



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Consultation Paper | CP14/18

UK leverage ratio: Applying the framework to systemic ring-fenced bodies and reflecting the systemic risk buffer

July 2018



BANK OF ENGLAND
PRUDENTIAL REGULATION
AUTHORITY

Consultation Paper | CP14/18

UK leverage ratio: Applying the framework to systemic ring-fenced bodies and reflecting the systemic risk buffer

July 2018

By responding to this consultation, you provide personal data to the Bank of England. This may include your name, contact details (including, if provided, details of the organisation you work for), and opinions or details offered in the response itself.

The response will be assessed to inform our work as a regulator and central bank, both in the public interest and in the exercise of our official authority. We may use your details to contact you to clarify any aspects of your response.

The consultation paper will explain if responses will be shared with other organisations (for example, the Financial Conduct Authority). If this is the case, the other organisation will also review the responses and may also contact you to clarify aspects of your response. We will retain all responses for the period that is relevant to supporting ongoing regulatory policy developments and reviews. However, all personal data will be redacted from the responses within five years of receipt. To find out more about how we deal with your personal data, your rights or to get in touch please visit bankofengland.co.uk/privacy.

Information provided in response to this consultation, including personal information, may be subject to publication or disclosure to other parties in accordance with access to information regimes including under the Freedom of Information Act 2000 or data protection legislation, or as otherwise required by law or in discharge of the Bank's functions.

Please indicate if you regard all, or some of, the information you provide as confidential. If the Bank of England receives a request for disclosure of this information, we will take your indication(s) into account, but cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system on emails will not, of itself, be regarded as binding on the Bank of England.

Responses are requested by Tuesday 25 September 2018.

Please address any comments or enquiries to:

Capital and Leverage Team
Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

Email: CP14_18@bankofengland.co.uk

Contents

1	Overview	5
2	Proposals	6
3	The PRA's statutory obligations	9
	Appendices	13

1 Overview

1.1 In this consultation paper (CP) the Prudential Regulation Authority (PRA) proposes to reflect the systemic risk buffer (SRB) framework in the UK leverage ratio framework.

1.2 This includes a proposal to apply leverage ratio requirements on a sub-consolidated basis to those ring-fenced bodies (RFBs) whose groups are already required to meet leverage ratio requirements on a consolidated basis – hereafter ‘RFBs in scope’.

1.3 This CP is relevant to those firms in scope of the UK leverage ratio framework¹ that are also SRB institutions,² or part of a group containing an SRB institution.

1.4 The proposals complement the risk-weighted capital framework by guarding against the risks of relying only on models or standardised approaches to set capital requirements. This promotes the safety and soundness of firms whose distress or failure could cause material harm to the UK economy.

1.5 As outlined in the June 2018 Financial Stability Report,³ the Financial Policy Committee (FPC) intends to conduct a comprehensive review of the leverage ratio framework in light of revised international standards, including the finalised Basel standard (known as Basel III) and European Capital Requirement regulation (known as CRR2). In particular, this review would set out the approach to extending leverage ratio requirements and buffers to PRA-regulated firms, and to entities below the consolidated group. The FPC has decided that it will conduct and communicate the outcome of its finalised review once there is further clarity on the finalised implementation of the leverage ratio requirement in EU law and how it might affect UK firms. The PRA will revisit the implementation of the UK leverage ratio framework, including the proposals within this CP where relevant, in the light of the FPC review. In the meantime, the FPC supports this PRA consultation, which is in line with the FPC’s expectations on applying the leverage ratio framework to systemically important firms.

Background

1.6 The FPC’s powers over leverage ratio tools published in 2015 (‘the FPC leverage ratio policy statement’),⁴ stated that domestic systemically important banks would be subject to a leverage ratio buffer that complements their risk-weighted capital requirements from 2019. In 2016 the FPC finalised a framework to apply an SRB to RFBs and large building societies, where the FPC further set out that it ‘anticipates that the leverage ratio will be applied to UK globally systemically important institutions (G-SIIs) and other major UK banks and building societies at the level of the RFB subgroup from 2019 (where applicable), as well as on a consolidated basis’.⁵ The FPC intended that larger firms within the population of RFBs and large building societies be subject to higher systemic buffers, reflecting the greater economic cost of their stress or failure.

1 These are PRA-regulated banks and building societies with total retail deposits equal to or greater than £50 billion, whether on an individual or a consolidated basis, on a firm’s financial year end date.

2 SRB institutions are RFBs, within the meaning of section 142A of the Financial Services 2.1 and Markets Act 2000 (FSMA), and large building societies that hold more than £25 billion in deposits (where one or more of the accountholders is a small business) and shares (excluding deferred shares).

3 www.bankofengland.co.uk/financial-stability-report/2018/june-2018.

4 Updated October 2017: www.bankofengland.co.uk/statement/2015/the-financial-policy-committees-powers-over-leverage-ratio-tools.

5 May 2016: www.bankofengland.co.uk/paper/2016/the-financial-policy-committees-framework-for-the-systemic-risk-buffer.

1.7 In line with these statements, and to support the implementation of the SRB framework from 2019, the PRA proposes to amend the UK leverage ratio framework to reflect the SRB framework.

Summary of proposals

1.8 The PRA proposes to reflect the SRB framework in the UK leverage ratio by:

- (i) applying the UK leverage ratio framework on a sub-consolidated basis to RFBs in scope;
- (ii) amending the additional leverage ratio buffer (ALRB) to reflect the SRB; and
- (iii) where applicable, expecting firms to hold capital on a group consolidated basis to address RFB group risk¹ (the 'Leverage Ratio Group Add-on').

1.9 In order to implement the changes, the PRA proposes to update:

- The Leverage Ratio, Public Disclosure, Reporting Leverage Ratio, and Ring-fenced Bodies Parts of the PRA Rulebook (Appendix 1);
- Supervisory Statement (SS) 45/15 'The UK leverage ratio framework' (Appendix 2);²
- SS46/15 'UK leverage ratio: instructions for completing data items FSA083 and FSA084' (Appendix 3);³ and
- FSA083 Leverage Ratio Reporting template (Appendix 4) and instructions (Appendix 5).

Implementation

1.10 The PRA proposes to implement the proposals in this CP on Tuesday 1 January 2019.

Responses and next steps

1.11 This consultation closes on Tuesday 25 September 2018. The PRA invites feedback on the proposals set out in this consultation. Please address any comments or enquiries to CP14_18@bankofengland.co.uk.

1.12 The proposals in this CP have been designed in the context of the current UK and EU regulatory framework. The PRA will keep the policy under review to assess whether any changes would be required due to changes in the UK regulatory framework, including those arising once any new arrangements with the European Union take effect.

2 Proposals

2.1 The PRA proposes to reflect the SRB framework into the UK leverage ratio by:

- (i) applying the UK leverage ratio framework on a sub-consolidated basis to RFBs in scope;
- (ii) amending the ALRB to reflect the SRB; and

1 RFB group risk means, in relation to a consolidation group containing an RFB sub-group the risk that the financial position of a firm on a consolidated basis may be adversely affected by the minimum capital and buffers applicable at the level of the RFB sub-group, such that there is insufficient capital within (or an inappropriate distribution of capital across) the consolidated group to cover the risks of the consolidated group.

2 December 2017: www.bankofengland.co.uk/prudential-regulation/publication/2015/the-uk-leverage-ratio-framework-ss.

3 October 2017: www.bankofengland.co.uk/prudential-regulation/publication/2015/uk-leverage-ratio-instructions-for-completing-data-items-ss.

(iii) where applicable, expecting firms to hold capital on a group consolidated basis to address RFB group risk (the 'Leverage Ratio Group Add-on').

2.2 The proposals in this CP are in line with the objectives of the leverage ratio and aim to maintain consistency with the risk-weighted framework in its application to RFBs. The leverage ratio guards against the danger that models or standardised regulatory requirements fail to assign risk weights that reflect the true underlying risk of assets. The leverage ratio can also protect banks against scenarios which are thought to be 'low risk' or are unforeseen altogether until they occur. It also limits firms' incentives to respond to increases in risk-weighted capital requirements by reducing estimates of risk weights or shifting asset composition. Finally, the leverage ratio can also provide a more comparable measure across firms than risk-weighted measures.

2.3 The draft rules set out in this CP extend the application of the UK leverage ratio framework to RFBs in scope on a sub-consolidated basis. In relation to setting requirements relating to the ALRB to reflect the SRB and the 'Leverage Ratio Group Add-on' to reflect RFB group risk, the PRA proposes to update SS45/15. These requirements would be set by the PRA in respect of specific firms by use of the PRA's powers under section 55M of the Financial Services and Markets Act 2000 (FSMA).

2.4 As outlined in the June 2018 Financial Stability Report, the FPC intends to conduct a comprehensive review of the leverage ratio framework in light of revised international standards, including Basel III and CRR2. In particular, this review would set out the approach to extending leverage ratio requirements and buffers to PRA regulated firms, and to entities below the consolidated group. The PRA will revisit the implementation of the UK leverage ratio framework, including the proposals within this CP where relevant, in the light of the FPC review.

Applying the UK leverage ratio framework on a sub-consolidated basis to RFBs in scope

2.5 Appendix 1 sets out the PRA's proposed amendments to the Leverage Ratio, Public Disclosure, Reporting Leverage Ratio, and Ring-fenced Bodies Parts of the PRA Rulebook to require RFBs in scope to meet all elements of the UK leverage ratio framework on a sub-consolidated basis, including:

- the minimum leverage ratio of 3.25% based on an exposure measure that excludes claims on central banks;¹
- the countercyclical leverage ratio buffer (CCLB); and
- leverage ratio reporting and disclosure requirements.

Amending the ALRB to reflect the SRB

2.6 For those firms subject to the UK leverage ratio framework which are also SRB institutions, the PRA proposes to also reflect the SRB in the ALRB on the applicable basis of consolidation. The PRA is not proposing any other amendments to the ALRB. As set out in the FPC leverage ratio policy statement, the ALRB will remain calibrated at 35% of a relevant firm's corresponding risk-weighted systemic buffer rate and must be met with Common Equity Tier 1 (CET1).

¹ www.bankofengland.co.uk/statement/fpc/2017/financial-policy-committee-statement-september-2017.

2.7 As outlined in ‘The PRA’s approach to the implementation of the systemic risk buffer’,¹ where a firm is subject to both a G-SII buffer and an SRB on the same basis of consolidation, the higher of the two shall apply. In such cases, the PRA proposes that the higher of the two also apply for the calculation of the ALRB.

2.8 The PRA proposes to update reporting requirements by amending the labelling of the ALRB in the leverage ratio reporting template accordingly.

2.9 Appendix 2 contains proposed updates to SS45/15, setting out further clarification on how the ALRB will incorporate the SRB and be set as a requirement for relevant firms. Appendix 3 contains proposed updates to SS46/15. Proposed changes to reporting instructions and template FSA083 are included in Appendix 4 and 5.

Where applicable, expecting firms to hold capital on a group consolidated basis to address RFB group risk (the ‘Leverage Ratio Group Add-on’)

2.10 Under proposals (i) and (ii), RFBs in scope would be required to meet leverage ratio requirements, and be subject to an ALRB, at the level of the RFB sub-group.² This might give rise to RFB group risk in cases where the RFB is subject to an ALRB at the level of the RFB sub-group, but the consolidated group is either not subject to an ALRB or its consolidated group ALRB rate is lower than its sub-consolidated ALRB rate.

2.11 The PRA proposes to address this RFB group risk by expecting firms to hold capital on a consolidated basis to meet a Leverage Ratio Group Add-on in addition to minimum leverage ratio requirements and any leverage ratio buffers applicable on a group consolidated basis. Specifically, where the ALRB applicable on a sub-consolidated basis for the RFB sub-group is higher than the RFB sub-group’s share³ of the ALRB on a consolidated basis, the PRA proposes that difference will generally be reflected in the Leverage Ratio Group Add-on.

2.12 This proposal would be consistent with the FPC Recommendation to the PRA that it should seek to ensure that, where systemic buffers apply at different levels of consolidation, there is sufficient capital within the consolidated group, and distributed appropriately across it, to address both global systemic risks and domestic systemic risks.

2.13 The PRA proposes to notify firms in scope of the amount of any Leverage Ratio Group Add-on they are expected to hold in addition to the minimum leverage ratio requirement and buffers. It proposes that firms be expected to meet the Leverage Ratio Group Add-on with CET1 capital that shall be in addition to any CET1 capital maintained to meet the minimum leverage ratio, CCLB and ALRB as applicable. Consistent with Fundamental Rule 7, the PRA proposes that a firm should notify the PRA as early as possible if a firm’s capital has fallen or is expected to fall below the level necessary to meet the Leverage Ratio Group Add-on.

2.14 These proposals are consistent with the PRA’s approach to RFB group risk set out in SS31/15 ‘The Internal Capital Adequacy Assessment Process (ICAAP) and the Supervisory

1 PRA Statement of Policy, December 2016: www.bankofengland.co.uk/prudential-regulation/publication/2016/the-pras-approach-to-the-implementation-of-the-systemic-risk-buffer-sop.

2 An RFB sub-group is a subset of related group entities within a consolidated group, consisting of one or more RFBs and other legal entities, which is established when the PRA gives effect to Article 11(5) of the Capital Requirements Regulation (575/2013) (CRR).

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

Review and Evaluation Process (SREP)¹ and the Statement of Policy ‘The PRA’s methodologies for setting Pillar 2 capital’.²

Links with other policy initiatives

Minimum requirements for own funds and eligible liabilities (MREL)

2.15 In June 2018, the Bank of England set out its final policy on MREL, including ‘internal MREL’, ie instruments that are issued to the resolution entity from other legal entities in the same group or sub-group.³ This set out that where an RFB is part of a material sub-group, the Bank expects to scale the internal MREL for the top entity of the material sub-group at 90%, as a starting point, unless the Bank is satisfied that the wider group has sufficient readily-deployable resources to justify moving to a lower calibration in the 75% to 90% range.

2.16 Consistent with MREL being calibrated by reference to an institution’s regulatory capital requirements, the proposed changes would apply to the applicable leverage ratio requirement used in setting a firm’s internal MREL.⁴ This means that, for firms with a leverage-based binding internal MREL, this could therefore impact on the amount of surplus MREL available to the rest of the group.

Stress testing

2.17 In March 2018, the Bank published its key elements for the 2018 stress test.⁵ This set out that leverage ratio hurdle rates will incorporate buffers to capture domestic systemic importance as well as global systemic importance. It also set out that the FPC and Prudential Regulation Committee (PRC) are minded to include the RFB sub-groups of the existing stress-test participants separately in the annual stress test from 2020. The proposals in this CP are consistent with these expectations.

3 The PRA’s statutory obligations

3.1 In carrying out its policy making functions, the PRA is required to comply with several legal obligations.

3.2 Before making any rules, FSMA⁶ requires the PRA to publish a draft of the proposed rules accompanied by:

- a cost benefit analysis;
- an explanation of the PRA’s reasons for believing that making the proposed rules is compatible with the PRA’s duty to act in a way that advances its general objective,⁷ insurance objective⁸ (if applicable), and secondary competition objective;⁹
- an explanation of the PRA’s reasons for believing that making the proposed rules are compatible with its duty to have regard to the regulatory principles;¹ and

1 April 2018: www.bankofengland.co.uk/prudential-regulation/publication/2013/the-internal-capital-adequacy-assessment-process-and-supervisory-review-ss.

2 April 2018: www.bankofengland.co.uk/prudential-regulation/publication/2015/the-pras-methodologies-for-setting-pillar-2-capital.

3 www.bankofengland.co.uk/paper/2018/boes-approach-to-setting-mrel-2018.

4 For G-SIIs, in terms of leverage, end-state MREL must be the higher of two times the applicable leverage ratio requirement or 6.75% of leverage exposures (scaled to 75-90% for material subgroups or subsidiaries in scope of internal MREL), therefore limiting the number of cases where this would occur.

5 Available at: www.bankofengland.co.uk/news/2018/march/key-elements-of-the-2018-stress-test.

6 Section 138J of FSMA.

7 Section 2B of FSMA.

8 Section 2C of FSMA.

9 Section 2H(1) of FSMA.

- a statement as to whether the impact of the proposed rules will be significantly different to mutuals than to other persons.²

3.3 The PRC should have regard to aspects of the Government's economic policy as recommended by HM Treasury.³

3.4 The PRA is also required by the Equality Act 2010⁴ to have due regard to the need to eliminate discrimination and to promote equality of opportunity in carrying out its policies, services and functions.

Cost benefit analysis

3.5 The cost benefit analysis in the FPC's leverage ratio policy statement discussed how leverage ratio buffers can help improve system-wide resilience, by leaning against some of the market failures associated with systemically important banks.⁵ That assessment already included scenarios where all future RFBs and large building societies are subject to SRB rates of up to 3%.⁶

3.6 The PRA expects all firms to have sufficient capital resources to meet any increases in requirements that result from the proposals in this CP. Any impact of these proposals is mitigated by the fact that capital requirements for most firms are constrained by the risk-weighted capital framework (or expected in the case of RFBs in scope). For firms with low average risk weights, these proposals may result in increases in their capital requirements. However, any increases in capital requirements are consistent with the resilience objectives of the leverage ratio.

3.7 The proposals to amend the leverage ratio reporting and disclosure requirements should enhance market discipline and transparency. The RFBs in scope will already be required to report and disclose their leverage ratios under the CRR. Moreover, RFBs in scope are part of groups that report and disclose under the UK leverage ratio framework on a consolidated basis. The modification to the reporting template will allow firms already in scope, and any firms that will become subject to the requirement on a sub-consolidated basis, to use the same reporting template. This aims to minimise the cost of any additional reporting and disclosure.

Compatibility with the PRA's objectives

3.8 The leverage ratio framework enhances the effectiveness of capital regulation and guards against failing to capture risks effectively, which promotes the safety and soundness of institutions. The PRA considers that the proposals in this CP will assist in ensuring that the leverage ratio framework continues to do so effectively following the implementation of the SRB framework and structural reform.

3.9 The PRA has also assessed whether the proposals in this CP facilitate effective competition. The PRA expects the proposals contained in this CP to facilitate effective competition by holding domestic systemically important firms to a higher standard that is commensurate with the additional risks they pose to the UK economy and levelling the playing field among systemically important firms that are subject to a G-SII buffer and/or an SRB. In

1 Sections 2H(2) and 3B of FSMA.

2 Section 138K of FSMA.

3 Section 30B of the Bank of England Act 1998.

4 Section 149.

5 www.bankofengland.co.uk/-/media/boe/files/statement/2015/the-financial-policy-committees-powers-over-leverage-ratio-tools.

6 www.bankofengland.co.uk/prudential-regulation/publication/2015/implementing-a-uk-leverage-ratio-framework.

addition, the leverage ratio may aid competition by reducing the barriers to entry and expansion for firms that do not have permissions to use internal models to risk weight some of their assets. To the extent that these proposals might lead to an increase in capital requirements for firms that are constrained by the leverage ratio, they may reduce any risk of competitive distortion between firms with internal models and those following a standardised approach.

Regulatory principles

3.10 In developing the proposals in this CP, the PRA has had regard to the regulatory principles.

3.11 Two of the principles are of particular relevance, the:

- desirability of sustainable growth in the economy of the United Kingdom in the medium or long term; and
- desirability to require the disclosure of information as a means of contributing to the advancement by each regulator of its objectives.

3.12 The PRA expects the proposals to contribute to sustainable economic growth by promoting resilience of the firms that provide core financial services.

3.13 The proposed amendments to firms' leverage ratio disclosure requirements contribute to the safety and soundness of institutions by enhancing market discipline.

Impact on mutuals

3.14 As set out above, it is possible that for firms that are leverage constrained, the proposed changes may result in firms having to take actions to improve their leverage ratios. The PRA recognises that mutuals face particular challenges and costs when raising Tier 1 capital externally when compared to banks. As a result, the proposals could potentially affect the former disproportionately. However, the PRA expects the one mutual in scope of these proposals to have sufficient capital resources to meet any resulting increases in its leverage ratio requirements.

HM Treasury recommendation letter

3.15 HM Treasury has made recommendations to the PRC about aspects of the Government's economic policy to which the PRC should have regard when considering how to advance the PRA's objectives and apply the regulatory principles.¹

3.16 The aspects of the Government's economic policy most relevant to the proposals in this CP are:

- (i) competition
- (ii) growth; and
- (iii) competitiveness.

¹ Information about the PRC and the recommendations from HM Treasury are available on the Bank's website at www.bankofengland.co.uk/about/people.

3.17 The impact on competition and growth are assessed above. The aim of these proposals is to act as complement the risk-weighted regulatory framework and therefore the PRA does not expect them to substantially affect the international competitiveness of the UK financial system.

Equality and diversity

3.18 The PRA has performed an assessment of the policy proposals in this CP and does not consider that the proposals give rise to equality and diversity implications.

Appendices

-
- 1 Draft LEVERAGE RATIO (AMENDMENT) INSTRUMENT [2018]**

 - 2 Draft amendments to Supervisory Statement 45/15 'The UK leverage ratio framework'**

 - 3 Draft amendments to Supervisory Statement 46/15 'UK leverage ratio: instructions for completing data items FSA083 and FSA084'**

 - 4 Draft amendments to reporting template FSA083**

 - 5 Draft amendments to the reporting instructions for template FSA083**

Appendix 1: Draft LEVERAGE RATIO (AMENDMENT) INSTRUMENT [2018]

PRA RULEBOOK: CRR FIRMS: LEVERAGE RATIO (AMENDMENT) INSTRUMENT 2018

Powers exercised

- A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (“the Act”):
- (1) section 137G (The PRA’s general rules); and
 - (2) section 137T (General supplementary powers).
- B. The rule-making powers referred to above are specified for the purpose of section 138G(2) (Rule-making instrument) of the Act.

Pre-conditions to making

- C. In accordance with section 138J of the Act (Consultation by the PRA), the PRA consulted the Financial Conduct Authority. After consulting, the PRA published a draft of proposed rules and had regard to representations made.

PRA Rulebook: CRR Firms: Leverage Ratio (Amendment) Instrument 2018

- D. The PRA makes the rules in Annexes A to E of this instrument.

Commencement

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

Citation

- F. This instrument may be cited as the PRA Rulebook: CRR Firms: Leverage Ratio (Amendment) Instrument 2018.

By order of the Prudential Regulation Committee

[DATE]

Annex A

Amendments to the Leverage Ratio Part

Amendments to the Glossary

In the Glossary Part of the PRA Rulebook, insert the following new definitions:

RFB sub-consolidated basis

means on the *sub-consolidated basis* of the *sub-consolidation group*.

Annex B

Amendments to the Leverage Ratio Part

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

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

- (1) every *firm* that is a *UK bank* or a *building society* that, on the *firm's* last *accounting reference date*, had *retail deposits* equal to or greater than £50 billion either on:
- (1a) an individual basis;
 - (2b) if the *firm* is a *parent institution in a Member State*, on the basis of its *consolidated situation*; or
 - (3c) if the *firm* is controlled by a *parent financial holding company in a Member State* or by a *parent mixed financial holding company in a Member State* and the *PRA* is responsible for supervision of that holding company on a *consolidated basis* under Article 111 of the *CRD*, on the basis of the *consolidated situation* of that holding company.
- (2) a ring-fenced body that is a member of a group containing a firm falling within 1.1(1).

...

2 BASIS OF APPLICATION

...

- 2.1 A *firm* that is not a member of a *consolidation group* in relation to which 2.2 or 2.3 applies must comply with this Part on an individual basis.
- 2.1A If this Part applies to a *firm* on an individual basis, the *firm* must comply with the rules in this Part to the same extent and in the same manner as it is required to comply with the *firm's* obligations laid down in Part Seven of the *CRR*.
- 2.2 A *firm* that is a *parent institution in a Member State* must comply with this Part on the basis of its *consolidated situation*.
- 2.3 A *firm* that is controlled by a *parent financial holding company in a Member State* or a *parent mixed financial holding company in a Member State* for which the *PRA* is responsible for supervision on a *consolidated basis* under Article 111 of the *CRD* must comply with this Part on the basis of the *consolidated situation* of that holding company.
- 2.4 A ring-fenced body must comply with this Part on an RFB sub-consolidated basis whether or not under 2.2 or 2.3 it also applies to the ring-fenced body on a consolidated basis.

...

Annex C

Amendments to the Reporting Leverage Ratio Part

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

1 APPLICATION AND DEFINITIONS

1.1 Unless otherwise stated, this Part applies to:

- (1) every *firm* that is a *UK bank* or a *building society* that, on the *firm's* last *accounting reference date*, had *retail deposits* equal to or greater than £50 billion either on:
- (~~1~~a) an individual basis;
 - (~~2~~b) if the *firm* is a *parent institution in a Member State*, on the basis of its *consolidated situation*; or
 - (~~3~~c) if the *firm* is controlled by a *parent financial holding company in a Member State* or by a *parent mixed financial holding company in a Member State* and the *PRA* is responsible for supervision of that holding company on a *consolidated basis* under Article 111 of the *CRD*, on the basis of the *consolidated situation* of that holding company.
- (2) a ring-fenced body that is a member of a group containing a firm falling within 1.1(1).

...

2 BASIS OF APPLICATION

...

- 2.1 A *firm* that is not a member of a *consolidation group* in relation to which 2.2 or 2.3 applies must comply with this Part on an individual basis.
- 2.2 A *firm* that is a *parent institution in a Member State* must comply with this Part on the basis of its *consolidated situation*.
- 2.3 A *firm* that is controlled by a *parent financial holding company in a Member State* or a *parent mixed financial holding company in a Member State* for which the *PRA* is responsible for supervision on a *consolidated basis* under Article 111 of the *CRD* must comply with this Part on the basis of the *consolidated situation* of that holding company.
- 2.4 A ring-fenced body must comply with this Part on an RFB sub-consolidated basis whether or not under 2.2 or 2.3 it also applies to the ring-fenced body on a consolidated basis.

3 REPORTING

- 3.1 Subject to 4.1, a *firm* must complete the *data item* FSA083 using the template for the *data item* set out ~~here~~ here.

Annex D

Amendments to the Public Disclosure Part

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

...

3 PUBLIC DISCLOSURE OF LEVERAGE RATIO

3.1 This Chapter applies to:

- (1) every *firm* that is a *UK bank* or a *building society* that, on the *firm's* last *accounting reference date*, had *retail deposits* equal to or greater than £50 billion either on:
 - (1a) an individual basis;
 - (2b) if the *firm* is a *parent institution in a Member State*, on the basis of its *consolidated situation*; or
 - (3c) if the *firm* is controlled by a *parent financial holding company in a Member State* or by a *parent mixed financial holding company in a Member State* and the *PRA* is responsible for supervision of that holding company on a *consolidated basis* under Article 111 of the *CRD*, on the basis of the *consolidated situation* of that holding company.
- (2) a ring-fenced body that is a member of a group containing a firm falling within 3.1(1).

Application on an individual or consolidated basis

3.2 A *firm* that is:

- (1) not a member of a *consolidation group* in relation to which (2) or (3) applies must comply with this Chapter on an individual basis;
- (2) a *parent institution in a Member State* must comply with this Chapter on the basis of its *consolidated situation*;
- (3) controlled by a *parent financial holding company in a Member State* or a *parent mixed financial holding company in a Member State* for which the *PRA* is responsible for supervision on a *consolidated basis* under Article 111 of the *CRD* must comply with this Chapter on the basis of the *consolidated situation* of that holding company;
- (4) a ring-fenced body must comply with this Chapter on an RFB sub-consolidated basis whether or not under 3.2(2) or 3.2(3) it also applies to the ring-fenced body on a consolidated basis.

...

Annex E

Amendments to the Ring-fenced Bodies Part

In this Annex new text is underlined.

...

18 APPLICATION OF CERTAIN PRA RULES TO RING-FENCED BODIES ON A SUB-CONSOLIDATED BASIS

18.1 A *ring-fenced body* that is required under Article 11(5) of the *CRR* to comply with obligations on a *sub-consolidated basis* must comply with the following provisions of the *PRA* Rulebook on that *sub-consolidated basis*:

...

(12) 2.1 of the Public Disclosure Part;

...

Appendix 2: Draft amendments to Supervisory Statement 45/15 'The UK leverage ratio framework'

In this Appendix new text is underlined and deleted text is struck through.

1 Introduction

~~1.1~~ This supervisory statement (SS) is aimed at Capital Requirements Regulation (CRR) firms in scope of the UK leverage ratio framework. The purpose of this SS is to set out the expectations of the Prudential Regulatory Authority (PRA) on leverage ratio buffers and the reporting and disclosure of an averaged leverage ratio, as well as to provide some clarification on the PRA rules. It should be read alongside the Leverage Ratio, Reporting Leverage Ratio and Public Disclosure Parts of the PRA Rulebook. This statement complements the PRA's rules ~~in implementing the FPC's Direction and Recommendation~~ with regard to a UK leverage ratio framework. ¹

2 Leverage Ratio Buffers

...

2.3 The global systemically important institution (G-SII) and systemic risk buffer (SRB) additional leverage ratio buffer (ALRB) is firm specific. Where applicable to a firm, the ~~G-SII~~ ALRB and related reporting and disclosure requirements will be set by the PRA using its powers under section 55M of the Financial Services and Markets Act (2000). If a G-SII or a firm does not hold an amount of CET1 capital that is equal to or greater than its G-SII ALRB, it will be required to notify the PRA immediately and prepare a capital plan and submit it to the PRA. Where a firm is subject to both a G-SII buffer and a SRB on the same basis of consolidation, the higher of the two buffers shall apply for the purpose of calculating the ALRB.

2.3A The PRA considers that ring-fenced body (RFB) group risk¹ may arise when a RFB is subject to the ALRB at the level of the RFB sub-group,² but the consolidated group is either not subject to the ALRB, or its consolidated ALRB rate is lower than the ALRB rate applicable to the RFB sub-group. The PRA expects firms to take this RFB group risk into account by holding additional capital (the 'Leverage Ratio Group Add-on') on a consolidated basis. This is to ensure there is sufficient capital within the consolidated group, and distributed appropriately across it, to address both global systemic risks and domestic systemic risks. Where the ALRB applicable on a sub-consolidated basis for the RFB sub-group is higher than the RFB sub-group's share³ of the ALRB on a consolidated basis, the difference will generally be reflected in the Leverage Ratio Group Add-on, in order to take account of the associated RFB group risk at the consolidated group level.

¹ Financial Stability Report, July 2015; www.bankofengland.co.uk/publications/Documents/fsr/2015/fsrfull1507.pdf.

¹ Group risk, as defined in the PRA Rulebook (Internal Capital Adequacy Assessment 1.2), means the risk that the financial position of a firm may be adversely affected by its relationships (financial or non-financial) with other entities in the same group or by risk which may affect the financial position of the whole group, including reputational contagion.

² An RFB sub-group is a subset of related group entities within a consolidated group, consisting of one or more RFBs and other legal entities, which is established when the PRA gives effect to Article 11(5) of the CRR.

³ The RFB sub-group's share of the consolidated group ALRB can be determined by multiplying that consolidated group ALRB by the proportion of the consolidated group's leverage ratio exposures that are attributable to the RFB sub-group. The consolidated group's leverage ratio exposures that are attributable to the RFB sub-group are calculated as the RFB sub-group's leverage ratio exposure (calculated on a sub-consolidated basis) minus leverage ratio exposures of the RFB subgroup to group entities that are not members of the RFB subgroup.

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

...

Appendix 3: Draft amendments to supervisory statement 46/15 ‘UK leverage ratio: instructions for completing data items FSA083 and FSA083’ and reporting template FSA083

In this Appendix new text is underlined and deleted text is struck through.

...

2 Completing data items

2.1 The instructions included in the links below form part of this supervisory statement. Italicised text in the instructions has the same meaning given in the Leverage Ratio and Reporting Leverage Ratio Part of the Rulebook, or in the PRA Rulebook Glossary.

- Instructions for completing FSA083 (Leverage Ratio Template):
www.bankofengland.co.uk/pr/Documents/crdiv/fsa083instructions.pdf. **[link to be inserted when policy is finalised and updated template published]**

Appendix 4: Draft amendments to reporting template FSA083

Deleted text is shown as struck through, and insertions underlined.

FSA083 Leverage Ratio template

...

Supplementary Data

UK r010	CET1 capital				
Leverage Ratio Buffers					
UK r020	G-SII or SRB additional leverage ratio buffer rate, <u>as applicable</u> (%)				
UK r030	Countercyclical leverage ratio buffer rate (%)				
Capital Surplus / (Shortfall)					
UK r040	Surplus (shortfall) CET1 to 2.4375% minimum CET1 requirement				
UK r050	Surplus (Shortfall) Tier 1 to 3.25% minimum Tier 1 requirement				
UK r060	Surplus (Shortfall) CET1 to 2.4375% minimum CET1 plus buffers				

Appendix 5: Draft amendments to the instructions of reporting template FSA083

This CP proposes amendments where deleted text is shown as struck through, and insertions underlined.

Rows - Supplementary Data

- **UK r020: G-SII or SRB additional leverage ratio buffer rate, as applicable (%)**

Firms that are subject to a requirement to do so to report the buffer rate expressed as a percentage of firms' G-SII or SRB additional leverage ratio buffer (~~G-SII~~ ALRB) as applicable to total exposure measure. If both G-SII buffer and SRB are applicable, then the firm should use the higher buffer rate.

- **UK r060 Surplus / (Shortfall) CET1 to 2.4375% minimum CET1 plus buffers**

Firms to report surplus or shortfall of common equity tier 1 capital to meet the 2.4375% minimum common equity tier 1 capital requirement plus ~~G-SII~~ ALRB (if the firm is subject to a requirement to calculate its ~~G-SII~~ ALRB— if subject to both G-SII buffer and SRB requirements, it should use the higher rate) and countercyclical leverage ratio buffer as applicable. The 2.4375% is calculated as 75% of the 3.25% minimum leverage ratio requirement.