



Modification by consent of the calculation of the total exposure measure of the Leverage Ratio

Overview

The PRA notes incoming changes in the amending Regulation to the Capital Requirements Regulation (referred to here as CRR2).¹ Firms may calculate their exposure value of regular-way purchases and sales awaiting settlement in line with CRR2 Article 429g. The PRA is offering a modification by consent so that banks which are subject to the UK Leverage Ratio would be required to apply this article, for the purpose of PRA rules, if they choose to do so.

The FPC has been consulted and supports this action. In the July 2016 *Financial Stability Report*, the FPC judged *'that the current treatment of outright purchases and sales of securities may act to discourage market-making activity and, in view of recent developments in market liquidity, judges that there would be merit in revising the treatment.'* And that *'there would be merit in any internationally agreed leverage ratio standard permitting banks to net cash receivables relating to unsettled sales against cash payables relating to unsettled purchases, where trades are settled through a delivery versus payment or equivalent settlement system'*.²

Since then the Basel Committee on Banking Supervision and the European Union have reflected this change in their respective frameworks. This rule modification by consent would allow firms to calculate the UK leverage ratio consistent with the FPC's long-standing view on the appropriate treatment of unsettled sales against cash payables relating to unsettled purchases.

Consistent with FPC's views this is likely to support market making and therefore market functioning.

Scope

This statement is relevant to firms subject to the Leverage Ratio Part of the PRA Rulebook.

Implementation

Once a firm's request for modification by consent takes effect, it will be required to calculate the exposure value of regular-way purchases and sales awaiting settlement in its UK Leverage Exposure Measure according to CRR2 Article 429g, which reads as follows:

Firms shall treat cash related to regular-way sales and securities related to regular-way purchases which remain on the balance sheet until the settlement date as assets in accordance with point (a) of Article 429(4) of the amended Regulation.

¹ Regulation (EU) 2019/876 of the European Parliament and of the Council of 20 May 2019 amending Regulation (EU) No 575/2013 as regards the leverage ratio, the net stable funding ratio, requirements for own funds and eligible liabilities, counterparty credit risk, market risk, exposures to central counterparties, exposures to collective investment undertakings, large exposures, reporting and disclosure requirements, and Regulation (EU) No 648/2012

² July 2016 [Financial Stability Report](#).



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Firms that, in accordance with the applicable accounting framework, apply trade date accounting to regular-way purchases and sales which are awaiting settlement shall reverse out any offsetting between cash receivables for regular-way sales awaiting settlement and cash payables for regular-way purchase awaiting settlement allowed under that framework. After firms have reversed out the accounting offsetting, they may offset between those cash receivables and cash payables where both the related regular-way sales and purchases are settled on a delivery-versus-payment basis.

Firms that, in accordance with the applicable accounting framework, apply settlement date accounting to regular-way purchases and sales which are awaiting settlement shall include in the total exposure measure the full nominal value of commitments to pay related to regular-way purchases.

Firms may offset the full nominal value of the commitments to pay related to regular-way purchases by the full nominal value of cash receivables related to regular-way sales awaiting settlement only where both of the following conditions are met:

- (a) both the regular-way purchases and sales are settled on a delivery-versus-payment basis; and*
- (b) the financial assets bought and sold that are associated with cash payables and receivables are fair valued through profit and loss and included in the firm's trading book.*

The draft Direction also includes modification to Leverage Ratio Reporting and Public Disclosure rules that provide that the quarterly average figures, to be disclosed or reported for the quarter in which the modification first applied, shall reflect the modification as if it had applied on each day of the quarter.

A copy of the direction for the modification by consent is available on [Waivers and modification by consent webpage](#). If a firm wishes to take up this modification by consent, it should read the direction and contact the Authorisations Division with a request for the modification at:

PRA Authorisations – Authorisations Division
Prudential Regulation Authority
20 Moorgate
London
EC2R 6DA

Or

PRA-Waivers@bankofengland.co.uk

The PRA will confirm in writing whether the request has been granted and will publish the approved modification direction on the Financial Services Register.

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