zero. The formula is as follows:

$$\% LR Group Addon: \text{MAX}[(ALRB \% RFB - ALRB \% Group) \times \frac{LEM of RFB^{12}}{LEM of Group}, 0]$$

2.3B The PRA will notify the firm of the amount of any Leverage Ratio Group Add-on it is expected to hold in addition to its minimum leverage ratio requirement, CCLB and ALRB (where applicable). The PRA will update this on a regular basis. Firms will be expected to meet the Leverage Ratio Group Add-on with CET1 capital that shall be in addition to any CET1 capital maintained to meet the minimum leverage ratio, CCLB and ALRB. Consistent with Fundamental Rule 7, a firm should notify the PRA if a firm's capital has fallen or is expected to fall below the level necessary to meet the Leverage Ratio Group Add-on.

....

9 Group risk, as defined in the PRA Rulebook (Internal Capital Adequacy Assessment 1.2), means the risk that the financial position of a firm may be adversely affected by its relationships (financial or non-financial) with other entities in the same group or by risk which may affect the financial position of the whole group, including reputational contagion.

10 An RFB sub-group is a subset of related group entities within a consolidated group, consisting of one or more RFBs and other legal entities, which is established when the PRA gives effect to Article 11(5) of the CRR.

11 ~~The RFB sub-group's share of the consolidated group ALRB can be determined by multiplying that consolidated group ALRB by the proportion of the consolidated group's leverage ratio exposures that are attributable to the RFB sub-group. The consolidated group's leverage ratio exposures that are attributable to the RFB sub-group are calculated as the RFB sub-group's leverage ratio exposure (calculated on a sub-consolidated basis) minus leverage ratio exposures of the RFB sub-group to group entities that are not members of the RFB subgroup.~~

12 When calculating the RFB LEM for the purpose of the LR Group Add-on, exposures of the RFB subgroup to group entities that are not members of the RFB subgroup can be excluded.

4. Sub-consolidation as an alternative to application on the individual basis

4.2 The PRA will consider the following conditions to assess whether to grant the application:

...

(ii) evidence that leverage ratio risks and capital can effectively be managed and reported at sub-consolidated level: risk evaluation, measurement, and control procedures of the parent undertaking should cover the subsidiary, and the firm should be able to calculate the leverage ratio requirement and buffers (including a sub-consolidated CCyB rate) at sub-consolidated level;

...

6 Reporting and disclosure

...

6.5 Leverage ratio disclosure frequency requirements are set out within Articles 433(a) – 433(c) of the Disclosure (CRR) part of the PRA Rulebook. The PRA requires firms to disclose leverage ratio templates with the frequency outlined in the The following table summarises the frequency with which firms are required to disclose leverage ratio templates:

Template	Frequency large institutions (listed)	Frequency large institutions (not listed)	Frequency other institutions (listed)
UK LR1 – LRSum: Summary reconciliation of accounting assets and leverage ratio exposures	Semi-annual	Annual	Annual
UK LR2 – LRCom: Leverage ratio common disclosure	Annual (for rows 28 to UK-34); Semi-annual (for rows up to row 28) ⁽⁴⁾	Annual ⁽²⁾	Annual ⁽³⁾
UK LR3 – LRSpI: Split-up of on balance sheet exposures (excluding derivatives, SFTs, and exempted exposures)	Semi-annual	Annual	Annual
UK LRA: Free format text boxes for disclosure on qualitative items	Annual	Annual	Annual
UK KM1 – Key metrics template; rows 13 to 14e	Quarterly ⁽⁴⁾	Semi-annual ⁽⁵⁾	Semi-annual ⁽⁶⁾

<u>Template</u>	<u>Frequency large institutions (listed)</u>	<u>Frequency large institutions (not listed)</u>	<u>Frequency SDDTs^{(1)(2)*} (listed)</u>	<u>Frequency other institutions (listed)</u>	<u>Frequency other institutions (not listed)</u>
<u>UK LR1 - LRSum: Summary reconciliation of accounting assets and leverage ratio exposures</u>	<u>Semi-annual</u>	<u>Annual</u>	<u>N/A</u>	<u>Annual</u>	<u>N/A</u>
<u>UK LR2 - LRCom: Leverage ratio common disclosure</u>	<u>Annual (for rows 28 to UK-34); Semi-annual (for rows up to row 28)⁽³⁾</u>	<u>Annual⁽⁴⁾</u>	<u>N/A</u>	<u>Annual⁽⁵⁾</u>	<u>N/A</u>
<u>UK LR3 - LRSpl: Split-up of on balance sheet exposures (excluding derivatives, SFTs, and exempted exposures)</u>	<u>Semi-annual</u>	<u>Annual</u>	<u>N/A</u>	<u>Annual</u>	<u>N/A</u>
<u>UK LRA: Free format text boxes for disclosure on qualitative items</u>	<u>Annual</u>	<u>Annual</u>	<u>N/A</u>	<u>Annual</u>	<u>N/A</u>
<u>UK KM1 – Key metrics template; rows 13 to 14</u>	<u>Quarterly</u>	<u>Semi-annual</u>	<u>Semi-annual</u>	<u>Semi-annual</u>	<u>Annual</u>
<u>UK KM1 – Key metrics template; rows 14a-e</u>	<u>Quarterly</u>	<u>Semi-annual</u>	<u>N/A if not LREQ⁽⁶⁾</u>	<u>Semi-annual</u>	<u>N/A if not LREQ⁽⁷⁾</u>

⁽¹⁾ From 1 January 2024 to 30 June 2027, transitional arrangements exist for firms which disclosed under the Small and Non-Complex Institution definition prior to 1 January 2024 but which do not meet the SDDT definition. See Articles 433(b) and 433(c) of the PRA Rulebook.

⁽²⁾ SDDTs which are not listed do not have disclosure obligations in respect of the leverage ratio.

^{(3),(4),(5)} Institutions that are in scope of the leverage ratio minimum requirement shall disclose values in UKL2 – LRCom;UK-24b, UKL2 – LRCom;25, UKL2 – LRCom;UK-25a, UKL2 – LRCom;UK-25c, UKL2 – LRCom;27, UKL2 – LRCom;UK-27a, UKL2 – LRCom;UK-27b, UKL2 – LRCom;UK-32, UKL2 – LRCom;UK-33 and UKL2 – LRCom;UK-34 with a quarterly frequency.

^{(4),(5),(6)} Institutions that are in scope of the leverage ratio minimum requirement shall disclose values in rows 13 to 14e of template UK-KM1 with a quarterly frequency.

⁽⁶⁾ Where SDDTs are in scope of the leverage ratio minimum requirement, they shall disclose rows 14a-e with an **annual** frequency.

⁽⁷⁾ Where these institutions are in scope of the leverage ratio minimum requirement, they shall disclose rows 14a-e with a **semi-annual** frequency.

* Pursuant to Policy Statement (PS) 15/23, the definition of an SDDT, the ability for eligible firms and consolidation entities to become SDDTs and SDDT consolidation entities, and associated changes – including those to the rules on disclosure – will be introduced to the PRA Rulebook on 1 January 2024.

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7 Conditions for the exclusion of central bank claims held in omnibus accounts from the leverage exposure measure

7.1 The assets constituting central bank claims that are excluded from the LEM referred to in paragraph 1.A.3 shall include reserves in omnibus accounts provided they meet further conditions, in addition to those set out above in 1.A.3. These further conditions are in Article 429a(A2) of the Leverage Ratio (CRR) Part of the PRA Rulebook.²⁵ This chapter elaborates on the PRA's expectations in relation to them.

7.2 These conditions aim to ensure that any risks associated with omnibus account reserves, additional to those arising in respect of reserves held on traditional accounts, are mitigated. The PRA considers that omnibus account reserves qualify for the central bank claim exemption only where these additional risks are mitigated. The conditions further ensure that firms have the ability to satisfy the liability-matching condition for the exclusion²⁵, set out in 1.A.3 above²⁶, by having visibility over their reserves at all times.

7.3 In accordance with Fundamental Rule 7, the PRA expects firms in scope of the leverage ratio minimum requirement to notify the PRA of existing or planned participation in an omnibus account, and whether they meet, or expect to meet the conditions in Article 429a(A2).

7.4 The PRA views that the expectations in Supervisory Statement (SS) 2/21 'Outsourcing and third party risk management' around robust governance and controls of third parties would apply in respect of third parties²⁷ associated with omnibus account arrangements.

7.5 Pursuant to Article 429a(A2)(g), reserves placed in the omnibus account should meet certain Liquidity Coverage Ratio (LCR) requirements. The PRA expects firms to analyse risk holistically, paying due regard to any idiosyncratic risk specific to the omnibus account or any associated payment system, to assure themselves that reserves meet these requirements.

7.6 Where the account in which reserves are placed is used for the purpose of settlement via a payment system, condition A2(e) applies. The PRA expects that, to satisfy A2(e), there should be safeguards which ensure balances on the payment system are backed at all times, on a one-to-one basis, with reserves on the omnibus account. These should include robust contingency and risk management and governance arrangements.

7.7 The PRA views that the exercise of rights of deduction on the omnibus account by the central bank to recover charges has the potential to cause participants to pay more than their due share. Such excess payments could happen if the central bank were to exercise rights of deduction where (for example) one participant did not have enough on the account to meet its share, leading to the other participants paying the owing amount. The PRA's intention in respect of condition A2(d) that any risk of such excess payments is removed.

7.8 To that end, the account arrangements should ensure that a central bank does not debit a participant's reserves with any more than the amount the participant is liable to contribute (A2(d)(iii)). One way to achieve this outcome is by appropriately circumscribing rights of deduction - the central bank could maintain visibility over the composition of the ledger and have the right to exercise deductions only when it views that that would not result in a participant paying more than its share.

7.9 Condition A2(d)(ii) requires that, where the central bank maintains rights of deduction, the method of apportionment of central bank charges is not unfair and unreasonable. It may be possible to meet condition A2(d)(iii) by, instead of preventing excess payments from arising due to central bank deductions, arranging to mutualise them according to an agreed schema. Where this is the approach taken, however, firms should note that to meet condition A2(d)(ii), omnibus account arrangements must set in place a process to apportion these excess payments which is not unfair and unreasonable.

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25 Additional to having to be matched by liabilities denominated in the same currency and of identical or longer maturity.

26 Article 429a(A1)(b), Leverage Ratio (CRR) Part.

27 With the exception of central banks.

3: Draft amendments to the 'Instructions for leverage ratio disclosures'

In this appendix, new text is underlined and deleted text is struck through.

Template UK LR1

...

1. Institutions shall apply the instructions provided in this section in order to complete template UK LR1 - LRSum in application of point ~~(b)~~(c) of Article 451(1) of the *CRR*.

...

Template UK LR2 - LRCom: Leverage ratio common disclosure. Fixed format template

...

1. Institutions shall apply the instructions provided in this section in order to complete template UK LR2 - LRCom in application of points ~~(a) and (b)~~ (a), (b) and (c) of Article 451(1) of the *CRR* and of Article 451(3) of the *CRR*, taking into account, where applicable, ~~point (e) of Article 451(1) and Article 451(2)~~ of the *CRR*.

2. Institutions shall disclose in column a the values of the different rows for the disclosure period and in column b the values of the rows for the previous disclosure period.

3a. Institutions shall disclose template UK LR2 – LRCom with the frequency outlined in Articles 433a and 433c of the *CRR*. In particular, *LREQ firms* as defined in paragraph 2.10 of Chapter 2 of the Disclosure (*CRR*) Part of the PRA Rulebook shall disclose values in ~~UKL2 – LRCom;UK-24b~~, UKL2 – LRCom;25, UKL2 – LRCom;UK-25a, UKL2 – LRCom;UK-25c, UKL2 – LRCom;27, UKL2 – LRCom;UK-27a, UKL2 – LRCom;UK-27b, UKL2 – LRCom;UK-32, UKL2 – LRCom;UK33 and UKL2 – LRCom;UK-34 with a quarterly frequency, in line with paragraph (4) of Article 433a and paragraph 1(c) of Article 433c of the *CRR*.

...

~~4.c Until 1 January 2023, LREQ firms which are required to disclose averaged leverage exposures and ratios in UK LR2 – LRCom;UK-31 to UK LR2 – LRCom;UK-34 shall calculate such averaged exposures and ratios in accordance with paragraph (5) of Article 451 of the CRR.~~

...

Template UK-LR3 – LRSpl: Split-up of on-balance sheet exposures (excluding derivatives, SFTs and exempted exposures). Fixed format

1. Institutions shall apply the instructions provided in this section in order to complete template LRSpl in application of point ~~(b)~~(c) of Article 451(1) of the *CRR*.

4: Draft amendments to the 'Instructions for leverage ratio reporting'

In this appendix, new text is underlined and deleted text is struck through.

PART II: TEMPLATE RELATED INSTRUCTIONS

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8. LV 50.00 – Treatment of repurchase transactions (LR7)

33. Repurchase transactions are transactions governed by a repurchase agreement or a reverse repurchase agreement involving the exchange of cash.

34. In this table, the following column definitions apply:

- *0010 / 0040 - Gross repo (period end / period average)*: Report period end or period average, as applicable to each column, total gross value of repurchase transactions where the contracts are recognised as an asset on the balance sheet (with no recognition of netting).
- *0020 / 0050 - Netted amounts (period end / period average)*: Report the period end or period average, as applicable to each column, amounts of cash payables and cash receivables of repurchase transactions that have been measured on a net basis for the purposes of calculating the leverage ratio total exposure measure.
- *0030 / 0060 Net repo (period end / period average)*: Calculates the period end or period average repo activity, as applicable to each column, where the contracts are recognised as an asset on the balance sheet, recognising netted amounts.