Basel Committee
on Banking Supervision

Basel III leverage ratio framework and disclosure requirements

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Introduction

1. An underlying cause of the global financial crisis was the build-up of excessive on- and off-balance sheet leverage in the banking system. In many cases, banks built up excessive leverage while apparently maintaining strong risk-based capital ratios. At the height of the crisis, financial markets forced the banking sector to reduce its leverage in a manner that amplified downward pressures on asset prices. This deleveraging process exacerbated the feedback loop between losses, falling bank capital and shrinking credit availability.

2. The Basel III framework introduced a simple, transparent, non-risk based leverage ratio to act as a credible supplementary measure to the risk-based capital requirements. The leverage ratio is intended to:

- restrict the build-up of leverage in the banking sector to avoid destabilising deleveraging processes that can damage the broader financial system and the economy; and
- reinforce the risk-based requirements with a simple, non-risk based "backstop" measure.

3. The Basel Committee is of the view that:

- a simple leverage ratio framework is critical and complementary to the risk-based capital framework; and
- a credible leverage ratio is one that ensures broad and adequate capture of both the on- and off-balance sheet sources of banks' leverage.

4. Implementation of the leverage ratio requirements has begun with bank-level reporting to national supervisors of the leverage ratio and its components from 1 January 2013, and will proceed with public disclosure starting 1 January 2015. The Committee will continue monitoring the impact of these disclosure requirements. The final calibration, and any further adjustments to the definition, will be completed by 2017, with a view to migrating to a Pillar 1 (minimum capital requirement) treatment on 1 January 2018.

5. This document sets out the Basel III leverage ratio framework, along with the public disclosure requirements applicable as from 1 January 2015. These requirements supersede those in Section V of *Basel III: A global regulatory framework for more resilient banks and banking systems.*[1]

Definition and minimum requirement

6. The Basel III leverage ratio is defined as the capital measure (the numerator) divided by the exposure measure (the denominator), with this ratio expressed as a percentage:

$$\text{Leverage ratio} = \frac{\text{Capital measure}}{\text{Exposure measure}}$$

7. The Committee will continue to test a minimum requirement of 3% for the leverage ratio during the parallel run period (ie from 1 January 2013 to 1 January 2017). Additional transitional arrangements are set out in paragraphs 59 to 61 below.

[1] For the preceding version of the leverage ratio framework, see paragraphs 151 to 167 of the Basel III framework, available at www.bis.org/publ/bcbs189.htm.