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EXAMPLE WHY LEVERAGE RATIO SHOULD NOT BE USED AS UPLIFT FACTOR

Question 7. Is the proposed risk to firm "up-lift" measure an appropriate way to address the indirect impact of the exposure risk a firm poses to customers and markets? If not, what alternative approach to addressing risk to firm (RtF) would you suggest?

Answer 7. We believe that the inverse of the leverage ratio factor would not be a good proxy for the uplift factor.
The reason is that leverage ratio calculation does not take collateral into consideration as stated in Article 1 of Commission Delegated Regulation (EU) 2015/62.

e.g.

COMPANY A		COMPANY B	
Cash Lent:	1 000 000 EUR	Cash Lent:	1 000 000 EUR
Collateral Received:	0 EUR	Collateral Received:	1 050 000 EUR
Own Funds	100 000 EUR	Own Funds	100 000 EUR
LR Exposure	1 000 000 EUR	LR Exposure	1 000 000 EUR
Leverage Ratio	10%	Leverage Ratio	10%

As it can be seen from the example above, under the current regulation the company that received collateral (company B) for lending cash would have the same leverage ratio as the company that lent without the collateral (company A).