BANK OF ENGLAND

Publication

An FPC Response | PRA Policy Statement | PS21/21

The UK leverage ratio framework

October 2021

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

An FPC Response | PRA Policy Statement | PS21/21

The UK leverage ratio framework

October 2021

Prudential Regulation Authority | 20 Moorgate | London EC2R 6DA

Contents

1 Overview

1.1 This paper contains feedback from the Financial Policy Committee (FPC) and the Prudential Regulation Authority (PRA) on responses to Consultation Paper (CP) 14/21 'Consultations by the FPC and PRA on changes to the UK leverage ratio framework'.[1] Part 1 covers the FPC's feedback to responses relating to its direction and/or recommendation, and its final decisions. Part 2 covers the PRA's feedback to responses relating exclusively to its separate proposals in CP14/21, which go beyond the scope of the FPC's direction and/or recommendation, or which provide for the PRA's implementation where scope was left for the PRA to determine the details of that implementation.

1.2 It also contains the FPC's and PRA's final policy, as follows:

- amendments to the PRA Rulebook (Appendix 1);
- an updated Supervisory Statement (SS) 45/15 'The UK leverage ratio framework' (Appendix 2);
- the FPC direction and recommendation (Appendix 3);
- an updated FPC Policy Statement 'The FPC's powers over leverage ratio tools' (Appendix 4);
- an updated SS34/15 'Guidelines for completing regulatory reports' (Appendix 5); and
- updated reporting and disclosure templates and instructions (Appendix 6).

1.3 This paper is relevant to all Capital Requirements Regulation (CRR) firms and CRR consolidation entities on an individual, consolidated, and where relevant, sub-consolidated basis. For the purposes of the application of the requirements on a consolidated basis, references to 'firms' include CRR consolidation entities.

Background

1.4 The FPC conducted a review of the UK leverage ratio framework in light of revised international standards, and of its ongoing commitment to review its policy approach. The PRA reviewed the leverage ratio framework concurrently, in part to reflect international developments, and co-ordinated closely with the FPC in relation to its review.

1.5 CP14/21 outlined the changes that the FPC proposed to make to the framework, and the PRA's proposed approach to implementing those changes. The PRA considered that the FPC's proposals would advance the PRA's objectives. CP14/21 also included the PRA's separate proposals on leverage exposure aspects of the framework, in order to implement international standards, update reporting and disclosure requirements, and amend the supervisory expectation. These proposals are summarised below.

FPC consultation

1.6 The FPC's consultation set out its proposed revisions to the UK leverage ratio framework. In April 2015, secondary legislation was passed giving the FPC powers of direction over leverage ratio requirements and buffers for banks, building societies, and PRA-regulated investment firms.[2] On Monday 14 June 2021, the Government laid secondary legislation (the Bank of England Act 1998 (Macro-prudential Measures) (Amendment) Order 2021, or 'MPM Order 2021') to align the FPC's

1 June 2021: CP14/21 'Consultations by the FPC and PRA on changes to the UK leverage ratio framework'.
2 The Bank of England Act 1998 (Macro-prudential Measures) (No.2) Order 2015.

power of direction with changes made under the Financial Services Act 2021.[3] The MPM Order 2021 took effect on Wednesday 21 July, giving the FPC the necessary powers to direct (rather than recommend) that the PRA implement its proposed changes to the framework, as summarised below.

1.7 The FPC considers leverage requirements to be an essential part of the framework of capital requirements for banks, building societies, and PRA-regulated investment firms (referred to in this document collectively as 'the UK banking system'). The leverage ratio is a relatively simple indicator of a firm's solvency that relates a firm's capital resources to the nominal value of its exposures, as opposed to a measure of the riskiness of its portfolio. The purpose of the leverage framework is to make the capital framework robust against the inherent errors and uncertainties in measuring risk by assigning risk weights. Without a leverage ratio requirement, a firm with low average risk weights would be able to fund its assets with a substantial amount of debt and very little equity – a structure that could be particularly susceptible to errors in estimated risk weights. A leverage ratio requirement can also constrain excessive balance sheet growth.

1.8 Currently, the UK leverage ratio framework requires major UK banks and building societies to satisfy a minimum Tier 1 leverage ratio of 3.25% on a measure of exposures that excludes qualifying central bank claims. Mirroring the risk-weighted capital framework, three-quarters of this minimum requirement must be met with Common Equity Tier 1 (CET1) capital instruments. The remainder of the requirement can be met with additional Tier 1 capital instruments, as long as they have a conversion trigger of at least 7% of risk-weighted CET1 capital. The UK leverage ratio framework also includes capital buffers that must be met only with CET1; an additional leverage ratio buffer for systemically important banks; and a countercyclical leverage ratio buffer.

1.9 In CP14/21, the FPC proposed to direct the PRA to implement a UK leverage ratio framework that (see Appendix 3 of CP14/21 for the full text of the proposed FPC direction and recommendation):

- maintains: the minimum UK leverage ratio requirement and its calibration; leverage ratio buffers and their calibration (both subject to the PRA's implementation of changes to the leverage exposure measure (LEM), as set out at Chapter 11 of CP14/21); the capital quality requirements; and the exclusion of qualifying central bank claims from the exposure measure, as set out in the FPC's 2015 Policy Statement;[4]

- extends the scope of application of the framework to capture: major UK banks, building societies, and PRA-regulated investment firms; UK banks, building societies, and PRA-regulated investment firms with significant non-UK assets; and certain comparable holding companies approved or designated by the PRA. The PRA set out proposed quantitative thresholds to capture such firms, in its concurrent consultation (Chapter 9 of CP14/21), as £50 billion retail deposits or £10 billion non-UK assets (calculated on an individual, consolidated or sub-consolidated basis, as applicable). The FPC agreed that this would capture the types of firms set out in the proposed direction; and

- applies, broadly speaking: on a consolidated basis; a ring-fenced bank (RFB) sub-consolidated

3 Specifically, the MPM Order 2021 would extend the FPC's power to make specifications as to how the leverage ratio exposure measure (which will become the responsibility of the PRA under the Financial Services Act 2021) is defined for the purposes of the FPC's leverage measures. In addition, the MPM Order 2021 would ensure that all macro-prudential measures, as currently set out in secondary legislation, can be applied to holding companies that are approved or designated by the PRA.

4 'The Financial Policy Committee's powers over leverage ratio tools'.

basis; and an individual (solo) basis or, at the PRA's discretion, on a sub-consolidated basis.[5]

1.10 In line with its current approach, the FPC also proposed to maintain its existing recommendation to the PRA that, in implementing the minimum leverage ratio requirement, the PRA specifies that additional Tier 1 capital should only count towards Tier 1 capital for these purposes if the relevant capital instruments specify a trigger event that occurs when the risk-weighted CET1 capital ratio of the institution falls below a figure of not less than 7%.

PRA consultation

1.11 In CP14/21, the PRA proposed to comply with the FPC's proposed direction and recommendation by amending the PRA's existing rules on the leverage ratio as follows:

- from Saturday 1 January 2022, where the leverage ratio capital requirement is applied on a consolidated basis, to make the CRR consolidation entity responsible for ensuring compliance with the consolidated capital requirement;[6]

- from Saturday 1 January 2022, to clarify that firms can use permissions granted to firms under Article 9(1) of the CRR, for the purposes of meeting the leverage ratio capital requirement on an individual basis;

- from Sunday 1 January 2023, to apply a leverage ratio capital requirement not only to all firms with retail deposits equal to or greater than £50 billion, but also to all firms and CRR consolidation entities with non-UK assets equal to or greater than £10 billion (calculated on an individual, consolidated, and sub-consolidated basis as applicable); and

- from Sunday 1 January 2023, to apply the leverage ratio requirement to firms in scope on an individual (solo) basis to any firm that is not a CRR consolidation entity or an RFB that is the ultimate parent within an RFB sub-group; on a consolidated basis to CRR consolidation entities; and on an RFB sub-consolidated basis to RFB sub-groups.[7] The PRA proposed to make sub-consolidation available as an alternative to individual application where a firm has subsidiaries that can be consolidated, subject to a firm's application and a firm meeting certain conditions set out in SS45/15.

1.12 The PRA considered that the remainder of the existing PRA rules already complied with the FPC's proposed direction.

1.13 Separately from the FPC's direction, the PRA also proposed in CP14/21 to:

- amend the PRA rulebook to introduce a single leverage exposure measure and to reflect updated international standards;

- change PRA rules for leverage reporting and disclosure to reflect the deletion of retained EU law covering this area and the approach to reporting and disclosure set out in CP5/21,[8] remove duplicative requirements, by moving to the same leverage exposure and capital measures for all firms, and to implement relevant Basel standards;

---

5 For the avoidance of doubt, this may include on the basis of the consolidated or sub-consolidated situation of a holding company approved or designated by the PRA.
6 This change is consistent with the application of CRR consolidated requirements to holding companies that the PRA consulted on in CP5/21 and confirmed (with near-final policy) in PS17/21.
7 To the same extent they are required to comply with Parts 2 and 3 of the CRR on a sub-consolidated basis.
8 February 2021: CP5/21 'Implementation of Basel standards'.

- amend its supervisory expectations to set out:

  a) that all firms not in scope of the leverage ratio capital requirement should manage their leverage risk such that their leverage ratio does not fall below 3.25%; and

  b) the criteria for case-by-case sub-consolidation as an alternative to applying the leverage ratio requirements on an individual basis; and

- make consequential amendments to the leverage ratio model requirements covering the additional global systemically important institutions (G-SII) and other systemically important institutions (O-SII) leverage ratio buffers,[9] and to other reporting and disclosure requirements referencing the leverage ratio. For a full list of the policy materials affected by the changes, please see Part 2 of this paper.

Summary of responses

1.14 The FPC and PRA received 9 written responses to CP14/21, in addition to comments received in meetings with interested stakeholders. Respondents generally welcomed the FPC's and PRA's proposals to make changes to the UK leverage ratio framework. Respondents particularly supported creating a single leverage exposure measure, the maintenance of the central bank claims exclusion, and the application of a PRA supervisory expectation, rather than a requirement, for small deposit takers.

1.15 Respondents also made a number of observations and requests for clarification, which are set out in the remainder of this paper. Recurrent topics included the application of the central bank claims exclusion and the 3.25% calibration to all firms in scope, the level of application of the requirement in RFB sub-groups, and the definition and level of the PRA's proposed £10 billion threshold intended to capture firms with 'significant non-UK assets'.

Changes to draft policy

1.16 In light of the responses received, the FPC is finalising its direction and recommendation as proposed, subject to one change to the central bank claims exclusion. Specifically, the FPC has determined that central bank claims can be excluded from the UK leverage ratio measure, as long as they are matched by liabilities (rather than deposits) of the same currency and equal or longer maturity. This better reflects the extended scope of the leverage ratio requirement from only covering deposit takers to also covering investment firms that are restricted in the types of deposit they are allowed to accept.

1.17 In light of that change, the PRA is making similar amendments to the draft rules presented in CP14/21. The PRA is also specifying in Article 429a(A1) of Chapter 3 of the Leverage Ratio (CRR) Part how maturity should be interpreted for non-deposit liabilities that have optionality that means they can be called or redeemed before contractual maturity, and where reputational factors may impact firms' ability to exercise optionality.

1.18 The FPC and PRA have assessed that the impact of the central bank claims matching change is small and to the benefit of firms. As a result, the cost benefit analysis, as presented in CP14/21, remains unchanged.

---

9 The PRA intends to make consequential amendments to the Additional Leverage Ratio Buffer Model Requirements in due course, and in time to reflect changes taking effect on Saturday 1 January 2022 in accordance with this paper.

1.19 The PRA is not making any other changes to the draft rules presented in CP14/21, apart from a small number of general clarifications and corrections. These include: clarifying reporting and disclosure rules; specifying where CRR article references relate to provisions of the PRA Rulebook; correcting defined terms in the Capital Requirements and Buffers Part; and other formatting changes.[10]

FPC objectives (including remit and recommendations letter from the Chancellor)

1.20 CP14/21 contained the FPC's explanation of how the proposed changes to the UK leverage ratio framework would advance its primary objective, in ways that as far as possible are effective in also achieving its secondary objective. Specifically, the FPC considered that the design and calibration of the leverage minimum and buffers provided a strong complement to the risk-weighted framework which does not bind on most firms most of the time. In deciding the scope of the leverage ratio framework, the FPC considered both the benefits and costs of applying the leverage ratio to certain types of firm. In determining the overall framework, and subject to its primary objective, the FPC has also had regard to its secondary objective, as well as the Chancellor's remit and recommendation letter mentioned above, and in particular how its proposed policy would impact competition and competitiveness.

1.21 Following responses to the CP, the FPC has again considered the analysis set out in CP14/21 and remains of the view that the framework as consulted on best achieves its objectives. However, in light of the responses to the CP, the FPC has also assessed that the amendments to the central bank claims exclusion discussed above would be more proportionate for firms with business models that do not involve significant levels of deposit-taking, and has therefore amended the direction accordingly. The FPC judged that the impact of widening the exclusion in this way would be small for both deposit-takers and investment firms, but would improve fairness across the firms impacted and proportionality across business models without prejudice to the primary objective, as the FPC judges that liability-matched reserves are as risk free as deposit-matched reserves. This would support competition, in line with the FPC's secondary objective.

PRA have regards and secondary objectives

1.22 When making CRR rules, the PRA must consider and publish an explanation of the ways in which the PRA has had regard to the additional matters set out in section 144C(1) of FSMA (the 'additional have regards') and how those have affected the proposed rules.[11] The PRA has considered these 'additional have regards' and other relevant 'have regards' when finalising its policy proposals. The PRA set out in CP14/21 an explanation of how each set of policy proposals on the leverage ratio framework have had regard to the most relevant statutory obligations and public law duties. CP14/21 included an explanation of the ways in which having regard to these matters had affected the proposals, see Chapter 16: The PRA's statutory obligations in CP14/21.

1.23 Following responses to the CP the PRA has also reconsidered its analysis in light of the PRA's safety and soundness objective, and relevant 'have regards' (including taking into account the matters specified in the Chancellor's 'Recommendations for the Prudential Regulation Committee' letter of 23 March 2021). The PRA has concluded that its previous analysis still applies due to the small changes to the policy as proposed. Further 'have regard' considerations in response to the consultation are in paragraphs 5.5 and 5.7 in relation to competition and proportionality, 5.21–5.22, 5.29 and 5.40 in relation to equivalence, and 5.26 in relation to competition. The PRA also agrees with the FPC that amending the requirement for central bank claims to allow liability-matching instead of deposit-matching would be more proportionate for firms with business models that do

---

10 This refers to CRR rules transferred to the PRA Rulebook from the CRR in accordance with the Financial Services Act 2021.
11 Sections 144C(1)(2) and 144D(1) of FSMA.

not involve significant levels of deposit-taking, and has therefore amended the rules accordingly. As such, the PRA considers that the FPC's revised direction would advance the PRA's objectives.

1.24 The PRA considers that the change from deposits-matching to liabilities-matching has no impact on mutuals because these have significant deposits and do not benefit from the extension.

1.25 The PRA must also publish a summary of the purpose of the proposed rules.[12] This has been set out in Appendix 7.

Implementation and next steps

1.26 From Sunday 1 January 2023, the following policy will apply:

(i) the scope of application of the leverage ratio requirement will be extended to firms, RFB sub-groups, and CRR consolidation entities with non-UK assets equal to or greater than £10 billion (calculated on an individual, sub-consolidated, and consolidated basis, respectively);

(ii) the leverage ratio requirement will apply on an individual basis to any firm that is not a CRR consolidation entity or an RFB that is the ultimate parent within an RFB sub-group; and

(iii) sub-consolidation will become available as an alternative to individual application where a firm has subsidiaries that can be consolidated (subject to a firm's application and to that firm meeting certain conditions, as set out in SS45/15).

1.27 All other policy in this PS is designed to take effect at the same time as HM Treasury's anticipated revocation of the leverage parts of the CRR, in accordance with its powers under section 3 of the Financial Services Act 2021. Those revocations will take place on Saturday 1 January 2022, subject to Parliamentary approval and HM Treasury sign-off of the Statutory Instrument (SI) that makes those revocations and other consequential amendments and is due to be laid before Parliament shortly. That instrument includes policy relating to:

(i) updates to the leverage exposure measure;

(ii) updates to leverage reporting and disclosure requirements;

(iii) the PRA's supervisory expectation;

(iv) consequential amendments to the other reporting and disclosure requirements; and

(v) where the leverage ratio capital requirement is applied on a consolidated basis, to make the CRR consolidation entity responsible for ensuring compliance with the consolidated capital requirement.

1.28 In due course the PRA will also make consequential amendments to the leverage ratio model requirements in its rulebook, in time to reflect the changes taking effect on Saturday 1 January 2022.

1.29 The PRA has made the final rules in Appendix 1 on the understanding that HM Treasury will, shortly after the publication of this paper, be laying before Parliament the SI that, if approved, will revoke relevant provisions of retained EU law. The PRA has made these rules in advance of such legislation, with the agreement of HM Treasury, because this will enable HM Treasury to use that SI

12 Section 144D(2) of FSMA

to save permissions already granted by the PRA under Articles 429(7) and (14) of the CRR. This will ensure that firms will not need to re-apply for those permissions under the new rules. If that SI is amended prior to being made, or is not made, the PRA would amend the final rules as necessary for consistency with any relevant provisions of retained EU law that are not revoked, while continuing to implement the FPC's direction.

1.30 In order to make the leverage ratio rules in Appendix 1, the PRA has also made the rules published in near-final form in PS17/21 'Implementation of Basel standards'[13] substantially as published in that PS.[14] The PRA is preparing the Basel implementation rules for publication as soon as possible after this PS. The PRA will update the online version of the PRA Rulebook later in 2021 to reflect changes made by these two PSs. The PRA expects a delay of a few weeks after this PS while that update is being carried out.[15]

1.31 Unless otherwise stated, any remaining references to EU or EU-derived legislation in the policy material in this paper refer to the version of that legislation which forms part of retained EU law.[16]

1.32 The FPC will review the direction issued to the PRA on an annual basis.[17] The recommendation will be reviewed at regular intervals while it is of continuing relevance.[18]

---

13 July 2021: PS17/21 'Implementation of Basel standards'.
14 The contingency described in paragraph 1.29 does not apply to the Basel implementation rules, as the relevant provisions of retained EU law have already been revoked by the Capital Requirements Regulation (Amendment) Regulations 2021 (SI 2021 No. 1078) which was made as law on 22 September 2021 and is effective on Saturday 1 January 2022.
15 Prudential Regulation Authority Rulebook.
16 For further information please see 'Transitioning to post-exit rules and standards'.
17 Section 9T of the Bank of England Act 1998.
18 Section 9T of the Bank of England Act 1998.

Part 1: FPC response to consultation

This part covers the FPC feedback to the responses relating to the FPC Direction and/or Recommendation, and the FPC's final decisions.

2 Overview of FPC consultation

2.1 In CP14/21, the FPC proposed to direct the PRA to implement a UK leverage ratio framework that (see Appendix 3 of CP14/21 for the full text of the proposed FPC direction and recommendation):

- maintains: the minimum UK leverage ratio requirement and its calibration; leverage ratio buffers and their calibration (both subject to the PRA's implementation of changes to the leverage exposure measure (LEM), as set out at Chapter 11 of CP14/21); the capital quality requirements; and the exclusion of qualifying central bank claims from the exposure measure, as set out in the FPC's 2015 Policy Statement;[19]

- extends the scope of application of the framework to capture: major UK banks, building societies, and PRA-regulated investment firms; UK banks, building societies, and PRA-regulated investment firms with significant non-UK assets; and certain comparable holding companies approved or designated by the PRA;

  The PRA set out proposed quantitative thresholds to capture such firms, in its concurrent consultation (Chapter 9 of CP14/21), as £50 billion retail deposits or £10 billion non-UK assets (calculated on an individual, consolidated or sub-consolidated basis, as applicable). The FPC agreed that this would capture the types of firms set out in the proposed direction; and

- applies, broadly speaking: on a consolidated basis; an RFB sub-consolidated basis; and an individual (solo) basis or, at the PRA's discretion, on a sub-consolidated basis.[20]

2.2 In line with its current approach, the FPC also proposed to maintain its existing recommendation to the PRA that, in implementing the minimum leverage ratio requirement, the PRA specifies that additional Tier 1 capital should only count towards Tier 1 capital for these purposes if the relevant capital instruments specify a trigger event that occurs when the risk-weighted CET1 capital ratio of the institution falls below a figure of not less than 7%.

19 'The Financial Policy Committee's powers over leverage ratio tools'.
20 For the avoidance of doubt, this may include on the basis of the consolidated or sub-consolidated situation of a holding company approved or designated by the PRA.

3 FPC consultation: Feedback to responses

3.1 The FPC has considered the responses received to its consultation. Although a number of responses focused on the FPC direction alone, some of them raised matters concerning the detail of the PRA's implementation of the direction. Consequently, the PRA has also considered them and set out its feedback where relevant (see Part 2). This chapter sets out the FPC's feedback to the responses relating to the FPC direction and/or recommendation, and its final decisions.

3.2 The FPC's feedback to the consultation responses, and its final decisions, are grouped into the following categories, aligned with CP14/21:

- general responses;
- scope and level of application;
- central bank claims exclusion; and
- capital buffers and capital quality.

3.3 This chapter also forms part of the record of the FPC's meeting on 23 September 2021 (for the purposes of section 9U of the Bank of England Act 1998), specifically the part of the meeting where the committee carefully considered the responses to CP14/21 and adopted its final policy, including making the direction and recommendation in Appendix 3.[21] This chapter contains the FPC's judgments and decisions in relation to the leverage ratio framework at that meeting, and a summary of the committee's underlying deliberations in relation to those judgments and decisions.

General responses

3.4 One respondent raised a concern about the implications of the leverage ratio framework for low-risk weight, low-margin activities, such as secured lending. The FPC notes that the leverage ratio is intended to be a risk insensitive measure, with the level of capital held not dependent on the underlying risk of the asset or activity. The leverage ratio framework is not meant to be applied at the level of individual exposures. The FPC considers that the benefits of the leverage ratio as a complement to the risk-weighted framework for the financial system outweigh the costs. The framework acts as a guardrail against model-based risk weighting, addresses 'unknown unknowns', and acts against a build-up of excessive leverage in the financial system.

3.5 At the time of introducing the leverage ratio framework in its 2015 Policy Statement,[22] the FPC further judged that the impact on individual banks would be modest, and that the framework would not create an adverse impact on aggregate credit creation or risk-taking by the banks. In line with this, the impact assessment in CP14/21 shows that there is no indication that leverage-constrained firms have changed the risk composition of their assets compared to other firms.

3.6 The EBA has developed a set of regulatory products (referred to as the EBA roadmap)[23] with the aim of reducing unwarranted variability across banks in internal ratings based (IRB) risk-weighted assets for credit risk. One respondent noted that the UK's adoption of this would reduce the risk of inherent errors in the calculation of risk weights in model-based risk weighting. The FPC notes that such developments are helpful, although they do not remove model risk. Additionally, as noted

21 Financial Policy Summary and Record - October 2021.
22 'The Financial Policy Committee's powers over leverage ratio tools'.
23 'EBA publishes report on progress made on its roadmap to repair IRB models'.

above, the objectives of the FPC's leverage ratio framework extend beyond acting as a guardrail against model-based risk weighting. They also include correcting against errors in standardised risk weights. The FPC considers that the leverage ratio is appropriately calibrated to guard against these risks at this point. Furthermore, the leverage ratio framework and its calibration will be kept under review, as noted in paragraph 1.32.

Scope and levels of application

Scope of application

3.7 The FPC received a number of responses in support of its proposal to extend the leverage ratio framework to firms with significant non-UK assets. However, some respondents questioned the approach to identifying firms with significant non-UK assets, or queried the measurement of the thresholds (see PRA responses in Part 2). One respondent welcomed the proportionality of the approach taken in not extending the scope of the leverage ratio requirement to small domestic firms.

Levels of application

3.8 Four respondents expressed support for the proposed levels of application of the leverage ratio requirement. Specifically, one respondent welcomed the consistency of the approach with the one taken for risk-weighted capital requirements. Another respondent supported the proposal to dis-apply the requirement on an individual basis where a firm is a CRR consolidation entity subject to the leverage ratio requirement on a consolidated basis, or the ultimate parent within an RFB sub-group subject to the leverage ratio requirement on a sub-consolidated basis. A third respondent supported giving the PRA discretion to allow sub-consolidated requirements to apply as an alternative to individual application when this supports the PRA's own objectives. The fourth respondent noted the importance of applying the leverage ratio to RFBs and their sub-groups.

3.9 A number of respondents sought clarification on the approach for the application of individual (solo) leverage ratio requirements. One respondent asked for clarification on whether the requirement would apply to a consolidated (or sub-consolidated) entity both at the consolidated (or sub-consolidated) level and the individual level. The FPC confirms its intention that, where a requirement applies at a consolidated or sub-consolidated level to an entity on the basis of their own consolidated situation, that same entity is not also required to meet the requirement at an individual level. In paragraphs 5.21-5.22, the PRA has provided further detail about how this has been implemented.

3.10 Relatedly, two respondents sought clarity as to whether, for groups which have been granted the permission to apply the leverage ratio requirement at a sub-consolidated level, individual requirements would be dis-applied from entities within the sub-group even if a particular entity met one of the thresholds. The same respondents queried why this option would not be available for RFB sub-groups. The respondents requested to extend the permission process to dis-apply the individual requirement where an entity that is over one of the thresholds is contained within an RFB sub-group.

3.11 The FPC notes that the PRA would have the option to allow firms to apply for permission for sub-consolidation, where there is the potential for the leverage measures applied on an individual basis to disproportionately impact the capital position of relevant firms driven by their group structure, given the potential consequences for the provision of market liquidity in aggregate for the UK financial system; and subject to that firm meeting the PRA's criteria. In CP14/21, the PRA proposed that individual requirements would apply where a firm meets one of the thresholds and it is not subject to a consolidated or sub-consolidated requirement on the basis of its own consolidated situation (see paragraph 10.4 of CP14/21 and paragraph 5.22). This is the case regardless of whether the entity is within or outside the ring fence.

3.12 Even in such cases, however, individual requirements would continue to apply to subsidiaries meeting one of the thresholds. Individual capital requirements ensure that capital can absorb losses where they occur. In the case of internationally active firms, this is also a Basel requirement. Applying the leverage ratio requirements at the individual level is a change compared to the current framework, in particular for RFBs. The FPC does not expect that an individual leverage ratio requirement would in general carry a significant additional cost to firms overall. It would not require additional capital at the group level, but instead would have an impact on the way that capital is allocated across the group.

3.13 The respondents also considered the case where an intermediate holding company (IHC) is responsible for the leverage ratio requirement of a ring-fenced sub-group. The respondents were concerned that, where a ring-fenced sub-group is headed by an IHC, the leverage ratio would apply both at the sub-consolidated level and at individual level for any subsidiary firm in the subgroup that individually meets the thresholds. They noted that this treatment is different from the treatment of CRR consolidation entities and RFBs, where the rules automatically dis-apply individual requirements for RFBs that are the ultimate parents in RFB sub-groups.

3.14 As set out in the FPC direction, where the leverage measures are to be applied on a consolidated or RFB sub-consolidated basis, they may be applied to a holding company approved or designated by the PRA, as appropriate. The IHCs would not be subject to individual requirements, so the treatment for RFB sub-groups headed by IHCs is the same as for those headed by an operating company. As set out in paragraph 5.21, the PRA can use its power of direction over qualifying parent undertakings to apply prudential requirements to IHCs of groups which are required to meet CRR/CRD requirements on a sub-consolidated basis.

3.15 One respondent suggested applying the leverage ratio combining the RFB and non-ring-fenced bank on a 'notional' UK universal bank level. This would imply that the leverage ratio requirement should be calculated only at the level of the top parent in the group, and not at the level of the RFB or other sub-groups or subsidiaries. The FPC continues to consider that the leverage ratio should apply to major UK banks and building societies and their RFBs. These firms account for the majority of UK banking assets, and their provision of critical financial services to the UK economy means that their failure could pose material threats to domestic financial stability. The proposals in CP14/21 apply an individual leverage ratio requirement to RFBs meeting the materiality thresholds, to advance financial stability and safety and soundness objectives, and to align with Basel standards for international firms. Including RFBs in scope of the leverage ratio framework also aims to ensure that capital is available where the risks are located in a group, and maintains consistency with the risk-weighted framework in its application to RFBs.

Central bank claims exclusion

3.16 A number of responses referenced the FPC's central bank claims exclusion from the total exposure measure. Since 2017, the PRA's rules (in response to the FPC's recommendation) require firms within scope of the leverage ratio requirement to exclude deposit-matched central bank claims from their UK leverage ratio where they are denominated in the same currency and are of the same or longer maturity. This policy was intended to ensure that the leverage ratio did not act as a barrier to the effective implementation of any policy measures that lead to an increase in central bank reserves.

3.17 In order to restore the level of resilience on banks' balance sheets at the time when central bank claims were excluded, the FPC recalibrated the minimum requirement from 3% to 3.25% of UK leverage exposures, in line with Basel standards. At the time it judged that this recalibration was an appropriate way of offsetting the impact of excluding central bank claims based on the level of resilience, and it reflected the FPC's intention of maintaining the simplicity of the leverage ratio framework.

3.25% recalibration

3.18 Two respondents expressed their support for the central bank claims exclusion and 25 basis point recalibration. A further two respondents asked for the exclusion to be made permanent, or for the FPC to provide a substantial notice period before it may be withdrawn. The FPC notes that the central bank claims exclusion is a measure to respond to extraordinary circumstances that have led to a significant increase in central bank claims in the financial system. The FPC will review its direction to the PRA, including the exclusion of central bank claims, annually as required by legislation.

3.19 Some of the responses noted that some firms newly in scope of the leverage ratio requirement may not have considerable holdings of central bank claims, and would benefit from a 3% leverage ratio minimum with central bank claims included. Two respondents suggested that the exclusion could be applied on an optional basis, whereby some firms would continue to include their central bank claims in their total exposure measure (eg through a modification by consent), and meet a 3% minimum leverage ratio requirement.

3.20 The FPC notes that the leverage requirement is informed by macro-prudential considerations and calibrated to reduce leverage risks at system level. The recalibration was intended to be consistent with the role of the leverage ratio as a guardrail, ie that it does not bind on most firms most of the time. At the time of the original implementation of the UK leverage ratio framework in 2015, the appropriate minimum was judged to be 3%.

3.21 The recalibration to a 3.25% minimum leverage ratio was then based on central bank reserve holdings in the UK financial system in 2016, so that the capital provided by the leverage ratio across the system would remain constant before and after the exclusion of central bank claims in 2016. This was intended to keep constant the level of resilience that the FPC judged necessary in order to advance its primary objective by mitigating the risk of excessive leverage.

3.22 At the time, the FPC considered that the simplicity of a single calibration for all firms outweighed the costs associated with the complexity of an alternative approach of firm-specific recalibrations. This meant that firms in scope could absorb the increased level of reserves in the system without changes to their leverage ratios. This ensured the leverage ratio did not provide a barrier to the effective implementation of monetary policy, while keeping the resilience of the original 2015 calibration unchanged. The FPC estimates that the 3.25% calibration would have been broadly the same if applied to all firms in the system, to only those in scope of leverage requirements at the time, or to all those in scope of the requirement from Sunday 1 January 2023.

3.23 The FPC does not believe the proposal to now opt out of the exclusion can achieve the aim of the central bank claims exclusion (in relation to the FPC's primary objective). The 3.25% minimum requirement would need to be increased unless it applies to all firms; given that the calibration is based on an average, it would be too low system-wide if firms with lower-than-average central bank claims holdings opted out.

3.24 An additional consideration is that such optionality would create two parallel frameworks and increase complexity. Simplicity for the leverage ratio allows for comparability across firms, promotes confidence in the system and in turn advances the FPC's financial stability objective and the PRA's safety and soundness objective. Finally, the extension of the single minimum of 3.25% without central bank claims to all firms should not adversely impact market functioning, competition or UK competitiveness, due to its small overall capital impact.

3.25 Overall, the cost of the distributional impact in retaining the 3.25% minimum without central bank claims for all firms in scope is marginal. Firms brought into scope with low current levels of central bank claims will also derive a contingent benefit from the policy if their central bank claims levels rise in the future. The FPC judges that the costs of a more complicated double or tiered regime, and potentially raising minimum requirements on firms currently subject to the leverage ratio capital requirement (in order to preserve the same level of capital in the system that FPC has judged is required to guard against the risk of excessive system-wide leverage) are higher than those of keeping a single minimum of 3.25%. Therefore having had regard to the responses, the FPC has concluded that proceeding with the single 3.25% rate for all firms in scope is a proportionate way to achieve the FPC's objectives.

Central bank bonds in emerging markets

3.26 Two respondents requested that the FPC reconsider its maturity matching requirement for the central bank claims exclusion for central bank bonds in emerging markets. This is because a number of central banks in emerging markets raise long-term liquidity through the issuance of bonds that generally have a longer tenure than certain client deposits. The respondents stated that the existing restriction may cause banks to shift their exposures to central banks away from such bonds, hindering the capacity of emerging markets' central banks to raise long-term liquidity.

3.27 The FPC does not intend to change the policy. To the extent that these long-term bonds have a maturity longer than three months, the FPC notes that they would not be eligible for the central bank claims exclusion, as implemented by the PRA. The PRA's definition of central bank claims only includes exposures with maturity below or equal to three months.

Deposit-matching vs liability-matching

3.28 One respondent requested that the deposit-matching criteria of the central bank claims exclusion be expanded to include all liabilities, on the basis that this would be more proportionate for firms, such as PRA-designated investment firms, to which the leverage ratio capital requirement is being extended and which have business models that do not involve significant levels of deposit-taking. Relatedly, one respondent requested clarity on the definition of deposits currently allowed for the central bank claims exclusion.

3.29 The existing FPC recommendation allows central bank claims to be excluded from the leverage exposure measure where they are matched by deposits of equal or longer maturity, and are in the same currency. The definition of deposits in the PRA Rulebook captures a wide range of liabilities: deposits and loans covered as liabilities of monetary financial institutions (MFIs), non-negotiable debt instruments, margin deposits, earmarked balances, shares issued by MFIs, and others.[24] This definition captures certain deposits and liabilities that PRA-designated investment firms are able to have on their balance sheet. But it does not include all liabilities.

3.30 Central bank claims are a unique asset class because they are the ultimate settlement asset. The FPC stated in its 2015 Policy Statement that, where matched by liabilities in the same currency

[24] See the current definition of 'deposit' in rule 1.2 of the Leverage Ratio Part.

and of identical or longer maturity, central bank claims typically do not represent an exposure to risk. This is because currency and maturity matching removes wider balance sheet risks that could crystallise despite reserves themselves being typically risk-free.

3.31 The FPC judges that extending the matching to all liabilities would introduce no additional risk for excluding central bank claims. Given that the existing definition already covers a large portion of liabilities, this change would not lead to a significant increase in the value of the central bank claims that can be excluded from the UK leverage ratio. It would, however, improve fairness across the firms impacted, and proportionality across business models, which would support competition in line with the FPC's secondary objective, and without prejudice to the primary objective.

3.32 Having considered the consultation responses, the FPC has decided to expand the matching requirement to capture all liabilities. The FPC notes, and agrees with, the PRA's rule requiring that firms assume callable liabilities (other than deposits) would be called at the earliest date, and that firms should consider reputation factors which would limit their ability to redeem liabilities before the end of their contractual maturity for options exercisable by the firm.

Capital buffers and capital quality

Capital buffers

3.33 The FPC received a number of responses regarding its approach for capital buffers in the leverage ratio framework.

3.34 One respondent expressed support for the FPC's proposal to not introduce minimum distributable amount (MDA) restrictions for buffers in the leverage ratio framework in the interest of promoting buffer usability and simplicity.

3.35 Two respondents were of the opinion that the calibration of the 35% scalar for converting the risk-based capital buffers to leverage unduly impacts leverage-constrained firms and/or deposit takers that specialise in low-risk asset classes such as residential mortgages, requiring a proportionately greater buffer capital for the same level of risk. One respondent suggested a lower scalar to account for Pillar 2A requirements in the risk-based framework. Another respondent proposed that deposit takers with at least 75% of their commercial assets in residential mortgages should apply a conversion factor of 20%, based on their estimation of the average risk-weight density for large building societies.

3.36 The FPC decided not to make changes to the calibration of the leverage ratio buffers. The calibration of the UK leverage ratio framework is intended to reflect empirical evidence based on the size of historical losses incurred by major UK banks, as well as to maintain a proportionate relationship with the risk-weighted requirements and the development of international standards. This reflects the relative calibration of the internationally-agreed minimum leverage ratio of 3% and a risk-weighted capital baseline of 8.5%.[25] Failure to maintain this relationship would mean that the leverage ratio would become relatively less or more binding, not only for systemically important banks, which have to carry additional risk-weighted capital buffers, but also during times of high system-wide risk, when the risk-weighted countercyclical capital buffer (CCyB) would be increased. This scalar reflects a proportionate relationship between the two frameworks.

3.37 Reflecting measured risk would contradict the purpose of the leverage ratio as a comparatively simple indicator of solvency. By not seeking to make an assessment of exposure riskiness, the

[25] This includes both the Tier 1 risk-weighted minimum and the 2.5% capital conservation buffer, which the FPC considers to be the appropriate risk-weighted baseline in the absence of a leverage capital conservation buffer.

leverage ratio can guard against the danger that firms' models or standardised regulatory requirements fail to reflect the true risk of assets. The leverage ratio also limits firms' incentives to reduce estimates of risk weights over time, or to shift assets to those with lower risk weights. It also affords protection to firms against risks which are, by their nature, unforeseeable.

3.38 The FPC does not intend to account for Pillar 2A risk-based capital requirements in the baseline relationship between the risk-weighted and leverage frameworks mentioned above. While Pillar 2A increases the minimum risk-weighted capital requirement, it conceptually measures risks not fully or not at all captured by risk-weights. Since the leverage ratio is invariant to measured risks, it should also be invariant to Pillar 2A.

3.39 Two respondents further noted that, with the inclusion of the countercyclical leverage buffer (CCLB), the UK leverage ratio framework exceeds the resilience required by international standards. One respondent expressed their opinion that the inclusion of the CCLB is unduly burdensome for UK-focused firms, as such a buffer is not mirrored in other jurisdictions.

3.40 The FPC considers the CCLB to be an important part of its framework, which ensures that the leverage ratio requirement remains broadly equally binding on firms throughout the economic cycle. Without the CCLB, leverage requirements would become a relatively weaker guardrail as systemic risk in the financial system rises and the FPC increases the CCyB rate. The FPC recognises that the CCLB is not currently adopted by international minimum standards for the leverage ratio framework, but considers it a key macro-prudential benefit of the UK leverage framework. The FPC considers this approach to be proportionate, since it only applies to firms that are within scope of the leverage ratio requirement (unlike the CCyB which applies to all firms).

3.41 The FPC clarifies that the additional leverage ratio buffer (ALRB), which is set at 35% of a firm's risk-based G-SII and O-SII buffer, remains relevant only to firms with an active G-SII or O-SII risk-weighted buffer. This ensures that the leverage ratio framework remains consistent with the risk-based framework in requiring greater resilience from systemically important firms.

Capital quality

3.42 Two respondents supported the FPC's proposal to maintain the limit on the share of Additional Tier 1 (AT1) instruments, and to consider only 'high-trigger' AT1 instruments as counting towards the leverage ratio framework. This ensures that capital used to meet the leverage ratio requirement and buffers is sufficiently loss-absorbing while a bank is a going concern.

3.43 However, two respondents noted that the 25% eligibility limit of AT1 in the UK capital framework goes beyond the level required by Basel standards.

3.44 The FPC notes that the leverage ratio capital quality limit mirrors the UK's risk-based capital framework.[26] The FPC is of the view that there are benefits to maintaining strong complementarity between the leverage ratio and risk-based capital frameworks. The limit ensures that the leverage ratio requirement is met with equally credible and loss-absorbing capital and reinforces the effectiveness of the framework. Ultimately, this advances the financial stability objective (and the PRA's primary objective of safety and soundness) by contributing towards ensuring the quality of firms' capital resources. This is expected to contribute positively to growth over the medium and long-term by ensuring the robustness of the regulatory framework. The FPC expects the additional capital cost to firms from the proposal to be low.

---

26 As outlined in Section 2.1 of the FPC's Policy Statement for its leverage tools.

Remit and recommendations letter from the Chancellor

3.45 Paragraphs 7.1 to 7.7 of CP14/21 set out the FPC's explanation of how the proposed changes to the UK leverage framework took into account the FPC's secondary objective as well as the current remit and recommendations letter from the Chancellor.[27] The FPC did not receive any representations on matters covered in the remit and recommendations letter which are not summarised above in this Part. This chapter, and specifically paragraphs 3.23–3.25, 3.31, and 3.44, sets out why the FPC continues to judge that the changes to the framework (including the change which the FPC is making in respect of the central bank claims exclusion) advance the FPC's primary objective, in ways that as far as possible are effective in also achieving its secondary objective.

Equality and diversity implications

3.46 The FPC did not receive any representations in respect of the proposals having any equality and diversity implications.

Impact of proposals on the advancement of the PRA's objectives

3.47 The FPC must, so far as it is possible to do so while complying with section 9C(1) of the Act, seek to avoid exercising its functions in a way that would prejudice the advancement by the PRA of any of its objectives. The FPC and PRA have co-ordinated closely in relation to this review of the UK leverage ratio framework. The PRA considers that the FPC's direction and recommendation would advance the PRA's objectives.

---

27 On Wednesday 3 March 2021, the Chancellor of the Exchequer wrote to the Governor of the Bank of England setting out specifically what the economic policy of HM Government is taken to be for the purposes of the FPC's secondary objective, and making recommendations about various of the FPC's functions and responsibilities, under sections 9D and 9E of the Bank of England Act 1998.

Part 2: PRA Policy Statement

This Part covers the PRA's feedback to responses relating exclusively to its separate proposals in CP14/21, which go beyond the scope of the FPC's direction and/or recommendation, or provide for its implementation of that direction and/or recommendation where scope was left for the PRA to determine the details.

4 Overview of the PRA consultation

4.1 In CP14/21, the PRA proposed to comply with the FPC's proposed direction by amending PRA rules and Supervisory Statements (SS). Separately, the PRA also proposed to change PRA rules to reflect new international standards, notably in the definition of the leverage exposure measure and in reporting and disclosure requirements, and to transfer Part Seven of the CRR, and associated CRR reporting and disclosure requirements, into the PRA Rulebook pursuant to the provisions of the Financial Services Act 2021.

4.2 A summary of the PRA's changes can be found in Chapter 1 of this PS. The table below describes the amended policy material:

Table 1 – Amended policy material

Policy material	Changes
PRA Rulebook	The PRA has: • amended the Leverage Ratio Part of the PRA Rulebook, which has been renamed the Leverage Ratio – Capital Requirements and Buffers Part, in order to implement the FPC's proposed direction and to align it to other changes in the leverage ratio framework and changes consulted on in relation to other aspects of the broader prudential framework in CP5/21; • introduced a new Leverage Ratio (CRR) Part of the PRA Rulebook, corresponding to Part Seven of the CRR, and reflected updates to the exposure measure set out in Basel III and an exposure measure and capital measure that comply with the FPC's direction and recommendation; • amended the Reporting (CRR) and Disclosure (CRR) Parts of the PRA Rulebook to streamline the reporting and disclosure regimes for the leverage ratio, reflect updates to Basel III, and introduce reporting of foreign assets;[28] • deleted the Reporting Leverage Ratio Part and amended the Leverage Ratio Chapter of the Public Disclosure Part of the PRA Rulebook in order to remove duplicative reporting and disclosure requirements; and • amended Chapter 11 of the Internal Capital Adequacy Assessment Part of the PRA Rulebook to align it with the revised leverage ratio.
Supervisory Statements (SS)	The PRA has amended:

[28] The Reporting (CRR) and Disclosure (CRR) Parts were consulted on in CP5/21, which was published on 12 February 2021, and the rules were published as near-final in PS17/21 on 9 July 2021. These two Parts were included as annexes J and K of Appendix 1 to both documents. Prior to making the rules in Appendix 1 to this PS, the PRA made these two Parts in substantially the same form as their near-final publication, and is preparing their publication.

	• SS45/15 'The UK leverage ratio framework'; and • SS34/15 'Guidelines for completing regulatory reports'. The PRA has deleted: • SS46/15 'UK leverage ratio: instructions for completing data items FSA083 and FSA084'.[29]
Reporting requirements	The PRA has introduced: • Annex X to the Reporting (CRR) Part: Reporting on leverage; and • Annex XI to the Reporting (CRR) Part: Instructions for reporting on leverage. The PRA has amended: • the instructions on filling in data-points in PRA101, PRA102, and PRA103 – Capital+. The PRA has deleted: • Template FSA083 and its instructions.
Disclosure requirements	The PRA has amended: • Annex I to the Disclosure (CRR) Part: Disclosure of key metric and overview of risk weighted exposure amounts; and • Annex II to the Disclosure (CRR) Part: Instructions for disclosure of key metric and overview of risk weighted exposure amounts. The PRA has introduced: • Annex XI to the Disclosure (CRR) Part: Disclosure of the leverage ratio; and • Annex XII to the Disclosure (CRR) Part: Instructions for disclosure of the leverage ratio.

29 December 2015: SS46/15 'UK leverage ratio: instructions for completing data items FSA083 and FSA084'.

5 PRA consultation: Feedback to responses

5.1 Before making any proposed rules, the PRA is required by FSMA to have regard to any representations made to it, and to publish an account, in general terms, of those representations and its feedback to them.[30]

5.2 The PRA has considered the responses received to the CP. This chapter sets out the PRA's feedback to those responses, and its final decisions. The sections below have been structured broadly along the same lines as the chapters of the CPs. The responses have been grouped as follows:

- scope of application;
- levels of application;
- leverage exposure measure (LEM);
- supervisory expectation of risk of excessive leverage for firms not subject to a minimum requirement;
- reporting;
- disclosure;
- other responses relevant to the PRA consultation; and
- out of scope responses.

5.3 The PRA has also considered responses relevant to the FPC's direction and recommendation, which have been considered by the FPC as outlined in Part 1 of this PS. The PRA continues to support the FPC's direction and recommendation and is in agreement with the FPC's responses to feedback on the FPC consultation. The feedback to responses outlined in this Part relates exclusively to the PRA's separate proposals in CP14/21 which go beyond the scope of the FPC's direction and/or recommendation, or provide for its implementation where scope was left for the PRA to determine the details of that implementation.

5.4 As set out in CP14/21, the PRA had regard to the matters set out in section 144C of FSMA when formulating its proposals prior to consultation. When making the rules in Appendix 1 the PRA acted in part in order to comply with the FPC's direction and recommendation, and determined to act in accordance with those, in the sense referred to in section 144E(1) of FSMA for purposes of dis-applying section 144C and associated requirements. However, as it had already had regard to section 144C matters, where relevant the PRA continued to do so when considering consultation responses and making final rule.

Scope of application

The £10 billion non-UK assets threshold

5.5 In CP14/21, the PRA proposed to comply with the FPC's direction by extending the leverage ratio capital requirement to firms with greater than or equal to £10 billion in non-UK assets. One respondent expressed support for the PRA's proposed threshold, which was designed to bring firms

30 Sections 138J(3) and 138J(4) of FSMA.

with significant non-UK assets into scope of the leverage ratio requirement in line with the FPC's direction, and was of the opinion that the proposed threshold suitably advances the PRA's secondary competition objective.

5.6 Two respondents queried the economic rationale behind the £10 billion non-UK assets threshold, especially in relation to the pre-existing £50 billion UK retail deposits threshold. One respondent noted that the large difference between the thresholds could disproportionately impact smaller banks, and asked the PRA to consider whether the threshold could have an impact on fast-growing firms that could meet the threshold in the near future, as well as international banks active in the UK market. The respondent suggested increasing the threshold, referring to a $50 billion total asset threshold in a major foreign jurisdiction, or considering in tandem other factors such as systemic importance.

5.7 After considering this response, the PRA has decided not to make any changes to the threshold as proposed. The PRA considers that the threshold is consistent with the FPC's direction and that it captures an appropriate set of systemically-important firms, therefore advancing the FPC's financial stability objective and the PRA's safety and soundness objective. It also reflects the PRA's secondary competition objective because, while numerically lower than the foreign jurisdiction's threshold the respondent mentioned, it in practice excludes smaller, domestic firms – which are included in some other major jurisdictions – where the PRA has assessed the costs of inclusion would not be proportionate to the increase in resilience. The PRA also considers this threshold to be consistent with international standards.

5.8 The PRA will keep both the £10 billion non-UK assets threshold and the £50 billion UK retail deposit threshold under review, to ensure they remain consistent with the Bank of England's annual concurrent stress testing framework and any simpler prudential regime for small banks and building societies that the PRA develops (as explored in Discussion Paper 1/21 'A strong and simple prudential framework for non-systemic banks and building societies').[31]

The definition of non-UK assets

5.9 Two respondents sought clarity on how to calculate their level of foreign assets, as reported in template LV44. One respondent listed a number of specific examples where they felt that the definition was ambiguous.

5.10 The definition of non-UK assets proposed in CP14/21 is purposefully aligned with that used for FINREP reporting template F20.4 (geographical breakdown by residence of the counterparty), as outlined in the FINREP reporting instructions.[32] Specifically, firms that already report FINREP would calculate their non-UK assets from F20.4 by subtracting those assets where the counterparty is resident in the UK from their total assets reported in this form.

5.11 After reviewing both the template and instructions for template F20.4, the PRA considers that they are sufficiently clear on how foreign assets should be calculated. As stated in the FINREP reporting instructions, the data points identified in the templates should be drawn up in accordance with the recognition, offsetting and valuation rules of the relevant accounting framework. In other words, the treatment of balances should not differ from a firm's accounting treatment used for its financial statements. In the reporting instructions for template LV44, firms that do not report F20.4 are directed to use equivalent accounting standards, which can vary on a case-by-case basis. The

31 April 2021: DP1/21 'A strong and simple prudential framework for non-systemic banks and building societies'.
32 FINREP reporting instructions.

PRA therefore does not consider that additional clarity regarding which assets should be included in the calculation is necessary.

5.12 Finally, one respondent suggested that an averaging methodology should be implemented, while another respondent requested further detail on the form of averaging methodology required, for the calculation of non-UK assets. The respondents note that such an averaging methodology would be useful in order to abstract from seasonal variations in holdings of non-UK assets.

5.13 As stated in CP14/21, the non-UK assets threshold is to be determined on the basis of the annual average amount calculated across a rolling period of three years (calculated by reference to the firm's annual accounting date). Where the firm has been in existence for less than three years, the calculation will be made on the basis of the annual average amount for the period during which the firm has been in existence (calculated by reference to the firm's annual accounting date). Firms do not need to report average information on their non-UK assets to the PRA; rather, the PRA will perform this calculation based on point-in-time information submitted by firms.

Levels of application

5.14 One respondent requested greater clarity regarding the scope of sub-consolidation and the criteria for entities to be included within a sub-consolidation group, including the application process. SS45/15 outlines four conditions that must be met in order to obtain such permission; one condition relates to effective supervisory cooperation, including information exchange, in the countries where the subsidiaries are located, transparent regulation and adherence to Basel standards. The respondent requested further guidance on how this clause would work, given that adherence to Basel standards is not limited solely to the list of Basel-compliant jurisdictions issued by the Basel Committee on Banking Supervision, and can be demonstrated in other ways, such as the International Monetary Fund (IMF) country assessments or national legislation. In addition, the respondent requested further clarity on whether unregulated subsidiaries, which would not be subject to Basel standards even within Basel-compliant jurisdictions, could be included in such a sub-consolidation group. The respondent suggests that a range of other conditions could also be considered when providing evidence on whether entities could be included, such as whether that entity meets Large Exposure Concession Group criteria for Core or Non-core membership.

5.15 The respondent also requested more guidance on the earliest expected timelines for submitting an application to the PRA and receiving a decision, which would help the firm in setting up the systems to support the calculations and reporting for the sub-consolidation entities. The respondent requested that sub-consolidation permissions be effective as soon as binding requirements are introduced at the solo level, to avoid needing to communicate multiple changes in requirements to analysts and investors.

5.16 The PRA is designing an application process for sub-consolidation as an alternative to individual application, for publication after the final policy. This would allow firms to submit an application, and the PRA to make a decision, in advance of the leverage ratio requirement applying to firms newly in scope of the requirement as of Sunday 1 January 2023. The process will include a new application form to gather the information needed for the PRA to consider applications.

5.17 With regard to the condition that there be effective supervisory cooperation, including information exchange, in the countries where the subsidiaries are located, and transparent regulation and adherence to Basel standards, the PRA intends to rely as much as possible on the assessments of equivalence and supervisory cooperation it has made in relation to international banks, as set out in SS5/21 'International banks: The PRA's approach to branch and subsidiary supervision'.[33] The PRA would base its analysis on a range of sources, which include the Basel capital and group supervision standards, the Basel Committee's Regulatory Consistency Assessment Programme reviews, the International Monetary Fund's Financial Sector Assessment Programme reviews, and the Financial Stability Board's peer reviews where appropriate, supplemented by other sources as necessary. The PRA will also take into account its own experiences in its interactions with the home state supervisors. Furthermore, it will be important for the PRA to factor in any conduct concerns that the Financial Conduct Authority may raise concerning a jurisdiction.

5.18 The PRA's assessment of supervisory cooperation will also be informed by the existence of a memorandum of understanding (MoU) between the PRA and the supervisory authority in the foreign jurisdiction. Such MoUs establish a formal basis for:

- co-operation, including the exchange of information and investigative assistance;
- the facilitation of timely and effective supervision; and
- the identification of risks to the financial system, including emergency situations.

5.19 Furthermore, the assessment would be informed by adherence to the principles in the following Bank for International Settlements publications:

- 'High-level principles for the cross-border implementation of the New Accord';[34]
- 'Principles for effective supervisory colleges';[35] and
- Principle 13: Home-host relationships in 'Core principles for effective banking supervision'.[36]

5.20 Unregulated subsidiaries, which are not subject to Basel standards within equivalent jurisdictions, would not be excluded prior to the PRA assessment. Assessing that a subsidiary meets the relevant conditions for Core and Non-Core Large Exposure Group membership may assist the PRA in its determination of whether sub-consolidation permission should be granted. However, it would not be determinative as they are distinct permissions, and any assessment of whether it is appropriate to grant the sub-consolidation permission must be decided on a case-by-case basis. The PRA has amended SS45/15 to clarify this and the other points above on effective supervisory cooperation.

5.21 In relation to questions that respondents raised about groups headed by an IHC, the FPC has confirmed in Part 1 that PRA-approved holding companies should be subject to the leverage measures at the relevant level of application, as required by the FPC direction. To implement this, the PRA relies on the general approach to IHC sub-consolidation consulted on in CP17/20 'Capital Requirements Directive V (CRD V): Further implementation' and confirmed in PS29/20 'Capital Requirements Directive V (CRD V): Final policy.[37] [38] The PRA is considering using its power of direction over qualifying parent undertakings to apply prudential requirements to IHCs of groups which are required to meet CRR/CRD requirements on a sub-consolidated basis. As the IHC does not itself carry on any regulated activity, it is not subject to any individual prudential requirements which

[33] July 2021: SS5/21 'International banks: The PRA's approach to branch and subsidiary supervision'.
[34] August 2003: 'High-level principles for the cross-border implementation of the New Accord'.
[35] June 2014: 'Principles for effective supervisory colleges'.
[36] September 2012: 'Core principles for effective banking supervision'.
[37] October 2020: CP17/20 'Capital Requirements Directive V (CRD V): Further implementation'.
[38] December 2020: PS29/20 'Capital Requirements Directive V (CRD V): Final policy'.

can be dis-applied. All RFBs further down the structure that meet either of the thresholds determining scope would be subject to the leverage ratio on an individual basis. RFBs that are required to comply with Parts Two and Three of the CRR on an RFB sub-consolidated basis, will also be subject to the RFB sub-consolidated requirement, if either threshold is met on an RFB sub-consolidated basis.

5.22 The PRA has considered the comments on the levels of application in Part 1. As explained in CP14/21, from 1 January 2023, the PRA proposed that if a firm meets the threshold on an individual basis, but it is also a CRR consolidation entity or an RFB which is the ultimate parent within an RFB sub-group, the same firm does not need to also meet the requirement on an individual basis. Where a consolidated or sub-consolidated requirement applies in relation to a group or sub-group, any subsidiary firm in the group or subgroup that individually meets either threshold for being in scope of the requirement would be required to meet the leverage ratio requirement on an individual basis. (See paragraph 10.4 in CP14/21.) For the purposes of the specific responses referred to in paragraph 3.10, this is the case regardless of whether the entity sits within or outside of the ring fence. Accordingly, the treatment between RFB sub-groups and sub-groups created by permission granted by the PRA under s144G of FSMA is consistent in this regard. In the PRA's approach to capital requirements, individual requirements ensure that capital can absorb losses where they occur. In the case of internationally active firms, this is also a Basel requirement. The PRA has amended SS45/15 to clarify this point. The PRA also notes that, in principle, the criteria outlined in SS45/15 do not preclude RFBs from requesting such permission.

5.23 Firms should also note that, from 1 January 2022 to 31 December 2022 (inclusive), the level of application provisions will operate in broadly the same way as they do currently, subject to the amendments consulted in CP14/21 (including that CRR consolidation entities will become responsible for consolidated requirements).

Leverage exposure measure (LEM)

5.24 Three respondents welcomed the PRA's proposals to simplify the leverage ratio framework by implementing a single LEM that applies for all purposes (ie for the leverage ratio capital requirement, the PRA's supervisory expectation, and for reporting and disclosure), citing simplicity, transparency, and comparability. Two respondents supported the implementation of a LEM that is aligned with Basel III standards.

Central bank claims exclusion

5.25 The PRA has considered the responses regarding the central bank claims exclusion, which were also considered by the FPC in Part 1 of this PS. The PRA continues to support the FPC's direction and is in agreement with the FPC's analysis and conclusions in relation to the central bank claims exclusion. In particular, the PRA supports the change to allow liability-matching, not just deposit-matching, for the central bank claims exclusion, and has implemented this in its rules. The PRA has also made a rule to capture optionality when assessing the maturity of non-deposit liabilities for the purpose of the central bank claims exclusion. This sets out that firms should assume that callable liabilities other than deposits would be called at the earliest date, and that they should consider reputational factors which would limit firms' ability to redeem liabilities before the end of their contractual maturity for options exercisable by the bank.

5.26 The PRA supports the FPC's decision to maintain a single 3.25% calibration of the leverage ratio for all firms. The PRA supports the FPC's statement that simplicity for the leverage ratio allows for comparability across firms, promotes confidence in the system and in turn advances the FPC's financial stability objective and the PRA's safety and soundness objective. The PRA does not expect that a single minimum of 3.25% will adversely impact market functioning or UK competitiveness.

Given the small impacts overall, this approach would not adversely impact competition. Therefore, having considered the responses, the PRA agrees with the FPC's conclusion that proceeding with the single 3.25% rate for all firms in scope is a proportionate way to achieve its objectives.

Export credits

5.27 Two respondents were of the opinion that government-guaranteed export credits should be excluded from LEM, in line with an exclusion introduced by CRRII, stating that disallowing the exclusion would negatively impact global trade and developing economies' access to goods/capital investment, and put UK banks at competitive disadvantage. The PRA has decided not to permit the exclusion of such exposures. The PRA considers that these exclusions would go against the fundamental philosophy of the leverage ratio, which is to capture all assets regardless of risk, and there would be no benefit for financial stability or market functioning. Importantly, they would also be Basel sub-compliant. Finally, the PRA estimates that the aggregate impact of not providing this exclusion on firms' leverage is small, so would not meaningfully impact the amount of capital available to firms.

Open-ended securities financing transactions (SFTs)

5.28 One respondent suggested that the PRA should allow netting for open-ended SFTs, rather than just SFTs with an explicit settlement date. These transactions roll over every day, but can be unwound at any time by either counterparty. The respondent therefore suggested that they should be treated as if they had a one-day maturity for the netting of cash payables and receivables, provided certain criteria are met.

5.29 Open-ended SFTs may be prone to some settlement risk. Allowing netting as if they had a one-day maturity would be less prudent as it would reduce the capital requirement, therefore not advancing the PRA's safety and soundness objective. In addition, recent Basel standards have specified that such SFTs are not nettable.[39]

The standardised approach to counterparty credit risk (SA-CCR)

5.30 Three respondents commented on proposals relating to the implementation of SA-CCR.

5.31 These partly related to the 1.4 alpha multiplier used in the calculation of exposures in SA-CCR. The respondents noted that a factor of 1.4 may not be appropriate for the purposes of the leverage ratio, since it is designed to make up for potential shortcomings in the risk-based framework.

5.32 The PRA has considered these responses and has decided not to change its approach. As outlined in PS17/21, the PRA will have an opportunity to review capital requirements for derivatives exposures holistically in the implementation of the Basel III standards, including SA-CCR and the alpha factor. Any subsequent changes to SA-CCR as part of the Basel III implementation would feed through to the leverage ratio framework.

5.33 One respondent requested clarification for the definition of 'Net Independent Collateral Amount' (NICA), with respect to: (i) the initial margin; and (ii) any other collateral, whether segregated, or unsegregated, posted, or received.

5.34 The PRA has considered this response, and considers that the existing provision is sufficiently clear. The PRA's definition of the NICA framework is based on the international standard (Basel III), and it would soon incorporate the relevant changes into PRA rules as part of the implementation of Basel III on Saturday 1 January 2022 (Article 276). These requirements are comprehensive in their

39 LEV30.37(1)(b)(i) of the consolidated Basel Framework.

scope and the PRA has decided not to depart from international standards, noting the benefit of an internationally co-ordinated approach. Rules will be kept under review as international standards evolve.

5.35 One respondent also requested further clarification about the means of calculating the excess collateral lodged with a tri-party repo agent (which is excluded from the calculation of the exposure measure). The respondent proposed three different approaches for calculating this. The PRA considered this response and decided against specifying further the means by which this exclusion should be calculated. The PRA decided to adopt the Basel III international standard, in line with the approach set by the CRR in the EU, in order to remain consistent internationally in its approach to this issue. Firms should, acting in a prudent manner, use their risk management process and judgement in calculating this exclusion.

5.36 One respondent sought further clarification on the calculation of the exposure value of written credit derivatives. Specifically, one of the conditions for reducing the exposure value of a written credit derivative is that the purchased protection is certain to deliver payment in all potential future states. The respondent has asked the PRA to clarify how to define such certainty.

5.37 The PRA has considered this response, and decided against specifying the definition of ‘certainty’. In line with the approach taken internationally, firms should, acting in a prudent manner, use their judgement to ascertain whether purchased protection would be certain to deliver payment in all potential future states.

5.38 The respondent was of the opinion that SA-CCR had a disproportionate impact on wholesale-oriented banks, which typically have more intragroup exposures to manage back-to-back risk transfers. The PRA notes that the approach taken for SA-CCR is in line with that of the risk-weighted standardised approach. It also notes that the impact on wholesale-oriented banks has been considered by both the FPC and the PRA in the impact assessment of the leverage ratio as a whole, and the PRA does not consider the application of SA-CCR in the UK leverage framework to be disproportionate to this group. The PRA has considered these impacts in its review of the SA-CCR standard, and will continue to consider it as part of its approach for implementing the Basel III standards.

5.39 Finally, the respondent further stated that the Basel Committee has taken a case-by-case approach to correcting such anomalies, which can give rise to double counting effects. The respondent encouraged the PRA to consider establishing a principle whereby demonstrable double counts within the accounting and/or regulatory frameworks could be eliminated by the firm.

5.40 The PRA has considered this response and the potential merit of a principle-based approach to removing possible double counting in the calculation of exposures in the leverage ratio framework. The PRA notes that the general principle of the leverage ratio is to count all exposures in gross terms. The exclusions provided by the Basel Committee case-by-case are not all primarily to remove double counting, but often reflect other factors as well, such as supporting market functioning or mitigating emergency economic conditions. The PRA is not considering deviating from the international standard and maintains its focus on the objective of the leverage ratio. However, the PRA would welcome receiving information about specific cases of double counting, which may help inform future policymaking.

Cash pooling

5.41 Basel 3.1 allows firms to net credit and debit balances of participating accounts if the transfer of an individual balance occurs according to strict criteria that reflect the economic equivalent of treating qualifying accounts as a single account. One criterion is that the pooling occurs at least daily, or (subject to certain other criteria) at an adequate frequency. The frequency matters because it determines to what extent firms' actual position is in practice limited to the net balance. One respondent asked for clarification on what is meant by 'adequate frequency', and presented industry practice ranging from pooling every 1-4 days to up to a year.

5.42 The PRA reiterates that firms should ensure the frequency is adequate for the purpose of including only the combined balance of the cash pooling arrangement in the total leverage exposure, and should be able to demonstrate to supervisors that they have applied this requirement in a prudent manner.

5.43 One respondent queried the wording of point (iii) of paragraph 11.6 in CP14/21, which states: 'The PRA considers this approach would be prudent, given qualifying accounts are deemed economically equivalent to a single account, and proposes to implement it in respect of Tier 1 capital that is eligible for the UK leverage ratio's capital measure'.

5.44 The respondent queried the reference to Tier 1 capital, given that cash pooling relates to LEM. The PRA can confirm that it meant to refer to the LEM when it referred to Tier 1 capital in this sentence.

Covid-19 government guarantee schemes

5.45 The PRA excluded loans made under the Bounce Back Loan Scheme (BBLS) in the UK and under similar European Economic Area (EEA) 100% government-backed guarantee schemes from LEM in response to Covid-19, through a modification by consent.[40] Although no new BBLS loans are being accepted, two respondents questioned why this relief is not expanded to include jurisdictions outside of the EEA. They requested that the deduction be broadened to all Covid-19 government loan schemes regardless of loan size, borrower type, and country, suggesting it could be limited to the percentage of government backing of these instruments.

5.46 The exclusion of BBLS and similar EEA exposures from the leverage ratio was temporarily and exceptionally justified by economic circumstances arising during an earlier phase of the Covid-19 pandemic, in part to avoid a contraction of credit in the UK economy. The PRA does not consider it appropriate to now extend this exclusion to similar 100% government-backed non-EEA schemes. Although the modification by consent has been written into PRA Rules, the BBLS is no longer open and no new EEA loans are eligible for the exclusion; the new rule simply continues the exclusion for qualifying loans already made. There is therefore not sufficient rationale to extend this treatment to loans not previously excluded, outside of the EEA. The PRA also does not propose to extend the exclusion to any loans that are not 100% government-guaranteed.

Sovereign exposures

5.47 Two respondents suggested that sovereign exposures should be excluded from the calculation of the LEM. One respondent stated that, in other jurisdictions such as the US and Canada, firms subject to leverage ratios could adjust for outright and repo holdings of sovereign debt. The respondent questioned the need to hold capital against such instruments, referencing their 0% risk weight and high market liquidity. The second respondent suggested that the PRA consider whether non-ring fenced banks (and potentially others) should be able to exclude a wider range of UK sovereign risk from their leverage ratios, particularly short-term gilts, to help address the skewed nature of their balance sheets.

40 'Apply for a coronavirus Bounce Back Loan'.

5.48 The PRA notes that in the mentioned jurisdictions the exclusions were temporary responses to the Covid-19 stress and have either already been withdrawn (as in the US), or will be withdrawn by the end of 2021 (as in Canada). The PRA does not consider there to be any prudential grounds to exclude sovereign exposures from LEM. Such a change would be inconsistent with the leverage ratio being a risk-insensitive measure by design.

Principle for double counting in LEM

5.49 Two respondents asked the PRA to adopt a 'principle' for what they regard as double counting within the LEM, for example in the counting of collateral on the balance sheet that is also used in calculating the SA-CCR Replacement Cost (RC), or for exposure at default (EAD) reductions for provisions and overlapping securities positions. The general principle of the leverage ratio more widely is that exposures are included 'gross'. As the respondent notes, Basel has taken a case-by-case approach (where eliminating any perceived double counting may have been one objective among several), and the PRA will continue to follow international standards.

Supervisory expectation on risk of excessive leverage for firms not subject to a minimum requirement

5.50 Two respondents welcomed the PRA's proposals for the supervisory expectation. In particular, one respondent noted support for the calibration of an expectation that is aligned with the minimum requirement of 3.25% excluding central bank claims, and for the absence of buffers. Another respondent strongly supported the application of an expectation, rather than a requirement, to smaller domestic deposit takers, stating that this would suitably advance the PRA's competition objective.

5.51 One respondent asked for clarification of the timing of implementation of the updated supervisory expectation. The PRA confirms that the supervisory expectation will apply to firms not subject to a minimum requirement from Saturday 1 January 2022.

Reporting

5.52 One respondent expressed support for the PRA's proposal to simplify leverage reporting requirements by creating a single, harmonised set of leverage templates that will be reported by all firms.

Scope of application

5.53 One respondent queried whether firms not subject to the leverage ratio capital requirement would remain subject to COREP leverage reporting requirements. The PRA understands that HM Treasury intends to lay an SI deleting COREP leverage reporting requirements shortly after the publication of this PS. The PRA has also deleted the Reporting Leverage Ratio Part of the PRA Rulebook. In both cases, the PRA anticipates that, subject to relevant Parliamentary approvals these deletions to take effect on Saturday 1 January 2022 so the leverage reporting requirements included in Appendix 6 will replace the existing COREP leverage reporting requirements and create a single, harmonised set of templates that will be reported by all firms (ie regardless of whether the firm is subject to the leverage ratio capital requirement or the supervisory expectation).

5.54 Another respondent suggested that firms not subject to the leverage ratio capital requirement should not need to comply with leverage reporting requirements, to reduce operational burden. The PRA has decided not to change the policy as proposed, as it considers it necessary to collect this information to monitor the risk of excessive leverage for firms not subject to the leverage ratio capital requirement, in line with its supervisory expectation as set out in Chapter 5 of SS45/15.

Levels of application

5.55 Leverage reporting requirements can be separated into two groups: those which relate to 'standard' leverage information that is required by all firms, and those which relate to 'additional' leverage information that is relevant only to firms in scope of the UK leverage ratio capital requirement ('LREQ firms').[41] The levels of application of reporting requirements differ between these two buckets.

Table 2 – Level of application of leverage reporting requirements

Standard information	Additional information
• LREQ basis for LREQ firms • CRR reporting basis for all firms	• LREQ basis for LREQ firms

5.56 As proposed in CP14/21, the 'additional' leverage information relevant only to firms subject to the minimum requirement need only be reported at the level of consolidation at which the requirement applies (ie on an 'LREQ basis'). However, the 'standard' leverage reporting requirements will not only apply on an LREQ basis, but also to all firms (ie including those not subject to the leverage ratio capital requirement) in line with the level of application of wider CRR reporting requirements (which include on a solo basis).

5.57 One respondent questioned the need for individual level reporting requirements for entities which have been granted approval to apply a sub-consolidated leverage requirement. In such situations, the respondent requested that the PRA dis-apply individual level leverage reporting requirements for all entities within the sub-consolidation group, including Capital+ reporting requirements.

5.58 Having considered this response, the PRA has decided to maintain the policy as proposed, and will collect information on a solo basis from entities which have been granted approval for the requirement to be applied on a sub-consolidated basis, in line with existing reporting requirements for solos of RFB sub-groups. More generally, it remains important for the PRA to be able to monitor where any risks of excessive leverage may be located across a sub-group.

Timing of implementation

5.59 Two respondents questioned whether individual level reporting requirements would continue to apply in 2022, after COREP leverage reporting requirements cease to apply from Saturday 1 January 2022, but before certain firms become subject to a solo (or sub-consolidated) leverage requirement from Sunday 1 January 2023, as a result of the proposals in CP14/21.

5.60 The PRA confirms that all firms will continue to be required to report their leverage ratios on a solo basis, both in 2022 and beyond. The new rules relating to leverage reporting will take effect from Saturday 1 January 2022, when all firms (whether or not they are in scope of the UK leverage ratio requirement) will move to a new set of leverage reporting templates (LV40–LV47). As outlined in Table 2, the 'standard information' in these templates will be reported by all firms in line with the level of application of wider CRR reporting requirements, which includes solo-level reporting for all firms. This is so that the PRA can monitor the risk of excessive leverage for all firms, including for the purposes of the supervisory expectation.

5.61 Firms subject to the leverage ratio minimum capital requirement will also be subject to <u>additional</u> reporting requirements within the <u>same set</u> of templates ('additional information'),

41 Such as information on averaged leverage ratio metrics, distance to the requirement, and leverage ratio buffers.

including reporting on the calculation of leverage metrics on an averaged basis, the countercyclical leverage ratio buffer, and capital surpluses/shortfalls to the requirement. As outlined in Table 2, this information should be reported by LREQ firms only at the same level of consolidation at which the leverage ratio requirement applies (ie on an 'LREQ basis'). Where a firm is being brought newly into scope of the leverage ratio requirement as a result of the policy changes outlined in CP14/21, this additional information need only be reported from the date on which the requirement applies (ie Sunday 1 January 2023). If a firm is already in scope of the leverage requirement (ie has met the £50 billion UK retail deposits threshold before Saturday 1 January 2022), that firm will be required to report the 'additional information' from Saturday 1 January 2022.

5.62 One of the respondents requested further clarification on what 'additional' reporting requirements refer to, in relation to the timing of implementation. The respondent quotes from Paragraph 1.35 of CP14/21, as follows:

> 'The changes to scope and level of application of the minimum requirement, buffers, and related additional reporting and disclosure requirements for firms that would be newly brought into scope of the leverage ratio minimum requirement would become effective on Sunday 1 January 2023.'

5.63 The respondent questioned whether 'additional reporting […] requirements' correspond to the additional elements of reporting as defined in Paragraph 1.2 of the Reporting (CRR) Part of the PRA Rulebook – which would imply that standard reporting would apply from Saturday 1 January 2022.

5.64 The PRA can confirm that this is the case. As outlined in previous paragraphs, 'additional information' relates to any leverage information that is only relevant to firms in scope of the minimum requirement. This means averaged leverage ratio metrics, information on leverage ratio buffers, and capital surpluses/shortfalls to the requirement. The reporting of 'standard information' applies to all firms from Saturday 1 January 2022.

5.65 One respondent queried whether firms being brought newly into scope of the leverage ratio requirement by the £10 billion non-UK assets threshold would be required to report leverage information in 2022, despite the fact that the capital requirement would not apply until Sunday 1 January 2023. Again, in line with Table 2, firms not in scope of the requirement will still be required to report 'standard' leverage ratio information in line with wider CRR reporting bases, both in 2022 and beyond. However they would not need to submit 'additional' information until such time as the requirement applies (ie Sunday 1 January 2023 for firms being brought newly into scope by the £10 billion non-UK assets threshold).

Averaging requirements

5.66 Firms subject to the leverage ratio minimum requirement must report data to the PRA on averaged leverage ratio metrics. In CP14/21 the PRA proposed to update its reporting requirement for the calculation of the leverage ratio on an averaging basis, to align with new international disclosure standards, by including a daily average, rather than a month-end average, for SFT exposures.[42] The PRA proposed to reflect this update in reporting requirements to align the information that firms report to the PRA with their Pillar 3 disclosures. The rest of the calculation would remain the same, such that the new calculation of an averaged leverage ratio over a quarter would be based, from Sunday 1 January 2023, on:

- daily on-balance sheet assets and SFT exposures averaged over the quarter; and

42 March 2019: Consultative Document: 'Revisions to leverage ratio disclosure requirements'.

- end-of-month exposures averaged over the quarter for the remaining off-balance sheet items, the capital measure, and relevant deductions and adjustments.

5.67 One respondent interpreted that firms being brought newly into scope of the leverage ratio requirement as a result of the proposals in CP14/21 would be required to report averaged leverage ratio metrics from Saturday 1 January 2022, using the updated calculation outlined in paragraphs 14.13–14.17 of CP14/21, and thought that only firms already in scope of the requirement would be able to benefit from the proposed transitional which enables firms to retain the existing calculation (which includes a monthly average of SFT exposures) until Sunday 1 January 2023.

5.68 The PRA can confirm that it is not the case that firms being brought newly into scope of the requirement will have to report averaged leverage metrics from Saturday 1 January 2022. Only 'LREQ firms' (ie firms subject to the leverage ratio requirement) have to report this information. For firms being brought newly into scope, there is a transitional such that the requirement itself does not apply until Sunday 1 January 2023. Therefore, new in-scope firms will not need to report averaged leverage metrics until Sunday 1 January 2023.

5.69 One respondent noted that it is super-equivalent to Basel to require a daily, rather than a monthly, average for on-balance sheet exposures. Having considered this response, the PRA will publish the policy as proposed. The PRA implemented an averaged leverage ratio ahead of Basel. At the time, only a daily average for on-balance sheet exposures was required as the PRA recognised that requiring the reporting of daily average figures had the potential to be burdensome for firms. The PRA considered that on-balance sheet exposures included those exposures most amenable to rapid reduction via short-term balance sheet management trades. More generally, it is important that the PRA continues to collect average leverage ratio metrics to better monitor banks' actual leverage throughout the reporting period, out of concern that firms may otherwise engage in 'window dressing' in the form of temporary reductions of transaction volumes in key financial markets around reference dates resulting in the reporting (and public disclosure) of elevated leverage ratios. In CP14/21, the PRA proposed simply to update the remaining part of the calculation (for SFT exposures) to comply with the new Basel standards as these improve on the pre-existing PRA methodology.

5.70 One respondent noted that they initially thought it would be burdensome to extend averaging requirements for SFT exposures from a monthly to a daily average, and it would not provide any added value. However, the respondent also noted that Basel requires a daily average for SFT exposures. The PRA confirms that firms should report daily averages for SFT exposures.

Reporting of foreign assets

5.71 Certain firms with total assets greater than £5 billion already report a geographical breakdown of assets by residence of the counterparty in template F20.4, but others do not. In order to collect data from all firms that are over the threshold, or that may reasonably be expected to cross the threshold in future, the PRA proposed in CP14/21 to require all firms with total assets greater than £5 billion to report their non-UK assets in the proposed leverage reporting template LV44, row 0050. One respondent queried whether banks that do not currently report FINREP F20 templates would now be expected to complete them. This is not the case. Rather than introducing additional reporting in FINREP for firms that do not already report it, an item has been added to the leverage-specific reporting template, LV44, to collect this information. However, firms that already report FINREP should continue to do so.

5.72 One respondent queried whether it was correct and/or proportionate to require that all firms with greater than £5 billion of total assets must report their level of foreign assets in leverage reporting templates, despite the fact that they would not logically be above the £10 billion foreign assets threshold.

5.73 The PRA has considered this response, and has decided not to make any changes to its proposed policy. PRA considers that it remains important to require firms to report their level of foreign assets before they have reached a level of £10 billion so that it can anticipate where firms are likely to come close to the threshold. The £5 billion total asset threshold is not unduly burdensome on firms because it is also that which is currently used in FINREP reporting. Using existing reporting thresholds lowers the burdens on firms and contributes to the proportionality of the policy. The PRA has considered whether it could increase the threshold. However, this would only have some small benefit in terms of the number of firms subject to the reporting requirement, while coming at the cost of introducing a new threshold (as it would no longer be aligned with FINREP), increasing the overall complexity of the framework and the cost of compliance.

Other responses

5.74 One respondent requested clarity on when a new reporting taxonomy would be published containing the proposed leverage templates, so they can engage with software vendors.

5.75 A public working draft of the new taxonomy was published on Monday 6 September 2021 for consultation, on which firms and software vendors were invited to provide feedback.[43] This consultation closed on Friday 24 September 2021, and the PRA aims to publish the final version of the taxonomy and data point model (DPM) dictionary in early November 2021.

5.76 Two respondents outlined a number of requests for clarification/issues to do with particular items in the proposed leverage reporting templates and/or instructions. These are listed in Table 3.

Table 3 – List of line-by-line responses on reporting templates and instructions

Template	Row(s)	Description	PRA's response
LV47	r0061–r0071	One respondent queried how they should report variation margin (VM) or NICA for derivatives contracts cleared by a qualifying central counterparty (QCCP) in the event that VM or NICA are 'net posted' (ie where the amount posted to a counterparty exceeds the amount received from that counterparty).	Firms may report in rows 0065 and 0071 negative amounts for NICA and VM respectively, such that the impact on replacement cost (RC) under SA-CRR in row 0061 is positive. The PRA has added a line to the instructions to clarify this, and updated the underlying validation rules.
LV47	r0220	Two respondents asked the PRA to confirm whether the '(-) Exempted CCP leg of client-cleared trade exposures (initial margin)' in row 0220 of LV 47.00 should be reported on a gross basis, or post-volatility adjustments.	The PRA confirms that this item should be reported on a gross basis. The PRA has added a line in the reporting instructions to clarify this.
LV47	r0490	Two respondents noted that the reporting instructions state to report this item based on paragraph 1 of Article 468 of the CRR; and interpreted that the transitional period for Article 468 expired at the end of 2017, so queried the relevance of r0490.	The transitional period in Article 468 is yet to expire, and does so on Saturday 31 December 2022. The reporting instructions have been updated to refer to the most relevant paragraph: paragraph 5 of Article 468 CRR.
LV40	r0090	One respondent asked the PRA to confirm that row 0090 should exclude central bank exposures, and that central bank exposures should be reported separately in row 0380.	The PRA confirms that central bank claims should be excluded from r0090, but included in r0380. The reporting instructions for r0090 have been updated to clarify this.
LV41	n/a	The respondent noted that this template requests the breakdown of all on- and off-	Firms should consider such deductions/adjustments when submitting

[43] Version 3.5.0 PWD Bank of England Banking XBRL taxonomy.

		balance sheet exposures in accordance with the risk-weights applied under the credit risk section of the CRR. Hence, the respondent asked the PRA to confirm that exclusions and deductions specific to leverage, such as cash pooling, central bank claims, etc., need not be considered, but rather only the exposures deducted from regulatory capital.	this return. Firms should calculate the 'effective risk-weight' of leverage-specific deductions as per paragraph 23b of Annex XI and then include the exposure in the relevant row which relates to the risk-weighted bucket implied by the 'effective risk-weight'.

5.77 One respondent noted that for the purpose of calculating an averaged leverage ratio over a reporting quarter, the PRA mentioned in SS45/15 that the capital measure and relevant deductions and adjustments should be calculated based on end-of-month averages. The respondent requested for the PRA to specify what these relevant deductions and adjustment include. The deductions and adjustments referenced include adjustments to regulatory capital as per paragraphs (a) and (b) of Article 429a(1) of Chapter 3 of the Leverage Ratio (CRR) Part,[44] and deductions used in the calculation of the exposure measure outlined in Article 429 of that Part.

Disclosure

5.78 One respondent expressed support for the PRA's proposals to simplify leverage disclosure requirements to avoid duplication.

Levels of application

5.79 In a similar manner to leverage reporting requirements, leverage disclosure requirements also can be separated into two groups: those which relate to 'standard' leverage information that is required from all firms that must disclose their leverage ratios, and those which relate to 'additional' leverage information that is relevant only to firms in scope of the UK leverage ratio requirement ('LREQ firms').[45] The levels of application of disclosure requirements differ between these two buckets.

Table 4 – Level of application of leverage disclosure requirements

Standard information	Additional information
• LREQ basis for LREQ firms • CRR disclosure basis, as applicable	• LREQ basis for LREQ firms

5.80 While the PRA proposed in CP14/21 that the 'additional' leverage information relevant only to firms subject to the minimum requirement need only be disclosed at the level of consolidation at which the requirement applies (ie on an 'LREQ basis'), 'standard' leverage disclosure requirements will not only apply on an LREQ basis, but also in line with the level of application of wider CRR disclosure requirements.

5.81 One respondent stated that where a solo leverage requirement is replaced by a sub-consolidated requirement, they would expect that individual entities within the sub-consolidation group should not be required to disclose leverage information on a solo basis (although the respondent recognised that the PRA may continue to require this information as part of bilateral regulatory reporting).

44 Appendix 1 Annex D.
45 Examples of this include information on averaged leverage ratio metrics, distance to the requirement, and leverage ratio buffers.

5.82 Having considered the responses, the PRA has decided to publish the policy as proposed. For the level of application of leverage disclosure requirements for sub-groups subject to a sub-consolidated leverage ratio requirement,[46] the PRA considers that a firm in that sub-group can comply by submitting disclosures at the sub-consolidated level, and need not disclose such information at the solo level as well.[47] This will not affect the level of application of disclosures required for non-leverage purposes, nor the applicable reporting requirements.

Other responses on disclosure

5.83 As in paragraph 5.62 for reporting, the same respondent also queried whether 'additional […] disclosure requirements' corresponded to Paragraph 1.2 of the Disclosure (CRR) Part of the PRA Rulebook. The PRA can confirm that this is the case, and that such information need only be disclosed from Sunday 1 January 2023 for firms being brought newly into scope of the leverage ratio requirement. Conversely, 'standard information' must be disclosed where applicable from Saturday 1 January 2022.

5.84 One respondent was of the opinion that it is burdensome to have extra disclosure items in template UK KM1, such as leverage metrics with and without central bank claims and on an averaged basis, in addition to leverage-specific disclosures.

5.85 The PRA has considered this response and has decided not to make any changes to its policy as a result. The template has been updated in line with updated Basel standards,[48] and it enables the PRA to fulfil the pre-existing rule that firms subject to the leverage ratio requirement must disclose certain pieces of information quarterly (the leverage-specific templates are disclosed less frequently).

5.86 Two respondents sought clarification on where deductions from and adjustments to capital should be reflected in leverage disclosure template UK LR1 – LRSum (eg intangible assets). These deductions and adjustments should be disclosed in Row 11 of template UK LR1 – LRSum, which allows institutions to deduct from LEM items that have been deducted from regulatory capital, as per points (a) and (b) of Article 429a(1) of the Leverage Ratio (CRR) Part.

Other responses relevant to the PRA consultation

5.87 One respondent asked for clarification that references in CP14/21 to 'investment firms' are in respect only of PRA-regulated investment firms. The PRA confirms that this is the case.[49]

5.88 Two respondents flagged a number of typos in the draft policy material that was published alongside CP14/21. These typos are listed in Table 5, and have been corrected in the final policy published alongside this PS.

Table 5 – List of typos in draft policy material

Document	Reference	Description
SS45/15	Footnote 4	The footnote incorrectly referred to leverage reporting template LV40, instead of template LV44.
SS45/15	Paragraph 4.1	The list in this paragraph was incorrectly numbered, with two sub-paragraphs with the number (i).
Draft rules	Annex A	Incorrect numbering in the definition of 'tier 1 capital (leverage)', where two subgraphs were labelled as (b).

46 In accordance with Chapter 2 of the Leverage Ratio – Capital Requirements and Buffers Part.
47 Rules 2.1 to 2.3 and 2.10 of the Disclosure (CRR) Part of the PRA Rulebook.
48 'Revisions to leverage ratio disclosure requirements'.
49 PRA-regulated investment firms are listed on the 'Which firms does the PRA regulate' page on the PRA website.

Draft rules	Annex B	The definitions of the 'average exposure measure' and 'average leverage ratio' refer to Article 451(5)(a) and 451(5)(b) r-espectively; these do not exist and cross-references now have been corrected to refer to the relevant parts of Article 451.
Annex X	Template LV47, r0130	The row description 'Exempted CCP leg of client-cleared trade exposures (original exposure method)' was incorrect and has been corrected to 'Capped notional amount of written credit derivatives'.
Annex X	Template LV40, c0040	The template circulated included column 0040, 'Add-on for SFTs', which had all cells greyed out. This column has been deleted.

Out of scope comments

5.89 In relation to the PRA's discretion to allow sub-consolidated requirements to apply as an alternative to individual application in support of the PRA's own objectives, one respondent encouraged the PRA to consider the potential to extend this to other parts of the regulatory capital framework. The PRA notes that the proposals in CP14/21 related only to the leverage ratio, and not the other aspects of the capital framework.

5.90 A number of respondents provided comments that related to total loss absorbing capacity (TLAC) and/or minimum requirement for own funds and eligible liabilities (MREL). The Bank of England, in its capacity as resolution authority, is currently reviewing its approach to setting MREL, and published a CP on Thursday 22 July 2021.[50] The Bank of England has welcomed responses to this consultation, which closed on Friday 1 October 2021, and will take into account feedback received when finalising its policy.

5.91 One respondent to CP14/21 interpreted that there would be no leverage-based MREL for credit institutions which are subject to the PRA's supervisory expectation, and expressed their support for this. Another respondent requested that the PRA give an explicit statement that there would be no impact on MREL arising from the supervisory expectation.

5.92 In CP14/21, the PRA set out the position of the Bank of England, as resolution authority, that MREL is set with reference to regulatory requirements, not supervisory expectations. The Bank of England has not proposed to change this approach.

5.93 Two respondents requested further clarity from the PRA regarding whether MREL would be applied on a sub-consolidated basis in cases where there is a sub-consolidated leverage requirement. One respondent queried whether there would be a divergence from individual-level MREL reporting where firms report their leverage ratios at the sub-consolidated level.

5.94 The PRA notes that the Bank's approach to setting MREL is set out in the MREL Statement of Policy (SoP).[51] The Bank has recently consulted on a review of the MREL SoP, which has considered the resolution strategy thresholds, the calibration of MREL, instrument eligibility, and the application of MRELs within banking groups. The Bank intends that changes be made by the end of 2021 in the form of a revised MREL SoP to apply from January 2022. More information on the level of application of leverage reporting requirements is in paragraphs 5.55–5.58 of this PS, which explains that all firms will continue to be required to report their leverage ratios to the PRA on an individual basis, even if the leverage ratio requirement applies on a sub-consolidated basis.

5.95 Other responses relating to MREL and/or TLAC requirements included:

---

50 July 2021: 'The Bank of England's review of its approach to setting a minimum requirement for own funds and eligible liabilities'.
51 The Bank of England's approach to setting a minimum requirement for own funds and eligible liabilities (MREL) - Statement of Policy.

(i) a recommendation that the Bank of England set internal TLAC requirements between 75%–90%;

(ii) a number of requests that deductions from MREL-eligible resources of MREL holdings that would reduce the numerator in the MREL leverage ratio should also be deducted from the LEM used for MREL;

(iii) a request for a more coherent approach to the LEM used for MREL to be established for firms which are not subject to a going-concern leverage requirement but are bound by leverage-based MREL requirements;

(iv) a request that risk-based MREL should be set on a sub-consolidated basis where a sub-consolidated leverage requirement applies; and

(v) a number of requests that that MREL and/or TLAC requirements should be calibrated based on the leverage ratio only when a firm is subject to the latter as a minimum requirement.

5.96 The PRA has noted these responses, but considers them to be out of scope of the proposals in CP14/21. The PRA has passed these comments on to the Bank of England, in its capacity as resolution authority.

5.97 There were three further responses relating to policy areas that were not covered by the CP. These comments related to changes to Pillar 2A requirements as outlined in PS15/20 'Pillar 2A: Reconciling capital requirements and macroprudential buffers', the forthcoming output floor, and the extent to which definitions should be replicated in the Glossary Part of the PRA Rulebook.[52] While not directly related to the proposals in CP14/21, the PRA has noted these comments.

52 July 2020: PS15/20 'Pillar 2A: Reconciling capital requirements and macroprudential buffers'.

6 Appendices

1	**PRA RULEBOOK: CRR FIRMS: LEVERAGE INSTRUMENT 2021, available at https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2021/october/ps2121app1.pdf**
2	**SS45/15 'The UK leverage ratio framework', available at https://www.bankofengland.co.uk/prudential-regulation/publication/2015/the-uk-leverage-ratio-framework-ss**
3	**FPC direction and recommendation, available at https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2021/october/ps2121app3.pdf**
4	**Policy Statement 'The Financial Policy Committee's powers over leverage ratio tools', available at: https://www.bankofengland.co.uk/statement/2015/the-financial-policy-committees-powers-over-leverage-ratio-tools**
5	**SS34/15 'Guidelines for completing regulatory reports', available at: https://www.bankofengland.co.uk/prudential-regulation/publication/2015/guidelines-for-completing-regulatory-reports-ss**
6	**Reporting and disclosure templates and instructions: see table below for links to each item**
7	**Summary of the purpose of the rules, available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2021/october/ps2121app7.pdf**
8	**Restatement provisions, available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2021/october/ps2121app8.pdf**
9	**Corresponding provisions, available at: https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/policy-statement/2021/october/ps2121app9.pdf**

Appendix 6 Reporting templates and instructions

Template/instruction	Hyperlink
PRA data items	
PRA101: Capital+ actuals and forecasts instructions	https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/banking/pra101-instructionsjan2022.pdf
PRA102: Capital+ forecast semi annual instructions	https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/banking/pra102-instructionsjan2022.pdf
PRA103: Capital+ forecast annual instructions	https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/banking/pra103-instructionsjan2022.pdf
UK reporting data items	
Annex X: Reporting on leverage	https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/banking/data-items-reporting-on-leverage.xlsx
Annex XI: Instructions for reporting on leverage	https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/banking/data-items-instructions-for-reporting-

	on-leverage.pdf
UK Pillar 3 disclosure data items	
Annex I: Disclosure of key metric and overview of risk weighted exposure amounts	https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/banking/pillar3-risk-weighted-exposure-leverage-ratio.xlsx
Annex II: Instructions for disclosure of key metric and overview of risk weighted exposure amounts	https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/banking/pillar3-risk-weighted-exposure-instructions-leverage-ratio.pdf
Annex XI: Disclosure of the leverage ratio	https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/banking/pillar3-disclosure-of-the-leverage-ratio.xlsx
Annex XII: Instructions for disclosure of the leverage ratio	https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/regulatory-reporting/banking/pillar3-instructions-for-disclosure-of-the-leverage-ratio.pdf