Part E: Leverage Ratio Framework[1]

16. Leverage Ratio

16.1 Rationale and Objective

An underlying cause of the global financial crisis was the build-up of excessive on- and off-balance sheet leverage in the banking system. In many cases, banks built up excessive leverage while apparently maintaining strong risk-based capital ratios. During the most severe part of the crisis, the banking sector was forced by the market to reduce its leverage in a manner that amplified downward pressure on asset prices. This deleveraging process exacerbated the feedback loop between losses, falling bank capital and contraction in credit availability. Therefore, under Basel III, a simple, transparent, non-risk based leverage ratio has been introduced. The leverage ratio is calibrated to act as a credible supplementary measure to the risk based capital requirements and is intended to achieve the following objectives:

(a) constrain the build-up of leverage in the banking sector to avoid destabilising deleveraging processes which can damage the broader financial system and the economy; and

(b) reinforce the risk-based requirements with a simple, non-risk based "backstop" measure.

16.2 Definition, Minimum Requirement and Scope of Application of the Leverage Ratio

Definition and minimum requirement

The Basel III leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), with this ratio expressed as a percentage

$$Leverage\ Ratio = \frac{Capital\ Measure}{Exposure\ Measure}$$

16.2.1 The Basel Committee will use the revised framework[2] for testing a minimum Tier 1 leverage ratio of 3% during the parallel run period up to January

[1] Please refer to Annex 5 of Guidelines on Implementation of Basel III Capital Regulations in India issued vide circular DBOD.No.BP.BC.98/21.06.201/2011-12 dated May 2, 2012. These instructions have been incorporated in the Master Circular DBOD.No.BP.BC.6/21.06.201/2014-15 dated July 1, 2014 on Basel III Capital Regulations.

[2] Please refer to 'Basel III leverage ratio framework and disclosure requirements' issued by the

1, 2017. The Basel Committee will continue to track the impact of using either Common Equity Tier 1 (CET1) or total regulatory capital as the capital measure for the leverage ratio. The final calibration, and any further adjustments to the definition, will be completed by 2017, with a view to migrating to a Pillar 1 treatment on January 1, 2018.

16.2.2 Currently, Indian banking system is operating at a leverage ratio of more than 4.5%. The final minimum leverage ratio will be stipulated taking into consideration the final rules prescribed by the Basel Committee by end-2017. In the meantime, these guidelines will serve as the basis for parallel run by banks and also for the purpose of disclosures as outlined in paragraph 16.6 below. During this period, Reserve Bank will monitor individual banks against an indicative leverage ratio of 4.5%. Additional transitional arrangements are set out in paragraph 16.5 below.

Scope of consolidation

16.2.3 The Basel III leverage ratio framework follows the same scope of regulatory consolidation as is used for the risk-based capital framework[3].

16.2.4 *Treatment of investments in the capital of banking, financial, insurance and commercial entities that are outside the regulatory scope of consolidation*: in cases where a banking, financial, insurance or commercial entity is outside the scope of regulatory consolidation, only the investment in the capital of such entities (i.e. only the carrying value of the investment, as opposed to the underlying assets and other exposures of the investee) is to be included in the leverage ratio exposure measure. However, investments in the capital of such entities that are deducted from Tier 1 capital (i.e. either deduction from Common Equity Tier 1 capital or deduction from Additional Tier 1 capital following corresponding deduction approach) as set out in paragraph 4.4 - Regulatory Adjustments / Deductions[4] of the Master Circular on Basel III Capital regulations may be excluded from the leverage ratio exposure measure.

Basel Committee on Banking Supervision in January 2014. These requirements supersede those in Section V of Basel III: A global regulatory framework for more resilient banks and banking systems, December 2010 (rev June 2011).

[3] Please refer to paragraph 3: Scope of Application of Capital Adequacy Framework of the Master Circular DBOD.No.BP.BC.6/21.06.201/2014-15 dated July 1, 2014 on Basel III Capital Regulations. Please also refer to circulars DBOD.No.BP.BC.72/21.04.018/2001-02 dated February 25, 2003 and DBOD.No.FSD.BC.46/24.01.028/2006-07 dated December 12, 2006.

[4] All regulatory adjustments / deductions as indicated in sub-paragraphs 4.4.1 to 4.4.9.6 of paragraph 4.4.

16.3 Capital Measure

The capital measure for the leverage ratio is the Tier 1 capital of the risk-based capital framework[5], taking into account various regulatory adjustments / deductions and the transitional arrangements. In other words, the capital measure used for the leverage ratio at any particular point in time is the Tier 1 capital measure applying at that time under the risk-based framework.

16.4 Exposure Measure

16.4.1 General Measurement Principles

(i) The exposure measure for the leverage ratio should generally follow the accounting value, subject to the following:

- on-balance sheet, non-derivative exposures are included in the exposure measure net of specific provisions or accounting valuation adjustments (e.g. accounting credit valuation adjustments, e.g. prudent valuation adjustments for AFS and HFT positions);
- netting of loans and deposits is not allowed.

(ii) Unless specified differently below, banks must not take account of physical or financial collateral, guarantees or other credit risk mitigation techniques to reduce the exposure measure.

(iii) A bank's total exposure measure is the sum of the following exposures:

(a) on-balance sheet exposures;
(b) derivative exposures;
(c) securities financing transaction (SFT) exposures; and
(d) off- balance sheet (OBS) items.

The specific treatments for these four main exposure types are defined in paragraphs 16.4.2 to 16.4.5 below.

16.4.2 On-balance sheet exposures

16.4.2.1 Banks must include all balance sheet assets in their exposure measure, including on-balance sheet derivatives collateral and collateral for SFTs, with the exception of on-balance sheet derivative and SFT assets that are covered in paragraph 16.4.3 and 16.4.4 below[6].

[5] Tier 1 capital as defined in paragraph 4: Composition of regulatory capital of the Master Circular DBOD.No.BP.BC.6/21.06.201/2014-15 dated July 1, 2014 on Basel III Capital Regulations.
[6] Where a bank according to its operative accounting framework recognises fiduciary assets on the balance sheet, these assets can be excluded from the leverage ratio exposure measure

16.4.2.2 However, to ensure consistency, balance sheet assets deducted from Tier 1 capital as set out in paragraph 4.4 - Regulatory Adjustments / Deductions[7] of the Master Circular on Basel III Capital Regulations may be deducted from the exposure measure. Following are the two examples:

- Where a banking, financial or insurance entity is not included in the regulatory scope of consolidation (as set out in paragraph 16.2.3), the amount of any investment in the capital of that entity that is totally or partially deducted from CET1 capital or from Additional Tier 1 capital of the bank (in terms of paragraphs 3.3.2 and 4.4.9.2(C) of the Master Circular on Basel III Capital Regulations) may also be deducted from the exposure measure.

- For banks using the internal ratings-based (IRB) approach to determining capital requirements for credit risk, paragraph 4.4.4 of the Master Circular on Basel III Capital Regulations requires any shortfall in the stock of eligible provisions relative to expected losses to be deducted from CET1 capital. The same amount may be deducted from the exposure measure.

16.4.2.3 Liability items must not be deducted from the exposure measure. For example, gains/losses on fair valued liabilities or accounting value adjustments on derivative liabilities due to changes in the bank's own credit risk as described in paragraph 4.4.6 of the Master Circular on Basel III Capital Regulations must not be deducted from the exposure measure.

16.4.3 Derivative exposures

16.4.3.1 ***Treatment of derivatives:*** Derivatives create two types of exposure:

(a) an exposure arising from the underlying of the derivative contract; and
(b) a counterparty credit risk (CCR) exposure.

The leverage ratio framework uses the method set out below to capture both of these exposure types.

16.4.3.2 Banks must calculate their derivative exposures[8], including where a

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provided that the assets meet the IAS 39 criteria for derecognition and, where applicable, IFRS 10 for deconsolidation. When disclosing the leverage ratio, banks must also disclose the extent of such de-recognised fiduciary items as set out in paragraph 16.7.4.

[7] All regulatory adjustments / deductions as indicated in paragraph 4.4 of the Master Circular on Basel III Capital Regulation.

[8] This approach makes reference to the Current Exposure Method (CEM) to calculate CCR exposure amounts associated with derivative exposures. The Basel Committee will consider

bank sells protection using a credit derivative, as the replacement cost (RC)[9] for the current exposure plus an add-on for potential future exposure (PFE), as described in paragraph 16.4.3.3 below. If the derivative exposure is covered by an eligible bilateral netting contract as specified in the Annex 20 (part B) of the Master Circular on Basel III Capital Regulations[10]**,** an alternative treatment as indicated in paragraph 16.4.3.4 below may be applied[11]. Written credit derivatives are subject to an additional treatment, as set out in paragraphs 16.4.3.11 to 16.4.3.14 below.

16.4.3.3 For a single derivative contract, the amount to be included in the exposure measure is determined as follows:

exposure measure = replacement cost (RC) + add-on

where

RC = the replacement cost of the contract (obtained by marking to market), where the contract has a positive value.

add-on = an amount for PFE over the remaining life of the contract calculated by applying an add-on factor to the notional principal amount of the derivative. The add-on factors are given in Table 9 of paragraph 5.15.3.5 and Tables 22 & 23 of paragraph 8.6.3 of the Master Circular on Basel III Capital Regulations.

16.4.3.4 ***Bilateral netting:*** when an eligible bilateral netting contract is in place as specified in paragraph 5.15.3.9(i) and Annex 20 (part B) of Master Circular on Basel III Capital Regulation, the RC for the set of derivative exposures covered by the contract will be the sum of net replacement cost and the add-on factors as described in paragraph 16.4.3.3 above.

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whether the recently released Standardised Approach for measuring exposure at default (EAD) for CCR known as SA-CCR is appropriate in the context of the need to capture both types of exposures created by derivatives as described in paragraph 16.4.3.1. Banks operating in India may continue to use CEM until advised otherwise by the Reserve Bank.

[9] If, under the relevant accounting standards, there is no accounting measure of exposure for certain derivative instruments because they are held (completely) off-balance sheet, the bank must use the sum of positive fair values of these derivatives as the replacement cost.

[10] Currently, relevant only in case of banks' exposures to Qualifying Central Counterparties (QCCPs) subject to conditions mentioned in paragraph 5.15.3.9 of the Master Circular. In case of OTC derivatives, please refer to circular DBOD.No.BP.BC.48/21.06.001/2010-11 dated October 1, 2010 on Prudential Norms for Off-Balance Sheet Exposures of Banks – Bilateral netting of counterparty credit exposures. As indicated therein, bilateral netting of mark-to-market (MTM) values arising on account of derivative contracts is not permitted.

[11] These netting rules are with the exception of cross-product netting i.e. cross-product netting is not permitted in determining the leverage ratio exposure measure.

16.4.3.5 ***Treatment of related collateral:*** collateral received in connection with derivative contracts has two countervailing effects on leverage:

- it reduces counterparty exposure; but
- it can also increase the economic resources at the disposal of the bank, as the bank can use the collateral to leverage itself.

16.4.3.6 Collateral received in connection with derivative contracts does not necessarily reduce the leverage inherent in a bank's derivatives position, which is generally the case if the settlement exposure arising from the underlying derivative contract is not reduced. As a general rule, collateral received may not be netted against derivative exposures whether or not netting is permitted under the bank's operative accounting or risk-based framework. Therefore, it is advised that when calculating the exposure amount by applying paragraphs 16.4.3.2 to 16.4.3.4 above, a bank must not reduce the exposure amount by any collateral received from the counterparty.

16.4.3.7 Similarly, with regard to collateral provided, banks must gross up their exposure measure by the amount of any derivatives collateral provided where the effect of providing collateral has reduced the value of their balance sheet assets under their operative accounting framework.

16.4.3.8 ***Treatment of cash variation margin:*** in the treatment of derivative exposures for the purpose of the leverage ratio, the cash portion of variation margin exchanged between counterparties may be viewed as a form of pre-settlement payment, if the following conditions are met:

(i) For trades not cleared through a qualifying central counterparty (QCCP)[12], the cash received by the recipient counterparty is not segregated[13].

(ii) Variation margin is calculated and exchanged on a daily basis based on mark-to-market valuation of derivatives positions[14].

(iii) The cash variation margin is received in the same currency as the

[12] A QCCP is as defined in the paragraph 5.15.3.3 of the Master Circular on Basel III Capital Regulations.
[13] Cash variation margin would satisfy the non-segregation criterion if the recipient counterparty has no restrictions on the ability to use the cash received (i.e. the cash variation margin received is used as its own cash). Further, this criterion would be met if the cash received by the recipient counterparty is not required to be segregated by law, regulation, or any agreement with the counterparty.
[14] To meet this criterion, derivative positions must be valued daily and cash variation margin must be transferred daily to the counterparty or to the counterparty's account, as appropriate.

currency of settlement of the derivative contract[15].

(iv) Variation margin exchanged is the full amount that would be necessary to fully extinguish the mark-to-market exposure of the derivative subject to the threshold and minimum transfer amounts applicable to the counterparty[16].

(v) Derivatives transactions and variation margins are covered by a single master netting agreement (MNA)[17,18] between the legal entities that are the counterparties in the derivatives transaction. The MNA must explicitly stipulate that the counterparties agree to settle net any payment obligations covered by such a netting agreement, taking into account any variation margin received or provided if a credit event occurs involving either counterparty. The MNA must be legally enforceable and effective[19] in all relevant jurisdictions, including in the event of default and bankruptcy or insolvency.

16.4.3.9 If the conditions in paragraph 16.4.3.8 are met, the cash portion of variation margin received may be used to reduce the replacement cost portion of the leverage ratio exposure measure, and the receivables assets from cash variation margin provided may be deducted from the leverage ratio exposure measure as follows:

- In the case of cash variation margin received, the receiving bank may reduce the replacement cost (but not the add-on portion) of the exposure amount of the derivative asset by the amount of cash received if the positive mark-to-market value of the derivative contract(s) has not already been reduced by the same amount of cash variation margin received under the bank's operative accounting standard.

- In the case of cash variation margin provided to a counterparty, the

[15] For this paragraph, currency of settlement means any currency of settlement specified in the derivative contract, governing qualifying master netting agreement (MNA), or the credit support annex (CSA) to the qualifying MNA. The Basel Committee will review the issue further for an appropriate treatment in this regard.

[16] Cash variation margin exchanged on the morning of the subsequent trading day based on the previous, end-of-day market values would meet this criterion, provided that the variation margin exchanged is the full amount that would be necessary to fully extinguish the mark-to-market exposure of the derivative subject to applicable threshold and minimum transfer amounts.

[17] A Master MNA may be deemed to be a single MNA for this purpose.

[18] To the extent that the criteria in this paragraph include the term "master netting agreement", this term should be read as including any "netting agreement" that provides legally enforceable rights of offsets. This is to take account of the fact that no standardisation has currently emerged for netting agreements employed by CCPs.

[19] A master netting agreement (MNA) is deemed to meet this criterion if it satisfies the conditions as specified in paragraph 5.15.3.9(i) and Annex 20 (part B) of Master Circular on Basel III Capital Regulation.

posting bank may deduct the resulting receivable from its leverage ratio exposure measure, where the cash variation margin has been recognised as an asset under the bank's operative accounting framework.

Cash variation margin may not be used to reduce the PFE amount.

16.4.3.10 ***Treatment of clearing services:*** where a bank acting as clearing member (CM)[20] offers clearing services to clients, the clearing member's trade exposures[21] to the central counterparty (CCP) that arise when the clearing member is obligated to reimburse the client for any losses suffered due to changes in the value of its transactions in the event that the CCP defaults, must be captured by applying the same treatment that applies to any other type of derivatives transactions. However, if the clearing member, based on the contractual arrangements with the client, is not obligated to reimburse the client for any losses suffered due to changes in the value of its transactions in the event that a QCCP defaults, the clearing member need not recognise the resulting trade exposures to the QCCP in the leverage ratio exposure measure[22].

16.4.3.11 Where a client enters directly into a derivatives transaction with the CCP and the CM guarantees the performance of its clients' derivative trade exposures to the CCP, the bank acting as the clearing member for the client to the CCP must calculate its related leverage ratio exposure resulting from the guarantee as a derivative exposure as set out in paragraphs 16.4.3.2 to 16.4.3.9, as if it had entered directly into the transaction with the client, including with regard to the receipt or provision of cash variation margin.

16.4.3.12 ***Additional treatment for written credit derivatives:*** in addition to the CCR exposure arising from the fair value of the contracts, written credit derivatives create a notional credit exposure arising from the creditworthiness of the reference entity. It is therefore appropriate to treat written credit derivatives

[20] A Clearing Member (CM) is as defined in the paragraph 5.15.3.3 of the Master Circular on Basel III Capital Regulations

[21] For the purposes of paragraphs 16.4.3.9 and 16.4.3.10, "trade exposures" includes initial margin irrespective of whether or not it is posted in a manner that makes it remote from the insolvency of the CCP.

[22] An affiliated entity to the bank acting as a clearing member (CM) may be considered a client for the purpose of this paragraph of the Basel III leverage ratio framework if it is outside the relevant scope of regulatory consolidation at the level at which the Basel III leverage ratio is applied. In contrast, if an affiliate entity falls within the regulatory scope of consolidation, the trade between the affiliate entity and the CM is eliminated in the course of consolidation, but the CM still has a trade exposure to the qualifying central counterparty (QCCP), which will be considered proprietary and the exemption in this paragraph no longer applies.

consistently with cash instruments (e.g. loans, bonds) for the purposes of the exposure measure.

16.4.3.13 In order to capture the credit exposure to the underlying reference entity, in addition to the above CCR treatment for derivatives and related collateral, the effective notional amount[23] referenced by a written credit derivative is to be included in the exposure measure. The effective notional amount of a written credit derivative may be reduced by any negative change in fair value amount that has been incorporated into the calculation of Tier 1 capital with respect to the written credit derivative[24]. The resulting amount may be further reduced by the effective notional amount of a purchased credit derivative on the same reference name[25,26] provided:

- the credit protection purchased is on a reference obligation which ranks *pari passu* with or is junior to the underlying reference obligation of the written credit derivative in the case of single name credit derivatives[27]; and
- the remaining maturity of the credit protection purchased is equal to or greater than the remaining maturity of the written credit derivative.

16.4.3.14 Since written credit derivatives are included in the exposure measure at their effective notional amounts, and are also subject to add-on

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[23] The effective notional amount is obtained by adjusting the notional amount to reflect the true exposure of contracts that are leveraged or otherwise enhanced by the structure of the transaction.

[24] A negative change in fair value is meant to refer to a negative fair value of a credit derivative that is recognised in Tier 1 capital. This treatment is consistent with the rationale that the effective notional amounts included in the exposure measure may be capped at the level of the maximum potential loss, which means the maximum potential loss at the reporting date is the notional amount of the credit derivative minus any negative fair value that has already reduced Tier 1 capital. For example, if a written credit derivative had a positive fair value of 20 on one date and has a negative fair value of 10 on a subsequent reporting date, the effective notional amount of the credit derivative may be reduced by 10. The effective notional amount cannot be reduced by 30. However, if at the subsequent reporting date the credit derivative has a positive fair value of 5, the effective notional amount cannot be reduced at all.

[25] Two reference names are considered identical only if they refer to the same legal entity. For single-name credit derivatives, protection purchased that references a subordinated position may offset protection sold on a more senior position of the same reference entity as long as a credit event on the senior reference asset would result in a credit event on the subordinated reference asset.

[26] The effective notional amount of a written credit derivative may be reduced by any negative change in fair value reflected in the bank's Tier 1 capital provided the effective notional amount of the offsetting purchased credit protection is also reduced by any resulting positive change in fair value reflected in Tier 1 capital.

[27] For tranched products if applicable, the purchased protection must be on a reference obligation with the same level of seniority.

amounts for PFE, the exposure measure for written credit derivatives may be overstated. Banks may therefore choose to deduct the individual PFE add-on amount relating to a written credit derivative (which is not offset according to paragraph 16.4.3.12 and whose effective notional amount is included in the exposure measure) from their gross add-on in paragraphs 16.4.3.2 to 16.4.3.4[28].

16.4.4 Securities financing transaction exposures

16.4.4.1 SFTs[29] are included in the exposure measure according to the treatment described in the following paragraphs. The treatment recognises that secured lending and borrowing in the form of SFTs is an important source of leverage, and ensures consistent international implementation by providing a common measure for dealing with the main differences in the operative accounting frameworks.

16.4.4.2 ***General treatment (bank acting as principal)***: the sum of the amounts in sub-paragraphs (A) and (B) below are to be included in the leverage ratio exposure measure:

(A) Gross SFT assets[30] recognised for accounting purposes (i.e. with no recognition of accounting netting),[31] adjusted as follows:

(i) excluding from the exposure measure the value of any securities received under an SFT, where the bank has recognised the securities as an asset on its balance sheet;[32] and

(ii) cash payables and cash receivables in SFTs with the same counterparty may be measured net if all the following criteria are met:

(a) Transactions have the same explicit final settlement date;

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[28] The PFE add-on may be set to zero in order to avoid the double-counting described in this paragraph.

[29] SFTs are transactions such as repurchase agreements, reverse repurchase agreements, security lending and borrowing, and margin lending transactions, where the value of the transactions depends on market valuations and the transactions are often subject to margin agreements.

[30] For SFT assets subject to novation and cleared through QCCPs, "gross SFT assets recognised for accounting purposes" are replaced by the final contractual exposure, given that pre-existing contracts have been replaced by new legal obligations through the novation process.

[31] Gross SFT assets recognised for accounting purposes must not recognise any *accounting* netting of cash payables against cash receivables (e.g. as currently permitted under the IFRS and US GAAP accounting frameworks). This regulatory treatment has the benefit of avoiding inconsistencies from netting which may arise across different accounting regimes.

[32] This may apply, for example, under US GAAP where securities received under an SFT may be recognised as assets if the recipient has the right to rehypothecate but has not done so.

(b) The right to set off the amount owed to the counterparty with the amount owed by the counterparty is legally enforceable both currently in the normal course of business and in the event of: (i) default; (ii) insolvency; and (iii) bankruptcy; and

(c) The counterparties intend to settle net, settle simultaneously, or the transactions are subject to a settlement mechanism that results in the functional equivalent of net settlement, that is, the cash flows of the transactions are equivalent, in effect, to a single net amount on the settlement date. To achieve such equivalence, both transactions are settled through the same settlement system and the settlement arrangements are supported by cash and/or intraday credit facilities intended to ensure that settlement of both transactions will occur by the end of the business day and the linkages to collateral flows do not result in the unwinding of net cash settlement[33], [34].

(B) A measure of CCR calculated as the current exposure without an add-on for PFE, calculated as follows:

(i) Where a qualifying MNA[35] is in place, the current exposure (E^*) is the greater of zero and the total fair value of securities and cash lent to a counterparty for all transactions included in the qualifying MNA ($\sum E_i$), less the total fair value of cash and securities received from the counterparty for those transactions ($\sum C_i$). This is illustrated in the following formula:

$$E^* = \max \{0, [\sum E_i - \sum C_i]\}$$

(ii) Where no qualifying MNA is in place, the current exposure for transactions with a counterparty must be calculated on a transaction by transaction basis: that is, each transaction is treated as its own netting set, as shown in the following formula:

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

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[33] This latter condition ensures that any issues arising from the securities leg of the SFTs do not interfere with the completion of the net settlement of the cash receivables and payables.

[34] To achieve functional equivalence, all transactions must be settled through the same settlement mechanism. The failure of any single securities transaction in the settlement mechanism should delay settlement of only the matching cash leg or create an obligation to the settlement mechanism, supported by an associated credit facility. Further, if there is a failure of the securities leg of a transaction in such a mechanism at the end of the window for settlement in the settlement mechanism, then this transaction and its matching cash leg must be split out from the netting set and treated gross for the purposes of the Basel III leverage ratio exposure measure. Specifically, the criteria in this paragraph are not intended to preclude a Delivery-versus-Payment (DVP) settlement mechanism or other type of settlement mechanism, provided that the settlement mechanism meets the functional requirements set out in this paragraph. For example, a settlement mechanism may meet these functional requirements if any failed transaction (that is, the securities that failed to transfer and the related cash receivable or payable) can be re-entered in the settlement mechanism until they are settled.

[35] A “qualifying” MNA is one that meets the requirements under paragraph 5.15.3.9 (exposures to QCCPs) and Annex 20 part A of the Master Circular on Basel III Capital Regulations.

16.4.4.3 ***Sale accounting transactions:*** leverage may remain with the lender of the security in an SFT whether or not sale accounting is achieved under the operative accounting framework. As such, where sale accounting is achieved for an SFT under the bank's operative accounting framework, the bank must reverse all sales-related accounting entries, and then calculate its exposure as if the SFT had been treated as a financing transaction under the operative accounting framework (i.e. the bank must include the sum of amounts in sub-paragraphs (A) and (B) of paragraph 16.4.4.2 for such an SFT) for the purposes of determining its exposure measure.

16.4.4.4 ***Bank acting as agent:*** a bank acting as agent in an SFT generally provides an indemnity or guarantee to only one of the two parties involved, and only for the difference between the value of the security or cash its customer has lent and the value of collateral the borrower has provided. In this situation, the bank is exposed to the counterparty of its customer for the difference in values rather than to the full exposure to the underlying security or cash of the transaction (as is the case where the bank is one of the principals in the transaction). Where the bank does not own/control the underlying cash or security resource, that resource cannot be leveraged by the bank.

16.4.4.5 Where a bank acting as agent in an SFT provides an indemnity or guarantee to a customer or counterparty for any difference between the value of the security or cash the customer has lent and the value of collateral the borrower has provided, then the bank will be required to calculate its exposure measure by applying only subparagraph (B) of paragraph 16.4.4.2[36].

16.4.4.6 A bank acting as agent in an SFT and providing an indemnity or guarantee to a customer or counterparty will be considered eligible for the exceptional treatment set out in paragraph 16.4.4.5 only if the bank's exposure to the transaction is limited to the guaranteed difference between the value of the security or cash its customer has lent and the value of the collateral the borrower has provided. In situations where the bank is further economically exposed (i.e. beyond the guarantee for the difference) to the underlying security or cash in the transaction[37], a further exposure equal to the full amount of the security or cash must be included in the exposure measure.

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[36] Where, in addition to the conditions in paragraphs 16.4.4.4 to 16.4.4.6, a bank acting as an agent in an SFT does not provide an indemnity or guarantee to any of the involved parties, the bank is not exposed to the SFT and therefore need not recognise those SFTs in its exposure measure.

[37] For example, due to the bank managing collateral received in the bank's name or on its own account rather than on the customer's or borrower's account (e.g. by on-lending or managing unsegregated collateral, cash or securities).

16.4.5 Off-balance sheet items

16.4.5.1 This paragraph explains the treatment of off-balance sheet (OBS) items into the leverage ratio exposure measure. OBS items include commitments (including liquidity facilities), whether or not unconditionally cancellable, direct credit substitutes, acceptances, standby letters of credit, trade letters of credit, etc.

16.4.5.2 In the risk-based capital framework, OBS items are converted under the standardised approach into credit exposure equivalents through the use of credit conversion factors (CCFs)[38]. For the purpose of determining the exposure amount of OBS items for the leverage ratio, the CCFs set out in the following paragraphs must be applied to the notional amount[39].

(i) Commitments other than securitisation liquidity facilities with an original maturity up to one year and commitments with an original maturity over one year will receive a CCF of 20% and 50%, respectively. However, any commitments that are unconditionally cancellable at any time by the bank without prior notice, or that effectively provide for automatic cancellation due to deterioration in a borrower’s creditworthiness, will receive a 10% CCF.

(ii) Direct credit substitutes, e.g. general guarantees of indebtedness (including standby letters of credit serving as financial guarantees for loans and securities) and acceptances (including endorsements with the character of acceptances) will receive a CCF of 100%.

(iii) Forward asset purchases, forward forward deposits and partly paid shares and securities, which represent commitments with certain drawdown, will receive a CCF of 100%.

(iv) Certain transaction-related contingent items (e.g. performance bonds, bid bonds, warranties and standby letters of credit related to particular transactions) will receive a CCF of 50%.

(v) Note issuance facilities (NIFs) and revolving underwriting facilities

[38] Please refer to paragraph 5.15.1 of the Master Circular on Basel III Capital Regulations.

[39] These correspond to the CCFs of the standardised approach for credit risk under paragraph 5.15.2 (including Table 8) of the Master Circular on Basel III Capital Regulations, subject to a floor of 10%. The floor of 10% will affect commitments that are unconditionally cancellable at any time by the bank without prior notice, or that effectively provide for automatic cancellation due to deterioration in a borrower’s creditworthiness. These may receive a 0% CCF under the risk-based capital framework. For any OBS item not specifically mentioned under paragraph 16.4.5.2, the applicable CCF for that item will be as indicated in the paragraph 5.15.2 above.

(RUFs) will receive a CCF of 50%.

(vi) For short-term self-liquidating trade letters of credit arising from the movement of goods (e.g. documentary credits collateralised by the underlying shipment), a 20% CCF will be applied to both issuing and confirming banks.

(vii) Where there is an undertaking to provide a commitment on an OBS item, banks should apply the lower of the two applicable CCFs.

(viii) All off-balance sheet securitisation exposures will receive a CCF of 100% conversion factor. All eligible liquidity facilities will receive a CCF of 50%.

16.5 Transitional arrangements

16.5.1 The Basel Committee is monitoring banks' leverage data on a semi-annual basis in order to assess the design and calibration of the leverage ratio over a full credit cycle and for different types of business models. The Committee will also closely monitor accounting standards and practices to address any differences in national accounting frameworks that are material to the definition and calculation of the leverage ratio. The public disclosure requirements of leverage ratio will begin from January 1, 2015 and the Basel Committee will monitor the impact of these disclosure requirements.

16.5.2 Accordingly, banks operating in India are required to make disclosure of the leverage ratio and its components from April 1, 2015 on a quarterly basis and according to the disclosure templates as indicated in paragraph 16.7 along with Pillar 3 disclosures. Banks should also report their leverage ratio to the RBI (Department of Banking Regulation and Department of Banking Supervision) along with detailed calculations of capital and exposure measures on a quarterly basis, until further advice.

16.6 Disclosure requirements

16.6.1 Banks are required to publicly disclose their Basel III leverage ratio on a consolidated basis from April 1, 2015.

16.6.2 To enable market participants to reconcile leverage ratio disclosures with banks' published financial statements from period to period, and to compare the capital adequacy of banks, it is important that banks adopt a consistent and common disclosure of the main components of the leverage ratio, while also reconciling these disclosures with their published financial statements.

16.6.3 To facilitate consistency and ease of use of disclosures relating to the composition of the leverage ratio, and to mitigate the risk of inconsistent formats undermining the objective of enhanced disclosure, banks should publish their leverage ratio according to a common set of templates.

16.6.4 The public disclosure requirements include:

- a **summary comparison table** that provides a comparison of banks' total accounting assets amounts and leverage ratio exposures;
- a **common disclosure template** that provides a breakdown of the main leverage ratio regulatory elements;
- a **reconciliation requirement** that details the source(s) of material differences between banks' total balance sheet assets in their financial statements and on-balance sheet exposures in the common disclosure template; and
- **other disclosures** as set out below.

16.6.5 Implementation date, frequency and location of disclosure

16.6.5.1 Banks operating in India are required to make disclosure of the leverage ratio and its components from the date of publication of their first set of financial statements / results on or after April 1, 2015. Accordingly, the first such disclosure should be made for the quarter ending June 30, 2015.

16.6.5.2 With the exception of the mandatory quarterly frequency requirement in paragraph 16.6.5.3 below, detailed disclosures required according to paragraphs 16.7 must be made by banks, irrespective of whether financial statements are audited, at least on a half yearly basis (i.e. as on September 30 and March 31 of a financial year), along with other Pillar 3 disclosures as required in terms of paragraph 14.9 of the Master Circular on Basel III Capital Regulations.

16.6.5.3 As the leverage ratio is an important supplementary measure to the risk-based capital requirements, the same Pillar 3 disclosure requirement also applies to the leverage ratio. Therefore, banks, at a minimum, must disclose the following three items on a quarterly basis, irrespective of whether financial statements are audited:

(i) Tier 1 capital (as per paragraph 16.3);
(ii) Exposure measure (as per paragraph 16.4); and
(iii) Leverage ratio (as per paragraph 16.2).

At a minimum, these disclosures should be made on a quarter-end basis (i.e. as on June 30, September 30, December 31 and March 31 of a financial year), along with the figures of the prior three quarter-ends.

16.6.5.4 The location of leverage ratio disclosures should be as stipulated for Pillar 3 disclosures in terms of paragraphs 14.9.3 and 14.10 of the Master Circular on Basel III Capital Regulations. However, specific to leverage ratio disclosures, banks have to make available on their websites, an ongoing archive of all reconciliation templates, disclosure templates and explanatory tables relating to prior reporting periods, instead of an archive for at least three years as required in case of Pillar 3 disclosures.

16.7 Disclosure templates

16.7.1 The summary comparison table, common disclosure template and explanatory table, qualitative reconciliation and other requirements are set out in the following paragraphs. Together, these ensure transparency between the values used for the calculation of the Basel III leverage ratio and the values used in banks' published financial statements.

16.7.2 The scope of consolidation of the Basel III leverage ratio as set out in paragraph 16.2.3 may be different from the scope of consolidation of the published financial statements. Also, there may be differences between the measurement criteria of assets on the accounting balance sheet in the published financial statements relative to measurement criteria of the leverage ratio (e.g. due to differences of eligible hedges, netting or the recognition of credit risk mitigation). Further, in order to adequately capture embedded leverage, the framework incorporates both on- and off-balance sheet exposures.

16.7.3 The templates set out below are designed to be flexible enough to be used under any accounting standard, and are consistent yet proportionate, varying with the complexity of the balance sheet of the reporting bank[40].

[40] Specifically, a common template is set out. However, with respect to reconciliation, banks are to qualitatively reconcile any material difference between total balance sheet assets in their reported financial statements and on-balance sheet exposures as prescribed in the leverage ratio.

16.7.4 Summary comparison table

16.7.4.1 Applying values at the end of period (e.g. quarter-end), banks must report a reconciliation of their balance sheet assets from their published financial statements with the leverage ratio exposure measure as shown in Table 1. Specifically:

- line 1 should show the bank's total consolidated assets as per published financial statements;
- line 2 should show adjustments related to investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes, but outside the scope of regulatory consolidation as set out in paragraphs 16.2.4 and 16.4.2.2;
- line 3 should show adjustments related to any fiduciary assets recognised on the balance sheet pursuant to the bank's operative accounting framework but excluded from the leverage ratio exposure measure, as described in footnote 6;
- lines 4 and 5 should show adjustments related to derivative financial instruments and securities financing transactions (i.e. repos and other similar secured lending), respectively;
- line 6 should show the credit equivalent amount of OBS items, as determined under paragraph 16.4.5.2;
- line 7 should show any other adjustments; and
- line 8 should show the leverage ratio exposure, which should be the sum of the previous items. This should also be consistent with line 22 of Table 2 below.

Table 1- Summary comparison of accounting assets vs. leverage ratio exposure measure		
	Item	(Rs. in Million)
1	Total consolidated assets as per published financial statements	
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	
4	Adjustments for derivative financial instruments	
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	
7	Other adjustments	
8	**Leverage ratio exposure**	

16.7.5 Common disclosure template and explanatory table, reconciliation and other requirements

16.7.5.1 Banks must report, in accordance with Table 2 below, and applying values at the end of period (e.g. quarter-end), a breakdown of the following exposures under the leverage ratio framework: (i) on-balance sheet exposures; (ii) derivative exposures; (iii) SFT exposures; and (iv) OBS items. Banks must also report their Tier 1 capital, total exposures and the leverage ratio.

16.7.5.2 The Basel III leverage ratio for the quarter, expressed as a percentage and calculated according to paragraph 16.2, is to be reported in line 22.

16.7.5.3 *Reconciliation with public financial statements:* banks are required to disclose and detail the source of material differences between their total balance sheet assets (net of on-balance sheet derivative and SFT assets) as reported in their financial statements and their on-balance sheet exposures in line 1 of the common disclosure template.

16.7.5.4 *Material periodic changes in the leverage ratio:* banks are required to explain the key drivers of material changes in their Basel III leverage ratio observed from the end of the previous reporting period to the end of the current reporting period (whether these changes stem from changes in the numerator and/or from changes in the denominator).

Table 2 – Leverage ratio common disclosure template

	Item	Leverage ratio framework
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	
2	(Asset amounts deducted in determining Basel III Tier 1 capital)	
3	**Total on-balance sheet exposures** (excluding derivatives and SFTs) (sum of lines 1 and 2)	
	Derivative exposures	
4	Replacement cost associated with all *derivatives* transactions (i.e. net of eligible cash variation margin)	
5	Add-on amounts for PFE associated with *all* derivatives transactions	
6	Gross-up for derivatives collateral provided where deducted from the balance sheet assets pursuant to the operative accounting framework	
7	(Deductions of receivables assets for cash variation margin provided in derivatives transactions)	
8	(Exempted CCP leg of client-cleared trade exposures)	
9	Adjusted effective notional amount of written credit derivatives	
10	(Adjusted effective notional offsets and add-on deductions for written credit derivatives)	
11	**Total derivative exposures (sum of lines 4 to 10)**	
	Securities financing transaction exposures	
12	Gross SFT *assets* (with no recognition of netting), after adjusting for sale accounting transactions	

13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
14	CCR exposure for SFT assets	
15	Agent transaction exposures	
16	**Total securities financing transaction exposures (sum of lines 12 to 15)**	
Other off-balance sheet exposures		
17	Off-balance sheet exposure at gross notional amount	
18	(Adjustments for conversion to credit equivalent amounts)	
19	**Off-balance sheet items (sum of lines 17 and 18)**	
Capital and total exposures		
20	**Tier 1 capital**	
21	**Total exposures (sum of lines 3, 11, 16 and 19)**	
Leverage ratio		
22	**Basel III leverage ratio**	

16.7.5.5 The following table sets out explanations for each row of the disclosure template referencing the relevant paragraphs of the Basel III leverage ratio framework detailed in this document.

Table 3 - Explanatory table for the common disclosure template	
Explanation of each row of the common disclosure template	
Row number	Explanation
1	On-balance sheet assets according to paragraph 16.4.2.1.
2	Deductions from Basel III Tier 1 capital determined by paragraphs 16.2.4 and 16.4.2.2 and excluded from the leverage ratio exposure measure, reported as negative amounts.
3	Sum of lines 1 and 2.
4	Replacement cost (RC) associated with *all* derivatives transactions (including exposures resulting from transactions described in paragraph 16.4.3.11), net of cash variation margin received and with, where applicable, bilateral netting according to paragraphs 16.4.3.2-16.4.3.4 and 16.4.3.9.
5	Add-on amount for all derivative exposures according to paragraphs 16.4.3.2-16.4.3.4
6	Grossed-up amount for collateral provided according to paragraph 16.4.3.7
7	Deductions of receivables assets from cash variation margin provided in

	derivatives transactions according to paragraph 16.4.3.9, reported as negative amounts.
8	Exempted trade exposures associated with the CCP leg of derivatives transactions resulting from client-cleared transactions according to paragraph 16.4.3.10, reported as negative amounts.
9	Adjusted effective notional amount (i.e. the effective notional amount reduced by any negative change in fair value) for written credit derivatives according to paragraph 16.4.3.13.
10	Adjusted effective notional offsets of written credit derivatives according to paragraph 16.4.3.13 and deducted add-on amounts relating to written credit derivatives according to paragraph 16.4.3.14, reported as negative amounts.
11	Sum of lines 4–10.
12	Gross SFT assets with no recognition of any netting other than novation with QCCPs as set out in footnote 30, removing certain securities received as determined by paragraph 16.4.4.2 (A) and adjusting for any sales accounting transactions as determined by paragraph 16.4.4.3.
13	Cash payables and cash receivables of gross SFT assets netted according to paragraph 16.4.4.2 (A), reported as negative amounts.
14	Measure of counterparty credit risk for SFTs as determined by paragraph 16.4.4.2 (B).
15	Agent transaction exposure amount determined according to paragraphs 16.4.4.4-16.4.4.6
16	Sum of lines 12–15.
17	Total off-balance sheet exposure amounts on a gross notional basis, before any adjustment for credit conversion factors according to paragraph 16.4.5.2.
18	Reduction in gross amount of off-balance sheet exposures due to the application of credit conversion factors in paragraph 16.4.5.2.
19	Sum of lines 17 and 18.
20	Tier 1 capital as determined by paragraph 16.3.
21	Sum of lines 3, 11, 16 and 19.
22	Basel III leverage ratio according to paragraph 16.7.5.2.

16.7.5.6 To ensure that the summary comparison table, common disclosure template and explanatory table remain comparable across jurisdictions, there should be no adjustments made by banks to disclose their leverage ratio. Banks are not permitted to add, delete or change the definitions of any rows from the summary comparison table and common disclosure template implemented in their jurisdiction. This will prevent a divergence of tables and templates that could undermine the objectives of consistency and comparability.