Islamic Banking Business Prudential (Leverage Ratio) Amendments Rules 2019

QFCRA Rules 2019-7

The Board of the Qatar Financial Centre Regulatory Authority makes the following rules under the *Financial Services Regulations*.

Dated 26 June 2019.

Abdulla Bin Saoud Al-Thani
Chairman

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made under the

Financial Services Regulations

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1 Name of rules

These rules are the *Islamic Banking Business Prudential (Leverage Ratio) Amendments Rules 2019*.

2 Commencement

These rules commence on 1 January 2020.

3 Amendment

These rules amend the *Islamic Banking Business Prudential Rules 2015*.

4 Explanatory notes

An explanatory note in these rules is not part of these rules.

Schedule 1 Amendments

(see r 3)

[1.1] After rule 1.1.3

insert

1.1.3A References to particular currencies

In these rules, the specification of an amount of money in a particular currency is also taken to specify the equivalent sum in any other currency at the relevant time.

Explanatory note

This amendment and the next relocate a standard provision regarding the specification of amounts of money in different currencies.

[1.2] Rule 3.1.7

omit

[1.3] Part 3.4

substitute

Part 3.4 Leverage ratio

3.4.1 Introduction

The leverage ratio is a simple, transparent, non-risk-based measure to help restrict the build-up of leverage in the Islamic banking system. Excessive leverage can expose Islamic banking businesses to higher financial risk, with potential damage to the overall financial system, and to the economy if a de-leveraging process takes place.

3.4.2 Objectives of leverage ratio requirements

The leverage ratio supplements the risk-based capital requirements of the rest of this Chapter. The objectives of limiting Islamic banking business firms' leverage ratios are as follows:

(a) to constrain the build-up of leverage in the Islamic banking sector, to help avoid destabilising deleveraging that can damage the broader financial system and the economy;

(b) to reinforce the risk-based requirements in Parts 3.1 to 3.3 with a simple, non-risk-based backstop measure;

(c) to serve as a broad measure of the sources of leverage, both on and off the balance-sheet.

3.4.3 How to calculate leverage ratio

An Islamic banking business firm's leverage ratio ***LR*** is calculated by means of the following formula:

$$\boldsymbol{LR} = \frac{tier\ 1\ capital}{total\ exposure\ measure} \times 100$$

where:

tier 1 capital has the meaning given by rule 3.2.7 (2).

total exposure measure is the total amount of all the firm's exposures, calculated in accordance with rules 3.4.5 to 3.4.8.

3.4.4 Minimum leverage ratio

(1) An Islamic banking business firm must maintain a leverage ratio of not less than 3%.

(2) The Regulatory Authority may direct an Islamic banking business firm to maintain a leverage ratio higher than 3% if the Authority considers it necessary to do so because of the firm's risk profile or other particular circumstances.

3.4.5 How to calculate total exposure measure—general

(1) When an Islamic banking business firm calculates its total exposure measure, it must treat each exposure in accordance with the normal accounting treatment of the exposure.

(2) It must include all on-balance-sheet non-derivative exposures, net of specific provisions and valuation adjustments.

(3) It must not take into account the effect of credit risk mitigation.

(4) It must not weight on-balance-sheet exposures.

(5) It must not net financing exposures against PSIAs or deposits.

3.4.6 Modification of calculation

(1) The Regulatory Authority may, by written notice, modify the calculation of an Islamic banking business firm's total exposure measure by, for example:

(a) allowing the firm not to take account of a particular exposure or class of exposures;

(b) directing the firm to apply a different risk-weight to an exposure or class of exposures;

(c) directing the firm to take account of an exposure or class of exposures that would not otherwise be taken account of.

(2) The Authority may give a notice under subrule (1) on the application of the firm or on the Authority's own initiative.

3.4.7 How to calculate total exposure measure—on-balance-sheet assets

(1) When an Islamic banking business firm calculates its total exposure measure, it must include all on-balance-sheet items on the assets side of its balance-sheet, including all Shari'a-compliant repo and securities-financing transactions.

(2) AAOIFI accounting treatment must be used for taking account of such transactions. For Shari'a-compliant hedging instruments, the accounting treatment of the exposure must be used (that is, unweighted and subject to 100% credit conversion factor).

(3) Potential future exposures must be computed on an unweighted basis according to the current exposure method, as set out in Division 4.4.C.

(4) Items that are deducted completely from the firm's tier 1 capital (such as goodwill) must also be deducted from its total exposure.

(5) The amount of an investment in the capital of an unconsolidated financial entity that is wholly or partly deducted from the firm's CET1 or additional tier 1 capital under the approach in Subdivision 3.2.D.3 must be deducted from its total exposure. An ***unconsolidated financial entity*** is a financial entity (that is, an entity involved in banking or other financial activity, or insurance) that is not included in the firm's consolidated returns.

(6) Liability items must not be deducted from the firm's total exposure measure.

3.4.8 How to calculate total exposure measure—off-balance-sheet assets

(1) When an Islamic banking business firm calculates its total exposure measure, it must include all off-balance-sheet items (for example, letters of credit, guarantees, unconditionally cancellable

commitments, liquidity facilities, and Shari'a-compliant repo and securities financing transactions).

(2) A 100% credit conversion factor applies to all off-balance-sheet items, except that a credit conversion factor of 10% applies to a commitment that can be unconditionally cancelled at any time without notice.

(3) Securitised assets that are de-recognised from the balance-sheet of the sponsor or originator are not to be taken into account.

3.4.9 How to calculate total exposure measure—assets financed by unrestricted PSIAs

(1) When an Islamic banking business firm calculates its total exposure measure, it must include a proportion of assets (whether on or off the firm's balance-sheet) financed by unrestricted PSIAs.

(2) The proportion is to be calculated by multiplying the carrying value of the assets by the alpha parameter (100%) for capital adequacy purposes.

(3) Assets financed by restricted PSIAs are not to be included.

Explanatory note

This amendment inserts a new Part 3.4 dealing with leverage ratio in the place of the present placeholder text.