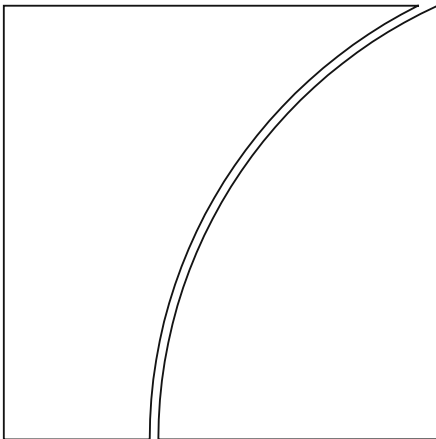


Basel Committee on Banking Supervision



Leverage ratio treatment of client cleared derivatives

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Leverage ratio treatment of client cleared derivatives

Introduction

In October 2018, the Basel Committee consulted on a range of proposed treatments of the leverage ratio capital requirement for derivatives that a bank centrally clears on behalf of its clients.¹ The proposed treatment options set out in that consultative document were informed by the Committee's review of the impact of the leverage ratio on banks' provision of clearing services. The review included assessments of quantitative and qualitative information collected by the Committee and by a joint evaluation conducted by the Committee, the Financial Stability Board, the Committee on Payments and Market Infrastructures and the International Organization of Securities Commissions of the effects of post-crisis reforms on incentives to centrally clear over-the-counter derivatives, consistent with the G20 Leaders' commitments to reform OTC derivatives markets.²

Upon review of comments received on the consultative document and informed by a quantitative impact study of the range of proposed treatments, the Committee has agreed to revise the leverage ratio treatment of client cleared derivatives to generally align it with the measurement as determined per the standardised approach to measuring counterparty credit risk exposures (SA-CCR) as used for risk-based capital requirements.³ The revised treatment will permit both cash and non-cash forms of initial margin and variation margin received from a client to offset the replacement cost and potential future exposure for client cleared derivatives only. To be eligible for offset, initial margin that a bank has received from a client should be subject to appropriate segregation by the bank as defined in the relevant jurisdiction. This revision will apply to the version of the leverage ratio standard that will serve as the Pillar 1 minimum capital requirement as of 1 January 2022.⁴

The Committee is of the view that this targeted and limited revision balances the robustness of the leverage ratio as a non-risk based safeguard against unsustainable sources of leverage with the policy objective set by the G20 Leaders to promote central clearing of standardised derivative contracts as part of mitigating systemic risk and making derivatives markets safer.⁵

Revisions to the leverage ratio standard text that will serve to implement the treatment of client cleared derivatives are set out in the Annex to this document.

¹ Basel Committee on Banking Supervision, *Consultative Document – Leverage ratio treatment of client cleared derivatives*, October 2018, www.bis.org/bcbs/publ/d451.pdf.

² BCBS, CPMI, FSB and IOSCO, *Incentives to centrally clear over-the-counter (OTC) derivatives: A post-implementation evaluation of the effects of the G20 financial regulatory reforms*, November 2018, www.bis.org/publ/othp29.pdf.

³ Basel Committee on Banking Supervision, *The standardised approach to measuring counterparty credit risk exposures*, March 2014 (rev. April 2014), www.bis.org/publ/bcbs279.pdf.

⁴ Basel Committee on Banking Supervision, *Basel III: Finalising post-crisis reforms*, December 2017, www.bis.org/bcbs/publ/d424.pdf.

⁵ G20, *Pittsburgh Summit Leaders' statement*, September 2009, www.fsb.org/wp-content/uploads/g20_leaders_declaration_pittsburgh_2009.pdf

Annex

Revisions to leverage ratio standard text to implement the finalised treatment of client cleared derivatives

To implement the revised treatment of client cleared derivatives as finalised by the Basel Committee, the following paragraph is added to the version of the leverage ratio standard that serves as the Pillar 1 minimum capital requirement as of 1 January 2022.⁶

41a. Pursuant to paragraph 41, for derivative exposures associated with the bank's offering of client clearing services, the RC and the PFE of the exposure to the client (or the exposure to the "lower level client" in the case of a multi-level client structure) may be calculated according to paragraphs 139 to 187 of Annex 4 of the Basel II framework as amended by *The standardised approach for measuring counterparty credit risk exposures*.^{22a} For the determination of RC and PFE, the amount of initial margin received by the bank from its client that may be included in the values of C and NICA should be limited to the amount that is subject to appropriate segregation by the bank as defined in the relevant jurisdiction.

^{22a} *The term "lower level client" refers to the institution that clears through that client.*

The Committee will reflect the new treatment of client cleared derivatives in the consolidated Basel Framework following the conclusion of its consultation period.⁷ The treatment will be included in the version of chapter LEV30 effective as of 1 January 2022 by inserting the following new paragraph. At that time, the paragraph that is currently assigned to LEV30.27 will be renumbered to LEV30.28; all subsequent paragraphs in that chapter, footnotes and cross-references to paragraphs will be renumbered accordingly.

LEV30.27 Pursuant to LEV30.26, for derivative exposures associated with the bank's offering of client clearing services, the RC and the PFE of the exposure to the client (or the exposure to the "lower level client" in the case of a multi-level client structure) may be calculated according to CRE52.13 to CRE52.77.¹³ For the determination of RC and PFE, the amount of initial margin received by the bank from its client that may be included in the values of C and NICA should be limited to the amount that is subject to appropriate segregation by the bank as defined in the relevant jurisdiction.

¹³ *The term "lower level client" refers to the institution that clears through that client.*

⁶ Basel Committee on Banking Supervision, *Basel III: Finalising post-crisis reforms*, December 2017, www.bis.org/bcbs/publ/d424.pdf.

⁷ The comment period for the consultative document on the consolidated Basel Framework will conclude on 9 August 2019. See Basel Committee on Banking Supervision, *Consultative Document – Consolidated Basel Framework*, April 2019, www.bis.org/bcbs/publ/d462.pdf.