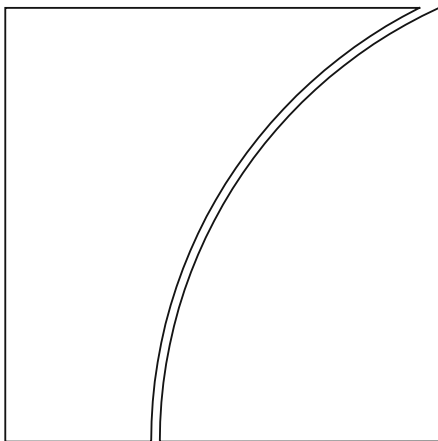


Basel Committee on Banking Supervision



Regulatory Consistency Assessment Programme (RCAP)

Assessment of the leverage ratio framework – Japan

October 2026



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Glossary

C	Compliant (grade)
CCP	Central counterparty
D-SIBs	Domestic systemically important banks
G-SIB	Global systemically important banks
JFSA	Japanese Financial Services Agency
LC	Largely compliant (grade)
LEV	Leverage ratio framework
LR	Leverage ratio
NC	Non-compliant (grade)
PNC	Partially non-compliant (grade)
PSE	Public sector entity
RCAP	Regulatory Consistency Assessment Programme
SFT	Securities financing transactions

Preface

The Basel Committee on Banking Supervision places a high priority on the implementation of regulatory standards underpinning the Basel III framework. The prudential benefits from adopting Basel standards can only fully accrue if they are implemented in a full, timely and consistent manner by all member jurisdictions. The Basel Committee established the Regulatory Consistency Assessment Programme (RCAP) to monitor, assess and evaluate its members' implementation of the Basel III framework.

This report presents the findings of an RCAP Assessment Team (Assessment Team) on the adoption of the Basel leverage ratio framework (LEV) in Japan. The assessment focused on the completeness and consistency of Japan's leverage ratio regulations with the Basel standards and relied on the information provided by Japanese authorities.

The Assessment Team was led by Mr Arthur Yuen, Deputy Chief Executive of the Hong Kong Monetary Authority (HKMA), and comprised technical experts from the Central Bank of Brazil, the Reserve Bank of India, Sveriges Riksbank, and the Bank of Spain (see Annex 1). The main counterparts for the assessment were the Japanese Financial Services Agency (JFSA) and the Bank of Japan (BoJ). The assessment was coordinated by the Basel Committee Secretariat, with support from staff of HKMA.

The assessment began in October 2025 and comprised: (i) a self-assessment by the JFSA and Bank of Japan (October 2025 to January 2026); (ii) an assessment phase (January to June 2026); and (iii) a review phase (July to October 2026) including a review of the Assessment Team's findings by a separate RCAP Review Team and the Basel Committee. This assessment report ultimately reflects the view of the Basel Committee.

The Assessment Team acknowledges the cooperation received from the JSFA and Bank of Japan throughout the assessment process.

Executive summary

In Japan, the Basel leverage ratio standard has been implemented, with effect from 31 March 2019. Subsequently, the global systemically important bank (G-SIB) leverage buffer was introduced from end-March 2023 and the revised 2017 leverage ratio framework was implemented from end-March 2024. Leverage ratio requirements are applicable to all internationally active banks in Japan, including bank holding companies, cooperative financial institutions and final designated parent companies (eg investment banks like Nomura and Daiwa), which have one or more foreign branches or subsidiaries.

Overall, as of 30 June 2026, the regulations implementing the leverage ratio framework in Japan are assessed as compliant with the Basel Committee standards. This is the highest possible grade. All four components of the Basel leverage ratio standard – definitions and application, and calculation; exposure measurement; buffer requirements and transitional arrangements for global systemically important banks; and disclosure requirements – are assessed as compliant.

The Assessment Team concluded that the omission of an explicit requirement that the banks must meet the minimum leverage ratio requirement at all times in Japanese regulations is a deviation from the Basel standards. Other findings relating to the measurement of exposure were identified by the Assessment Team. These findings related to cash pooling arrangements, exemption of trade exposures to the central counterparty (CCP) where the bank was acting as a clearing member (CM) and the treatment of securities financing transactions (SFTs). None of these findings were assessed as material.

Response from the Japanese authorities

The JFSA and the Bank of Japan thank the Assessment Team led by Mr Arthur Yuen for their thorough and professional work. We appreciate, in particular, the Assessment Team's close cooperation and their collegial engagement throughout the evaluation process which provided a valuable basis for constructive discussion.

We welcome the assessment that the implementation of the leverage ratio framework in Japan is compliant with the Basel standards. As for the findings identified in the report, we consider the Japanese regulatory framework to duly reflect the Basel leverage ratio framework through an integrated deployment of regulations, questions and answers, and guidelines for supervision. We believe that the effective implementation of the leverage ratio framework has contributed to ensuring a sound and robust banking system.

We believe the RCAP is a very useful and important instrument to ensure consistency and transparency among cross-jurisdictional regulatory frameworks. We also support and express our willingness to participate in future assessments.

1 Assessment context

1.1 Regulatory system

The Japanese Financial Services Agency (JFSA) is the main regulatory and supervisory authority for banks in Japan. It was established in 1998 as an administrative adjunct of the Prime Minister's Office, responsible for the inspection and supervision of private sector financial institutions and the surveillance of securities transactions. In January 2001, the JFSA became an external organ of the Cabinet Office and took over responsibility for resolving failed financial institutions. The JFSA is now responsible for ensuring the stability of the financial system; protection of depositors, insurance policyholders and securities investors; and smooth intermediation. This is achieved through measures such as planning and policymaking concerning the financial industry and market, as well as inspection and supervision of private sector financial institutions.¹

The Bank of Japan carries out monetary policy and is responsible for financial stability and the effective settlement of financial transactions. It conducts on-site examinations and off-site monitoring of its counterparty financial institutions, in the context of its central banking functions. This includes the large Japanese banks. Its supervisory powers are grounded in individual contracts with its counterparties, based on Article 44 of the Bank of Japan Act.

The JFSA's supervisory practice is governed by the Banking Act, which provides for JFSA independence in day-to-day bank supervision. Under the Banking Act, the JFSA may issue notices. The JFSA also issues questions and answers, and supervisory guidelines. Regulation constitutes fully binding formal rules. Although the other documents are less formal in nature, they are publicly available and banks are expected to comply with them. As in the previous assessment of the implementation of the Basel risk-based capital standards and the liquidity coverage ratio (LCR) in Japan,² the Assessment Team finds that the leverage ratio regulations in Japan meet the Regulatory Consistency Assessment Programme (RCAP) criteria of being enforceable and binding in practice. More information is provided in Annex 2.

1.2 Status of implementation of the leverage ratio framework

The Pillar 1 regulations pertaining to leverage ratio requirements were implemented in Japan with effect from 31 March 2019. Subsequently, the G-SIB leverage buffer was introduced from end-March 2023 and the revised 2017 leverage ratio framework was implemented from end-March 2024 (voluntary early implementation was possible from end-March 2023). Finally, the national discretion concerning the exemption of central bank reserves based on LEV30.7 took effect from 1 April 2024. Pillar 3 requirements were published earlier from 31 March 2015. In Japan, leverage ratio requirements are applicable to all internationally active banks, including bank holding companies, cooperative financial institutions, and final designated parent companies (eg investment banks like Nomura and Daiwa), which have one or more foreign branches or subsidiaries.

¹ The Securities and Exchange Surveillance Commission, responsible for market surveillance and inspections of securities companies, and the Certified Public Accountants and Auditing Oversight Board, responsible for overseeing quality review work performed by the Japanese Institute of Certified Public Accountants, are also within the JFSA, although they have different powers to those used for bank regulation and supervision.

² Basel Committee on Banking Supervision, Regulatory consistency assessment programme (RCAP) assessment of Basel III LCR regulations – Japan, 2016, www.bis.org/bcbis/publ/d391.pdf.

1.3 Scope of the assessment

The Assessment Team considered the leverage ratio framework (LEV) applicable to a sample of internationally active banks in Japan as of 30 June 2026. The assessment had two dimensions:

- a comparison of the Japanese regulations with the Basel LEV standards to ascertain that all the required provisions have been adopted (completeness of the regulations); and
- whether there are any differences in substance between the Japanese regulations and the Basel LEV and, if so, their significance (consistency of the regulations).

In its assessment, the Assessment Team considered all binding documents that effectively implement the Basel LEV in Japan. Annex 2 lists the Basel standards used as the basis for the assessment. The assessment did not evaluate the resilience of the banking system in Japan or the supervisory effectiveness of the Japanese authorities.

The Assessment Team evaluated the materiality and potential materiality of identified deviations between the Basel LEV and the Japanese regulations. The evaluation was made using a sample of seven internationally active banks in Japan. Together, as of 31 March 2025, these banks comprise about 89.2% of the assets of internationally active banks in Japan. In addition, the Assessment Team reviewed the non-quantifiable impact of identified deviations and applied expert judgment as to whether the Japanese regulations meet the Basel standards in letter and in spirit. The materiality assessment is summarised in Annex 3, which also lists the sample of banks.

The outcome of the assessment is summarised using a four-grade scale, both at the level of each of the four key components of the Basel leverage ratio framework and of the overall assessment of compliance. The four grades are compliant (C), largely compliant (LC), partially non-compliant (PNC) and non-compliant (NC). The overall grade reflects the level of compliance with the leverage ratio framework, but not with the Basel standards on the definition of the capital, which determines the leverage ratio's numerator. Compliance with the Basel standards on the definition of capital was assessed as a component of the RCAP Risk-Based Capital assessment conducted in 2012 and, in a follow-up assessment, in 2016 when it was graded compliant.³

2 Assessment findings

2.1 Assessment grades and summary of findings

Overall, the Assessment Team finds the implementation of the Basel LEV in Japan to be compliant. This grade is based on the materiality assessment as summarised in Annex 3.

³ See Basel Committee on Banking Supervision, Regulatory Consistency Assessment Programme (RCAP) *Assessment of Basel III risk-based capital regulations* – Japan, 2012; https://www.bis.org/bcbs/implementation/l2_jp.pdf.

Basel Committee on Banking Supervision, Regulatory Consistency Assessment Programme (RCAP) *Follow-up assessment of Basel III risk-based capital regulations* – Japan, 2016; <https://www.bis.org/bcbs/publ/d392.pdf>.

Assessment grades

Table 1

Component of the Basel leverage ratio framework	Grade
Overall grade	C
Definitions and application, and calculation	C
Exposure measurement	C
Buffer requirements and transitional arrangements for global systemically important banks	C
Disclosure requirements	C

Assessment scale: C (compliant), LC (largely compliant), PNC (partially non-compliant) and NC (non-compliant).

2.1.1 Definitions and application, and calculation

This component is assessed as compliant with the Basel standard. One finding was identified which was assessed as not material. The finding is due to the omission of an explicit requirement in the Japanese regulations that banks must meet the minimum leverage ratio requirement at all times.

2.1.2 Exposure measurement

This component is assessed as compliant with the Basel standard. Five findings were identified. The findings relate to the treatment of cash pooling arrangements, trade exposures to the central counterparty (CCP) where the bank was acting as a clearing member (CM) and to the treatment of securities financing transactions (SFTs). None of these findings were assessed as material.

In addition, the Assessment Team noted Japan's implementation of national discretion to exempt central bank reserves (deposits with the Bank of Japan (BoJ) are excluded from on-balance sheet exposure) as an observation, since it found it difficult to draw a definite conclusion on the arrangement that should be in place for the exemption to be assessed as compliant with the Basel requirements.

2.1.3 Buffer requirements and transitional arrangements for global systemically important banks (G-SIBs)

This component is assessed as compliant with the Basel standard. No findings were identified.

2.1.4 Disclosure requirements

This component is assessed as compliant with the Basel standard. One finding was identified, which was assessed as not material. The finding relates to the omission of certain items from the key metrics disclosure template.

2.2 Detailed assessment findings

2.2.1 Definitions and application, and calculation

Section grade	Compliant
Basel paragraph number	LEV20.7: Calculation – banks must meet minimum requirements at all times
Reference in the domestic regulation	Article 2, paragraph (1) of the Leverage Ratio Notice
Finding	LEV20.7 requires banks to meet the minimum leverage ratio requirement at all times. The Japanese leverage ratio regulation sets a minimum requirement, but it does not explicitly state that the banks are required to meet this "at all times".

	Japanese authorities explained that when a bank's leverage ratio falls below the regulatory minimum, the supervisory authority may, depending on the shortfall level, issue business improvement orders and take other measures to augment capital. The Japanese authorities also explained that in terms of the provisions of "Prompt Corrective Action" set out in the Comprehensive Guidelines for Supervision of Major Banks, the authorities monitor the leverage ratio in relation to regulatory minimum every reporting period and take necessary measures when the minimum is breached. Furthermore, the Order Providing for Categories Prescribed in Article 26, paragraph (2) of the Banking Act, contains requirements for a bank that becomes aware that it is falling below the minimum to promptly submit a reasonable plan to improve its leverage ratio. These measures, in their opinion, are sufficient to demonstrate that the banks are required to maintain the minimum leverage ratio at all times. Further, JFSA argued that LEV20.6 requires that both the capital measure and exposure measure are to be calculated on a quarter-end basis and therefore omitting text of LEV20.7 is not a deviation. While Japanese banks are required to report the leverage ratio on a quarterly basis and Japanese authorities monitor the level of leverage ratio at these reporting dates, the Assessment Team considers that omitting the requirement set by LEV20.7 is a deviation. The absence of an explicit expectation that banks should meet the minimum leverage ratio requirement on a continuous basis might lead to the leverage ratio of banks falling below the regulatory minimum between reporting periods and the breach being undetected until the next reporting period. The Assessment Team does not consider this to be material at this stage. The quarter-end leverage ratio data of sample banks in the past two years demonstrate that the banks are sufficiently above the minimum requirement, with leverage ratio ranging from 4.64 to 8.07%.
Materiality	Not material

2.2.2 Exposure measurement

Section grade	Compliant
Basel paragraph number	LEV30.12: Conditions for the recognition of cash pooling
Reference in the domestic regulation	Articles 7(4) and (2) of the Leverage Ratio Notice
Finding	LEV30.12 states that for cash pooling arrangements for which the transfer of balances into a single account does not occur daily, the individual balances of participating customer accounts must be reflected separately in the leverage ratio exposure measure, unless specific conditions are met. One of these conditions is that the bank's supervisor does not deem the transfer frequency as inadequate. This condition has not been transposed into the Japanese regulations. The JFSA confirmed that in Japan, the post-consolidation balance of a single account is only recognised for the leverage ratio exposure measure if banks can exercise the right to transfer funds for consolidation purposes at any time. Moreover, the JFSA explained that it has the authority to intervene when it determines that the frequency of fund transfer is insufficient. Nevertheless, the Assessment Team considers that the absence of an explicit reference in Japanese regulations to the condition referred to above relating to the cash pooling arrangements is a deviation. The JFSA explained that Japanese banks have limited exposures where the balance transfer does not take place on a daily basis. Two of the seven banks of the RCAP sample provided figures for cash pooling arrangements where the transfer of balances does not take place daily. One of them said that they do not have data regarding the sum of the assets/liabilities of individual customer accounts at hand. For the other bank, the sum of the assets (or liabilities) of all the individual customer accounts is lower than 0.01% of the total leverage ratio exposure. The Assessment Team therefore considers this not to be material at this stage.

Materiality	Not material
Basel paragraph number	LEV30.26 and 30.27: Derivative exposure where bank acts as a clearing member
Reference in the domestic regulation	Questions and Answers on Leverage Ratio Notice Article 8 – Question 6
Finding	LEV30.26 requires that, when a bank is acting as a clearing member (CM), it must recognise the trade exposures to the central counterparty (CCP) by applying the same treatment that applies to any other type of derivative transaction when it must reimburse losses on the CCP's default to its client. As an exception, where a bank provides clearing services as a "higher-level client" within a multi-level client structure, it need not recognise in its leverage ratio exposure measure the resulting trade exposures to the CM or to an entity that serves as a higher-level client to the bank if it meets four conditions: (i) preventing accruing losses to a higher-level client due to the default of a CM/other clients of the CM; (ii) sufficient legal basis; (iii) high likelihood that transactions will be ported; and (iv) no obligation of reimbursement for the bank. Japanese regulations omit the first of these four conditions prescribed by the Basel standards, specifically the condition that qualifying central counterparty (QCCP) arrangements prevent any losses to the higher-level client from the joint default or insolvency of the CM and any of its other clients. Also, Japanese regulations omit footnotes 10, 11 and 12 to LEV30.26 and footnote 13 to LEV30.27. These footnotes define certain terms, such as "multi-level client structure" and "lower-level client" and expand the meaning of the conditions applicable for exempting exposures from the leverage ratio measure. The Japanese authorities consider the footnotes to be general or supplementary and explained that footnotes 11 and 12 are included in the instructions issued by the Japan Securities Clearing Corporation. The Assessment Team considers that the omission of the condition described above may lead to the exclusion of exposures which might otherwise be ineligible, understating the leverage ratio exposure measure. In addition, omission of the footnotes in Japanese regulations, which are an integral part of the Basel Framework, may reduce the consistent application of regulations across all banks in Japan. However, as all other conditions in LEV30.26 have been implemented and as risk management principles of the Japan Securities Clearing Corporation may help in mitigating losses to the higher-level client from the joint default of the CM and/or any other of its clients, the Assessment Team deems that this is a not material deviation.
Materiality	Not material
Basel paragraph number	LEV30.36 footnote 17: Definition of securities financing transactions (SFTs)
Reference in the domestic regulation	Article 1(xiv) of the Leverage Ratio Notice; Article 1(xi) of the Capital Adequacy Ratio Notice
Finding	LEV30.36 footnote 17 provides a definition of securities financing transactions (SFTs), ie transactions such as repurchase agreements, reverse repurchase agreements, security lending and borrowing, and margin lending transactions, where the value of the transactions depends on market valuations and the transactions are often subject to margin agreements. The Japanese regulation defines securities financing transactions without explicitly mentioning margin lending. According to JFSA, under Japanese regulations margin lending is treated as a form of securities financing transaction (SFT), but since margin lending is not prevalent in Japan, it has not been explicitly mentioned as one of the securities financing transactions (SFT) in the notification. JFSA also confirms that there are no margin lending transactions reported for the RCAP sample banks.
Materiality	Not material
Basel paragraph number	LEV30.38: SFTs exposures – bilateral netting agreements
Reference in the domestic regulation	Article 9, paragraph (7), items (i) and (ii) of the Leverage Ratio Notice

Finding	LEV30.38 sets out four conditions for the effect of bilateral netting agreements for SFTs to be recognised. One of these conditions is that the netting agreement must provide the non-defaulting party with the right to terminate and close out in a timely manner all transactions under the agreement upon an event of default, including in the event of insolvency or bankruptcy of the counterparty. In the Japanese regulation, Article 9, paragraph 7 of the Leverage Ratio Notice includes these conditions, but the text suggests that both parties to the transaction have the same right to terminate it. The conditions also do not explicitly refer to the right of termination being conferred "upon an event of default, including situations of insolvency or bankruptcy of the counterparty". Japanese authorities explained that Article 11 of the Master Agreement for Repo Transactions in Bonds, etc published by the Japan Securities Dealer Association clarifies that in the event of default, the other counterparty may terminate all repo transactions with the defaulting counterparty. The article referred to above also details what constitutes a default. The Assessment Team notes that the Master Agreement, which is a contractual document, can mitigate the risk to the non-defaulting counterparty in the event of default. Japanese leverage ratio regulations, however, do not refer to this Master Agreement for fulfilment of the conditions to recognise bilateral netting contracts. Lack of clarity with respect to the right to terminate the transactions and omitting the occurrence of default as a pre-condition in Japanese regulation are, therefore, assessed as a deviation from the Basel standards. In view of the mitigating factor noted above, the Assessment Team assesses it as not material.
Materiality	Not material
Basel paragraph number	LEV30.41, 30.42 & 30.43: SFT exposures – bank compensating counterparty for loss
Reference in the domestic regulation	Q&A on Leverage Ratio Notice Article 9 – Question 2
Finding	LEV30.42 sets out the treatment for when a bank is acting as an agent for an SFT and guarantees the difference between the value of the security/cash lent and the value of the collateral provided. In such cases, the bank is required to take into account only the current exposure for counterparty credit risk in the leverage ratio exposure measure calculated in accordance with the methodology prescribed in LEV30.37(2). Furthermore, LEV30.42 and LEV30.43 set out the following conditions for being eligible to use this exceptional treatment: (i) the bank's exposure to the transaction is limited to the guaranteed difference between the value of the security/cash lent and the value of the collateral provided; (ii) the bank is not further economically exposed (ie beyond the guarantee for the difference) to the underlying security or cash in the transaction; and (iii) the bank does not own or control the underlying cash or security. The Japanese regulations, however, do not implement the conditions described at (i) and (iii) above and the scope for using the exceptional treatment available in LEV30.42 is therefore expanded. The Assessment Team considers this to be a deviation from the Basel standards but notes that such exposures are immaterial at this stage. The deviation is assessed as not material.
Materiality	Not material

2.2.3 Buffer requirements and transitional arrangements for G-SIBs

No finding was identified for this component.

2.2.4 Disclosure requirements

Section grade	Compliant
Basel paragraph number	DIS20.5: Template KM1 – Key Metrics (at consolidated group level)
Reference in the domestic regulation	Appended Form No. 10 Appended Form No. 6
Finding	The Basel disclosure template KM1 provides an overview of key metrics including, among other items, the leverage ratio with and without temporary exemptions of central bank reserves and the mean values for SFT assets from the leverage ratio exposure measure. The Japanese regulation does not require the disclosure of these items in the key metrics overview template, but only in the specific leverage ratio template LR2. The absence of these disclosures in template KM1, despite their availability in template LR2, reduces transparency and comparability. This is because template KM1 is designed to be a consolidated “key metrics” template intended to enable Pillar 3 data users to quickly identify and track key prudential regulatory metrics over time. The Assessment Team considers the deviation to be not material as it is unlikely to raise material level playing field or financial stability concerns.
Materiality	Not material

2.3 Observations

The following observations highlight certain special features of the regulatory implementation of the Basel leverage ratio framework in Japan. These are presented to provide additional context and information. Observations are considered compliant with the Basel standards and do not have a bearing on the assessment outcome.

2.3.1 Exposure measurement

Basel paragraph number	LEV30.7: Exemption of central bank reserves
Reference in the domestic regulation	Leverage Ratio Notice, Article 7(6); Holding LR Notice, Article 6(6); Leverage Ratio Notice Article 2(1) and (2); Holding LR Notice Article 2(1)
Observation	LEV30.7 allows that under exceptional macroeconomic circumstances and to facilitate the implementation of monetary policies, a jurisdiction may temporarily exempt central bank reserves from the leverage ratio exposure measure. When this discretion is exercised, the jurisdiction must also increase the calibration of the minimum leverage ratio requirement commensurately to offset the impact of exempting central bank reserves in order to maintain the same level of resilience. In Japan, central bank reserves were excluded from the leverage ratio exposure measure in 2020 as a Covid-19 measure. In its 25 March 2022 press release, the JFSA announced that this temporary treatment would expire on 31 March 2024. For the post-Covid framework, in light of persisting exceptional macroeconomic conditions, it introduced the national discretion concerning the exemption of central bank reserves based on LEV30.7, which took effect from 1 April 2024. The authorities increased the calibration of the minimum leverage ratio by 0.15% to 3.15% and increased the leverage buffer by 0.05%. This increase in calibration was calculated based on balance sheets in 2013 as this is the year in which the Bank of Japan (BoJ) introduced quantitative and qualitative monetary easing (QQE), marking the starting point of the “exceptional macroeconomic environment”. The JFSA stated that this arrangement is assessed periodically by the JFSA and the BoJ through discussions at the Working Level Meeting on Macroprudential Policy held quarterly between the two authorities. Discussions of the Working Level Meeting on Macroprudential Policy are reported to the Council for Cooperation on Financial Stability (CCFS), which is attended by the Commissioner of the JFSA and the Deputy Governor of the BoJ. The Working Level Meeting on Macroprudential Policy monitors

	macroeconomic circumstances holistically, taking into account factors such as developments in monetary policy, the economic and financial environment, and price levels. It also monitors various metrics including the ratio of central bank reserves and the capital headroom of leverage ratios with and without central bank reserves, in order to assess both the continued need to exempt central bank reserves and the level of calibration needed. So far, the authorities have considered it appropriate to maintain the use of the exemption and the level of calibration as they consider that exceptional macroeconomic circumstances have not significantly changed. LEV30.7 requires that any exemption of central bank reserves be accompanied by: (i) a commensurate increase in the minimum leverage ratio to maintain the same level of resilience; and (ii) a measure that is temporary in nature. Japan's fixed 15 basis point add-on based on balance sheets in 2013 does not fully neutralise the subsequent growth in central bank reserves resulting from the implementation of monetary policy. As part of the revised leverage ratio framework, LEV30.7 was implemented in 2024, and the exemption has been publicly disclosed, subject to governance process of periodic review and considered necessary by the JFSA and the BoJ given the ongoing exceptional macroeconomic circumstances in Japan as stated above. As LEV30.7 does not prescribe a methodology for determining "commensurate" or define the duration or triggers for "temporary", the Assessment Team finds it difficult to draw a definite conclusion on the arrangement that should be in place for the exemption to be assessed as compliant with the Basel requirements.
Basel paragraph number	LEV30.22: Derivative exposures and treatment of collateral
Reference in the domestic regulation	Not implemented
Observation	LEV30.22 states that a bank, when calculating its exposure amount, must not reduce the leverage ratio exposure measure amount by any collateral received from the counterparty. This general prohibition has not been implemented in Japan, as the exposure measure may only be reduced by methods specifically permitted in the Capital Adequacy Ratio Notice. The JFSA confirmed that the banks cannot reduce the leverage ratio exposure measure amount by any collateral received from the counterparty as it is not explicitly permitted.

Annexes

Annex 1 RCAP Assessment Team and Review Team

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Annex 2 List of Basel standards and implementing regulations issued by the Japanese authorities

The RCAP-LEV assesses the member jurisdictions' compliance with the Basel leverage ratio framework. The scope of RCAP-LEV includes:

- The revised leverage ratio as published by the Basel Committee in December 2017 that includes the various refinements to the 2014 definition of the leverage ratio exposure measure. These refinements include modifying the way in which derivatives are reflected in the exposure measure and updating the treatment of off-balance sheet exposures to ensure consistency with their measurement in the standardised approach to credit risk.
- The June 2019 revision to the leverage ratio related to the treatment of client cleared derivatives.
- The leverage ratio global systemically important bank (G-SIB) buffer introduced by the 2017 reforms. The G-SIB buffer must be met with Tier 1 capital and is set at 50% of a G-SIB's risk-weighted higher-loss absorbency requirements.
- The disclosure requirements for the leverage ratio, including the key prudential metrics related to that framework. This will capture the revisions to the LEV disclosure requirements published by the Committee in June 2019 (the requirements for banks to disclose their leverage ratios based on quarter-end and on daily average values of securities financing transactions).

In accordance with this scope, the chapters of the consolidated Basel Framework listed in Table A.1 were used as the basis of this RCAP assessment.

Chapters of the Basel Framework	Table A.1
	Chapter
Definitions and application	LEV10
Calculation	LEV20
Exposure measurement	LEV30
Buffer requirements for global systemically important banks	LEV40
Transition	LEV90
Disclosure requirements (key metrics related to leverage ratio and disclosure requirements for the leverage ratio)	DIS20 (Template KM1, rows 13-14d) and DIS80

Table A.2 lists the regulations issued by the Japanese authorities to implement the Basel III leverage ratio framework in Japan. A previous RCAP assessment of the Japanese implementation of the Basel standards considered the binding nature of its regulatory documents.⁴ This RCAP Assessment Team did not repeat that assessment but instead relied on its findings. That assessment concluded that the types of instruments described in Table A.2 could be considered as binding on banks and supervisors for the purposes of an RCAP assessment.

⁴ See Annex 5 of Basel Committee on Banking Supervision, *Assessment of Basel III LCR regulations – Japan*, 2016; www.bis.org/bcbs/publ/d391.pdf.

Overview of relevant Basel III regulations in Japan

Table A.2

Domestic regulations	Type, version and date
Banking Act (Act No. 59 of 1981)	Law issued in June 1981 and revised subsequently (most recently in June 2024)
Order for Enforcement of the Banking Act (Cabinet Order No. 40 of 1982)	Cabinet Order issued in March 1982 and revised subsequently (most recently in July 2025)
Ordinance for Enforcement of the Banking Act (Ministry of Finance Ordinance No. 10 of 1982)	Ordinance in March 1982 and revised subsequently (most recently in December 2025)
Criteria for judging the soundness of leverage that is specified by a bank as a supplementary indicator to the criteria for judging whether or not the adequacy of equity capital is appropriate in light of the assets, etc. held by the bank, based on the provisions of Article 14-2 of the Banking Act (Financial Services Agency Notice No. 11 of 2019) (ie Leverage Ratio Notice referred in this report)	Pillar 1 Notice issued in March 2019, revised in July 2022
Particulars specified separately by the Commissioner of the Financial Services Agency concerning the condition of capital adequacy, etc., pursuant to the provisions of Article 19-2, paragraph (1), item (v), sub-item (d) of the Ordinance for Enforcement of the Banking Act; (Financial Services Agency Notice No. 7 of 2014)	Pillar 3 Notice issued in February 2014 and revised subsequently (most recently in July 2022)
Q&A on the Leverage Ratio Notice	Issued in March 2019 and revised subsequently (most recently in March 2023)
Comprehensive Guidelines for Supervision of Major Banks, etc	Issued in October 2005 and revised subsequently (most recently in April 2026)
Source: JFSA.	

Annex 3 Materiality assessment

The outcome of the RCAP assessment is based on the materiality of the findings described in Section 2.2 and summarised in Table A.3. The Assessment Team evaluates the materiality of findings quantitatively where possible or using expert judgment when the impact cannot be quantified.

The materiality assessment for quantifiable gaps is based on the cumulative impact of the identified deviations on the reported LR exposure measure of banks in the RCAP sample. These banks are listed in Table A.4.

Number of deviations by component			Table A.3
Component	Not material	Potentially material	Material
Definitions and application, and calculation	1	0	0
Exposure measurement	5	0	0
Buffer requirements and transitional arrangements for global systemically important banks	0	0	0
Disclosure requirements	1	0	0

RCAP sample banks		Table A.4
Banking group	Share of banks' assets in the total assets of internationally active banks in the Japanese banking system as of 31 March 2025 (in per cent)	
Mitsubishi UFJ Financial Group	28.4%	
Sumitomo Mitsui Financial Group	22.4%	
Mizuho Financial Group	19.9%	
Sumitomo Mitsui Trust Group	4.8%	
Norinchukin Bank	5.5%	
Nomura Holdings	5.7%	
Daiwa Securities Group	2.4%	

Banking assets are measured using the total exposures from the leverage ratio, which include both on-balance sheet and off-balance sheet exposures. Among the sample banks, the leverage ratio is the binding constraint for five of them. That is, these banks have Tier 1 capital required for the leverage ratio (including any G-SIB buffer) that is higher than the Tier 1 capital required to meet risk-based capital requirements (including the capital conservation buffer plus any higher loss absorbency requirements for G-SIBs, any countercyclical capital buffer requirements and any other higher domestic Pillar 1 loss absorbency requirements, including for D-SIBs). Maintaining the same exposure measure, these banks could increase the risk weighted amount of their assets by between 10.3 and 42.5% before the risk-based capital requirements become the binding constraint.

Source: JFSA.

Annex 4 National discretions implemented by Japanese authorities

Implementation of national discretions by Japanese authorities

Table A.5

Basel paragraph	Description	National implementation
<u>LEV30.7</u>	Treatment of central bank reserves in exceptional circumstances	The JFSA temporarily excludes central bank reserves from the exposure measure and increases the minimum leverage ratio by 0.15% to offset the impact of the exemption. Banks are required to disclose the leverage ratio both with and without this exemption.
<u>LEV30.47</u>	Exemption of certain arrangements from the definition of commitment	N/A
<u>LEV30.56</u>	Treatment of certain off-balance sheet securitisation exposures	The credit conversion factor (CCF) of the undrawn portion of qualified servicer cash advance credit facility is set at 10%, in accordance with CRE40.20(2).

Source: JFSA.

Annex 5 Key leverage indicators of the banking system in Japan

Overview of leverage of the Japanese banking system as of end-March 2025

Table A.6

Size of banking sector		
	Number of banks	Total assets (JPY, millions)
All banks incorporated in Japan, of which	133	1,957,755,053
G-SIBs, headquartered in the Japan	3	836,003,590
Subsidiaries of foreign banks	4	4,102,022
Banks to which the Basel leverage ratio framework is applied	18	1,182,321,691
Breakdown of leverage ratio for seven RCAP sample banks (JPY, millions)		
Tier 1 capital		55,480,105
Total on-balance sheet exposures (excluding derivatives and SFTs, but including collateral)		778,068,027
Total derivative exposures		54,101,867
Total SFT exposures		110,517,443
Off-balance sheet items		112,166,947
Total leverage ratio exposure measure		1,054,854,298
Adjustments for temporary exemption of central bank reserves (if applicable)		258,820,973
Leverage ratio (including the impact of any applicable temporary exemption of central bank reserves)		5.26%
Leverage ratio (excluding the impact of any applicable temporary exemption of central bank reserves)		4.23%

Source: JFSA.