27 January 2017 - a variation of the modification by consent has been published, see: http://www.bankofengland.co.uk/pra/Documents/authorisations/waiverscrr/modbyconvarlr.pdf

BANK OF ENGLAND
PRUDENTIAL REGULATION AUTHORITY

PRA statement on the leverage ratio

This Prudential Regulation Authority (PRA) statement invites firms to apply for a temporary modification of the Leverage Ratio Part of the PRA Rulebook in response to a Recommendation from the Financial Policy Committee (FPC) to the PRA in relation to the composition of the total exposure measure for the purposes of the leverage ratio. This modification is available to firms that are currently subject to the UK leverage ratio framework.

1. On 25 July the FPC made the following Recommendation to the PRA on the UK leverage ratio framework: [1]

The FPC recommends 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. The FPC made this 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). Central bank claims for these purposes include reserves held by a firm at the central bank, banknotes and coins constituting legal currency in the jurisdiction of the central bank and assets representing debt claims on the central bank with a maturity of no longer than three months.

2. The FPC has revoked its existing direction to the PRA on the UK leverage ratio framework, in order to allow the PRA to implement this Recommendation with immediate effect.

3. The FPC noted it is making this improvement to the design of the leverage ratio in the United Kingdom now, given the actions taken to maintain monetary and financial stability since the referendum on the United Kingdom's membership of the European Union. It recognises that, absent offsetting the impact of this change, excluding current central bank reserves from the exposure measure – the denominator of the leverage ratio – mechanically reduces the nominal amount of capital required to meet the leverage ratio standard, other things equal. This is not the FPC's intention. It therefore intends to recalibrate the UK leverage ratio standard to offset this impact. It will consult and decide on the appropriate form of this recalibration as part of its planned review of the leverage ratio framework in 2017, in the light of the finalised international standard.

4. The PRA will implement the FPC's Recommendation and welcomes the FPC setting out its intention to recalibrate the leverage ratio to reflect the exclusion of central bank claims as part of its 2017 review.

5. The PRA is therefore offering a rule modification direction in relation to the definition of the total exposure measure of the leverage ratio framework in the form set out on its website.[2] Firms are able to apply with immediate effect. It is expected that directions will be automatically issued upon a firm providing its consent.

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[1] http://www.bankofengland.co.uk/publications/Pages/news/2016/062.aspx

[2] http://www.bankofengland.co.uk/pra/Pages/authorisations/waivers/waiversbyconsent.aspx

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6. The revised definition of the total exposure measure under the 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.

7. 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 PRA intends to consider potential changes to reporting and disclosure requirements in due course following discussion with firms.

8. The PRA's requirements and guidance on implementing the leverage ratio framework remain otherwise unchanged.

9. Today (4 August 2016) the PRA has published on its website the text of the PRA rule modification. On 29 September 2016 the PRA intends to publish a list of all firms that have consented to the rule modification, with that list subsequently being updated on a monthly basis as necessary.

10. The PRA strongly encourages all firms subject to the leverage ratio framework to apply for this modification. All firms within the scope of the current leverage ratio framework are currently above their requirements under the leverage ratio framework and have aggregate headroom of around £88.6 billion above their current leverage ratio requirements.

11. The FPC is due to review the UK leverage ratio framework in 2017.[3] The direction for the rule modification would 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.

12. In taking up this rule modification firms should be mindful of the FPC's intent to recalibrate the leverage ratio standard to adjust for the impact of this measure as part of the 2017 review.

13. If a firm wishes to take up this modification, it should read the direction and contact the Assessment and Monitoring Team with a request for the modification at:

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

Or

PRA-Waivers@bankofengland.co.uk

4 August 2016

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