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Transmittal – See OCC 2020-11

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Regulatory Capital - Supplementary Leverage Ratio: Final Rule

Summary

The Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, and the Federal Deposit Insurance Corporation (collectively, the agencies) have adopted a final rule that revises the calculation of total leverage exposure (the denominator of the supplementary leverage ratio) in a manner generally consistent with revisions to the international leverage ratio framework published by the Basel Committee on Banking Supervision in January 2014. The supplementary leverage ratio applies to all banking organizations subject to the agencies' advanced approaches risk-based capital framework.[1]

To

Chief Executive Officers of National Banks and Federal Savings Associations, All Department and Division Heads, All Examining Personnel, and Other Interested Parties

Highlights

The final rule

- adjusts the measure of total leverage exposure by
  - adding the amount of cash collateral received or posted for derivatives contracts, except for cash variation margin that meets certain conditions.
  - adding the effective notional amount, subject to certain reductions, of each written credit derivative (that is, credit derivatives for which the banking organization acts as the credit protection provider) or other similar instrument to the extent that the exposure is not offset by purchased credit protection that meets certain conditions.
  - adding the gross value of receivables of any repo-style transactions that do not meet certain conditions.
  - adding the counterparty credit risk associated with repo-style transactions.
  - revising the treatment of other off-balance-sheet exposures; rather than including the full notional amount of each exposure, the revised measure of total leverage exposure would use the credit conversion factors set forth in the standardized approach in the 2013 revised capital rule, provided that no credit conversion factor can be less than 10 percent.

- clarifies the leverage exposure calculation for a clearing member bank for a cleared derivative contract that the bank intermediates on behalf of a client.

The measure of total leverage exposure will continue to include the carrying value of a banking organization's on-balance-sheet assets (less amounts deducted from tier 1 capital) and a potential future exposure amount calculated for each derivative contract (or each single-product netting set thereof).

Note for Community Banks

The final rule will not apply to community banks.

Background

The supplementary leverage ratio is the ratio of a banking organization's tier 1 capital to its total leverage exposure, which includes all on-balance-sheet assets and many off-balance-sheet exposures. The most significant changes relate to the treatment of written credit derivatives and the application of credit conversion factors to the amount of certain off-balance-sheet items.

Banking organizations subject to the supplementary leverage ratio requirements are required to calculate and publicly report their supplementary leverage ratios beginning in the first quarter of 2015. The minimum supplementary leverage ratio requirements are not effective until 2018.

Further Information

Direct questions or comments to Nicole Billick, Risk Expert, or Margot Schwadron, Senior Risk Expert, Capital Policy Division, at (202) 649-6370; or Carl Kaminski, Counsel, or Henry Barkhausen, Attorney, Legislative and Regulatory Activities Division, at (202) 649-5490.

Jennifer C. Kelly
Senior Deputy Comptroller and Chief National Bank Examiner

Related Link

- "Final Rule–Regulatory Capital–Enhanced Supplementary Leverage Ratio Standards for Certain Bank Holding Companies and Their Subsidiary Insured Depository Institutions" (PDF)

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[1] Advanced approaches banking organizations generally include those with $250 billion or more in total consolidated assets or $10 billion or more in on-balance-sheet foreign exposure; other banking organizations that opt in to the advanced approaches; and depository institution subsidiaries of banking organizations that trigger one of the aforementioned thresholds.