Briefing Note

UK Leverage Ratio

October 2026

Summary

AFME, UK Finance and our members welcome the recent focus from UK policymakers on reconsidering important aspects of the leverage ratio and continue to support the concept of the leverage ratio as a simple, transparent and true backstop to the risk-based requirements.

To achieve this, address international super-equivalence, and ensure that no bank's requirements increase, we recommend that the upcoming consultation consider:

- *Reverting to the international 3% minimum leverage ratio requirement and eliminating the super-equivalent CET1 requirement.*
- *We continue to note that having any CET1 requirement at all sets the UK apart as an outlier internationally.*
- *A move to calculating leverage ratio requirements based on average exposure or a combination of average and spot values in preference to the current practice of using spot values only.*
- *Having made the helpful change to de-couple the releasable element of leverage requirements from the CCyB, we would strongly encourage the FPC and PRA promptly to define concrete criteria and process for their release and to demonstrate its practical utility.*

Owing to the design of the leverage measure with UK specificities, the UK's higher requirements relative to other major jurisdictions disproportionately constrain wholesale market intermediation, particularly trading book and broker-dealer activities, which benefit less from the central bank reserves exclusion because they hold fewer central bank deposits and do not play a significant monetary policy transmission role.

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Detailed position

Addressing International Super-equivalence

We remain concerned by the continued application of quasi-macroprudential measures within the UK leverage ratio. By way of recap, it is proposed that the new General Leverage Ratio Buffer ('GLRB') of 25 basis points would be applied to firms subject to leverage requirements.

Under such a framework, the UK would remain a clear outlier internationally as the only jurisdiction to apply a leverage ratio buffer requirement above the Basel required systemic leverage buffer[1]. This would have very significant implications for the growth and competitiveness agenda, and our initial and conservative quantitative analysis indicates an impact for the industry in excess of £10bn[2] of CET 1 capital which could support approximately £300bn of additional leverage intensive activity. We would note at this stage that this can be placed in the context of total UK SME lending of approximately £70bn[3]. Owing to the nature of the leverage measure, higher requirements in the UK than in other major jurisdictions have a disproportionate impact on the UK's wholesale market intermediation. Consequently, the industry continues to urge the PRA to revert the leverage requirement to 3% in line with other jurisdictions.

International alignment of the leverage backstop would reduce unnecessary constraints on balance sheet capacity, improving firms' ability to support repo markets, government bond market liquidity and wider wholesale market intermediation that underpins financing of the real economy. This could be a helpful consideration in relation to the work that the FPC is undertaking concerning gilt market resilience.

[1] See paragraph LEV 40.1in the Basel framework. Basel standards apply systemic buffer only to G-SIBs, and that no jurisdiction has applied a domestic systemic buffer to leverage framework (aside from UK).
[2] Data from Pillar 3 disclosures.
[3] British Business Bank 'Small Business Finance Markets Report 2025/6'

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Table 1: international comparison of leverage requirements

	UK (FPC Proposal)	US	EU	CH	JP	CN	CA
Minimum	3.00%	3.00%	3.00%	3.00%	3.15%	4.00%	3.00%
Systemic buffer (G-SIB)	50% Risk based buffers	50% Risk based buffers	50% Risk based buffers	1.5%	0.05% to 0.75%	50% Risk based buffers	50% Risk based buffers
Systemic buffer (D-SII/O-SII)	Yes	n/a	n/a	Yes	n/a	n/a	n/a
Additional Buffer	0.25% to be met with CET1	-	-	Yes to be met with CET1	-	-	-
Central Bank Exclusion	Yes	No *	-	-	Yes	-	-
Composition	75% of minimum to be met with CET1	-	-	50% of minimum to be met with CET1	-	-	-

* In the US, certain funds of custodial banking organisations deposited with certain central banks are excluded

Reviewing the quality of capital to meet leverage ratio requirements

We are concerned at the increase in the CET1 component by virtue of the new general leverage ratio buffer comprising CET1. We continue to note that having any CET1 requirement at all sets the UK apart as an outlier internationally and we recommend its removal. As a minimum, the proportion of CET1 should be reduced in the core 3% ratio such that there is no CET1 increase, given the FPC has been content with a 75% requirement when applied to a 3.25% ratio for the last decade.

Supporting firms to reduce management buffers – use of an average calculation

As recognised by the PRA, firms currently maintain significant management buffers above minimum requirements. For many firms, this is largely due to significant volatility observed in spot measures of leverage exposure. We would suggest that to mitigate this, UK policymakers might consider consulting on a move to calculating leverage ratio requirements based on average exposure or a combination of average and spot values in preference to the current practice of using spot values only. This would in some respects help to decrease the effects of volatility from the measure and the associated management buffers which are held against the volatility in requirements.

Average leverage exposure measures can reduce the influence of short-term balance sheet fluctuations and quarter-end effects. As a result, it is more representative of long

term leverage for many firms, in particular banks with significant trading book activities and broker dealers.

We would note that UK reporting and disclosure requirements already include both average and spot values and such a change would not therefore impose material additional operational burden.

We would urge the PRA to include the calculation of the leverage ratio requirements based on average as well as spot exposures in the upcoming consultation.

Providing clarity on the new GLRB

Separately, and additionally, we welcome the reduced minimum with the continued exclusion of central bank deposits. We would, however, question the rationale behind the introduction of the GLRB, and note that the circumstances under which the buffer would be released are not provided. Having made the helpful change to de-couple the releasable element of leverage requirements from the CCyB, we would strongly encourage the PRA and FPC promptly to define the criteria and process for its release and demonstrate its practical utility.

Releasing a leverage ratio buffer in stress is unlikely to generate meaningful additional lending capacity where the leverage ratio is not the binding constraint. In market stress scenarios, firms typically de-lever organically, improving leverage ratios without regulatory intervention. Conversely, leverage exposure tends to increase during stable market conditions when demand for lending, market-making and intermediation is higher and as a result, a leverage buffer risks creating a pro-cyclical drag on market activity and credit provision during well balanced expansionary times. Risk-weighted capital buffers already provide a risk-sensitive mechanism for building resilience and the overall reasoning for a leverage buffer remains unclear.

If the PRA and FPC intend the GLRB to support lending and market intermediation during periods of stress, we would encourage them to articulate concrete circumstances in which they would expect the buffer to be released and firm indicators that would inform that judgement. Measures that might be considered could include evidence of broker dealers withholding dividends or issuing AT1 instruments to manage leverage exposure, repo spreads widening relative to Bank Rate due to balance sheet scarcity rather than credit risk, or intermediation volumes declining while client demand remains robust. We would further encourage the PRA and FPC to examine instances of leverage restricting growth separate to considerations already captured and included in RWAs.

Changing the 35% scalar to calibrate the ALRB, and interaction with the MREL framework

We recognise the FPC's desire to move the ALRB closer to Basel compliance. Yet for some firms, the combination of increasing the scalar from 35% to 50% results in a net increase in group leverage ratios because of the reforms. This appears counterintuitive given the intended purpose of the reforms was to release capital to support the UK economy.

This decision is of particular concern given both the ALRB 50% scalar and the GSIB calculation are flawed:

1. The FPC's scalar of 35% is arithmetically correct (or closer to being correct): the scalar should ensure broad comparability between the RWA and leverage capital stacks, such that both sides increase in tandem. Absent this, a change in a GSIB/DSIB buffer will inadvertently push firms in or out of the RWA or leverage framework. This will ultimately mean that the regulatory framework is distorting the activity firms will choose to undertake.

   To evidence this, if we take a simplified capital stack where the capital ratio has a systemic buffer of 2%, and the rest of the capital stack is 12%. The proportion of the GSIB buffer relative to the overall capital stack is c14%. By contrast, the ALRB would be 1% relative to a 3.25% core leverage ratio – which equates to a c31% proportion of the core stack.

2. The GSIB calculation has not been updated to reflect regulatory changes, in particular the introduction of the resolution regime and improved resolvability. This is of particular relevance to the cross-jurisdictional component of the score, which already takes an unconventional approach by defining cross-border transactions as those taking place outside of the home (headquartered) jurisdiction, rather than those that are genuinely cross-border.

3. The FPC's O-SII framework further reinforces this disproportionate treatment. It imposes additional domestic systemic capital requirements at ring-fenced bank holding company level using a simplistic and non-risk-sensitive leverage exposure measure, rather than an assessment that adequately reflects the underlying risk or systemic importance of the activities concerned.

The PRA should therefore pause the increase with a view to returning the discussion on these aspects to BCBS. We recognise Basel compliance is important, and there are

concerns about a “race to the bottom” if areas of the regime are found to be non-compliant. This does not appear to be the case given leverage reform in other jurisdictions has not led to widespread non-compliance. We expect other jurisdictions would support a review, into the level of the scalar, given multiple jurisdictions are struggling with being increasingly leverage bound due to deposit growth outweighing the financing capacity that the economy can absorb.

MREL considerations

In terms of MREL, we would encourage the PRA to consider also that a reduction in the minimum leverage requirement does not automatically translate into additional balance sheet capacity if MREL remains a binding constraint, given that MREL is often calibrated as the higher of a percentage of RWAs and/or a percentage of the leverage ratio exposure measure. For some firms, the MREL "usable" buffer is determined by the gap between the RWA-based capital requirement (including buffers) and the leverage-based minimum requirement (excluding buffers). The proposal to reduce the leverage minimum from 3.25% to 3.0% lowers the leverage-based minimum requirement while leaving the RWA-based capital requirement and buffers unchanged. For affected firms, this widens the gap between the two, effectively increasing the MREL buffer that must be met with CET1. As a result, a reform intended to ease leverage constraints could have the counterintuitive effect of increasing MREL requirements for some firms.

Conclusion

We recall the broader concerns mentioned in the joint UK Finance-AFME letter on the limited impact of the proposals announced by the FPC review to date. Looking ahead to the expected public consultation, we encourage the PRA and FPC to consider the above recommendations. We look forward to further engagement with policymakers including through the consultation process.

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