Basel Committee on Banking Supervision

LEV
Leverage ratio
LEV20
Calculation

Version effective as of 15 Dec 2019

First version in the format of the consolidated framework.
20.1 The Basel III leverage ratio is intended to:

(1) 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

(2) reinforce the risk-based capital requirements with a simple, non-risk-based
“backstop” measure.

20.2 The Basel Committee is of the view that:

(1) a simple leverage ratio framework is critical and complementary to the risk-
based capital framework; and

(2) a credible leverage ratio is one that ensures broad and adequate capture of
both the on- and off-balance sheet sources of banks’ leverage.

20.3 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:

\[ \text{Leverage ratio} = \frac{\text{capital measure}}{\text{exposure measure}} \]

20.4 The capital measure for the leverage ratio is the Tier 1 capital of the risk-based
capital framework as defined in \text{CAP10} taking account of the transitional
arrangements. In other words, the capital measure used for the leverage ratio at
any particular point in time is the Tier 1 capital measure applying at that time
under the risk-based framework.

20.5 A bank’s total exposure measure is the sum of the following exposures, as
defined in \text{LEV30}:

(1) on-balance sheet exposures;

(2) derivative exposures;

(3) securities financing transaction exposures; and

(4) off-balance sheet items.

20.6 Banks must meet a 3% leverage ratio minimum requirement at all times.