Quarterly Template on Leverage Ratio

Introduction

1. This template collects information relating to the Leverage Ratio ("LR") of authorized institutions ("AIs") incorporated in Hong Kong. In completing the template, AIs are required to calculate their LR according to the methodology outlined in Annex 1, which reflects the Basel III LR framework set out by the Basel Committee on Banking Supervision ("BCBS") in *Basel III leverage ratio framework and disclosure requirements*[1] (January 2014).

2. Information collected will be used for regulatory monitoring during the "parallel run" period until 2017 as part of the Basel III transitional arrangements, prior to the LR being finalised for implementation as a Pillar 1 requirement from 2018. The methodology for calculating the LR used in the template will in future be used for the purpose of the LR disclosure requirements which are scheduled to take effect from 2015 according to the BCBS Basel III implementation timetable.

General instructions

3. AIs should adopt bases of consolidation corresponding to those in the Return of Capital Adequacy Ratio (i.e. on a solo basis; solo-consolidated basis; and/or a consolidated basis as specified by the Hong Kong Monetary Authority ("HKMA") under section 3C of the Banking (Capital) Rules ("BCR")) for the purposes of reporting under the template.

4. AIs should report the quarter-end values for each item in the template. Amounts should be reported to the nearest thousand in HK$. The closing middle market T/T rates prevailing at the reporting date should be used for conversion purposes.

5. The template should be submitted quarterly. Submissions should be made to the HKMA not later than 6 weeks[2] after the end of March, June, September and December. If the submission deadline falls on a public holiday, it will be deferred to the next working day.

6. Unless otherwise specified, terminology used in the template follows that of the BCR. Where necessary, therefore, AIs should refer to the BCR for definitions of relevant terms.

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[1] This document can be accessed on the BIS website : http://www.bis.org/publ/bcbs270.pdf

[2] Instead of following the submission timetable for CAR (which differs for the solo and the consolidated basis), a uniform submission timetable is adopted for both the solo and consolidated leverage position for simplicity.

7. Data should only be entered in the yellow cells. Green cells contain calculation formula which must not be changed.

Structure of the template

8. The template contains three input columns for reporting exposures as at the respective quarter-end. Column 1 collects the gross values of the four broad items of the LR exposure measure, viz., on-balance sheet exposures other than those relating to derivative contracts and securities financing transactions ("SFTs"), derivative exposures, SFTs and other off-balance sheet exposures. Column 2 collects the relevant breakdown values, where applicable, for the calculation of the exposure measure for each of the four broad items, based on which the total exposure measure, and hence the LR, are calculated within Column 3.

9. The template comprises 2 sections:

Section 1

9.1 Section 1 collects information on the exposures of an AI based on its scope of regulatory consolidation[3], viz.,

- for solo/solo-consolidated position (collectively referred to as "combined position"), the exposures of the AI and any subsidiaries that are solo-consolidated with the AI; and

- for consolidated position, the exposures of the AI and its subsidiaries required to be included in the scope of regulatory consolidation.

Section 2

9.2 Section 2 is a compilation of the key items necessary to arrive at the LR for the quarter-end, taking into account regulatory adjustments (i.e. deductions) from the AI's Tier 1 capital under the BCR.

Submission of the template

10. The number of submissions an AI should make for the purposes of reporting its LR using the template is described below:

[3] This covers an AI and its subsidiaries that are required to be consolidated under a Section 3C requirement in the BCR.

10.1 An AI that is required to report both the combined position and the consolidated position in respect of its capital adequacy ratio should make two submissions of the template as follows:

- a submission based on the combined position, and
- a separate submission based on the consolidated position.

10.2 An AI that is only required to report the combined position in respect of its capital adequacy ratio should make a single submission based on the combined position only.

Definition and calculation methodology

11. AIs should refer to the calculation methodology described in Annex 1 for computing the value of each reporting item. For ease of reference, the following table explains and links each of the reporting items in the template to the relevant paragraphs of Annex 1.

Row	**Item**	**Explanation / reference to Annex 1 (paragraph nos.)**
Section 1: Exposure Measure		
(1) in column 1	On-balance Sheet Exposures	10.1(a), (b) and (c)
(1)(a) in column 2	*Less: Regulatory adjustments*	10.1(d)
(2) in column 1	Derivative Exposures	Report the positive fair value of all derivative contracts (including those that are treated as off-balance sheet exposures under the applicable accounting standards) on a gross basis (without recognizing any netting that would otherwise be permitted under accounting standards or any credit risk mitigation effects).
(2)(a) in column 2	Replacement cost associated with all derivatives transactions	Replacement cost associated with all derivatives transactions, net of cash variation margin received (paragraph 10.2(g)(i)) and with, where applicable, bilateral netting according to paragraph 10.2(d).

Row	Item	Explanation / reference to Annex 1 (paragraph nos.)
(2)(b) in column 2	Add-on amounts for potential future exposure associated with all derivatives transactions	10.2(b) to (d)
(2)(c) in column 2	Gross-up for collateral provided in respect of derivatives transactions	10.2(e)(ii)
(2)(d) in column 2	Adjusted effective notional amount of written credit derivatives	10.2(k)
(2)(e) in column 2	*Less: Permitted reductions in notional amount and permitted deductions from add-on amounts for potential future exposure of written credit derivatives*	10.2(k) and (l)
(2)(f) in column 2	*Less: Receivables in respect of cash variation margin provided in derivatives transactions*	10.2 (g)(ii)
(2)(g) in column 2	*Less: Exempted CCP legs of client-cleared trade exposures*	10.2(h)
(3) in column 1	Securities Financing Transaction (SFT) Exposures	Report the gross value of SFTs (without recognizing any netting of (cash) payables against (cash) receivables that would otherwise be permitted under accounting standards or any credit risk mitigation effects).
(3)(a) in column 2	Gross SFT assets, after adjusting for sales accounting transactions	Gross SFT assets with no recognition of any netting other than novation with QCCPs as set out in footnote 15, removing certain securities received as determined by the first bullet in paragraph 10.3(b)(ii) and adjusting for any sales accounting transactions as determined by paragraph

Row	Item	Explanation / reference to Annex 1 (paragraph nos.)
		10.3(b)(vi).
(3)(b) in column 2	*Less: Netted amounts of cash payables and cash receivables of gross SFT assets*	The second bullet in paragraph 10.3(b)(ii)
(3)(c) in column 2	Counterparty credit risk exposure for SFT assets	10.3(b)(iii) to (v).
(3)(d) in column 2	Agent transaction exposures	10.3(c).
(4) in column 3	Other Off-balance Sheet Exposures	An auto-calculation row representing the credit equivalent amount of the institution's off-balance sheet exposures.
(4)(a) in column 1	Exposures with a 10% CCF for the calculation of the Leverage Ratio	10.4
(4)(b) in column 1	Exposures with a 20% CCF for the calculation of the Leverage Ratio	10.4
(4)(c) in column 1	Exposures with a 50% CCF for the calculation of the Leverage Ratio	10.4
(4)(d) in column 1	Exposures with a 100% CCF for the calculation of the Leverage Ratio	10.4
Section 2 – Calculation of the Leverage Ratio		
(6)	Tier 1 Capital After Deductions	The amount reported in this row must be consistent with the figure reported for the same item in column 2 of Part II(a) of MA(BS)3(II).
(7)	Leverage Ratio	An auto-calculation row representing the institution's

Row	Item	Explanation / reference to Annex 1 (paragraph nos.)
		Leverage Ratio at the quarter-end.

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