

Quarterly Survey on Leverage Ratio

Introduction

1. This Survey collects information relating to the leverage ratio of authorized institutions (“AIs”) incorporated in Hong Kong. In completing the survey template, AIs are required to calculate their leverage ratio according to the methodology outlined in Annex 1,¹ which reflects the latest Basel Committee on Banking Supervision (“BCBS”) proposal set out in its Consultative Document issued in June 2013 entitled *Revised Basel III leverage ratio framework and disclosure requirements*². Where necessary, the calculation methodology will be revised in light of further developments in the BCBS leverage ratio framework.
2. Information collected will be used for regulatory monitoring during the “parallel run” period from 2013 to 2017 as part of the Basel III transitional arrangements, prior to the leverage ratio being finalised for implementation as a Pillar 1 requirement from 2018. The calculation methodology in this survey, as prevailing at the relevant time, will be used for the purpose of the leverage ratio disclosure requirements which are scheduled to take effect from 2015 according to the BCBS Basel III implementation timetable.

General instructions

3. AIs should adopt the corresponding basis(es) of consolidation as 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 this Survey.
4. AIs should report the three end-of-month values for each item for the past quarter. 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. This is a quarterly Survey. Submissions should be made to the HKMA not later than 6 weeks³ after the end of March, June, September and December.

¹ Where relevant, AIs should also take into account the clarification/interpretative guidance in relation to the leverage ratio provided by the BCBS in its document entitled “Frequently asked questions on Basel III monitoring” released in August 2013 (http://www.bis.org/bcbs/qis/biiiimplmonifaq_aug13.pdf) for the purposes of completing the Survey.

² This consultative document can be accessed on the BIS website : <http://www.bis.org/publ/bcbs251.pdf>

³ Instead of following the submission timetable for CAR (which is different for the solo and the consolidated basis), a uniform submission timetable is adopted for both the solo and consolidated leverage position for simplicity.

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 this Survey follows that of the BCR. Where necessary, therefore, AIs should refer to the BCR for definitions of relevant terms.
7. Data should only be entered in the yellow cells. Green cells contain calculation formula which must not be changed.

Structure of the survey template

8. To reflect that the leverage ratio for a quarter is computed on the basis of the average of the three month-end leverage ratios over the quarter, the survey template contains three input columns for reporting exposures as at the respective three month-end dates.
9. The survey template comprises 3 sections:

Section 1

- 9.1 Section 1 collects information on the exposures of an AI based on its scope of regulatory consolidation⁴, 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 entities required to be included in the scope of regulatory consolidation.
- 9.2 The exposures are categorised under four broad items, viz., derivative contracts (including credit derivative contracts), securities financing transactions (“SFTs”), other on-balance sheet exposures (i.e. excluding those relating to derivative contracts and SFTs), and other off-balance sheet items (i.e. excluding those relating to derivative contracts and SFTs) which are subdivided into commitments that are unconditionally cancellable and those that are not.

Section 2

- 9.3 Section 2 collects information on exposures required to be added to

⁴ This covers an AI and its entities that are required to be consolidated under a Section 3C requirement in the BCR.

those collected under Section 1 to arrive at an “expanded” scope of consolidation⁵, viz., in case there are entities that are excluded from the scope of regulatory consolidation of an AI, but that are included in the scope of accounting consolidation.

Section 3

9.4 Section 3 is a compilation of the key items (including the total exposures derived from information collected from Section 1 and Section 2 above and the AI’s Tier 1 capital levels) necessary to arrive at the leverage ratio for each month-end, taking into account:

- (for row 12) regulatory adjustments (i.e. deductions) from the AI’s Tier 1 capital under the BCR; and
- (for row 13) adjustments to address the issue of potential double counting of intra-group exposures:
 - I. (for row 13(a)) to eliminate double counting of accounting value of investments in group entities included in the Section 2 which is already reported as part of the “Other Assets” in Section 1, and
 - II. (for rows 13(b) to 13(d)) to eliminate double counting of exposures (i) between group entities included in Section 2 (row 13(b)), (ii) of group entities included in Section 2 to those included in Section 1 (row 13(c)), as well as (iii) of group entities included in Section 1 to those included in Section 2 (row 13(d)).

Submission(s) of survey template

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

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 Leverage Ratio survey template as follows:

- a submission based on the combined position, and

⁵ The expanded scope of consolidation is necessary to reflect the fact that the leverage ratio is essentially a non-risk based measure and therefore the scope of exposures should not be confined to those giving rise to risks intended to be captured under the risk-based capital framework.

- 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 two submissions as follows:

- a submission based on the combined position only (i.e. without taking into account exposures of any group entities that are required to be consolidated for accounting purposes), and
- a separate submission based on the combined position with the addition of any group entities required to be consolidated for accounting purposes (this will not be necessary if the AI has no such group entities).

10.3 For ease of reference, Annex 2 provides a set of illustrative examples on how an AI should report under Section 1 and Section 2 of the template based on the above principles.

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 links each of the reporting items of the survey template to the relevant paragraphs of Annex 1.

Row	Item	Annex 1 (paragraph nos.)
<i>Section 1: Exposures⁶ of AI / Exposures⁶ of AI and group entities inside the scope of regulatory consolidation</i>		
(1)	Derivative contracts, including credit derivative contracts	10 to 12, 13.2
(2)	Securities financing transactions	10 to 12, 13.3
(3)	Other assets	10 to 12, 13.1
(4)(a)	Unconditionally cancellable commitments	10 to 12, 13.4
(4)(b)	Other commitments	

⁶ For avoidance of doubt, exposures reported in Section 1 must be gross of any exposures to entities which are consolidated for accounting purposes (other than entities which are inside the scope of regulatory consolidation).

Row	Item	Annex 1 (paragraph nos.)
(5)	Total of Section 1	An auto-calculation row representing the sum of amounts reported in rows (1) to (3), ((4)(a)*10%) and (4)(b).
<i>Section 2 – Exposures⁶ of group entities outside the scope of regulatory consolidation but inside the scope of accounting consolidation (for AIs required to report consolidated position and AIs that are only required to report combined position but have entities that are consolidated for accounting purposes)</i>		
(6)	Derivative contracts, including credit derivative contracts	10 to 12, 13.2
(7)	Securities financing transactions	10 to 12, 13.3
(8)	Other Assets	10 to 12, 13.1
(9)(a)	Unconditionally cancellable commitments	10 to 12, 13.4
(9)(b)	Other commitments	
(10)	Total of Section 2	An auto-calculation row representing the sum of amounts reported in rows (6) to (8), ((9)(a)*10%) and (9)(b).
<i>Section 3 – Calculation of the Leverage Ratio</i>		
(11)	Total Exposures	An auto-calculation row representing the total exposures before deduction of regulatory adjustments and adjustments to eliminate double-counting of intra-group exposures, being the sum of amounts reported in rows (5) and (10).
(12)	Regulatory adjustments	3 <u>Note:</u> The amount reported in this row should be consistent with the sum of the figures reported in items (f)(i), (f)(iii) to (f)(xxii) and (i)(i) to

Row	Item	Annex 1 (paragraph nos.)
		(i)(vii) under Part II(a) of MA(BS)3(II).
(13)(a)	Accounting value of investments in group entities included in Section 2	6
(13)(b)	On- and off-balance sheet exposures between group entities included in Section 2	9
(13)(c)	On- and off-balance sheet exposures of group entities included in Section 2 to group entities included in Section 1	9
(13)(d)	On- and off-balance sheet exposures of group entities included in Section 1 to group entities included in Section 2	9
(14)	Total exposures for the calculation of the leverage ratio	An auto-calculation row representing the subtraction from the amount reported in row (11) of the amounts reported in rows (12), (13)(a), (13)(b), (13)(c) and (13)(d).
(15)	Tier 1 capital after deductions	The amount reported in this row should be consistent with the figure reported in item (E) under column 2 of Part II(a) of MA(BS)3(II).
(16)	Month-end leverage ratio	An auto-calculation row for calculating the leverage ratio at each month-end during the quarter.
(17)	Average leverage ratio over a quarter	An auto-calculation cell calculating the arithmetic mean of the monthly leverage ratios over a quarter.