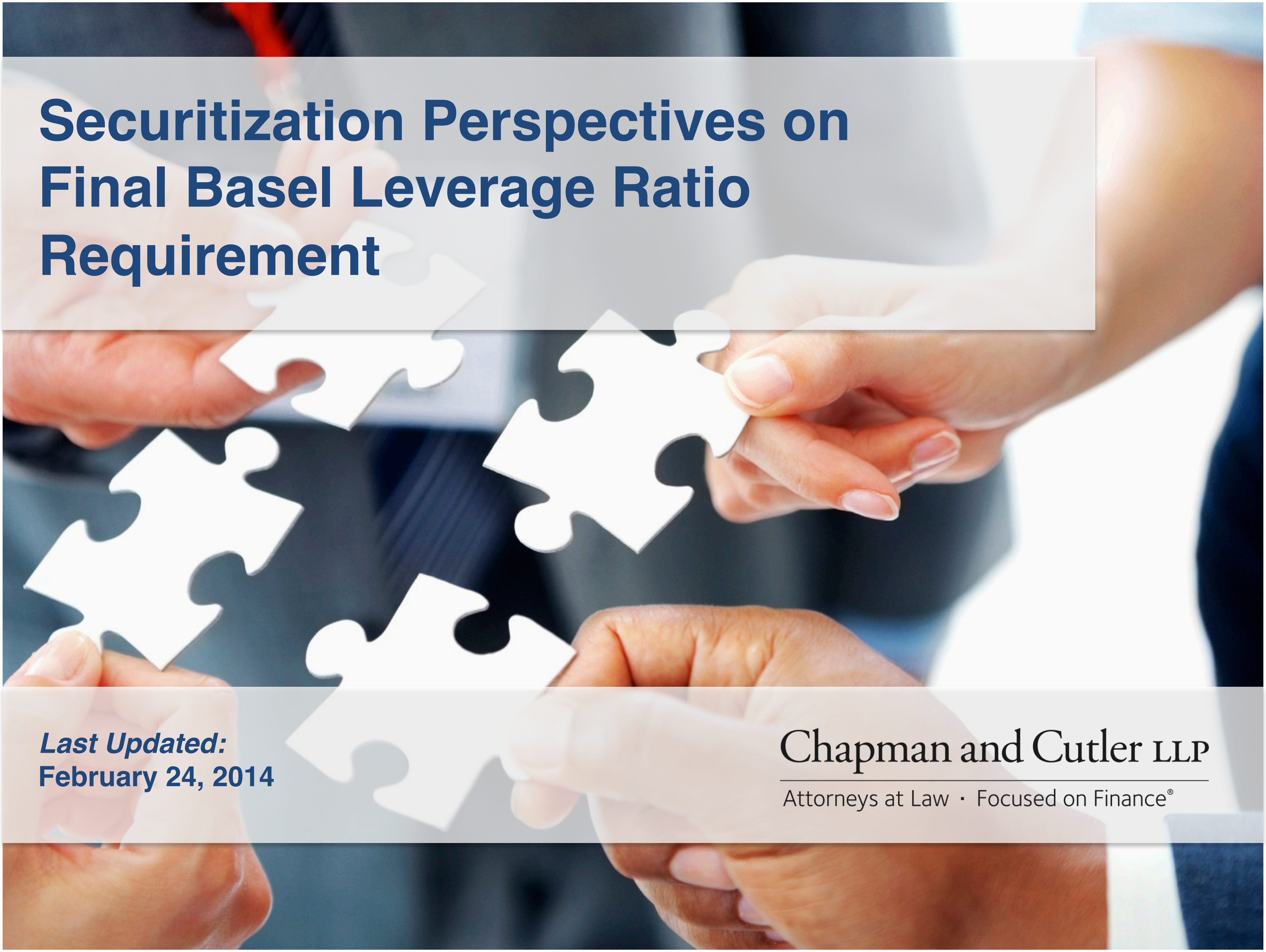

Securitization Perspectives on Final Basel Leverage Ratio Requirement

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Introduction

- In January 2014, the Basel Committee on Banking Supervision (**BCBS**) published its final Basel III leverage ratio framework and disclosure requirements.
- The Basel III framework introduced a simple, transparent, non-risk based leverage ratio to act as a supplement to the risk-based capital requirements. The BCBS intends that the leverage ratio will broadly capture both on- and off-balance sheet sources of banks' leverage.
- Banks will be required to publicly disclose their Basel III leverage ratio on a consolidated basis from the date of publication of their first set of financial statements relating to a balance sheet on or after January 1, 2015.

The Calculation

$$\textbf{Leverage Ratio} = \frac{\text{Capital Measure}}{\text{Exposure Measure}}$$

The Numerator: Capital Measure

- The **capital measure** at any particular point in time is the Tier 1 capital measure applicable at the time of measurement under the Basel III risk-based capital framework.

The Denominator: Exposure Measure

- A bank's total **exposure measure** is the sum of:
  (1) On-balance sheet exposures;
  (2) Derivative exposures;
  (3) Securities financing transaction exposures; and
  (4) Off-balance sheet items.

The Denominator: On-Balance Sheet Exposures

- Banks must include **all balance sheet assets** in their exposure measure.

The Denominator: Off-Balance Sheet Items

- Off-balance sheet (**OBS**) items are incorporated into the leverage ratio exposure measure.
- OBS items include commitments (including liquidity facilities), whether or not unconditionally cancellable, direct credit substitutes, acceptances, standby letters of credit and trade letters of credit.
- In the risk-based capital framework, OBS items are converted under the Standardized Approach into credit exposure equivalents through the use of credit conversion factors (**CCFs**).

The Denominator: CCF Look-Up Table for OBS Items

CCF	OBS Item
10%	• Any commitments that are unconditionally cancellable at any time by the bank without prior notice or that effectively provide for automatic cancellation due to deterioration in a borrower's creditworthiness • At national discretion, undrawn servicer cash advances or facilities that are unconditionally cancellable without prior notice
20%	• Commitments other than securitization liquidity facilities with an original maturity up to 1 year • Short-term self-liquidating trade letters of credit arising from the movement of goods
50%	• Commitments other than securitization liquidity facilities with an original maturity over 1 year • Certain transaction-related contingent items • Note issuance facilities and revolving underwriting facilities • Eligible liquidity facilities
100%	• Direct credit substitutes • Forward asset purchases, forward forward deposits and partly paid shares and securities, which represent commitments with certain drawdown • All off-balance sheet securitization exposures (except an eligible liquidity facility or an eligible servicer cash advance facility)