Basel Committee on Banking Supervision

LEV
Leverage ratio
LEV20
Calculation

Version effective as of 01 Jan 2022

Calculation frequency specified for reporting and disclosure purposes.
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 a simple leverage ratio framework is
critical and complementary to the risk-based capital framework and that the
leverage should adequately capture both the on- and off-balance sheet sources
of banks’ leverage.

20.3 The 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 Tier 1 capital – comprising Common
Equity Tier 1 and/or Additional Tier 1 instruments – as defined in CAP10. In other
words, the capital measure used for the leverage ratio at any particular point in
time is the Tier 1 capital measure applicable at that time under the risk-based
framework. The exposure measure for the leverage ratio is defined in LEV30.

20.5 A bank’s total leverage ratio exposure measure is the sum of the following
exposures, as defined in LEV30:1

(1) on-balance sheet exposures (excluding on-balance sheet derivative and
securities financing transaction exposures);

(2) derivative exposures;

(3) securities financing transaction exposures; and

(4) off-balance sheet items.

Footnotes

1 Jurisdictions are free to apply the revised definition of the exposure
measure at an earlier date than 1 January 2022.
20.6 Both the capital measure and the exposure measure are to be calculated on a quarter-end basis. However, banks may, subject to supervisory approval, use more frequent calculations (eg daily or monthly averaging) as long as they do so consistently.

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