

Frequently Asked Questions – Leverage Ratio (LR)

Last updated: 8 December 2017

Skim Perbankan Islam (SPI)

1. Are banking institutions with small SPI operations required to comply with the LR at the SPI level?

Yes. Compliance with the requirements in the LR policy document is mandatory at the SPI level, regardless of the size of the SPI operations. This treatment is consistent with the treatment under the risk-based capital framework, for which, the LR is a backstop measure.

Netting of assets and liabilities

2. Does the prohibition of netting concern the netting of loans and deposits alone?

No. The prohibition in paragraph 11.5(c) relates to the netting of any asset and liability (including in cases of derivatives and securities financing transactions). However, the policy document does recognise netting in certain circumstances. For example, paragraph 13.2 allows banks to apply regulatory netting rules for derivative exposures covered by a bilateral netting contract, subject to meeting the requirements in the risk-based capital framework.

Revisions to the Basel III leverage ratio framework

3. To what extent will the Bank adopt the Basel Committee on Banking Supervision (BCBS) revisions to the Basel III LR framework¹?

The Bank welcomes the finalisation of the revisions to the Basel III LR framework and takes note of the 1 January 2022 implementation timeline for these revisions. The Bank will assess the potential impact of these revisions to the Malaysian banking system in determining the appropriate timeline for adopting any revisions to the domestic LR framework.

Derivatives exposures

4. Can banking institutions use the standardised approach for measuring counterparty credit risk exposures (SA-CCR) to calculate derivatives exposures for subsidiaries that have already adopted the SA-CCR due to host jurisdiction requirements?

No. In calculating consolidated LR positions, banking institutions must calculate foreign derivative exposures using the Current Exposure Measure (CEM) as set out in the LR policy document.

5. Can banks still adjust their derivatives exposures through use of volatility adjusted collateral?

No. Banking institutions must not reduce derivative exposures through use of any collateral, except as provided under paragraph 13.3 of the policy document.

¹ <https://www.bis.org/bcbs/publ/d424.pdf>, December 2017.

6. Can cash variation margin offset the potential future exposure (PFE) component of derivatives exposures?

No. As stated in paragraph 13.5, a banking institution must not use cash variation margin to reduce the PFE, including in the calculation of the net-to-gross ratio.

Securities financing transaction (SFT) exposures

7. Can the netting treatment for SFT cash receivables in paragraph 14.2(b) be applied in cases where SFT contracts have explicit end dates but also have options to extend the settlement date?

SFTs with an option to extend the settlement date would not meet the condition for having “the same explicit final settlement date”. Hence, such SFT exposures are not eligible to be measured net under paragraph 14.2(b).

Off-balance sheet (OBS) exposures

8. How are the appropriate credit conversion factors (CCFs) applied to OBS exposures, as the reporting template only requires the reporting of notional amounts?

The CCFs are applied automatically to the notional amounts in the reporting template – cell J101 (Total exposures).