Appendix 1

In this Appendix underlining indicates new text and striking through indicates deleted text.

The DFSA Rulebook

Prudential – Investment, Insurance Intermediation and Banking Module

(PIB)

PART 5 – Calculating the Leverage Ratio

3.18 Leverage Ratios

3.18.1 This section applies to an Authorised Firm in Category 1, 2 or 5.

Guidance

This section is relevant to an Authorised Firm that is required to report its Leverage Ratio to the DFSA under chapter 2, or to disclose its Leverage Ratio under chapter 11, of these Rules.

3.18.2 An Authorised Firm must calculate its Leverage Ratio in accordance with the following formula:

Leverage Ratio = Capital Measure ÷ Exposure Measure

where:

(a) "Capital Measure" represents Tier 1 Capital of the Authorised Firm calculated in accordance with Rule 3.12.1; and

(b) "Exposure Measure" represents the value of exposures of the Authorised Firm calculated in accordance with Rule 3.18.3.

3.18.3 For the purpose of determining the Exposure Measure, the value of exposures of an Authorised Firm must be calculated in accordance with the International Financial Reporting Standards (IFRS) subject to the following adjustments:

(a) on-balance sheet, non-derivative exposures must be net of specific allowances and valuation adjustments (e.g. credit valuation adjustments);

(b) physical or financial collateral, guarantees or credit risk mitigation purchased must not be used to reduce on-balance sheet exposures; ~~and~~

(c) loans must not be netted with deposits~~.~~;

(d) collateral must not be netted against a derivative position, whether or not netting is allowed;

(e) collateral posted against a derivative position must be added to the Exposure Measure if posting the collateral has resulted in a reduction in the Firm's balance sheet;

(f) if an Authorised Firm writes a credit derivative, it must include the notional value of the derivative in its Exposure Measure without allowing any offset;

(g) if an Authorised Firm is a clearing member of a CCP and is contractually liable to reimburse its Clients or the CCP for losses, as a result of a change in the value of the trading transactions in the event of a default, it must:

(i) treat each transaction as if it were a derivative exposure entered into directly with the Client, including with regard to the provision or receipt of variation margin; and

(ii) include the transaction in its Exposure Measure; and

(h) an item that has been deducted under section 3.13 from the Tier 1 Capital must also be deducted from the Exposure Measure, except where that item relates to a liability.

Guidance

1. The following Guidance is intended to illustrate how an Authorised Firm should calculate its Leverage Ratio under this section.

2. The Exposure Measure under Rule 3.18.3 should be calculated as the sum of:

   a. on-balance sheet items; and

   b. off-balance sheet items.

3. In relation to on-balance sheet items:

   a. for SFTs, the exposure value should be calculated in accordance with IFRS and the netting requirements referred to in Rule 4.9.14;

   b. for Derivatives, including credit protection sold, the exposure value should be calculated as the sum of the on-balance sheet value in accordance with IFRS and an add-on for potential future exposure calculated in accordance with Rules A4.6.14 to A4.6.21 of App 4; and

c. for other on-balance sheet items, the exposure value should be calculated based on their balance sheet values in accordance with Rule 4.9.3.

4. In relation to off-balance sheet items:

a. for commitments that are unconditionally cancellable at any time by the Authorised Firm without prior notice, the exposure value should be the notional amount for the item multiplied by a CCF of 10%; and

b. for other off-balance sheet items, including:

i. direct credit substitutes;
ii. certain transaction-related contingent items;
iii. short-term self-liquidating trade-related contingent items and commitments to underwrite debt and equity securities;
iv. note issuance facilities and revolving underwriting facilities;
v. transactions, other than SFTs, involving the posting of securities held by the Authorised Firm as collateral;
vi. asset sales with recourse, where the credit risk remains with the Authorised Firm;
vii. other commitments with certain drawdown;
viii. any other commitments; and
ix. unsettled transactions,

the exposure value should be the notional amount for each of the items multiplied by a CCF of 100%.

5. For an Islamic Financial Institution, assets corresponding to Unrestricted PSIAs will fall within the Exposure Measure and, therefore, are considered for the purpose of the Leverage Ratio calculation.

6. Further Guidance about the method for completing forms relating to Leverage Ratios can be found in PRU.

Minimum Leverage Ratios

3.18.4 (1) An Authorised Firm must maintain a Leverage Ratio of at least 3%.

(2) An Authorised Firm designated by the DFSA as a G-SIB must maintain a Leverage Ratio of at least the sum of 3% plus 50% of its HLA Ratio.

(3) An Authorised Firm designated by the DFSA as a D-SIB must maintain a Leverage Ratio of at least 3.5%.

(4) The DFSA may, by written notice, require an Authorised Firm to maintain a higher minimum Leverage Ratio than the percentage specified in (1), (2) or (3) if it considers it necessary to do so, and the Authorised Firm must comply with that requirement.

Guidance

1. In calculating its minimum Leverage Ratio under Rule 3.18.4(2) an Authorised Firm that, for example, is subject to a 2% HLA Ratio for being a G-SIB, should have a Leverage Ratio of at least 4%, consisting of 3% (the minimum Leverage Ratio) plus 1% (50% of its HLA Ratio).

2. Circumstances in which the DFSA may require a higher minimum Leverage Ratio under Rule 3.18.4(4) include where:

   a. it is necessary due to the Authorised Firm's risk profile;

   b. it has received a request from a regulator as part of measures to preserve financial stability; or

   c. it considers it reasonably necessary due to any other circumstances.