



HONG KONG MONETARY AUTHORITY
香港金融管理局

Banking Policy Department

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

12 July 2019

The Chief Executive
All locally incorporated authorized institutions

Dear Sir/Madam,

Basel Standards – Leverage ratio treatment of client cleared derivatives and Revisions to leverage ratio disclosure requirements

As you may be aware, the Basel Committee on Banking Supervision (“BCBS”) issued two documents, respectively *Leverage ratio treatment of client cleared derivatives*¹ (“Revised LR Treatment”) and *Revisions to leverage ratio disclosure requirements*² (“Revised LR Disclosure Requirements”), on 26 June 2019.

The Revised LR Treatment sets out a targeted and limited revision of the leverage ratio measurement of client cleared derivatives to align it with the standardised approach to measuring counterparty credit risk exposures (SA-CCR). This followed a review conducted by the BCBS regarding the impact of the leverage ratio on banks’ provision of client clearing services. The new treatment allows both cash and non-cash forms of segregated initial margin and cash and non-cash variation margin received from a client to offset the replacement cost and potential future exposure for client cleared derivatives only. The 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 the standardised derivative contracts.

The Revised LR Disclosure Requirements specify additional requirements for banks to disclose their leverage ratios based on quarter-end and on daily average values of securities financing transactions. A comparison of the two sets of values will allow market participants to better assess banks’ actual leverage throughout the reporting period. This goes towards addressing the concerns expressed in a newsletter published last year by the BCBS regarding potential “window-dressing” by banks, whereby temporary reductions of transaction volumes around reference dates has the effect of artificially elevating leverage ratios reported or disclosed.

¹ Please see <https://www.bis.org/bcbs/publ/d467.pdf>

² Please see <https://www.bis.org/bcbs/publ/d468.pdf>

Both the Revised LR Treatment and the Revised LR Disclosure Requirements will come into effect on 1 January 2022. The HKMA intends to implement them having regard to the BCBS timetable and will consult the industry on its implementation proposals in due course. In the meantime, AIs are strongly recommended to familiarise themselves with the new requirements and prepare for any system changes that may be necessary for their implementation in Hong Kong.

Should you have any questions, please feel free to contact Miss Theresa Kwan at tyykw@hkma.gov.hk or Mr Raymond Tsui at ryktsui@hkma.gov.hk.

Yours faithfully,

Daryl Ho
Executive Director (Banking Policy)

cc: The Chairperson, The Hong Kong Association of Banks
The Chairman, The DTC Association
FSTB (Attn: Ms Eureka Cheung)