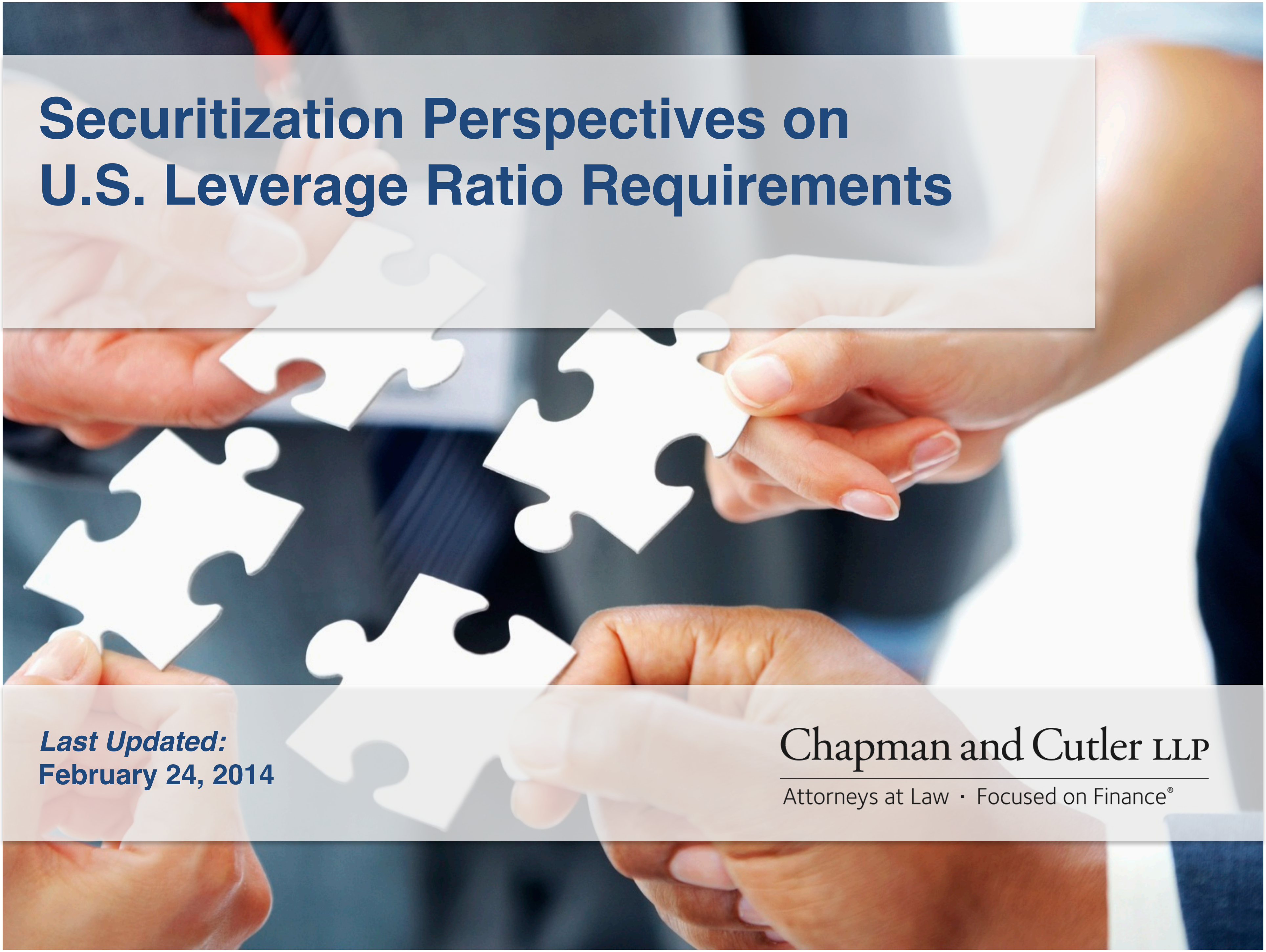
Securitization Perspectives on U.S. Leverage Ratio Requirements



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Introduction

- **Currently**, **all U.S. banks** are subject to a **balance sheet leverage ratio**, which requires them to maintain a ratio of tier 1 capital to balance sheet assets at a minimum level of 4%. In order to be well-capitalized, banks must achieve a 5% minimum leverage ratio.
- In July 2013, the Agencies adopted the **U.S. Basel III Final Rule**, which requires (among many other things) that **Advanced Approaches Banks** maintain a **supplementary leverage ratio** of at least 3%. This is consistent with the Final BCBS Basel III Rule.
- In August 2013, the Agencies **proposed** an **additional supplementary leverage ratio** that, if adopted, would require bank holding companies that have been identified as globally systemically important banks (**G-SIBs** to maintain a supplementary leverage ratio of at least 5%. It would also require their bank subsidiaries to hold a supplementary leverage ratio of at least 6%.
  - *It is unclear whether foreign regulators will follow suit and increase the leverage requirements of the G-SIBs under their jurisdiction.*

Summary of Leverage Ratios

	U.S. Balance Sheet Leverage Ratio	Basel III Leverage Ratio	U.S. Advanced Approaches Bank Supplementary Leverage Ratio	U.S. G-SIB Supplementary Bank Leverage Ratio
Calculation	Tier 1 Capital ——— Adjusted GAAP Assets	Tier 1 Capital ——— Assets + Off-balance sheet exposure	Tier 1 Capital ——— Assets + Off-balance sheet exposure	Tier 1 Capital ——— Assets + Off-balance sheet exposure
Requirement	4% minimum ——— 5% well-capitalized	3% minimum	3% minimum	5% G-SIB BHCs ——— 6% G-SIB Banks
Covered Institutions	All U.S. bank's subject to risk-based capital rules	Foreign Banks	Banks subject to Advanced Approaches risk-based capital rules	U.S. G-SIB BHC's and subsidiary banks

Supplementary Leverage Ratio: The Calculation

$$\textbf{Supplementary Leverage Ratio} = \frac{\text{Tier 1 Capital}}{\text{Total Leverage Exposure}}$$

Supplementary Leverage Ratio: The Denominator

Total Leverage Exposure =

Balance sheet carrying value of all on-balance sheet assets *minus* amounts deducted from Tier 1 capital

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Potential future credit exposure (PFE) amount for each derivative contract to which the bank is a counterparty determined in accordance with the U.S. Basel III Standardized Approach but without regard to the credit risk mitigation benefits of collateral

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10% of the notional amount of unconditionally cancellable commitments made by the bank

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Notional amount of all other off-balance sheet exposures - including credit and liquidity commitments in securitization transactions –but excluding securities lending, securities borrowing, reverse repurchase transactions, derivatives and unconditionally cancellable commitments

Competitive Impact of Leverage Ratios

Bank	U.S. Leverage Ratio	U.S. Supplementary Leverage Ratio	Basel Leverage Ratio	U.S. Additional Supplementary Leverage Ratio
U.S. Standardized Approach Bank	✔			
U.S. non-G-SIB Advanced Approaches Bank	✔	✔		
Basel Guidelines Bank			✔	
U.S. G-SIB	✔	✔		✔