THE ECONOMIC TIMES

Banks get capital relief on derivatives

BY REUTERS | JUN 21, 2019, 08.02 AM IST

LONDON: Global banking regulators have agreed to introduce more flexibility into how banks compile a broad measure of capital, the Basel Committee said on Thursday.

The committee, made of banking regulators from the world's main financial centres, said it has agreed on "targeted and limited revision of the leverage ratio".

The leverage ratio is a measure of capital to non-risk weighted assets, and is meant to be a backstop to a bank's risk-weighted core capital buffers.

The tweak means that banks can offset margin or cash posted by customers against cleared derivatives on their books when it comes to calculating the leverage ratio.

Currently, no offsetting of the margin is allowed, meaning the derivatives exposure is bigger than it appears.

"The committee will monitor the effect of this revision on the leverage ratio framework," Basel said in a statement following a two-day meeting that ended on Thursday under its new chair, Pablo Hernandez de Cos, governor of the Bank of Spain.

Basel said it also agreed on more detailed disclosure requirements to stop banks "window dressing" their leverage ratio and giving investors a misleading impression about their core health.

Basel said last year that some banks were contracting their balance sheets four times a year to make their leverage ratio appear higher than it actually is for most of the time.

"The standard will be revised to require banks to disclose their leverage ratios based on the quarter-end and average values of securities financing transactions," Basel said.

"The committee will continue to monitor window-dressing behaviour across financial markets."

Basel said it would consult on the leverage ratio changes.

The committee said it continues to assess risks from crypto assets and the best ways to address them.

"Crypto-assets have exhibited a high degree of volatility and present a number of risks for banks," Basel said.