EUROPEAN CENTRAL BANK

BANKING SUPERVISION

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ECB allows temporary relief in banks' leverage ratio after declaring exceptional circumstances due to pandemic

- ECB Banking Supervision exercises regulatory discretion declaring exceptional circumstances
- Measure allows banks to exclude central bank exposures from leverage ratio
- Banks to benefit from relief measure until 27 June 2021

The European Central Bank announced today that euro area banks under its direct supervision may exclude certain central bank exposures from the leverage ratio. The move is aimed at easing the implementation of monetary policy. This decision by ECB Banking Supervision came after the Governing Council of the ECB, as monetary authority of the euro area, confirmed that there are exceptional circumstances due to the coronavirus (COVID-19) pandemic.

The Capital Requirement Regulation (CRR), as amended by the CRR "quick fix", allows banking supervisors, after consulting the relevant central bank, to allow banks to exclude central bank exposures from their leverage ratio. Such assets include coins and banknotes as well as deposits held at the central bank.

Banks can benefit from this exclusion when they communicate their leverage ratios, a key yardstick for investors. Based on end-March 2020 data, this exclusion would raise the aggregate leverage ratio of 5.36% by about 0.3 percentage points. The 3% leverage ratio requirement will become binding on 28 June 2021 but banks are already required to disclose their current leverage ratio.

This is also important for globally systemically important banks (G-SIBs) and subsidiaries of foreign G-SIBs, for whom the measure additionally provides relief under the already binding total loss-absorbing capacity (TLAC) requirement.

Banks may benefit from this measure until 27 June 2021. ECB Banking Supervision would have to take a new decision should it wish to further extend the exclusion beyond June 2021, when the 3% leverage ratio requirement will become binding. This would require an upward recalibration of the 3% leverage ratio requirement.

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