

## PRA RULEBOOK: CRR FIRMS: (LEVERAGE) INSTRUMENT 2021

### Powers exercised

- A. The Prudential Regulation Authority (“PRA”) makes this instrument in the exercise of the following powers and related provisions in the Financial Services and Markets Act 2000 (the “Act”):
- (1) section 137G (the PRA’s general rules);
  - (2) section 137T (General supplementary powers);
  - (3) section 144G(1) (Disapplication or modification of CRR rules);
  - (4) section 144H(1) and (2) (Relationship with the CRR);
  - (5) section 192XA (Rules applying to holding companies); and
  - (6) section 192XC (Disapplication or modification of rules in individual cases).
- 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 so far as these rules are CRR rules within the meaning of section 144A (CRR rules) of the Act, the PRA, when making the rules, had regard to and considered the matters specified in section 144C(1), (2) and (3) of the Act insofar as those sub-sections are applicable to these rules.<sup>1</sup>
- D. In accordance with sections 144C(3) and 144E of the Act the PRA consulted the Treasury about the likely effect of the rules on relevant equivalence decisions within the meaning of section 144C(4) of the Act.
- E. In accordance with section 138J(1)(a) of the Act (consultation by the PRA), the PRA consulted the Financial Conduct Authority.<sup>2</sup>
- F. The PRA published a draft of the proposed rules in accordance with section 138J(1)(b) of the Act, accompanied by the information listed in section 138J(2) and the explanation referred to in section 144D<sup>3</sup> of the Act insofar as that section is applicable to the rules.
- G. The PRA had regard to representations made.

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<sup>1</sup> Section 144D FSMA, section 144E(1) FSMA and section 144E(4-7) FSMA are applied by virtue of section 192 XB FSMA.

<sup>2</sup> Section 144D FSMA, section 144E(1) FSMA and section 144E(4-7) FSMA are applied by virtue of section 192 XB FSMA.

<sup>3</sup> Save where s144E applies.

## PRA RULEBOOK (LEVERAGE) INSTRUMENT 2021

H. The PRA makes the rules in the Annexes to this instrument.

Part	Annex
Glossary	A
Disclosure (CRR)	B
Internal Capital Adequacy Assessment	C
Leverage Ratio (CRR)	D
Leverage Ratio	E
Public Disclosure	F
Reporting (CRR)	G
Reporting Leverage Ratio	H
Leverage Ratio – Capital Requirements and Buffers	I

### Notes

I. In the Annexes to this instrument, the “notes” (indicated by “[Note: ]”) are included for the convenience of readers but do not form part of the legislative text.

### Commencement

J. Annexes A to H to this instrument come into force on 1 January 2022.

K. Annex I to this instrument comes into force on 1 January 2023.

### Citation

L. This instrument may be cited as the PRA Rulebook: CRR Firms: (Leverage) Instrument 2021.

By order of the Prudential Regulation Committee  
[DATE]

## Annex A

### Amendments to the Glossary Part

In the Glossary Part of the PRA Rulebook the following new definitions are inserted.

In this Annex, new text is underlined.

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#### countercyclical leverage ratio buffer

means the amount of common equity tier 1 capital as defined in Article 50 of the CRR a firm or CRR consolidation entity must calculate in accordance with 4.1 and 4.2 of the Leverage Ratio – Capital Requirements and Buffers Part.

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#### leverage ratio

has the meaning provided in Article 429(2) of the Leverage Ratio (CRR) Part.

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#### LREQ basis

means, in respect of an LREQ firm, the basis or bases of application on which the Leverage Ratio – Capital Requirements and Buffers Part applies to that LREQ firm.

#### LREQ firm

means a firm or CRR consolidation entity to which the Leverage Ratio – Capital Requirements and Buffers Part applies in accordance with rule 1.1 of that Part.

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#### tier 1 capital (leverage)

means tier 1 capital as defined in Article 25 of the CRR except that an additional tier 1 capital instrument can only be counted as tier 1 capital (leverage) if it either:

- (a) converts into common equity tier 1 capital; or
- (b) writes down,

when the common equity tier 1 capital ratio of the firm falls below a level equal to either:

- (a) 7%; or
- (b) a level higher than 7%,

as specified in the provisions governing the instrument.

In this definition:

- (a) 'additional tier 1 capital' has the meaning provided in Article 61 of the CRR;

- (b) 'common equity tier 1 capital' has the meaning provided in Article 50 of the *CRR*; and
- (b) 'common equity tier 1 capital ratio' has the meaning provided in Article 92(2)(a) of the *CRR*.

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*total exposure measure*

has the meaning provided in Article 429(4) of the Leverage Ratio (CRR) Part.

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Draft for consultation

## Annex B

### Amendments to the Disclosure (CRR) Part

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

#### 1 APPLICATIONS AND DEFINITIONS

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1.2 In this Part, the following definitions shall apply:

*additional leverage disclosure requirements*

means the requirements specified in:

- (a) Articles 447(e)(ii), 451(2) and (3);
- (b) paragraph 1a of Annex II; and
- (c) paragraph 4a of Annex XII.

*average exposure measure*

means the average *total exposure measure* calculated in accordance with Articles 451(4)(a) or 451(5)(a), as applicable.

*average leverage ratio*

means the average *leverage ratio* calculated in accordance with Articles 451(4)(b) or 451(5)(b), as applicable.

*standard leverage disclosure requirements*

means the requirements specified in Articles 447(e)(i), 451(1), and related requirements in Article 7 of Chapter 5 and annexes XI and XII.

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#### 2 LEVEL OF APPLICATION

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##### **Application of requirements on an individual basis**

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2.3 Large subsidiaries of UK parent institutions, UK parent financial holding companies or UK parent mixed financial holding companies and large subsidiaries of parent undertakings established in a third country, shall disclose the information specified in Articles 437, 438, 440, 442, 450, 451, 451a and 453 on an individual basis or on a sub-consolidated basis.

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##### **Application of leverage disclosure requirements to LREQ firms**

2.10 An LREQ firm shall comply with:

- (a) the standard leverage disclosure requirements on the LREQ basis and any other basis on which this Part applies to the LREQ firm under rules 2.1 to 2.9;
- (b) the additional leverage disclosure requirements on the LREQ basis only.

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#### 4 PART EIGHT CRR

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##### Article 433a DISCLOSURES BY LARGE INSTITUTIONS

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1. Large institutions shall disclose the information outlined below with the following frequency:
  - ...
  - (b) on a semi-annual basis the information referred to in:
    - ...
    - (x) points (a) and ~~(b)~~(c) of Article 451(1);
    - ...
4. Large institutions that are LREQ firms shall disclose the information required under paragraphs (1)(a), (b) and (g), (2) and (3) of Article 451 on a quarterly basis.

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##### Article 433c DISCLOSURES BY OTHER INSTITUTIONS

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1. Institutions that are not subject to Article 433a or 433b shall disclose the information outlined below with the following frequency:
  - ...
  - (c) for such institutions that are LREQ firms, the information required under paragraphs (1)(a), (b) and (g), (2) and (3) of Article 451 on a quarterly basis.

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##### Article 447 DISCLOSURE OF KEY METRICS

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Institutions shall disclose the following key metrics in a tabular format:

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- (e) the following in relation to their leverage ratio:
  - (i) for all institutions, their leverage ratio and total exposure measure;

- (ii) for LREQ firms, the information in Article 451(1)(b) and (g) and 451(2)(b) to (d);

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## Article 451 DISCLOSURE OF THE LEVERAGE RATIO

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1. Institutions shall disclose the following information regarding their *leverage ratio* as calculated in accordance with Article 429 and their management of the risk of excessive leverage:
  - (a) the *leverage ratio*;
  - (b) the *leverage ratio* calculated as if *central bank claims* were required to be included in the *total exposure measure*;
  - (c) a breakdown of the *total exposure measure*, as well as a reconciliation of the *total exposure measure* with the relevant information disclosed in published financial statements;
  - (d) a description of the processes used to manage the risk of excessive leverage;
  - (e) a description of the factors that had an impact on the *leverage ratio* during the period to which the disclosed *leverage ratio* refers;
  - (f) in relation to the quarterly periods up to 31 December 2022, the *leverage ratio* calculated as if Article 468 of the *CRR* did not apply for purposes of the capital measure under Article 429(3);
  - (g) in relation to the quarterly periods up to 31 December 2024, the *leverage ratio* calculated as if Article 473a of the *CRR* did not apply for purposes of the capital measure under Article 429(3);
2. An LREQ firm must disclose each of the following:
  - (a) the *average exposure measure*;
  - (b) the *average leverage ratio*;
  - (c) the *average leverage ratio* calculated as if *central bank claims* were required to be included in the *total exposure measure*; and
  - (d) the *countercyclical leverage ratio buffer*.
3. An LREQ firm must disclose such information as is necessary to enable users to understand changes in the firm's *total exposure measure* and *tier 1 capital (leverage)* over the quarter that have affected the firm's *average leverage ratio*.
4. Subject to paragraph 5:
  - (a) for the purposes of paragraph 2(a) an LREQ firm must calculate its *average exposure measure* for a quarter as the sum of:

- (i) the arithmetic mean of the *firm's total exposure measure* in relation to on-balance sheet assets and securities financing transactions on each day in the quarter; and
  - (ii) the arithmetic mean of the *firm's total exposure measure* excluding on-balance sheet assets and securities financing transactions on the last day of each month in the quarter; and
- (b) for the purposes of paragraphs 2(a) and 3, an *LREQ firm* must calculate its *average leverage ratio* for a quarter as its capital measure divided by its exposure measure where the:
- (i) capital measure is the arithmetic mean of the *firm's tier 1 capital (leverage)* on the last day of each month in the quarter; and
  - (ii) exposure measure is the sum derived in accordance with (a), unless paragraph 5 applies in which case it shall be the sum derived in accordance with that paragraph.
5. In relation to the quarterly periods up to 1 January 2023 an *LREQ firm* must calculate its *average exposure measure* for a quarter as the sum of:
- (i) the arithmetic mean of the *firm's total exposure measure* in relation to on-balance sheet assets on each day in the quarter; and
  - (ii) the arithmetic mean of the *firm's total exposure measure* excluding on-balance sheet assets on the last day of each month in the quarter.

[Note: This rule corresponds to Article 451 of the *CRR* as it applied immediately before revocation by the *Treasury*.]

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## **Article 7 DISCLOSURE OF THE LEVERAGE RATIO**

Institutions shall make the disclosures on the leverage ratio, required in Article 451 of the *CRR* as follows:

- (a) For the disclosures required in Article 451 of the *CRR*, other than those required in points (d) and (e) of Article 451(1), in accordance with the Templates UK LR1, UK LR2 and UK LR3 of Annex XI and the relevant instructions set out in Annex XII.
- (b) For the disclosures required in points (d) and (e) of Article 451(1) of the *CRR*, in accordance with the Table UK LRA of Annex XI and the relevant instructions set out in Annex XII.

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## 6. PILLAR 3 TEMPLATES AND INSTRUCTIONS

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3.3. Annex I Template UK KM1 can be found ~~here~~here.

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3.7. Annex II can be found ~~here~~here.

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3.25. Annex XI can be found here.

3.26. Annex XII can be found here.

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## Annex C

### Amendments to the Internal Capital Adequacy Assessment Part

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

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#### 11 RISK OF EXCESSIVE LEVERAGE

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11.2 Those policies and procedures must include, as an indicator for the *risk of excessive leverage*, the ~~leverage ratio~~leverage ratio determined in accordance with Article 429(2) of the CRR and mismatches between assets and obligations.

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## Annex D

### Leverage Ratio (CRR) Part

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

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Part

## LEVERAGE RATIO (CRR)

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Article 429a EXPOSURES EXCLUDED FROM THE TOTAL EXPOSURE MEASURE

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Article 429f CALCULATION OF THE EXPOSURE VALUE OF OFF-BALANCE SHEET  
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Article 429g CALCULATION OF THE EXPOSURE VALUE OF REGULAR-WAY  
PURCHASES AND SALES AWAITING SETTLEMENT

## 1 APPLICATION AND DEFINITIONS

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1.1 This Part applies when a *CRR firm* or *CRR consolidation entity* is calculating its *leverage ratio*, or components of its *leverage ratio*.

1.2 In this Part, the following definitions shall apply:

### *central bank claim*

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

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

### *clearing member*

means a clearing member as defined in point (14) of Article 2 of Regulation (EU) No 648/2012.

### *client*

means a client as defined in point (15) of Article 2 of Regulation (EU) No 648/2012 or an undertaking that has established *indirect clearing arrangements* with a *clearing member* in accordance with Article 4(3) of that Regulation.

### *deposit*

has the meaning given in the Table of Part 2 of Annex II to Regulation (EU) No 1071/2013 of the European Central Bank of 24 September 2013 concerning the balance sheet of the monetary financial institutions sector as it had effect immediately before *IP completion day*.

### *higher-level client*

means an entity providing clearing services to a *lower-level client*.

### *indirect clearing arrangement*

means an arrangement that meets the conditions set out in the second subparagraph of Article 4(3) of Regulation (EU) No 648/2012.

### *long settlement transactions*

means transactions where a counterparty undertakes to deliver a security, a commodity, or a foreign exchange amount against cash, other financial instruments, or commodities, or vice versa, at a settlement or delivery date specified by contract that is later than the market standard for this particular type of transaction or five business days after the date on which the institution enters into the transaction, whichever is earlier.

*lower-level client*

means an entity accessing the services of a central counterparty through a *higher-level client*.

*multi-level client structure*

means an *indirect clearing arrangement* under which clearing services are provided to an institution by an entity which is not a clearing member, but is itself a *client* of a *clearing member* or of a *higher-level client*.

*original exposure method*

means the method set out in Section 5 of Chapter 3 (Part Three, Title Two, Chapter Six CRR) of the Counterparty Credit Risk (CRR) Part of the *PRA Rulebook*.

*net independent collateral amount*

means the sum of the volatility-adjusted value of net collateral received or posted, as applicable, to the netting set other than variation margin.

*simplified standardised approach for counterparty credit risk*

means the method set out in Section 4 of Chapter 3 (Part Three, Title Two, Chapter Six CRR) of the Counterparty Credit Risk (CRR) Part of the *PRA Rulebook*.

*standardised approach for counterparty credit risk*

means the method set out in Section 3 of Chapter 3 (Part Three, Title Two, Chapter Six CRR) of the Counterparty Credit Risk (CRR) Part of the *PRA Rulebook*.

## **2 LEVEL OF APPLICATION**

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- 2.1 When applying this Part in accordance with 1.1 the *firm* or *CRR consolidation entity* shall apply it on the same basis of application as required by the *PRA* rule or other provision for the purpose of which the calculation is being performed.

## **3 LEVERAGE RATIO (PART SEVEN CRR)**

### **Article 429**

### **CALCULATION OF THE LEVERAGE RATIO**

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1. Institutions shall calculate their *leverage ratio* in accordance with the methodology set out in paragraphs 2, 3 and 4.
2. The *leverage ratio* shall be calculated as an institution's capital measure divided by that institution's *total exposure measure* and shall be expressed as a percentage.

3. For the purposes of paragraph 2, the capital measure shall be *tier 1 capital (leverage)*.
4. For the purposes of paragraph 2, the *total exposure measure* shall be the sum of the exposure values of:
  - (a) assets, excluding derivative contracts listed in Annex II of the *CRR*, credit derivatives and the add-ons for counterparty credit risk for securities financing transactions referred to in Article 429e, calculated in accordance with Article 429b(1);
  - (b) derivative contracts listed in Annex II of the *CRR* and credit derivatives, including those contracts and credit derivatives that are off-balance-sheet, calculated in accordance with Articles 429c and 429d;
  - (c) add-ons for counterparty credit risk of securities financing transactions, including those that are off-balance-sheet, calculated in accordance with Article 429e;
  - (d) off-balance-sheet items, excluding derivative contracts listed in Annex II of the *CRR*, credit derivatives, securities financing transactions and positions referred to in Articles 429d and 429g, calculated in accordance with Article 429f; and
  - (e) regular-way purchases or sales awaiting settlement, calculated in accordance with Article 429g.

Institutions shall treat *long settlement transactions* in accordance with points (a) to (d) of the first subparagraph, as applicable.

Institutions may reduce the exposure values referred to in points (a) and (d) of the first subparagraph by the corresponding amount of general credit risk adjustments to on- and off-balance-sheet items, respectively, subject to a floor of 0 where the credit risk adjustments have reduced the *tier 1 capital (leverage)*.

5. Point (d) of paragraph 4 applies subject to the following provisions:
  - (a) an off-balance-sheet item in accordance with point (d) of paragraph 4 that is treated as a derivative in accordance with the applicable accounting framework shall be subject to the treatment set out in point (b) of that paragraph;
  - (b) where a *client* of an institution acting as a *clearing member* enters directly into a derivative transaction with a central counterparty and the institution guarantees the performance of its *client's* trade exposures to the central counterparty arising from that transaction, the institution shall calculate its exposure resulting from the guarantee in accordance with point (b) of paragraph 4, as if that institution had entered directly into the transaction with the *client*, including with regard to the receipt or provision of cash variation margin.

The treatment set out in point (b) of the first subparagraph shall also apply to an institution acting as a *higher-level client* that guarantees the performance of its client's trade exposures.

For the purposes of point (b) of the first subparagraph and of the second subparagraph of this paragraph, institutions may consider an affiliated entity as a *client* only where that entity is outside

the regulatory scope of consolidation at the level at which the requirement set out in point (d) of Article 92(3) is applied.

6. For the purposes of point (e) of paragraph 4 of this Article and Article 429g, 'regular-way purchase or sale' means a purchase or a sale of a security under contracts for which the terms require delivery of the security within the period established generally by law or convention in the marketplace concerned.
7. Unless otherwise expressly provided for in this Part, institutions shall calculate the total exposure measure in accordance with the following principles:
  - (a) physical or financial collateral, guarantees or credit risk mitigation purchased shall not be used to reduce the total exposure measure;
  - (b) assets shall not be netted with liabilities.

[Note: This rule corresponds to Article 429 of the *CRR* as it applied immediately before revocation by the *Treasury*.]

#### **Article 429a**                      **EXPOSURES EXCLUDED FROM THE TOTAL EXPOSURE MEASURE**

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- A1 By way of derogation from Article 429(4), a *central bank claim* of a *firm* shall be netted off against a *deposit* accepted by the *firm*, provided that:
- (a) the *central bank claim* and *deposit* are denominated in the same currency; and
  - (b) where applicable, the date of contractual maturity of the *central bank claim* is the same as, or is before, the date of contractual maturity of the *deposit*.
1. By way of derogation from Article 429(4), an institution may exclude any of the following exposures from its *total exposure measure*:
- (a) the amounts deducted from Common Equity Tier 1 items in accordance with point (d) of Article 36(1);
  - (b) any items, other than liabilities, deducted in the calculation of the capital measure referred to in Article 429(3);
  - (c) exposures that are assigned a risk weight of 0% in accordance with Article 113(6) provided that the *PRA* has also given permission to the institution under this rule;

The *PRA* may grant that permission only where all the conditions set out in points (a) to (e) of Article 113(6) are met and where the *PRA* has given the approval laid down in Article 113(6).

[Note: This is a permission created under sections 144G and 192XC of *FSMA* to which Part 8 of the *Capital Requirements Regulations* applies.]

- (d) [Note: Provision left blank]

- (e) [Note: Provision left blank]
  - (f) [Note: Provision left blank]
  - (g) where the institution is a *clearing member* of a qualifying central counterparty, the trade exposures of that institution, provided that they are cleared with that qualifying central counterparty and meet the conditions set out in point (c) of Article 306(1);
  - (h) where the institution is a *higher-level client* within a *multi-level client structure*, the trade exposures to the *clearing member* or to an entity that serves as a *higher-level client* to that institution, provided that the conditions set out in Article 305(2) are met and provided that the institution is not obligated to reimburse its *client* for any losses suffered in the event of default of either the *clearing member* or the qualifying central counterparty;
  - (i) fiduciary assets which meet all the following conditions:
    - (i) they are recognised on the institution's balance sheet;
    - (ii) they meet the criteria for non-recognition set out in International Financial Reporting Standard (IFRS) 9, as applied under UK-adopted international accounting standards;
    - (iii) they meet the criteria for non-consolidation set out in IFRS 10, as applied under UK-adopted international accounting standards, where applicable;
  - (j) exposures that meet all the following conditions:
    - (i) they are exposures to a public sector entity;
    - (ii) they are treated in accordance with Article 116(4);
    - (iii) they arise from deposits that the institution is legally obliged to transfer to the public sector entity referred to in point (i) for the purpose of funding general interest investments;
    - (iv) provided that the PRA has also granted permission under this rule.
- [Note: This is a permission created under sections 144G and and 192XC of FSMA to which Part 8 of the *Capital Requirements Regulations* applies.]
- (k) the excess collateral deposited at tri-party agents that has not been lent out;
  - (l) where under the applicable accounting framework an institution recognises the variation margin paid in cash to its counterparty as a receivable asset, the receivable asset, provided that the conditions set out in points (a) to (e) of Article 429c(3) are met;
  - (m) the securitised exposures from traditional securitisations that meet the conditions for significant risk transfer set out in Article 244(2);
  - (n) [Note: Provision left blank]
  - (o) [Note: Provision left blank]
  - (p) [Note: Provision left blank]

- (r) loans made by the *firm* pursuant to:
  - (i) the Bounce Back Loan scheme announced by Her Majesty's Government on 27 April 2020; or
  - (ii) schemes supporting lending to small and medium-sized businesses which are located in an *EEA State* in the course of the Coronavirus pandemic, provided that such loans were created before 1 January 2022, do not exceed €60,000 per loan and are subject to a 100% guarantee provided by an *EEA State* or central bank of an *EEA State* or the European Central Bank.

For the purposes of point (m) of the first subparagraph, institutions shall include any retained exposure in the *total exposure measure*.

- 2. [Note: Provision left blank]
- 3. [Note: Provision left blank]
- 4. Institutions shall not exclude the trade exposures referred to in points (g) and (h) of paragraph 1 of this Article, where the condition set out in the third subparagraph of Article 429(5) is not met.
- 5. [Note: Provision left blank]
- 6. [Note: Provision left blank]
- 7. [Note: Provision left blank]

#### Article 429b

#### CALCULATION OF THE EXPOSURE VALUE OF ASSETS

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- 1. Institutions shall calculate the exposure value of assets, excluding derivative contracts listed in Annex II of the *CRR*, credit derivatives and the add-ons for counterparty credit risk for securities financing transactions referred to in Article 429e, in accordance with the following principles:
  - (a) the exposure values of assets means an exposure value as referred to in the first sentence of Article 111(1);
  - (b) securities financing transactions shall not be netted.
- 2. Subject to the remaining subparagraphs, a cash pooling arrangement offered by an institution does not violate the condition set out in point (b) of Article 429(7) only where the arrangement meets both of the following conditions:
  - (a) the institution offering the cash pooling arrangement transfers the credit and debit balances of several individual accounts of entities of a group included in the arrangement ('original accounts') into a separate, single account and thereby sets the balances of the original accounts to zero;
  - (b) the institution carries out the actions referred to in point (a) of this subparagraph on a daily basis.

For the purposes of this paragraph and paragraph 3, cash pooling arrangement means an arrangement whereby the credit or debit balances of several individual accounts are combined for the purposes of cash or liquidity management.

3. By way of derogation from paragraph 2 of this Article, a cash pooling arrangement that does not meet the condition set out in point (b) of that paragraph, but meets the condition set out in point (a) of that paragraph, does not violate the condition set out in point (b) of Article 429(7), provided that the arrangement meets all the following conditions:
  - (a) the institution has a legally enforceable right to set off the balances of the original accounts through the transfer into a single account at any point in time;
  - (b) there are no maturity mismatches between the balances of the original accounts;
  - (c) the institution charges or pays interest based on the combined balance of the original accounts;
  - (d) the frequency by which the balances of all original accounts are transferred is adequate for the purpose of including only the combined balance of the cash pooling arrangement in the total exposure measure.
4. By way of derogation from point (b) of paragraph 1, institutions may calculate the exposure value of cash receivable and cash payable under securities financing transactions with the same counterparty on a net basis only where all the following conditions are met:
  - (a) the transactions have the same explicit final settlement date;
  - (b) the right to set off the amount owed to the counterparty with the amount owed by the counterparty is legally enforceable in the normal course of business and in the event of default, insolvency and bankruptcy;
  - (c) the counterparties intend to settle on a net basis or to settle simultaneously, or the transactions are subject to a settlement mechanism that results in the functional equivalent of net settlement.
5. For the purposes of point (c) of paragraph 4, institutions may consider that a settlement mechanism results in the functional equivalent of net settlement only where, on the settlement date, the net result of the cash flows of the transactions under that mechanism is equal to the single net amount under net settlement and all the following conditions are met:
  - (a) the transactions are settled through the same settlement system or settlement systems using a common settlement infrastructure;
  - (b) the settlement arrangements are supported by cash or intraday credit facilities intended to ensure that the settlement of the transactions will occur by the end of the business day;
  - (c) any issues arising from the securities legs of the securities financing transactions do not interfere with the completion of the net settlement of the cash receivables and payables.

The condition set out in point (c) of the first subparagraph is met only where the failure of any securities financing transaction in the settlement mechanism may delay settlement of only the matching cash leg or may create an obligation to the settlement mechanism, supported by an associated credit facility.

Where there is a failure of the securities leg of a securities financing transaction in the settlement mechanism at the end of the window for settlement in the settlement mechanism, institutions shall split out this transaction and its matching cash leg from the netting set and treat them on a gross basis.

#### Article 429c

#### CALCULATION OF THE EXPOSURE VALUE OF DERIVATIVES

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1. Institutions shall calculate the exposure value of derivative contracts listed in Annex II of the *CRR* and of credit derivatives, including those that are off-balance-sheet, in accordance with the *standardised approach for counterparty credit risk*.

When calculating the exposure value, institutions may take into account the effects of contracts for novation and other netting agreements in accordance with Article 295. Institutions shall not take into account cross-product netting, but may net within the product category as referred to in point (25)(c) of Article 272 and credit derivatives where they are subject to a contractual cross-product netting agreement as referred to in point (c) of Article 295.

Institutions shall include in the total exposure measure sold options even where their exposure value can be set to zero in accordance with the treatment laid down in Article 274(5).

2. Where the provision of collateral related to derivative contracts reduces the amount of assets under the applicable accounting framework, institutions shall reverse that reduction.
3. For the purposes of paragraph 1 of this Article, institutions calculating the replacement cost of derivative contracts in accordance with Article 275 may recognise only collateral received in cash from their counterparties as the variation margin referred to in Article 275, where the applicable accounting framework has not already recognised the variation margin as a reduction of the exposure value and where all the following conditions are met:
  - (a) for trades not cleared through a qualifying central counterparty, the cash received by the recipient counterparty is not segregated;
  - (b) the variation margin is calculated and exchanged at least daily based on a mark-to-market valuation of derivatives positions;
  - (c) the variation margin received is in a currency specified in the derivative contract, governing master netting agreement, credit support annex to the qualifying master netting agreement or as defined by any netting agreement with a qualifying central counterparty;

- (d) the variation margin received is the full amount that would be necessary to extinguish the mark-to-market exposure of the derivative contract subject to the threshold and minimum transfer amounts that are applicable to the counterparty;
- (e) the derivative contract and the variation margin between the institution and the counterparty to that contract are covered by a single netting agreement that the institution may treat as risk-reducing in accordance with Article 295.

Where an institution provides cash collateral to a counterparty and that collateral meets the conditions set out in points (a) to (e) of the first subparagraph, the institution shall consider that collateral as the variation margin posted with the counterparty and shall include it in the calculation of the replacement cost.

For the purposes of point (b) of the first subparagraph, an institution shall be considered to have met the condition set out therein where the variation margin is exchanged on the morning of the trading day following the trading day on which the derivative contract was stipulated, provided that the exchange is based on the value of the contract at the end of the trading day on which the contract was stipulated.

For the purposes of point (d) of the first subparagraph, where a margin dispute arises, institutions may recognise the amount of non-disputed collateral that has been exchanged.

- 4. For the purposes of paragraph 1 of this Article, institutions shall not include collateral received in the calculation of the *net independent collateral amount*, except in the case of derivative contracts with *clients* where those contracts are cleared by a qualifying central counterparty.
- 5. For the purposes of paragraph 1 of this Article, institutions shall set the value of the multiplier used in the calculation of the potential future exposure in accordance with Article 278(1) to one, except in the case of derivative contracts with *clients* where those contracts are cleared by a qualifying central counterparty.
- 6. By way of derogation from paragraph 1 of this Article, institutions may use the *simplified standardised approach for counterparty credit risk* or the *original exposure method* to determine the exposure value of derivative contracts listed in points 1 and 2 of Annex II of the *CRR*, but only where they also use that method for determining the exposure value of those contracts for the purpose of meeting the own funds requirements set out in Article 92.

Where institutions apply one of the methods referred to in the first subparagraph, they shall not reduce the total exposure measure by the amount of margin they have received.

[Note: This rule corresponds to paragraphs (1) to (4) and (8) of Article 429A of the *CRR* as it applied immediately before revocation by the *Treasury*.]

**Article 429d**                      **ADDITIONAL PROVISIONS ON THE CALCULATION OF THE EXPOSURE  
VALUE OF WRITTEN CREDIT DERIVATIVES**

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1. For the purposes of this Article, 'written credit derivative' means any financial instrument through which an institution effectively provides credit protection including credit default swaps, total return swaps and options where the institution has the obligation to provide credit protection under conditions specified in the options contract.
2. In addition to the calculation laid down in Article 429c, institutions shall include in the calculation of the exposure value of written credit derivatives the effective notional amounts referenced in the written credit derivatives reduced by any negative fair value changes that have been incorporated in *tier 1 capital (leverage)* with respect to those written credit derivatives.

Institutions shall calculate the effective notional amount of written credit derivatives by adjusting the notional amount of those derivatives to reflect the true exposure of the contracts that are leveraged or otherwise enhanced by the structure of the transaction.

3. Institutions may fully or partly reduce the exposure value calculated in accordance with paragraph 2 by the effective notional amount of purchased credit derivatives, provided that all the following conditions are met:
  - (a) the remaining maturity of the purchased credit derivative is equal to or greater than the remaining maturity of the written credit derivative;
  - (b) the purchased credit derivative is otherwise subject to the same or more conservative material terms as those in the corresponding written credit derivative;
  - (c) the purchased credit derivative is not purchased from a counterparty that would expose the institution to Specific Wrong-Way risk, as defined in point (b) of Article 291(1);
  - (d) where the effective notional amount of the written credit derivative is reduced by any negative change in fair value incorporated in the institution's *tier 1 capital (leverage)*, the effective notional amount of the purchased credit derivative is reduced by any positive fair value change that has been incorporated in *tier 1 capital (leverage)*;
  - (e) the purchased credit derivative is not included in a transaction that has been cleared by the institution on behalf of a *client* or that has been cleared by the institution in its role as a *higher-level client* in a *multi-level client structure* and for which the effective notional amount referenced by the corresponding written credit derivative is excluded from the *total exposure measure* in accordance with point (g) or (h) of the first subparagraph of Article 429a(1), as applicable.

For the purpose of calculating the potential future exposure in accordance with Article 429c(1), institutions may exclude from the netting set the portion of a written credit derivative which is not

offset in accordance with the first subparagraph of this paragraph and for which the effective notional amount is included in the *total exposure measure*.

4. For the purposes of point (b) of paragraph 3:
  - (a) If an institution provides written protection via some type of credit derivative, the institution may only recognise offsetting from another purchased credit derivative to the extent that the purchased protection is certain to deliver a payment in all potential future states;
  - (b) 'material term' means any characteristic of the credit derivative that is relevant to the valuation thereof, including the level of subordination, the optionality, the credit events, the underlying reference entity or pool of entities, and the underlying reference obligation or pool of obligations, with the exception of the notional amount and the residual maturity of the credit derivative; and
  - (c) two reference names shall be the same only where they refer to the same legal entity.
5. By way of derogation from point (b) of paragraph 3, institutions may use purchased credit derivatives on a pool of reference names to offset written credit derivatives on individual reference names within that pool where the pool of reference entities and the level of subordination in both transactions are the same.
6. Institutions shall not reduce the effective notional amount of written credit derivatives where they buy credit protection through a total return swap and record the net payments received as net income, but do not record any offsetting deterioration in the value of the written credit derivative in *tier 1 capital (leverage)*.
7. In the case of purchased credit derivatives on a pool of reference obligations:
  - (a) institutions may reduce the effective notional amount of written credit derivatives on individual reference obligations by the effective notional amount of purchased credit derivatives in accordance with paragraph 3 only where the protection purchased is economically equivalent to buying protection separately on each of the individual obligations in the pool;
  - (b) if an institution purchases credit protection on a pool of reference names through credit derivatives, but the credit protection purchased does not cover the entire pool, then the written credit derivatives on the individual reference names may not be offset;
  - (c) by way of derogation from (a) and (b), purchased credit protection may offset written credit derivatives on a pool where the credit protection purchased through credit derivatives covers the entirety of the subset of the pool on which the credit protection has been sold.

[Note: This rule corresponds to paragraphs (5) to (7) of Article 429A of the *CRR* as it applied immediately before revocation by the *Treasury*.]

## Article 429e COUNTERPARTY CREDIT RISK ADD-ON FOR SECURITIES FINANCING TRANSACTIONS

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1. In addition to the calculation of the exposure value of securities financing transactions, including those that are off-balance-sheet in accordance with Article 429b(1), institutions shall include in the *total exposure measure* an add-on for counterparty credit risk calculated in accordance with paragraph 2 or 3 of this Article, as applicable.
2. Institutions shall calculate the add-on for transactions with a counterparty that are not subject to a master netting agreement that meets the conditions set out in Article 206 on a transaction-by-transaction basis in accordance with the following formula:

$$E_i^* = \max\{0, E_i - C_i\}$$

where:

$E_i^*$  = the add-on;

$i$  = the index that denotes the transaction;

$E_i$  = the fair value of securities or cash lent to the counterparty under transaction  $i$ ; and

$C_i$  = the fair value of securities or cash received from the counterparty under transaction  $i$ .

Institutions may set  $E_i^*$  equal to zero where  $E_i$  is the cash lent to a counterparty and the associated cash receivable is not eligible for the netting treatment set out in Article 429b(4).

3. Institutions shall calculate the add-on for transactions with a counterparty that are subject to a master netting agreement that meets the conditions set out in Article 206 on an agreement-by-agreement basis in accordance with the following formula:

$$E_i^* = \max\left\{0, \sum_i E_i - \sum_i C_i\right\}$$

where:

$E_i^*$  = the add-on;

$i$  = the index that denotes the netting agreement;

$E_i$  = the fair value of securities or cash lent to the counterparty for the transactions that are subject to master netting agreement  $i$ ; and

$C_i$  = the fair value of securities or cash received from the counterparty that is subject to master netting agreement  $i$ .

4. For the purposes of paragraphs 2 and 3, the term counterparty includes also tri-party agents that receive collateral in deposit and manage the collateral in the case of tri-party transactions.
5. By way of derogation from paragraph 1 of this Article, institutions may use the method set out in Article 222, subject to a 20% floor for the applicable risk weight, to determine the add-on for

securities financing transactions including those that are off-balance-sheet. Institutions may use that method only where they also use it for calculating the exposure value of those transactions for the purpose of meeting the own funds requirements as set out in points (a), (b) and (c) of Article 92(1).

6. Where sale accounting is achieved for a repurchase transaction under the applicable accounting framework, the institution shall reverse all sales-related accounting entries.
7. Where an institution acts as an agent between two parties in a securities financing transaction, including an off-balance-sheet transaction, the following provisions shall apply to the calculation of the institution's *total exposure measure*:
  - (a) where the institution provides an indemnity or guarantee to one of the parties in the securities financing transaction and the indemnity or guarantee is limited to any difference between the value of the security or cash the party has lent and the value of collateral the borrower has provided, the institution shall only include the add-on calculated in accordance with paragraph 2 or 3, as applicable, in the *total exposure measure*;
  - (b) where the institution does not provide an indemnity or guarantee to any of the involved parties, the transaction shall not be included in the *total exposure measure*;
  - (c) where the institution is economically exposed to the underlying security or the cash in the transaction to an amount greater than the exposure covered by the add-on, it shall include in the *total exposure measure* also the full amount of the security or the cash to which it is exposed;
  - (d) where the institution acting as agent provides an indemnity or guarantee to both parties involved in a securities financing transaction, the institution shall calculate its total exposure measure in accordance with points (a), (b) and (c) separately for each party involved in the transaction.

[Note: This rule corresponds to Article 429B of the *CRR* as it applied immediately before revocation by the *Treasury*.]

#### Article 429f

#### CALCULATION OF THE EXPOSURE VALUE OF OFF-BALANCE SHEET ITEMS

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1. Institutions shall calculate, in accordance with Article 111(1), the exposure value of off-balance-sheet items, excluding derivative contracts listed in Annex II of the *CRR*, credit derivatives, securities financing transactions and positions referred to in Article 429d.

Where a commitment refers to the extension of another commitment, Article 166(9) shall apply.

2. By way of derogation from paragraph 1, institutions may reduce the credit exposure equivalent amount of an off-balance-sheet item by the corresponding amount of specific credit risk adjustments. The calculation shall be subject to a floor of zero.

3. By way of derogation from paragraph 1 of this Article, institutions shall apply a conversion factor of 10% to low-risk off-balance-sheet items referred to in point (d) of Article 111(1).

**Article 429g**                      **CALCULATION OF THE EXPOSURE VALUE OF REGULAR-WAY PURCHASES AND SALES AWAITING SETTLEMENT**

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1. Institutions shall treat cash related to regular-way sales and securities related to regular-way purchases which remain on the balance sheet until the settlement date as assets in accordance with point (a) of Article 429(4).
2. Institutions that, in accordance with the applicable accounting framework, apply trade date accounting to regular-way purchases and sales which are awaiting settlement shall reverse out any offsetting between cash receivables for regular-way sales awaiting settlement and cash payables for regular-way purchase awaiting settlement allowed under that framework. After institutions have reversed out the accounting offsetting, they may offset between those cash receivables and cash payables where both the related regular-way sales and purchases are settled on a delivery-versus-payment basis.
3. Institutions that, in accordance with the applicable accounting framework, apply settlement date accounting to regular-way purchases and sales which are awaiting settlement shall include in the total exposure measure the full nominal value of commitments to pay related to regular-way purchases.

Institutions may offset the full nominal value of the commitments to pay related to regular-way purchases by the full nominal value of cash receivables related to regular-way sales awaiting settlement only where both of the following conditions are met:

- (a) both the regular-way purchases and sales are settled on a delivery-versus-payment basis;
- (b) the financial assets bought and sold that are associated with cash payables and receivables are fair valued through profit and loss and included in the institution's trading book.

[Note: This rule corresponds to Article 500d of the *CRR* as it applied immediately before revocation by the *Treasury*.]

## Annex E

### Amendments to the Leverage Ratio Part

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

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Part

# **LEVERAGE RATIO – CAPITAL REQUIREMENTS AND BUFFERS**

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...

## **1 APPLICATIONS AND DEFINITIONS**

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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:

(a) an individual basis;

(b) if the *firm* is a *UK parent institution*, on the basis of its *consolidated situation*; or

(c) if the *firm* is controlled by a *UK parent financial holding company* or by a *UK parent mixed financial holding company* and the *PRA* is responsible for supervision of that holding company on a *consolidated basis*, on the basis of the *consolidated situation* of that holding company; and

(1A) every *CRR consolidation entity* that is, or that controls, a *UK bank* or a *building society* and that, on the *CRR consolidation entity's* last accounting reference date, had retail deposits equal to or greater than £50 billion on the basis of its *consolidated situation*; and

(2) a *ring-fenced body* that is required to comply with Parts Two and Three of the *CRR* on a *sub-consolidated basis* and is a member of a *group* containing a ~~*firm*~~ an entity falling within ~~1.1(1)~~ 1.1(1) or 1.1(1A).

1.2 In this Part, the following definitions shall apply:

...

~~*central bank claims*~~

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

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

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

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

~~*countercyclical leverage ratio buffer*~~

~~means the amount of *common equity tier 1 capital* a firm must calculate in accordance with 4.1 and 4.2.~~

~~*deposit*~~

~~has the meaning given in 30, Part 1, Annex V (Reporting on financial information) for the purposes of the European Banking Authority's Implementing Technical Standards amending the Commission's Implementing Regulation (EU) No 680/2014 on supervisory reporting under Regulation (EU) No 575/2013 of the European Parliament and of the Council the Table of Part 2 of Annex II to Regulation (EU) No 1071/2013 of the European Central Bank of 24 September 2013 concerning the balance sheet of the monetary financial institutions sector as it had effect in EU law immediately before *IP completion day*.~~

~~...~~

~~*leverage ratio*~~

~~means a firm's *tier 1 capital* divided by its *total exposure measure*, with this ratio expressed as a percentage.~~

~~*retail deposit*~~

~~means *deposits* from "households" as defined in paragraph 42(f) of Part 1 of Annex V to the Reporting (CRR) Part 35(f), Part 1, Annex V (Reporting on financial information) for the purposes of the European Banking Authority's Implementing Technical Standards amending the Commission's Implementing Regulation (EU) No 680/2014 on supervisory reporting under Regulation (EU) No 575/2013 of the European Parliament and of the Council.~~

~~*tier 1 capital*~~

~~has the meaning given by Article 25 of the *CRR* except that:~~

~~(1) an *additional tier 1 capital* instrument can only be counted as *tier 1 capital* if it either:~~

~~(a) converts into *common equity tier 1 capital*; or~~

~~(b) writes down,~~

~~when the *common equity tier 1 capital ratio* of the firm falls below a level equal to either:~~

~~(a) 7%; or~~

~~(b) a level higher than 7%;~~

~~as specified in the provisions governing the instrument; and~~

~~(2) instruments that qualify for grandfathering under Article 483 of the *CRR* can be counted as *tier 1 capital*.~~

~~*total exposure measure*~~

has the meaning given by Article 429(4) of the *CRR*, as amended by the Commission Delegated Regulation (EU) 2015/62, save that a *central bank claim* of a *firm* shall be netted off against a *deposit* accepted by the *firm*, provided that:

1. ~~(1) the *central bank claim* and *deposit* are denominated in the same currency; and~~
2. ~~(2) where applicable, the date of contractual maturity of the *central bank claim* is the same as, or is before, the date of contractual maturity of the *deposit*.~~

...

## 2 BASIS OF APPLICATION

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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*. Where a *firm* has been given permission under Article 9(1) of the *CRR* it shall incorporate relevant *subsidiaries* in the calculation undertaken to comply with rule 2.1.

2.2 A ~~*CRR consolidation entity firm* that is a *UK parent institution*~~ must comply with this Part on the basis of its *consolidated situation*.

2.2A The expression “consolidated situation” applies for the purposes of this Part as it does for the purposes of Parts Two and Three of the *CRR*.

[Note: the term “consolidation situation” is defined in Article 4(1)(47) of the *CRR*]

2.2B For the purposes of 2.2, references to a *firm* in this Part (other than in 1.1) include a *CRR consolidation entity*.

2.3 A *firm* that is controlled by a ~~*UK parent financial holding company* or a *UK parent mixed financial holding company*~~ for which the *PRA* is responsible for supervision on a *consolidated basis* must comply with this Part on the basis of the *consolidated situation* of that holding company. ~~[deleted]~~

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* which is required to comply with Parts Two and Three of the *CRR* on a *sub-consolidated basis*, must comply with this Part on the same basis.

## 3 MINIMUM LEVERAGE RATIO

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- 3.1 A firm must hold sufficient ~~tier 1 capital~~ tier 1 capital (leverage) to maintain, at all times, a minimum *leverage ratio* of 3.25%.
- 3.2 For the purposes of complying with 3.1, at least 75% of the firm's ~~tier 1 capital~~ tier 1 capital (leverage) must consist of *common equity tier 1 capital*.

...

Draft for consultation

## Annex F

### Amendments to the Public Disclosure Part

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

#### 1 APPLICATIONS AND DEFINITIONS

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...

1.2 In this Part, the following definitions shall apply: ~~[deleted]~~

*average exposure measure*

~~means the average exposure measure calculated in accordance with 3.7(1) or 3.8(1), as applicable.~~

*average leverage ratio*

~~means the average leverage ratio calculated in accordance with 3.7(2) or 3.8(2), as applicable.~~

*countercyclical leverage ratio buffer*

~~has the meaning given in Leverage Ratio 1.2.~~

*CRR leverage ratio*

~~means the leverage ratio disclosed by the firm in accordance with Article 451 of the CRR.~~

*leverage ratio*

~~has the meaning given in Leverage Ratio 1.2.~~

*retail deposit*

~~has the meaning given in Leverage Ratio 1.2.~~

*tier 1 capital*

~~has the meaning given in Leverage Ratio 1.2.~~

*total exposure measure*

~~has the meaning given in Leverage Ratio 1.2.~~

...

#### 3 PUBLIC DISCLOSURE OF LEVERAGE RATIO ~~[deleted]~~

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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:~~

- (a) an individual basis;
  - (b) if the *firm* is a *UK parent institution* on the basis of its *consolidated situation*; or
  - (c) if the *firm* is controlled by a *UK parent financial holding company* or by a *UK parent mixed financial holding company* and the *PRA* is responsible for supervision of that holding company on a *consolidated basis*, on the basis of the *consolidated situation* of that holding company; and
- (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 *UK parent institution* must comply with this Chapter on the basis of its *consolidated situation*;
- (3) controlled by a *UK parent financial holding company* or a *UK parent mixed financial holding company* for which the *PRA* is responsible for supervision on a *consolidated basis* 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*.

#### Disclosure requirements

#### 3.3 A *firm* must disclose each of the following quarterly as at the relevant quarterly end date:

- (1) *leverage ratio*;
- (2) *average exposure measure*;
- (3) *average leverage ratio*; and
- (4) *countercyclical leverage ratio buffer*.

#### 3.4 A *firm* must disclose quarterly such information as is necessary to enable users to understand changes in the *firm's* total exposure measure and tier 1 capital over the quarter that have affected the *firm's* average leverage ratio.

#### 3.5 Subject to 3.6, a *firm* must disclose the items specified in 3.3 and 3.4 in the medium or location that the *firm* considers appropriate.

#### 3.6 When a *firm* discloses its *CRR leverage ratio*, the *firm* must disclose:

- (1) the items specified in 3.3 and 3.4 as at the same reference date as the *firm's CRR leverage ratio* disclosure; and

~~(2) the reasons for any differences between the firm's leverage ratio and the firm's CRR leverage ratio as at that reference date;~~

~~in the same media or location as the firm discloses its CRR leverage ratio.~~

3.7 Subject to 3.8:

~~(1) for the purposes of 3.3(2) a firm must calculate its average exposure measure for a quarter as the sum of:~~

~~(a) the arithmetic mean of the firm's total exposure measure in relation to on-balance sheet assets on each day in the quarter; and~~

~~(b) the arithmetic mean of the firm's total exposure measure excluding on-balance sheet assets on the last day of each month in the quarter; and~~

~~(2) for the purposes of 3.3(3) and 3.4 a firm must calculate its average leverage ratio for a quarter as its capital measure divided by its exposure measure where the:~~

~~(a) capital measure is the arithmetic mean of the firm's tier 1 capital on the last day of each month in the quarter; and~~

~~(b) exposure measure is the sum of:~~

~~(i) the arithmetic mean of the firm's total exposure measure in relation to on-balance sheet assets on each day in the quarter; and~~

~~(ii) the arithmetic mean of the firm's total exposure measure excluding on-balance sheet assets on the last day of each month in the quarter.~~

Transitional

3.8 For 24 months from the date that this Chapter comes into force, a firm must:

~~(1) for the purposes of 3.3(2), calculate its average exposure measure for a quarter as the arithmetic mean of the firm's total exposure measure on the last day of each month in the quarter; and~~

~~(2) for the purposes of 3.3(3) and 3.4, calculate its average leverage ratio for a quarter as its capital measure divided by its exposure measure where the:~~

~~(a) capital measure is the arithmetic mean of the firm's tier 1 capital on the last day of each month in the quarter; and~~

~~(b) exposure measure is the arithmetic mean of the firm's total exposure measure on the last day of each month in the quarter.~~

## Annex G

### Amendments to the Reporting (CRR) Part

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

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#### 1. APPLICATION

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...

1.2 In this Part, the following definitions shall apply:

additional leverage reporting requirements

means the requirements specified in:

- (a) paragraphs (2) and (2A) of Article 430; and
- (b) paragraphs 14a and 14b of Part II of Annex XI.

standard leverage reporting requirements

means the requirements specified in paragraph (1) of Article 430 and related requirements in Article 15 of Chapter 5 and annexes X and XI

...

#### 2. LEVEL OF APPLICATION

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##### **Application of requirements on an individual basis**

2.1 Subject to rule 2.2 to 2.3, an institution shall comply with this Part on an individual basis.

...

2.3 [Note: Provision left blank.]

...

##### **Application of leverage reporting requirements to LREQ firms**

2.9 An LREQ firm shall comply with:

- (a) the standard leverage reporting requirements on the LREQ basis and any other basis on which this Part applies to the LREQ firm under rules 2.1 to 2.8;
- (b) the additional leverage reporting requirements on the LREQ basis only.

...

#### 4. REPORTING (PART SEVEN A CRR)

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##### Article 430 REPORTING ON PRUDENTIAL REQUIREMENTS AND FINANCIAL INFORMATION

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1. Institutions shall report to their competent authorities on:
  - (a) own funds requirements, as set out in Article 92, and the *leverage ratio* and if applicable the *countercyclical leverage ratio buffer*,
  - ...
2. In addition to the reporting on the leverage ratio referred to in point (a) of the first subparagraph of paragraph 1 and in order to enable the competent authorities to monitor leverage ratio volatility, in particular around reporting reference dates, *LREQ firms* shall report specific components of the leverage ratio to their competent authorities based on averages over the reporting period and the data used to calculate those averages.
- 2A. For the purposes of paragraph 2, the average leverage ratio for a quarter must be calculated by an *LREQ firm* as its capital measure divided by its exposure measure where:
  - (1) the capital measure is the arithmetic mean of the *firm's tier 1 capital (leverage)* on the last day of each month in the quarter ending on the relevant reporting reference date; and
  - (2) subject to (3), the exposure measure is the sum of:
    - (a) the arithmetic mean of the *firm's total exposure measure* in relation to on-balance sheet assets and securities financing transactions on each day in the quarter ending on the relevant reporting reference date; and
    - (b) the arithmetic mean of the *firm's total exposure measure* excluding on-balance sheet assets and securities financing transactions on the last day of each month in the quarter ending on the relevant reporting reference date.
  - (3) Until 1 January 2023 the exposure measure is the sum of:
    - (a) the arithmetic mean of the *firm's total exposure measure* in relation to on-balance sheet assets on each day in the quarter ending on the relevant reporting reference date; and
    - (b) the arithmetic mean of the *firm's total exposure measure* excluding on-balance sheet assets on the last day of each month in the quarter ending on the relevant reporting reference date.
- ...

#### 5. REPORTING REQUIREMENTS

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...

**Article 15** **FORMAT AND FREQUENCY OF REPORTING ON THE LEVERAGE RATIO ON AN INDIVIDUAL AND A CONSOLIDATED BASIS**

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1. In order to report information on the *leverage ratio* and the *countercyclical leverage ratio buffer* in accordance with point (a) of Article 430(1) of the *CRR* and, for *LREQ firms*, the information specified in Article 430(2) and (2A), institutions shall submit the information specified in Annex X, in accordance with the instructions in Annex XI, with a quarterly frequency and on the basis required by Chapter 2.
2. The information specified in cell {r0410;c0010} of template LV 40.00 of Annex X shall be reported only by:
  - (a) large institutions that either are G-SIIs or have issued securities that are admitted to trading on a regulated market with a semi-annual frequency;
  - (b) large institutions other than G-SIIs that are not listed institutions with an annual frequency;
  - (c) institutions other than large institutions and small and non-complex institutions that have issued securities that are admitted to trading on a regulated market with an annual frequency.
3. Institutions shall calculate the *leverage ratio* at the reporting reference date in accordance with Article 429 of the *CRR*.
4. Institutions shall report the information referred to in paragraph 13 of Part II of Annex XI if one of the following conditions is met:
  - (a) the derivatives share referred to in paragraph 5 of Part II of Annex XI is more than 1.5%;
  - (b) the derivatives share referred to in paragraph 5 of Part II of Annex XI exceeds 2.0%.

The entry and exit criteria of Article 4(2) shall apply, except in relation to point (b), in which case institutions shall start reporting information from the next reporting reference date where they have exceeded the threshold on one reporting reference date.
5. Institutions for which the total notional value of derivatives as defined in paragraph 8 of Part II of Annex XI exceeds GBP 8.8 billion shall report the information referred to in paragraph 13 of Part II of Annex XI even if their derivatives share does not fulfil the conditions set out in paragraph 4.

The entry criteria of Article 4(2) shall not apply. Institutions shall start reporting information from the next reporting reference date where they have exceeded the threshold on one reporting reference date.
6. Institutions are required to report the information referred to in paragraph 14 of Part II of Annex XI where one of the following conditions is met:
  - (a) the credit derivatives volume referred to in paragraph 9 of Part II of Annex XI is more than GBP 260 million;

(b) the credit derivatives volume referred to in paragraph 9 of Part II of Annex XI exceeds GBP 440 million.

The entry and exit criteria of Article 4(2) shall apply, except in relation to point (b), in which case institutions shall start reporting information from the next reporting reference date where they have exceeded the threshold on one reporting reference date.

...

## 6. TEMPLATES AND INSTRUCTIONS

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...

### ANNEX IX

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- 2.247. Annex IX can be found here.
- 2.248. [Note: Provision left blank]
- 2.249. [Note: Provision left blank]
- ~~2.250.~~ [~~Note: Provision left blank~~]
- ~~2.251.~~ [~~Note: Provision left blank~~]
- ~~2.252.~~ [~~Note: Provision left blank~~]
- ~~2.253.~~ [~~Note: Provision left blank~~]
- ~~2.254.~~ [~~Note: Provision left blank~~]
- ~~2.255.~~ [~~Note: Provision left blank~~]

### ANNEX X

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- 2.250 Annex X Template LV 40.00 can be found here.
- 2.251 Annex X Template LV 41.00 can be found here.
- 2.252 Annex X Template LV 43.00 can be found here.
- 2.253 Annex X Template LV 44.00 can be found here.
- 2.254 Annex X Template LV 47.00 can be found here.

### ANNEX XI

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- 2.255 Annex XI can be found here.

...

## Annex H

### Amendment of the Reporting Leverage Ratio Part

The Reporting Leverage Ratio Part is repealed and is shown in the PRA Rulebook as follows.

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Part

## REPORTING LEVERAGE RATIO

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Content

REPORTING LEVERAGE RATIO PART [deleted]

Draft for consultation

## ANNEX I

### AMENDMENTS TO THE LEVERAGE RATIO – CAPITAL REQUIREMENTS AND BUFFERS PART

In this Annex, the changes proposed in Annex E are assumed to be made, and new text is underlined and deleted text is struck through.

#### 1 APPLICATIONS AND DEFINITIONS

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1.1 Unless otherwise stated, this Part applies to:

- (1) every CRR firm ~~firm that is a UK bank or a building society~~ that;  
(a) on the firm's last accounting reference date, had retail deposits equal to or greater than £50 billion on an individual basis; or  
(b) that has foreign assets equal to or greater £10 billion, as determined in accordance with 1.1A, on an individual basis;
- (1A) every CRR consolidation entity that is, ~~or that controls, a UK bank or a building society~~ and that;  
(a) on the CRR consolidation entity's last accounting reference date, had retail deposits equal to or greater than £50 billion on the basis of its consolidated situation; and or  
(b) has foreign assets equal to or greater than £10 billion, as determined in accordance with 1.1A,  
in each case, on the basis of its consolidated situation; and
- (2) a ring-fenced body that is required to comply with Parts Two and Three of the CRR on a sub-consolidated basis and that;  
(a) on its last accounting referencing date, had retail deposits equal to or greater than £50 billion; or  
(b) has foreign assets equal to or greater than £10 billion, as determined in accordance with 1.1A,  
in each case, on an RFB sub-consolidated basis, is a member of a group containing a firm an entity falling within 1.1(1) or 1.1(1A).

1.1A The foreign assets thresholds referred to in 1.1 above are determined on the basis of the arithmetic mean of the value of foreign assets held as at the three most recent accounting reference dates of the firm or CRR consolidation entity (as applicable). If the firm or CRR consolidation entity has been in existence for less than three years, the period for the calculation is the period during which the firm or CRR consolidation entity has existed.

1.2 In this Part, the following definitions shall apply:

...

foreign assets

means assets for which the counterparty is resident in a country or territory outside the UK that a firm is required to report on row 0050 of Annex X Template LV 44.00 to the Reporting (CRR) Part.

...

## 2 BASIS OF APPLICATION

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2.1 A firm that is not a member of a consolidation group in relation to which 2.2 applies that is in scope of this Part by virtue of 1.1(1) must comply with this Part on an individual basis, unless it is:

- (a) a CRR consolidation entity subject to 2.2; or
- (b) a ring-fenced body subject to 2.4 which is the ultimate parent undertaking within its sub-consolidation group.

2.1A Where a firm has been given permission under Article 9(1) of the CRR it shall incorporate relevant subsidiaries in the calculation undertaken to comply with rule 2.1.

2.1B A firm may apply to the PRA for a permission that:

- (a) disapplies 2.1; and
- (b) provides for the requirements in this Part to apply on a sub-consolidated basis in relation to the firm, with such modifications as may be specified in that permission.

[Note: This is a permission under section 144G of FSMA to which Part 8 of the Capital Requirements Regulations applies]

2.2 A CRR consolidation entity which is in scope of this Part by virtue of 1.1(1A) must comply with this Part on the basis of its consolidated situation.

2.2A The expression “consolidated situation” applies for the purposes of this Part as it does for the purposes of Parts Two and Three of the CRR.

[Note: the term “consolidation situation” is defined in Article 4(1)(47) of the CRR]

2.2B For the purposes of 2.2, references to a firm in this Part (other than in 1.1) include a CRR consolidation entity.

2.3 [deleted]

2.4 A ring-fenced body which is required to comply with Parts Two and Three of the CRR on a sub-consolidated basis which is in scope of this Part by virtue of 1.1(2), must comply with this Part on the same basis sub-consolidated basis as it is required to comply with Parts Two and Three of the CRR.

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