



**BANK OF ENGLAND**

# News release

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## **Leverage ratio review – Terms of reference**

### **Context**

On 26 November 2013, the Chancellor requested that the Financial Policy Committee (FPC) undertakes a review of the leverage ratio within the capital framework. This review complements the FPC's medium-term priorities on the capital framework and on ending 'too big to fail' (TBTF), as set out in the latest Financial Stability Report. The terms of reference of this review are set out below. As requested by the Chancellor, HM Treasury officials have been consulted in finalising the terms of reference.

### **Scope and objectives**

The review will consider the leverage standard required to ensure that the UK banking system is sufficiently resilient. In doing so, the review will cover the following elements<sup>1</sup>:

- the roles of and relationship between the leverage ratio and risk-weighted measures, including the relative strengths and weaknesses of each measure;
- international developments related to the leverage ratio;
- the definition and design of the leverage ratio (eg minimum and buffers);
- the merits and demerits of varying the leverage ratio in light of variations in the corresponding risk-weighted standards and, therefore, the merits of being able to vary leverage ratios in a countercyclical manner;
- the appropriate leverage standards for ring-fenced banks;
- the case for Direction powers over the leverage ratio and how this would fit with the rest of the FPC's macroprudential toolkit, including the criteria to be used by the FPC when varying the leverage ratio;
- the impact of leverage standards on UK lending and GDP, and on those businesses with high concentrations in low risk-weighted assets or with different business models; and
- the transitional arrangements of leverage standards, including the circumstances under which it might be appropriate to introduce a leverage ratio on a faster timetable than international standards.

As noted above, the review aims to complement the FPC's medium-term work on the capital framework and on ending TBTF. In particular, a key part of the review is to assess the merits of varying the leverage ratio in proportion with risk-weighted standards (in a countercyclical manner and across certain firms). If the review were to conclude that this should be the case, then this would raise the question of the appropriate level of the leverage ratios and risk-weighted requirements, which are being covered by the capital framework and TBTF priorities. Given the differences in time

horizons of these initiatives (12 months for the leverage review, 18 months for the latter), the determination of the appropriate numerical value of the leverage ratio would be outside the scope of the leverage review, but would be revisited at the point when the capital framework and TBTF priorities are concluded.

### **Timetable**

The FPC expects to publish the review by November 2014. Subject to the outcome of the review, this may be accompanied by an FPC recommendation, where relevant. Any potential recommendation will include a cost-benefit analysis, and will be sufficiently specific to assist HM Treasury in drafting a statutory instrument (if applicable).