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Date: 25 August 2014

From : Saudi Arabian Monetary Agency

CC : H.E. Abdulaziz Al-Helaissi, Deputy Governor for Supervision

To : All Banks

Attention : Managing Directors, Chief Executive Officers and General Managers

Subject : **Basel Committee on Banking Supervision Document regarding Basel III Leverage Ratio Framework and Disclosure Requirements based on BCBS document regarding Basel III Leverage Ratio framework issued on 12 January 2014**

As you are aware, at the height of the recent crisis, financial markets forced the banking sector to reduce its leverage in a manner that amplified downward pressures on asset prices. Consequently, the Basel III framework introduced a simple, transparent, non-risk based leverage ratio to act as a credible supplementary measure to the risk-based capital requirements. In this respect, SAMA through its Circular # BCS 5610 dated 13 February 2011 implemented its minimum leverage ratio which was based on the BCBS requirements described in their Basel III document of December 2010 and commenced on monitoring process of bank Leverage Ratio.

Following the aforementioned monitoring period, the BCBS issued in January 2014 its document entitled "Basel III Leverage Ratio framework and disclosure requirements". This BCBS document provided several additional clarifications and enhancements with regard to capital and exposure measurement, collaterals, disclosures, etc. SAMA issued its draft implementation package document comprising of Guidance Notes and Prudential Returns based on the aforementioned BCBS documents where the banks. The Agency is now issuing its finalized guidance notes and prudential returns for banks to implement by January 2015.

Also, based on the results of the parallel runs any final adjustment to the definition and calibration of the Basel III Leverage ratio will be carried out in 2017. At this time, the leverage ratio is expected to migrate to Pillar 1 treatment on 1 January 2018.

The Banks can access this BCBS document from BIS website: www.bis.org entitled "Basel Committee on Banking Supervision Basel III Leverage Ratio Framework and disclosure requirements" dated January 2014 for their reference and understanding. Also should any bank need any clarifications, they should contact Dr. Alwaleed Alsheikh at akalsheikh@sama.gov.sa or Mr. Tariq Javed at t_javed@sama.gov.sa or Mr. Abbas Hassan at ahassan@sama.org.sa.

Alwaleed Alsheikh
Director of Banking Supervision

SAMA’s Guidance Document and Prudential Returns concerning the Implementation of Basel III Leverage Ratio Framework Based on BCBS Document of January 2014

Attachment # 1

GENERAL GUIDANCE

1. This document sets out the Basel III leverage ratio framework, along with the public disclosure requirements applicable as from 1 January 2015.

Definition and minimum requirements

2. 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:

$$\text{Leverage ratio} = \frac{\text{Capital measure}}{\text{Exposure measure}}$$

3. The Committee will continue to test a minimum requirement of 3% for the leverage ratio during the parallel run period (ie from 1 January 2013 to 1 January 2017). Additional transitional arrangements are set out in paragraphs 59 to 61 below.

Scope of consolidation

4. The Basel III leverage ratio framework follows the same scope of regulatory consolidation as is used for the risk-based capital framework. This is set out in Part I (Scope of Application) of the Basel II framework.[1]

5. *Treatment of investments in the capital of banking, financial, insurance and commercial entities that are outside the regulatory scope of consolidation*: where a banking, financial, insurance or commercial entity is outside the scope of regulatory consolidation, only the investment in the capital of such entities (ie 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 as set out in paragraph 16 may be excluded from the leverage ratio exposure measure.

Capital measure

6. The capital measure for the leverage ratio is the Tier 1 capital of the risk-based capital framework as defined in paragraphs 49 to 96 of the Basel III framework,[2] taking account of 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.

7. The Committee will continue to collect data during the transition period to track the impact of using either Common Equity Tier 1 (CET1) or total regulatory capital as the capital measure for the leverage ratio.

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[1] Available at www.bis.org/publ/bcbs128.pdf.

[2] Available at www.bis.org/publ/bcbs189.htm.

Exposure measure

8. 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 (eg accounting credit valuation adjustments);
- netting of loans and deposits is not allowed.

9. 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.

10. 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 below.

Item 11, 12 and 13 are with regards to transitional arrangements as described in attachment # 5 page 16.

Attachment # 2

SPECIFIC GUIDANCE

This section should be received in conjunction with attachment 1 & 2.

Explanation of each row of the Prudential return	
Row number[3]	
1	On-balance sheet assets according to paragraph 14.
2	Deductions from Basel III Tier 1 capital determined by paragraphs 9 and 16 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 28), net of cash variation margin received and with, where applicable, bilateral netting according to paragraphs 19–21 and 26.
5	Add-on amount for all derivative exposures according to paragraphs 19–21.
6	Grossed-up amount for collateral provided according to paragraph 24.
7	Deductions of receivables assets from cash variation margin provided in derivatives transactions according to paragraph 26, reported as negative amounts.
8	Exempted trade exposures associated with the CCP leg of derivatives transactions resulting from client-cleared transactions according to paragraph 27, reported as negative amounts.
9	Adjusted effective notional amount (ie the effective notional amount reduced by any negative change in fair value) for written credit derivatives according to paragraph 30.
10	Adjusted effective notional offsets of written credit derivatives according to paragraph 30 and deducted add-on amounts relating to written credit derivatives according to paragraph 31, 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 19, removing certain securities received as determined by paragraph 33 (i) and adjusting for any sales accounting transactions as determined by paragraph 34.
13	Cash payables and cash receivables of gross SFT assets netted according to paragraph 33 (i), reported as negative amounts.
14	Measure of counterparty credit risk for SFTs as determined by paragraph 33 (ii).
15	Agent transaction exposure amount determined according to paragraphs 35 to 37.
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 39.
18	Reduction in gross amount of off-balance sheet exposures due to the application of credit conversion factors in paragraph 39.
19	Sum of lines 17 and 18.
20	Tier 1 capital as determined by paragraph 10.
21	Sum of lines 3, 11, 16 and 19.
22	Basel III leverage ratio according to paragraph 54.

Attachment # 3

ADDITIONAL SPECIFIC GUIDANCE

[3] These concern the Prudential return regarding Leverage Ratio.
Reference to paragraphs are additional Guidance Notes from item 14 to 38.

(a) On-balance sheet exposures

14. 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 paragraphs 18 to 37 below.[4]

15. However, to ensure consistency, balance sheet assets deducted from Tier 1 capital (as set out in paragraphs 66 to 89 of the Basel III framework) may be deducted from the exposure measure. Two examples follow:

- Where a banking, financial or insurance entity is not included in the regulatory scope of consolidation as set out in paragraph 8, 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 following the corresponding deduction approach in paragraphs 84 to 89 of the Basel III framework 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 73 of the Basel III framework 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. Liability items must not be deducted from the measure of exposure. 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 75 of the Basel III framework must not be deducted from the exposure measure.

(b) Derivative exposures

17. *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.

[4] 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 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 52.

18. Banks must calculate their derivative exposures,[5] including where a bank sells protection using a credit derivative, as the replacement cost (RC)[6] for the current exposure plus an add-on for potential future exposure (PFE), as described in paragraph 20. If the derivative exposure is covered by an eligible bilateral netting contract as specified in the Annex, an alternative treatment may be applied.[7] Written credit derivatives are subject to an additional treatment, as set out in paragraphs 29 to 31 below.

19. For a single derivative exposure not covered by an eligible bilateral netting contract as specified in paragraphs 8 and 9 of the Annex, 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 included in paragraphs 1 and 3 of the Annex.

20. *Bilateral netting*: when an eligible bilateral netting contract is in place as specified in paragraphs 8 and 9 of the Annex, the RC for the set of derivative exposures covered by the contract will be the net replacement cost and the add-on will be A_{Net} as calculated in paragraph 10 of the Annex.

21. *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.

22. C*ollateral 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

5 This approach makes reference to the Current Exposure Method (CEM) which is used under the Basel II framework to calculate CCR exposure amounts associated with derivative exposures. The Committee is considering alternatives to the CEM. If an alternative approach is adopted as a replacement for the CEM, the Committee will consider whether that alternative approach is appropriate in the context of the need to capture both types of exposures created by derivatives as described in paragraph 18.

6 If, under a bank's national 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.

7 These are netting rules of the Basel II framework excepting the rules for cross-product netting in Annex 4, Section III (ie cross-product netting is not permitted in determining the leverage ratio exposure measure).

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. Hence, when calculating the exposure amount by applying paragraphs 19 to 21 above, a bank must not reduce the exposure amount by any collateral received from the counterparty.

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

24. *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)[8] the cash received by the recipient counterparty is not segregated.

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

(iii) The cash variation margin is received in the same currency as the currency of settlement of the derivative contract.

(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.

(v) Derivatives transactions and variation margins are covered by a single master netting agreement (MNA)[9,10] 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 in all relevant jurisdictions, including in the event of default and bankruptcy or insolvency.

25. If the conditions in paragraph 25 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

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[8] A QCCP is defined as in Annex 4, Section I, A. General Terms of the BCBS document *International Convergence of Capital Measurement and Capital Standards: A Revised Framework – Comprehensive Version*, June 2006 as amended.

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

[10] 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 for netting agreements employed by CCPs, no standardisation has currently emerged that would be comparable with respect to OTC netting agreements for bilateral trading.

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 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 (including the calculation of the net-to-gross ratio (NGR) as defined in paragraph 10 of the Annex).

26. *Treatment of clearing services:* where a bank acting as clearing member (CM)[11] offers clearing services to clients, the clearing member's trade exposures[12] 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.

27. 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 19 to 26, as if it had entered directly into the transaction with the client, including with regard to the receipt or provision of cash variation margin.

28. *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. The Committee therefore believes that it is appropriate to treat

[11] For the purposes of this paragraph, a clearing member (CM) is defined as in Annex 4, Section I, A. General Terms of the BCBS document *International Convergence of Capital Measurement and Capital Standards: A Revised Framework – Comprehensive Version*, June 2006 as amended.

[12] For the purposes of paragraphs 27 and 28, "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.

written credit derivatives consistently with cash instruments (eg loans, bonds) for the purposes of the exposure measure.

29. 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[13] 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. The resulting amount may be further reduced by the effective notional amount of a purchased credit derivative on the same reference name,[14],[15] 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;[16] and
- the remaining maturity of the credit protection purchased is equal to or greater than the remaining maturity of the written credit derivative.

30. Since written credit derivatives are included in the exposure measure at their effective notional amounts, and are also subject to add-on 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 30 and whose effective notional amount is included in the exposure measure) from their gross add-on in paragraphs 19 to 21.[17]

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[13] 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.

[14] 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. Protection purchased on a pool of reference entities may offset protection sold on individual reference names if the protection purchased is economically equivalent to buying protection separately on each of the individual names in the pool (this would, for example, be the case if a bank were to purchase protection on an entire securitisation structure). If a bank purchases protection on a pool of reference names, but the credit protection does not cover the entire pool (ie the protection covers only a subset of the pool, as in the case of an nth-to-default credit derivative or a securitisation tranche), then offsetting is not permitted for the protection sold on individual reference names. However, such purchased protections may offset sold protections on a pool provided the purchased protection covers the entirety of the subset of the pool on which protection has been sold. In other words, offsetting may only be recognised when the pool of reference entities and the level of subordination in both transactions are identical.

[15] 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. Where a bank buys credit protection through a total return swap (TRS) and records the net payments received as net income, but does not record offsetting deterioration in the value of the written credit derivative (either through reductions in fair value or by an addition to reserves) reflected in Tier 1 capital, the credit protection will not be recognised for the purpose of offsetting the effective notional amounts related to written credit derivatives.

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

[17] In these cases, where effective bilateral netting contracts are in place, and when calculating $A_{Net} = 0.4 \cdot A_{Gross} + 0.6 \cdot NGR \cdot A_{Gross}$ as per paragraphs 19 to 21, A_{Gross} may be reduced by the individual add-on amounts (ie notionals

(c) Securities financing transaction exposures

31. SFTs[18] are included in the exposure measure according to the treatment described below. 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.

32. *General treatment (bank acting as principal)*: the sum of the amounts in subparagraphs (i) and (ii) below are to be included in the leverage ratio exposure measure:

(i) Gross SFT assets[19] recognised for accounting purposes (ie with no recognition of accounting netting),[20] adjusted as follows:

- 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;[21] and
- 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;

  (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

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multiplied by the appropriate add-on factors) which relate to written credit derivatives whose notional amounts are included in the leverage ratio exposure measure. However, no adjustments must be made to *NGR*. Where effective bilateral netting contracts are not in place, the PFE add-on may be set to zero in order to avoid the double-counting described in this paragraph.

[18] 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.

[19] 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.

[20] Gross SFT assets recognised for accounting purposes must not recognise any *accounting* netting of cash payables against cash receivables (eg 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.

[21] 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.

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.[22]

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

- Where a qualifying MNA[23] 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 (ΣE_i), less the total fair value of cash and securities received from the counterparty for those transactions (ΣC_i). This is illustrated in the following formula:

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

- 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 *i* is treated as its own netting set, as shown in the following formula:

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

33. *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 (ie the bank must include the sum of amounts in subparagraphs (i) and (ii) of paragraph 33 for such an SFT) for the purposes of determining its exposure measure.

34. *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.

[22] 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.

[23] A "qualifying" MNA is one that meets the requirements under paragraphs 12 and 13 of the Annex.

35. 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 (ii) of paragraph 33.[24]

36. 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 36 *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 (ie beyond the guarantee for the difference) to the underlying security or cash in the transaction,[25] a further exposure equal to the full amount of the security or cash must be included in the exposure measure.

(d) Off-balance sheet items

37. This section explains the incorporation of OBS items as defined in the Basel II framework 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 and trade letters of credit.

38. 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). For the purpose of determining the exposure amount of OBS items for the leverage ratio, the CCFs set out in paragraphs 14 to 22 of the Annex must be applied to the notional amount.[26]

Attachment # 4

[24] Where, in addition to the conditions in paragraphs 35 to 37, 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.

[25] 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 (eg by on-lending or managing unsegregated collateral, cash or securities).

[26] These correspond to the CCFs of the standardised approach for credit risk under the Basel II framework, 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.

Basel III
Prudential Return Concerning Leverage Ratio

	Item	
On-balance sheet exposures		
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	
2	(Relevant 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 (ie net of eligible cash variation margin)	
5	Add-on amounts for Potential Financial Exposure (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 sales accounting transactions	
13	(Netted amounts of cash payables and cash receivables of gross SFT assets)	
14	Credit Conversion Factor (CCR) exposure for Security Financing Transaction (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**	

This prudential return is to be completed based on the attached guidance document described in attachment # 2 and 3.

Attachment # 5

Transitional arrangements

11. The transition period for the leverage ratio commenced 1 January 2011. The Committee is using the transition period to monitor banks' leverage ratio data on a semiannual basis in order to assess whether the proposed design and calibration of a minimum Tier 1 leverage ratio of 3% is appropriate 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.

12. The transition period comprises a supervisory monitoring period and a parallel run period:

- The supervisory monitoring period commenced 1 January 2011. The supervisory monitoring process focused on developing templates to track the underlying components of the agreed definitions and resulting ratio in a consistent manner.
- The parallel run period commenced 1 January 2013 and runs until 1 January 2017. During this period, the leverage ratio and its components are being reported and tracked, including its behaviour relative to the risk-based capital requirement. Also, as noted above, the public disclosure requirements start on 1 January 2015. The Committee will closely monitor the implementation of these disclosure requirements.

13. Based on the results of the parallel run period, any final adjustments to the definition and calibration of the Basel III leverage ratio will be carried out by 2017, with a view to migrating to a Pillar 1 treatment on 1 January 2018 based on appropriate review and calibration.