PRESS RELEASE

ECB will not extend capital and leverage relief for banks

10 February 2022

- Banks once again expected to operate above Pillar 2 Guidance from 1 January 2023
- Banks to reinclude central bank exposures in leverage ratio from 1 April 2022
- Banks have ample headroom above capital and leverage ratio requirements

The European Central Bank (ECB) sees no need to allow banks to operate below the level of capital defined by their Pillar 2 Guidance beyond December 2022, nor to extend beyond March 2022 the supervisory measure that allows them to exclude central bank exposures from their leverage ratios.

“The capital space that we created for banks at the onset of the pandemic helped them to continue lending to households and businesses,” said Andrea Enria, Chair of the ECB’s Supervisory Board. “Today we are providing clarity on the path back to normality. We are confirming the initially envisaged timeline for a return to normal supervision of banks’ capital adequacy and leverage.”

In March 2020 the ECB allowed banks to operate below the level of capital defined by the Pillar 2 Guidance and the capital conservation buffer. In July 2020 the ECB committed to maintaining this full buffer flexibility until at least the end of 2022.

In September 2020 the ECB allowed banks to exclude certain central bank exposures from the denominators of their leverage ratios owing to the exceptional macroeconomic circumstances. In June 2021 the ECB extended that measure until the end of March 2022 and asked banks to nevertheless plan to maintain sufficient capital in view of the expiry of that prudential exemption.

Although there is still some uncertainty regarding the impact of the pandemic, banks have ample headroom above their capital requirements and above the leverage ratio requirement. At the end of September 2021 the aggregate Common Equity Tier 1 ratio of banks under direct ECB supervision stood at 15.47%. Their aggregate leverage ratio stood at 5.88%.

More details on pandemic-related measures are available in the FAQs.

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Notes

- The Common Equity Tier 1 ratio shows the relationship between a bank’s capital and its risk-weighted assets. Risk-weighted assets are a measure of the risks that a bank has on its books, showing how risky its assets are.
- The leverage ratio, in contrast, shows the relationship between a bank’s capital and its assets, irrespective of how risky those assets are. Because the leverage ratio is not dependent on risk, the leverage ratio requirement serves as a backstop to risk-weighted capital requirements. The 3% leverage ratio requirement became binding on 28 June 2021.

- The Pillar 2 Guidance is a supervisory recommendation that tells banks the Common Equity Tier 1 ratio they are expected to maintain in order to be able to withstand stressed conditions. Allowing banks to temporarily operate below the level of capital defined by their Pillar 2 Guidance has made additional resources available to them to provide lending and absorb losses.

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