ESRB
European Systemic Risk Board
European System of Financial Supervision

EUROPEAN CENTRAL BANK
EUROSYSTEM

Template for notifying national macroprudential measures not covered by CRR/CRD

Please send this template to

- notifications@esrb.europa.eu when notifying the ESRB;
- macropru.notifications@ecb.europa.eu when notifying the ECB.

Emailing this template to the above-mentioned addresses constitutes an official notification, no further official letter is required. In order to facilitate the work of the notified authorities, please send the notification template in a format that allows electronically copying the information.

1. Notifying national authority and scope of the notification		
1.1	Name of the notifying authority.	Financial Policy Committee (FPC) and Prudential Regulation Authority (PRA)
1.2	Name of the macroprudential measure that is notified.	UK Leverage ratio framework
2. Description of the measure		
2.1	Description of the measure.	*Provide a detailed description of the measure, including calibration and the main parameters.* The UK leverage ratio has been amended to: • exclude from the calculation of the total exposure measure those assets constituting claims on central banks, where they are matched by deposits accepted by the firm that are denominated in the same currency and of identical or longer maturity • require a minimum leverage ratio of 3.25% • align reporting and disclosure requirements under the UK leverage ratio framework with these changes Central bank claims for these purposes include reserves held by a firm at the central bank, banknotes and coins constituting legal currency in the jurisdiction of the central bank, and assets representing debt claims on the central bank with a maturity of no longer than three months.

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<td>2.2</td>
<td>Legal basis and process of implementation of the measure.</td>
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In April 2015, the Government gave the FPC powers of Direction over leverage ratio requirements and buffers for banks, building societies and PRA-regulated investment firms.
In June 2015 the FPC directed the PRA to require each major UK bank and building society with retail deposits greater than £50 billion to meet a leverage ratio requirement and hold buffers over that requirement.
In July 2016 the FPC Recommended to the PRA that it allow firms to exclude central bank reserves from the leverage exposure measure. The FPC revoked its existing Direction to the PRA on the UK leverage ratio framework in order to allow the PRA to implement the FPC’s Recommendation with immediate effect. In response, the PRA invited firms to apply for a temporary rule modification. All firms subject to the UK leverage ratio applied and were granted the exemption.
In June 2017, the FPC consulted on a proposal to recalibrate the leverage ratio framework by adjusting up the minimum leverage ratio requirement from 3% to 3.25% on a revised leverage exposure measure that excludes claims on central banks (i.e. central bank reserves). The PRA consulted in parallel on amending the PRA Rulebook and Supervisory Statement 46/15 to implement the FPC’s proposal.
On 20 September 2017, following the consultation, the FPC decided to issued its Recommendation to PRA without changes to the proposal consulted on. The PRA subsequently agreed to implement these changes as per the consultation on 21 September.
On 3 October 2017 the changes were published and implemented with immediate effect.
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<td>2.3</td>
<td>Coverage</td>
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Which institutions/exposures will be covered by the measure?
These changes affect institutions subject to the UK leverage ratio framework. The UK leverage ratio framework currently applies to firms with retail deposits equal to or greater than £50 billion on an individual or consolidated basis. There are currently seven firms that meet that criteria:
<table>
<tr><th>Institution</th><th>LEI code</th></tr>
<tr><td>Barclays Plc</td><td>G5GSEF7VJP5I7OUK5573</td></tr>
<tr><td>HSBC Holdings Plc</td><td>MLU0ZO3ML4LN2LL2TL39</td></tr>
<tr><td>Lloyds Banking Group Plc</td><td>549300PPXHEU2JF0AM85</td></tr>
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		Nationwide Building Society 549300XFX12G42QIKN82 Royal Bank of Scotland Group Public Limited Company 2138005O9XJIJN4JPN90 Santander UK Plc PTCQB104N23FMNK2RZ28 Standard Chartered Plc U4LOSYZ7YG4W3S5F2G91
2.4	Any other relevant information.	*Any other relevant information (e.g. interaction with other measures addressing the same risk).* The changes have implications for two other policy initiatives: 1) The Bank of England conducts an annual concurrent stress test to assess the UK system's capital adequacy, separate to the EBA stress tests. The hurdle rate framework includes a leverage ratio threshold, which reflects both the exclusion of reserves and recalibration of the minimum . 2) The changes also have implications for firms' minimum requirements for own funds and eligible liabilities (MREL). The Bank as resolution authority has set out that it expects firms that are subject to a bail-in or partial transfer preferred resolution strategy to meet an end-state MREL from 1 January 2022 based on two times their regulatory capital requirements ie 2 x (Pillar 1 plus Pillar 2A) or 2 x any applicable leverage ratio requirement. For G-SIIs, in terms of leverage, MREL must be the higher of two times the applicable leverage ratio requirement or 6.75% of leverage exposures. There are also interim requirements that apply to G-SIIs from 1 January 2019 and for all firms subject to MREL above capital requirements from 1 January 2020.
3. Timing		
3.1	Timing of the decision	*What is the date of the official decision of the notified measure?* The FPC finalised its Recommendation to the PRA to exclude central bank reserves from the exposure measure and recalibrate the minimum leverage ratio requirement at its policy meeting on 20 September 2017. The Prudential Regulation Committee ordered amending the PRA rulebook on 21 September 2017.

3.2	Timing of the publication	*What is the date of publication of the notified measure?* On 3 October, the PRA updated its rules and published a policy statement on how it was implementing the changes.
3.3	Disclosure	*Provide information about the communication strategy of the notified measure to the market.* When the FPC removed central bank reserves from the exposure measure in July 2016, it set out its intention to adjust the UK leverage ratio framework in 2017 to offset the mechanical reduction in capital requirements. The FPC and PRA consulted on the decisions from 27 June until 12 September 2017. The final decision to implement changes as per the consultation was made public on 25 September 2017 in the FPC's policy statement. It was announced that the PRA would publish its rules and how to implement the changes alongside the FPC Record on 3 October.
3.4	Timing of the application	*What is the intended date of activation (i.e. as of which date shall the measure be applicable)? What is the intended timeline for the phase-in of the measure?* 3 October 2017
3.5	End date (if applicable)	N/A
4. Reason for the activation of the measure		
4.1	Description of the macroprudential risk to be addressed.	*Describe the macroprudential risk in the financial system to be addressed by the proposed macroprudential measure*. These amendments are intended to ensure that the leverage ratio does not act as a barrier to the effective implementation of any policy measures that lead to an increase in claims on central banks, while maintaining the level of resilience delivered by the leverage ratio framework. Including central bank reserves in the leverage ratio could have unintended consequences. In circumstances where firms' balance sheets increase because of an expansion in central bank balance sheets, regulatory leverage requirements could effectively tighten. This could prompt banks to deleverage by shedding assets, cutting their supply of credit, or withdrawing from other activities. It could also act as a disincentive to access central bank liquidity facilities. This

		could affect the ability of the banking system to cushion shocks, and maintain the supply of credit to the real economy and support for market functioning. At the same time, central bank reserves are a unique asset class because they are the ultimate settlement asset. If matched by liabilities in the same currency and of identical or longer maturity, they typically do not represent an exposure to risk. Therefore there is no need to build resilience against holdings of reserves. Excluding central bank reserves from the exposure measure reduces the amount of capital needed to meet leverage ratio capital requirements, other things equal. The FPC judges that, once those reserves are excluded, recalibrating leverage ratio capital requirements is an appropriate means of restoring the level of resilience on the remainder of firms' balance sheets.
4.2	Description of the indicators on the basis of which the measure is activated.	*Describe the indicators on the basis of which the measure is activated. If possible provide the data the decision is based on (preferably an Excel-file).* The measure was taken in the context of a package of actions announced by the Monetary Policy Committee on 4 August 2016 to maintain monetary and financial stability following the EU referendum. The FPC's primary intention with these changes is to ensure that leverage ratio capital requirements do not impede the effective transmission of monetary policy. The exclusion of instruments with short original maturity used to implement monetary policy meets this objective. Excluding central bank reserves from the exposure measure reduces the amount of capital needed to meet leverage ratio capital requirements, other things equal. The FPC judges that, once those reserves are excluded, recalibrating leverage ratio capital requirements is an appropriate means of restoring the level of resilience on the remainder of firms' balance sheets. Based on balance sheets when the FPC made its Recommendation in July 2016, the exclusion of reserves was estimated to have reduced the Tier 1 capital required to meet the end-point UK leverage framework by around £13 billion in aggregate for the UK banks within scope of the UK leverage framework. The estimate of the amount of capital the framework would have required in steady state is based on average

		central bank reserves held in the year up until the time of exclusion. Based on the impact on leverage ratio capital requirements, on an exposure measure excluding central bank reserves, the FPC judged that increasing the minimum to 3.25% was an appropriate way of offsetting the impact of excluding central bank reserves on the level of resilience. In arriving at this view the FPC put weight on maintaining the simplicity of the leverage ratio framework.
4.3	Effects of the measure.	*Provide your assessment of the effects of the measure on the domestic banking system, other parts of the financial system, the real economy and financial stability in your country.* The FPC expects the exclusion of central bank reserves from the leverage exposure measure and recalibration of leverage ratio capital requirements to provide benefits to financial stability and economic growth, including support to productive investment. The proposal to exclude central bank reserves mitigates a potential cost that the leverage ratio framework impairs the effective transmission of monetary policy. It also bolsters the financial sector's ability to cushion shocks to the financial system, by allowing firms to draw on central bank liquidity as necessary without becoming constrained or dissuaded by leverage ratio capital requirements. The exclusion of central bank reserves from the exposure measure reduced the capital needed to meet leverage ratio requirements, with a 3% minimum requirement. The proposal to increase the minimum leverage ratio requirement to 3.25% on the redefined exposure measure is a means of offsetting the aggregate reduction in capital requirements that resulted from the exclusion of claims on central banks from the exposure measure. Consequently, it maintains the resilience delivered by the UK leverage ratio framework. The proposal retains the simple approach of the leverage ratio framework, ensuring it remains a transparent and credible guardrail against risk weight uncertainty.
5. Cross-border and cross-sector impact of the measure		

5.1	Assessment of cross-border effects and the likely impact on the internal market (Article 133(11)(d) of the CRD IV and Recommendation ESRB/2015/2)	*Assessment of the cross-border effects of the implementation of the draft measure.* *a. Assessment of the spillover channels operating via risk adjustment and regulatory arbitrage. The relevant indicators provided in Chapter 11 of the ESRB Handbook on Operationalising Macro-prudential Policy in the Banking Sector*[1] *can be used.* *b. Assessment of:* o *cross-border effects (leakages and regulatory arbitrage) of the implementation of macroprudential measures in their jurisdiction (inward spillovers); and* o *cross-border effects on other Member States and on the Single Market of proposed macroprudential measures (outward spillovers).* Requiring firms to exclude central bank claims from the leverage exposure measure ensures that any leverage ratio capital requirement does not act as a barrier to the effective implementation of any monetary policy action that leads to an increase in central bank reserves. The increase of the minimum leverage ratio requirement to 3.25% on the redefined exposure measure is a means of offsetting the aggregate reduction in capital requirements that resulted from the exclusion of claims on central banks from the exposure measure. Consequently, it maintains the resilience delivered by the UK leverage ratio framework. The exclusion applies to all central bank claims. It covers claims in sterling and in other currencies provided they are matched by deposits accepted by the firm denominated in the same currency and of identical or longer maturity. The FPC is content that this: would not affect any requirements placed on subsidiaries of UK banks overseas by foreign authorities; would not affect the relative level of consolidated and solo or sub-consolidated requirements, once its intention to gross up the leverage ratio standard had been implemented; and that, in practice, building up central bank claims would be unlikely to be sufficiently profitable to induce a firm to alter the currency mix of its deposit funding and its asset allocation for reasons other than those in the normal course of business. The PRA will continue to monitor for this.

[1] Available on the ESRB's website at www.esrb.europa.eu.

		Finally, the banks subject to the UK leverage ratio framework will be required to report and disclose their leverage ratios excluding eligible central bank reserves alongside the CRR leverage ratio, thereby maintaining comparability across different jurisdictions.
5.2	Assessment of leakages and regulatory arbitrage within the notifying Member State	*Referring to your country's specific characteristics, what is the scope for "leakages and regulatory arbitrage" in your own jurisdiction (i.e., circumvention of the measure/leakages to other parts of the financial sector)?* We do not anticipate leakages or regulatory arbitrage as a result of these changes. The FPC and PRA will continue to monitor.
5.3	Request for reciprocation	No
6. Miscellaneous		
6.1	Contact person(s) at notifying authority.	Mariana Gimpelewicz Mariana.gimpelewicz@bankofengland.co.uk +44 20 3461 4163
6.2	Any other relevant information.	