RBI Aligns the Leverage Ratio Framework for Commercial Banks with the Basel III 2017 Standard

The Reserve Bank of India (RBI), vide the **Reserve Bank of India (Commercial Banks – Prudential Norms on Capital Adequacy) Eleventh Amendment Directions, 2026 (RBI/2026-27/297; DOR.CAP.REC.251/21-02-002/2026-27) dated October 23, 2026**, has amended Chapter VII (Leverage Ratio framework) of the Capital Adequacy Directions, 2025 to align it with the leverage ratio 2017 standard of the Basel Committee on Banking Supervision. The Directions are issued under Section 35A of the Banking Regulation Act, 1949 and come into effect from April 1, 2027.

Analysis

- **Minimum ratio:** The leverage ratio is Tier 1 capital divided by the exposure measure. The minimum is 4 per cent for Domestic Systemically Important Banks (D-SIBs) and 3.5 per cent for other banks, to be met at all times. A branch of a Global Systemically Important Bank (G-SIB) in India must maintain 3.5 per cent plus its applicable G-SIB leverage buffer.
- **Capital distribution limits:** A G-SIB branch that does not meet its leverage buffer will face limits on distributing earnings, depending on its CET1 ratio and leverage ratio. These limits range from conserving 100 per cent of earnings at the lowest levels to nil at healthy levels.
- **Calculation basis:** Capital and exposure are measured at quarter-end, though a bank may use daily or monthly averaging with RBI approval, if applied consistently. The scope of consolidation is the same as for risk-based capital.
- **General rules for exposure:** Exposure generally follows gross accounting values, with no netting of assets and liabilities and no credit risk mitigation unless specified. RBI may temporarily exempt central bank reserves in exceptional circumstances, while raising the minimum ratio to offset the exemption.
- **Derivatives:** A new paragraph 267A covers banks using the Standardised Approach for Counterparty Credit Risk (SA-CCR). Exposure is 1.4 times the sum of replacement cost and potential future exposure, and written credit derivatives are included at their effective notional amount, with limited offsets.
- **Securities financing transactions and off-balance sheet items:** Gross SFT assets are included, with netting of cash payables and receivables allowed only if strict conditions are met. Off-balance sheet items are converted using credit conversion factors, with 100 per cent for credit substitutes.

- **Disclosure and reporting:** Banks must publicly disclose the leverage ratio quarterly, on standalone and consolidated bases, report it to RBI with detailed calculations and use the new Templates LR1 and LR2 under Pillar 3. Paragraph 271 has been deleted.

- **Key Takeaways**

- The minimum leverage ratio is 4 per cent for D-SIBs and 3.5 per cent for other banks, to be met at all times.
- G-SIB branches must add the applicable leverage buffer and face limits on earnings distribution if they fall short.
- SA-CCR banks must calculate derivative exposure as 1.4 times replacement cost plus potential future exposure under the new paragraph 267A.
- Quarterly public disclosure, RBI reporting and Templates LR1 and LR2 are now mandatory.
- The Directions take effect from April 1, 2027.

- The notification is attached herein.

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