HONG KONG MONETARY AUTHORITY
香港金融管理局

Our Ref.: B1/15C
B9/143C
B9/151C

23 April 2015

The Chief Executive
All locally incorporated authorized institutions

Dear Sir / Madam,

Basel III Implementation – Leverage Ratio ("LR") Standard Disclosure Templates

I am writing to inform you that, following consultation with the two industry associations, the HKMA is issuing the final version of the LR standard disclosure templates (including associated explanatory text). These templates are to be used by locally incorporated authorized institutions for the purpose of making disclosure in relation to their leverage ratio under the Banking (Disclosure) Rules ("BDR") as amended by the Banking (Disclosure) (Amendment) Rules 2014. A copy is enclosed for your reference.

Please ensure that your institution uses these standard disclosure templates to disclose the information required under subsections (1)(a), (b), (c) and (2)(a) of section 24A and section 45A respectively of BDR for making interim and annual financial disclosures relating to a balance sheet date on or after 31 March 2015.

The standard templates, in both English and Chinese, can be accessed through the "Basel III" icon on the HKMA's public website (http://www.hkma.gov.hk) or through the private website (http://www.stet.iclnet.hk).

Should you have any questions regarding the templates, please feel free to contact Miss Theresa Kwan at 2878-1093 or Mr Lai-chun So at 2878-1919.

Yours faithfully,

Karen Kemp
Executive Director (Banking Policy)

Encl.

c.c. The Chairman, The Hong Kong Association of Banks
The Chairman, The DTC Association
FSTB (Attn. Mr Jackie Liu)

Basel III Implementation –

Leverage Ratio ("LR") Standard Disclosure Templates

Purpose

1. Section 6(1)(ab) of the Banking (Disclosure) Rules ("BDR") empowers the Monetary Authority ("MA") to specify the format, and the standard disclosure templates, to be used by an authorized institution ("AI") in presenting information required to be disclosed under the BDR.

2. The standard disclosure templates which the MA requires AIs to adopt for the purposes of disclosing their Leverage Ratios ("LR") and related information are attached.

3. The attached standard disclosure templates are substantially similar to those set out by the Basel Committee on Banking Supervision in its *Basel III leverage ratio framework and disclosure requirements* (issued in January 2014) ("the BCBS standard").

Application

4. The attached standard disclosure templates (i.e. the "Summary Comparison Table" and the "Leverage Ratio Common Disclosure Template") are required to be used by all locally incorporated AIs, except those that are able to meet the exemption criteria outlined in section 3(7) or section 3(8) of the BDR, as the case requires.

5. AIs will be required to use the standard disclosure templates, in the manner described below, from the date of the publication of their first set of financial statements (interim or annual) relating to a balance sheet date on or after 31 March 2015.

6. In accordance with the expectation set out in the BCBS standard, for the purpose of enhancing comparability of disclosures across jurisdictions, AIs should not add, delete or change the definitions of any of the rows in the standard disclosure templates.

Summary Comparison Table

7. Set out at **Annex 1** is a "Summary Comparison Table" (together with accompanying Explanatory Note) that an AI is required to use in order to disclose a reconciliation of its balance sheet assets from its published financial statements to its LR exposure measures, applying values as at the end of the reporting period.

Leverage Ratio Common Disclosure Template

8. An AI is required to disclose, using the "Leverage Ratio Common Disclosure Template" in **Annex 2** (together with accompanying Explanatory Note), its LR exposure measure, applying values at the end of the reporting period. The disclosure includes a breakdown of the main components of the LR exposure measure, viz., (i) on-balance sheet exposures; (ii) derivative exposures; (iii) securities financing transaction ("SFT") exposures; and (iv) other off-balance sheet exposures. In addition to the LR exposure, the AI is also required to disclose its Tier 1 capital, and the resulting LR (expressed as a percentage of Tier 1 capital to LR exposure) on the same template.

Supplementary Disclosure Requirements

9. An AI is required to supplement the disclosures on the two standard disclosure templates with the following disclosures:

(i) details of the source of any material[1] differences between its total on-balance sheet exposures (net of on-balance sheet derivative and SFT assets) as reported in its financial statements and its on-balance sheet exposures in line 1 of the Leverage Ratio Common Disclosure Template; and

(ii) an explanation of the key drivers of any material[1] changes in its LR observed from the end of the previous reporting period to the end of the current reporting period, whether these changes stem from changes in the capital measure (the numerator) and/or from changes in the exposure measure (the denominator).

[1] In determining the materiality, reference should be made to the principle laid down in paragraph 13.7 of the Supervisory Policy Manual module CA-D-1 "Guideline on the Application of the Banking (Disclosure) Rules".

Medium of Disclosure

10. Under sections 24A(4) and 45A(4) of the BDR, an AI must include the standard disclosure templates in the interim or annual financial statements which it publishes. Alternatively, the interim or annual financial statements must include a direct link to the relevant sections of the AI's website where the full set of completed standard disclosure templates can be found. In this regard, an AI will be required to maintain a "Regulatory Disclosures" section on its website where all the information relating to the disclosure of the LR will be housed. The direct link to this page must be prominently displayed on the home page of the AI's website such that LR related disclosures will be easily accessible to market participants. In cases where disclosure requirements have been met through publicly available regulatory reports, the Regulatory Disclosures section of an AI's website will have to provide specific links to these reports.

Annex 1

Summary Comparison Table

	Item	Leverage ratio framework HK$ equivalent
1	Total consolidated assets as per published financial statements	
2	Adjustment for investments in banking, financial, insurance or commercial entities that are consolidated for accounting purposes but outside the scope of regulatory consolidation	
3	Adjustment for fiduciary assets recognised on the balance sheet pursuant to the operative accounting framework but excluded from the leverage ratio exposure measure	
4	Adjustments for derivative financial instruments	
5	Adjustment for securities financing transactions (i.e. repos and similar secured lending)	
6	Adjustment for off-balance sheet items (i.e. conversion to credit equivalent amounts of off-balance sheet exposures)	
7	Other adjustments	
8	**Leverage ratio exposure**	0

Annex 2

Leverage Ratio Common Disclosure Template

	Item	Leverage ratio framework HK$ equivalent
	On-balance sheet exposures	
1	On-balance sheet items (excluding derivatives and SFTs, but including collateral)	
2	Less: Asset amounts deducted in determining Basel III Tier 1 capital (reported as negative amounts)	
3	Total on-balance sheet exposures (excluding derivatives and SFTs) (sum of lines 1 and 2)	0
	Derivative exposures	
4	Replacement cost associated with all derivatives transactions (i.e. net of eligible cash variation margin)	
5	Add-on amounts for 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	Less: Deductions of receivables assets for cash variation margin provided in derivatives transactions (reported as negative amounts)	
8	Less: Exempted CCP leg of client-cleared trade exposures (reported as negative amounts)	
9	Adjusted effective notional amount of written credit derivatives	
10	Less: Adjusted effective notional offsets and add-on deductions for written credit derivatives (reported as negative amounts)	
11	Total derivative exposures (sum of lines 4 to 10)	0
	Securities financing transaction exposures	
12	Gross SFT assets (with no recognition of netting), after adjusting for sales accounting transactions	
13	Less: Netted amounts of cash payables and cash receivables of gross SFT assets (reported as negative amounts)	
14	CCR exposure for SFT assets	

	Item	Leverage ratio framework HK$ equivalent
15	Agent transaction exposures	
16	Total securities financing transaction exposures (sum of lines 12 to 15)	0
	Other off-balance sheet exposures	
17	Off-balance sheet exposure at gross notional amount	
18	Less: Adjustments for conversion to credit equivalent amounts (reported as negative amounts)	
19	Off-balance sheet items (sum of lines 17 and 18)	0
	Capital and total exposures	
20	Tier 1 capital	
21	Total exposures (sum of lines 3, 11, 16 and 19)	0
	Leverage ratio	
22	**Basel III leverage ratio**	**#DIV/0!**

Summary Comparison Table – Explanatory Note

1. The Leverage Ratio ("LR") framework follows the same scope of regulatory consolidation as the risk-based capital framework (i.e. on a solo basis, solo-consolidated basis, and/or a consolidated basis as specified by the Monetary Authority ("MA") under section 3C of the Banking (Capital) Rules ("BCR")). This may be different from the scope of consolidation adopted by authorized institutions ("AIs") for the purposes of their published financial statements. There may also be differences between the measurement criteria for assets on the accounting balance sheet in the published financial statements relative to the measurement criteria for the LR exposure. In addition, the LR framework incorporates both off-balance sheet ("OBS") and on-balance sheet exposures in order to adequately capture embedded leverage.

2. The table below provides a detailed explanation of each disclosure item presented in the Summary Comparison Table, which presents a reconciliation of an AI's balance sheet assets shown in its published financial statements against its LR exposure measure.

Row number	Explanatory note
1	Total consolidated assets as per published financial statements.
2	Adjustments in relation to the AI's investments in financial sector entities or commercial entities as defined in section 35 of the BCR that are consolidated for accounting purposes, but outside the scope of regulatory consolidation.
3	Adjustments related to any fiduciary assets recognised on the balance sheet pursuant to the AI's operative accounting framework but excluded from the LR exposure measure, provided that the assets meet the IAS 39 / HKAS 39 criteria for derecognition and, where applicable, IFRS 10 / HKFRS 10 for deconsolidation.
4	Adjustments related to derivative financial instruments. Please refer to paragraph 10.2 "*Derivative Exposures*" of the LR framework[1] for details.
5	Adjustments related to securities financing transactions (i.e. repos and other similar secured lending). Please refer to paragraph 10.3 "*SFT*

[1] "LR framework" refers to the "Leverage Ratio Framework" set out at Annex 1 to the completion instructions for the Quarterly Template on Leverage Ratio, which was published by the HKMA on 19 May 2014 along with the circular letter namely *Implementation of Basel III – Quarterly Template for Reporting of Leverage Ratio*.

Row number	Explanatory note
	Exposures" of the LR framework for details.
6	Aggregates of the credit equivalent amount of OBS exposures, as converted under the standardized (credit risk) approach under the BCR, subject to a floor of 10%, through the use of credit conversion factors ("CCFs"). For details of the OBS exposures and their applicable CCFs, please refer to paragraph 10.4 "*Other Off-balance Sheet Exposures"* of the LR framework.
7	Any other adjustments that are necessary for the reconciliation but not included in rows 1 to 6 above. These may include adjustments in relation to any items that are deducted from Tier 1 capital under the risk-based capital framework in accordance with sections 38(2), 43 and 47 of the BCR, but are not already excluded from the calculation of the LR exposure measure in rows 1 to 6 above. For a note-issuing bank, the adjustments may also include any certificates of indebtedness issued under the Exchange Fund Ordinance and held by it as cover for legal tender notes issued by it.
8	The LR exposure, which should be the sum of rows 1 to 7 above, should be consistent with the total exposures amount reported in line 21 of the Leverage Ratio Common Disclosure Template (Annex 2).

Leverage Ratio Common Disclosure Template – Explanatory Note

The table below provides an explanation of the item described in each row of the Leverage Ratio Common Disclosure Template and the respective cross reference to the equivalent items in the Quarterly Template on Leverage Ratio.[1]

Row number	Explanatory note	Reference to Quarterly Template
On-balance sheet exposures		
1	On-balance sheet assets, excluding on-balance sheet derivative and securities financing transaction ("SFT") assets but including on-balance sheet derivatives collateral and collateral for SFTs. Where an AI is a note-issuing bank, the AI's on-balance sheet exposure shall not include, for the purpose of this template, any certificates of indebtedness issued under the Exchange Fund Ordinance and held by the AI as cover for legal tender notes issued by it.	Line (1) in column 1
2	Deductions from Tier 1 capital in accordance with sections 38(2)(a), (c), (d) and (e), 43 and 47 of the Banking (Capital) Rules ("BCR"), reported as negative amounts.	Line (1)(a) in column 2
3	Sum of lines 1 and 2.	-
Derivative exposures		
4	Replacement cost associated with all derivatives transactions, net of cash variation margin received and with, where applicable, bilateral netting under a valid bilateral netting agreement.	Line (2)(a) in column 2
5	Add-on amounts for potential future exposure ("PFE") associated with all derivative transactions.	Line (2)(b) in column 2
6	Gross-up for collateral provided in respect of derivative transactions where the provision of that collateral has reduced the value of the AI's balance sheet assets pursuant to the operative accounting framework.	Line (2)(c) in column 2

[1] Quarterly Template on Leverage Ratio can be accessed at the following link: http://www.hkma.gov.hk/eng/key-functions/banking-stability/basel-3/basel-3_implementation_leverage_ratio_20140509.shtml.

Row number	Explanatory note	Reference to Quarterly Template
7	Deductions of receivables assets in respect of cash variation margin provided in derivatives transactions, reported as negative amounts.	Line (2)(f) in column 2
8	Exempted trade exposures associated with the central counterparty ("CCP") leg of derivatives transactions resulting from client-cleared transactions, reported as negative amounts.	Line (2)(g) in column 2
9	Adjusted effective notional amount for written credit derivatives.	Line (2)(d) in column 2
10	Adjusted effective notional offsets and permitted deductions from add-on amounts for PFE of written credit derivatives, reported as negative amounts.	Line (2)(e) in column 2
11	Sum of lines 4–10.	-
Securities financing transaction exposures		
12	Gross SFT assets with no recognition of any accounting netting other than novation with qualifying central counterparties (in which case the final contractual exposure is to replace the gross SFT assets amount as set out in footnote 15 of the LR framework[2]), removing any securities received under an SFT where the AI has recognised the securities as an asset on its balance sheet per the first bullet of paragraph 10.3(b)(ii) of the LR framework; and adjusting for any sales accounting transactions in accordance with paragraph 10.3(b)(vi) of the LR framework.	Line (3)(a) in column 2
13	Adjustment for netted amount of cash payables and cash receivables of gross SFT assets, reported as negative amounts, if all the criteria as set out in paragraph 10.3(b)(ii)(A) to (C) of the LR framework are met.	Line (3)(b) in column 2
14	Counterparty credit risk exposures for SFT assets.	Line (3)(c) in column 2
15	Agent transaction exposures.	Line (3)(d) in

[2] "LR framework" refers to the "Leverage Ratio Framework" set out at Annex 1 to the completion instructions for the Quarterly Template on Leverage Ratio, which was published by the HKMA on 19 May 2014 along with the circular letter namely *Implementation of Basel III – Quarterly Template for Reporting of Leverage Ratio*.

Row number	Explanatory note	Reference to Quarterly Template
		column 2
16	Sum of lines 12–15.	-
Other off-balance sheet exposures		
17	Total off-balance sheet exposure amounts on a gross notional basis, before any adjustment for credit conversion factors ("CCFs").	Summation of lines (4)(a) to (4)(d) in column 1
18	Reduction in gross amount of off-balance sheet exposures due to the application of CCFs according to paragraph 10.4(a) and (b) of the LR framework, reported as negative amounts.	Summation of lines (4)(a) to (4)(d) in column 1 minus line (4) in column 3
19	Sum of lines 17 and 18.	-
Calculation of the LR		
20	Tier 1 capital as determined under the BCR.	Line (6) in column 3
21	Sum of lines 3, 11, 16 and 19.	Line (5) in column 3
22	Calculated as row 20 divided by row 21 (expressed as a percentage).	Line (7) in column 3