



4 August 2016

Dear [Firm Contact]

Modification by Consent of Leverage Ratio rule 1.2, Public Disclosure rule 1.1 and Reporting Leverage Ratio rule 1.2

On 4 August the Financial Policy Committee (FPC) revoked its existing Direction to the PRA on the UK leverage ratio framework. The FPC has also made a Recommendation to the PRA that, when applying its rules on the leverage ratio, it considers allowing firms to exclude from the calculation of the total exposure measure those assets constituting claims on central banks where they are matched by deposits accepted by the firm that are denominated in the same currency and of identical or longer maturity.¹

The FPC judges that this change to the exposure measure is appropriate because an increase in central bank claims does not typically expose a firm to additional risks, if matched by deposits in the same currency: as the ultimate settlement asset, central bank claims are a unique asset class. To that end, the exclusion of such central bank claims from the total exposure measure would not adversely impact the PRA's safety and soundness objective.

The FPC made the recommendation to the PRA on a comply or explain basis, under Section 9Q(3) of the Bank of England Act 1998 (as amended by the Financial Services Act 2012). The PRA has decided to implement the FPC recommendation.² In line with this decision the PRA invites [name of firm] to apply for a modification of the Leverage Ratio, Public Disclosure and Reporting Leverage Ratio Parts of the PRA Rulebook. The attached draft modification direction sets out the changes to the relevant rules under the rule modification.

The FPC is due to review the UK leverage ratio framework in 2017³ and firms should be mindful of FPC's intent to recalibrate the leverage ratio standard to adjust for the impact of this measure as part of the 2017 review when taking up this rule modification.

The direction for the rule modification will be valid until the date that the relevant rules are revoked, or no longer apply to the firm (in whole or in part). The date of expiry will be kept under review.

The revised definition of the total exposure measure under the Leverage Ratio Part rule modification will flow through to firms' obligations with regard to the minimum leverage ratio requirement, the countercyclical leverage ratio buffer and the additional leverage ratio buffer.

Firms' reporting and disclosure obligations, both under the Capital Requirements Regulation (EU) 575/2013 (CRR) and UK leverage ratio regime (as set out in the Reporting Leverage Ratio Part of the PRA Rulebook and chapter 3 of the Public Disclosure Part of the PRA Rulebook) remain unchanged under this modification, and will continue to use the total exposure measure definition given by Article 429(4) of the CRR. The direction for the rule modification for Public Disclosure rule 1.1 and Reporting Leverage Ratio rule 1.2 reflect this. The PRA intends to consider potential changes to reporting and disclosure requirements in due course to reflect the new definition following discussion with firms.

Aside from the change in definition of total exposure measure, the PRA's requirements and guidance implementing the UK leverage ratio framework remain otherwise unchanged.

The PRA strongly encourages all firms subject to the leverage ratio to apply for this modification; firms are able to apply with immediate effect. It is expected that directions will be issued automatically upon a firm providing its consent. On 29 September 2016 the PRA intends to publish a list of all firms that

¹ See the FPC's Record from its 25 July 2016 policy meeting, available at <http://www.bankofengland.co.uk/publications/Pages/news/2016/062.aspx>.

² See PRA Statement on the leverage ratio, 4 August 2016; <http://www.bankofengland.co.uk/pru/Documents/publications/reports/prastatement0816.pdf>.

³ FPC, 'The Financial Policy Committee's powers over the leverage ratio tools', Policy Statement, July 2015: <http://www.bankofengland.co.uk/financialstability/Documents/fpc/policystatement010715ltr.pdf>.

have consented to the rule modification, with that list subsequently being updated on a monthly basis as necessary.

If [name of firm] wants to apply for this modification, it should read the direction and contact the Assessment and Monitoring Team requesting the modification at:

Assessment and Monitoring
Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

Or

PRA-Waivers@bankofengland.co.uk

The PRA will confirm in writing whether the request has been granted and will publish the approved modification direction on the Financial Services Register on 29 September 2016. The list will also be published on the Bank's website⁴ and updated on a monthly basis as necessary.

If you have any queries about this letter or your application please do not hesitate to contact me. My telephone number is 020 3461 [XXXX] and my email address is name.surname@bankofengland.co.uk.

Yours sincerely

[PRA supervisor]

⁴ On the 'Waivers by consent' page at <http://www.bankofengland.co.uk/pr/Pages/authorisations/waivers/waiversbyconsent.aspx>.