August 26, 2025

Via Electronic Mail

Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, D.C. 20551
Attention: Ann E. Misback, Secretary

Federal Deposit Insurance Corporation
550 17th Street NW
Washington, D.C. 20429
Attention: Jennifer M. Jones, Deputy Executive Secretary, Comments/Legal OES

Office of the Comptroller of the Currency
400 7th Street, SW, Suite 3E-218
Washington, D.C. 20219
Attention: Chief Counsel's Office, Comment Processing

Re: Regulatory Capital Rule: Modifications to the Enhanced Supplementary Leverage Ratio Standards for U.S. Global Systemically Important Bank Holding Companies and Their Subsidiary Depository Institutions; Total Loss-Absorbing Capacity and Long-Term Debt Requirements for U.S. Global Systemically Important Bank Holding Companies (Federal Reserve Docket No. R-1867, RIN 7100-AG96; FDIC RIN 3064-AG11; Docket ID OCC-2025-006, RIN 1557-AF31)

Ladies and Gentlemen:

The Bank Policy Institute[1] appreciates the opportunity to comment on the Agencies' proposal concerning revisions to the enhanced supplementary leverage ratio ("eSLR") and related recalibration of the total loss-absorbing capacity ("TLAC") leverage-based buffer and long-term debt ("LTD") requirements.[2] This proposal is an important step towards achieving a balanced capital framework that promotes financial system stability while facilitating robust market functioning. We support recalibration

[1] BPI is a nonpartisan public policy, research and advocacy group, representing the nation's leading banks and their customers. BPI's members include universal banks, regional banks and major foreign banks doing business in the United States. Collectively, they employ almost two million Americans, make nearly half of the nation's small business loans, and are an engine for financial innovation and economic growth.

[2] *Regulatory Capital Rule: Modifications to the Enhanced Supplementary Leverage Ratio Standards for U.S. Global Systemically Important Bank Holding Companies and Their Subsidiary Depository Institutions; Total Loss-Absorbing Capacity and Long-Term Debt Requirements for U.S. Global Systemically Important Bank Holding Companies*, 90 Fed. Reg. 30,780 (Jul. 10, 2025).

efforts to ensure that leverage-based standards serve as a meaningful backstop to risk-based capital requirements, rather than frequently acting as the binding regulatory constraint throughout the economic cycle.

We agree with Vice Chair Bowman that the proposal constitutes an "important first step in balancing the stability of the financial system and Treasury market resilience"[3] and urge the Agencies to finalize the proposed recalibration of the eSLR as soon as possible. More broadly, the Agencies should also undertake comprehensive changes to their capital rules through future rulemakings, including implementation of appropriately calibrated final Basel III standards, long overdue modifications to the GSIB surcharge methodology, and reforms to the tier 1 leverage ratio.

I. We strongly support the recalibration of the eSLR standards applicable to GSIBs and their IDI subsidiaries.

We strongly support recalibrating the eSLR leverage buffer for U.S. GSIBs to 50% of the Method 1 GSIB surcharge. Similarly, with respect to depository institution subsidiaries of a U.S. GSIB, we also strongly support the proposal to replace the current 6% "well-capitalized" threshold under the Agencies' prompt corrective action ("PCA") framework with an eSLR leverage buffer equal to 50% of the GSIB surcharge applicable to the U.S. GSIB holding company as calculated under Method 1. The Agencies should issue a final rule that implements the proposed recalibration of the eSLR effective by January 1, 2026.

As reflected in the proposal, the eSLR should operate as a backstop to risk-based capital, not as a regular binding constraint.[4] The agencies estimate that, from Q2 2021 to Q4 2024, the eSLR represented the binding tier 1 capital requirement 60% of the time, on average, for seven of the eight U.S. GSIBs and 87% of the time, on average, for the depository institution subsidiaries of GSIBs.[5] This is inconsistent with the stated regulatory purpose of the eSLR.[6] The Agencies vastly underestimated the growth in U.S. Treasury issuance and the expansion of the Federal Reserve's balance sheet and level of reserve balances when originally calibrating the supplementary leverage ratio ("SLR") and eSLR frameworks.[7]

The current calibration of the eSLR—and a regularly binding leverage ratio constraint more generally—discourages banking organizations from conducting low-risk, high-volume, low-return activities,

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3 Michelle W. Bowman, *Statement on Enhanced Supplementary Leverage Ratio Proposal* (June 25, 2025), *available at* https://www.federalreserve.gov/newsevents/pressreleases/bowman-statement-20250625.htm.

4 90 Fed. Reg. at 30,782 ("The proposal would adjust the calibration of the eSLR standards…to help ensure that such standards generally serve as a backstop to risk-based capital requirements through the economic and credit cycle, rather than as a regularly binding constraint.").

5 90 Fed. Reg. at 30,791.

6 90 Fed. Reg. at 30,782.

7 When the Agencies finalized the SLR and eSLR requirements, Federal Reserve staff projected that the amount of Reserve Bank deposits would decline to $25 billion by the end of 2021. Federal Reserve, *Report to the FOMC on Economic Conditions and Monetary Policy*, Book B at 49, fn.5 (Mar. 13, 2014), *available at* https://www.federalreserve.gov/monetarypolicy/files/FOMC20140319tealbookb20140313.pdf. As of July 10, 2025, Reserve Bank balances totaled $3.33 trillion. Federal Reserve, H.4.1 Release – Factors Affecting Reserve Balances of Depository Institutions and Condition Statement of Federal Reserve Banks (Jul. 10, 2025), *available at* https://www.federalreserve.gov/releases/h41/current/h41.pdf. Treasury issuances are projected to increase in the medium-term. *See* Congressional Budget Office, *The Long-Term Budget Outlook: 2025 to 2055* (Mar. 27, 2025), *available at* https://www.cbo.gov/publication/61187.

such as intermediation in the U.S. Treasury market. This affects not only bank activities but also market functioning more broadly. When the primary dealers of large banking organizations are constrained from intermediating in U.S. Treasury markets, market liquidity can be impaired, particularly during periods of stress and flights to safe assets, such as during the 2020 COVID-related market stress.

Current and former regulators have suggested that the SLR and eSLR can disincentivize banks from participating in U.S. Treasury markets.[8] Research by Federal Reserve economists cited in the proposal's economic analysis demonstrates that Category I – Category III banking organizations bound by the SLR or eSLR are less willing to increase their holdings of U.S. Treasuries as compared to less constrained primary dealers, resulting in decreased market liquidity during periods of market stress, as evidenced by lower aggregate turnover and wider bid-ask spreads.[9] This research and recent market events validate the need for recalibration.

In addition to the proposed recalibration, the eSLR leverage buffer should be capped at 2% to keep the buffer from exceeding the current calibration. A maximum 2% eSLR leverage buffer would help make sure that the eSLR appropriately functions as a backstop to risk-based capital requirements and would reduce the likelihood that the eSLR unduly constrains bank intermediation activities particularly in U.S. Treasury markets.

The Agencies should continue to note the tools they have available in exceptional macroeconomic circumstances as was the case during the COVID-19 pandemic.

We also strongly support the OCC's proposal to modify the scope of application of the eSLR for OCC-supervised banks to remove the thresholds based on asset size and apply the eSLR only to national banks and federal savings associations that are subsidiaries of a U.S. GSIB.[10] Under the OCC's current framework, the eSLR applies to a national bank or Federal savings association that is a subsidiary of a U.S. top-tier bank holding company that has more than $700 billion in total assets or more than $10 trillion in assets under custody. The Federal Reserve and the FDIC currently apply the eSLR to banks that are subsidiaries of a U.S. GSIB. The proposal accordingly would harmonize the OCC's scope of application of the eSLR to the Federal Reserve and the FDIC's framework.

II. The Agencies should implement further necessary reforms to the capital framework.

Although the Proposal is an important step, we urge the Agencies to undertake comprehensive

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8 *See e.g.*, Jerome H. Powell, *Central Clearing and Liquidity* (Jun. 23, 2017), *available at* https://www.federalreserve.gov/newsevents/speech/files/powell20170623a.pdf; Daniel K. Tarullo, *Capital Regulation and the Treasury Market* (Mar. 2023), available at https://www.brookings.edu/wp-content/uploads/2023/03/Brookings-Tarullo-Capital-Regulation-and-Treasuries_3.17.23.pdf; Michelle W. Bowman, *Unintended Policy Shifts and Unexpected Consequences* (Jun. 23, 2025), *available at https://www.federalreserve.gov/newsevents/speech/files/bowman20250623a.pdf*.

9 Darrell Duffie et al., *Dealer Capacity and U.S. Treasury Market Functionality*, Federal Reserve Bank of New York Staff Report (Aug. 2023, rev. Oct. 2023), *available at* https://www.newyorkfed.org/medialibrary/media/research/staff_reports/sr1070.pdf?sc_lang=en; Falk Bräuning and Hillary Stein, *The Effect of Primary Dealer Constraints on Intermediation in the Treasury Market*, Federal Reserve Bank of Boston Research Department Working Papers (2024), *available at* https://www.bostonfed.org/publications/research-department-working-paper/2024/the-effect-of-primary-dealer-constraints-on-intermediation-in-the-treasury-market.aspx.

10 90 Fed. Reg. at 30,790-91.

changes to their capital rules in future proposals.[11]

The Agencies should revise tier 1 leverage ratio requirements so all leverage ratio requirements generally serve as a backstop to risk-based capital requirements throughout the economic cycle and during periods of stress rather than a binding constraint. More broadly, significant reforms to the risk-based capital framework are needed to reduce procyclicality and improve overall calibration, including with respect to the GSIB surcharge, stress testing and finalization of the Basel III standards.

We have included in the Appendix a limited number of select enhancements to the capital framework—focusing in particular on matters affecting Treasury market functioning—that the Agencies should consider in future rulemakings.[12]

A. Excessive calibration of the tier 1 leverage ratio under the current rules similarly creates distortions with respect to low-risk activities.

Like the SLR and eSLR, the tier 1 leverage ratio is also intended to be a backstop to risk-based capital requirements. However, the tier 1 leverage ratio can be the binding leverage capital requirement for some firms, particularly those engaged in custody and related activities or that hold a greater proportion of their assets in safe, liquid assets such as Reserve Bank deposits and short-dated Treasuries. Adjusting tier 1 leverage ratio requirements would help restore the original intent to serve as a supplement, and backstop, to risk-based requirements and mitigate disincentives to take in customer deposits, particularly in times of stress.[13]

Excessive calibration of the tier 1 leverage ratio under the current rules creates distortions with respect to low-risk activities, such as U.S. Treasury market intermediation, given the high volume and low margin nature of the activity. There has been an increasing proportion of bank balance sheets allocated to low-risk assets—including Reserve Bank deposits and U.S. Treasuries—since the global financial crisis as a result of changes in liquidity risk management practices and new liquidity requirements, such as the liquidity coverage ratio, net stable funding ratio, resolution liquidity metrics and internal liquidity stress testing and related liquidity buffer requirements. The projected increase in Treasury issuance in the medium-term will exacerbate the problem.

The Agencies correctly note that the Collins Amendment is a relevant consideration in determining the extent of potential revisions to tier 1 leverage ratio requirements.[14] The Collins Amendment does not, however, preclude ***any*** revisions to tier 1 leverage.

The Collins Amendment requires the Agencies to establish minimum leverage requirements that

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[11] Question 10 of the proposal solicits comment on additional or alternative changes to the capital rule to ensure it functions as intended throughout the economic cycle and during periods of stress.

[12] Question 9 of the proposal solicits comment on other changes to the bank regulatory framework to reduce regulatory impediments to well-functioning U.S. Treasury markets.

[13] *See BPI Statement on Federal Reserve SLR Proposal* (June 25, 2025), *available at* https://bpi.com/bpi-statement-on-federal-reserve-slr-proposal/ ("The eSLR is not the only leverage capital requirement warranting a second look. For example, the Tier 1 leverage ratio is also ripe for reform. When binding, a Tier 1 leverage requirement can inhibit banks from taking in new deposits.").

[14] Footnote 29 of the proposal states that changing the tier 1 leverage requirement would "implicate" Section 171(b) of the Dodd-Frank Act (referred to as the "Collins Amendment"). 12 U.S.C. § 5371(b).

are both (i) not less than the "generally applicable leverage capital requirements", which serve as a floor for capital requirements, and (ii) not "quantitatively lower" than the "generally applicable leverage capital requirements" in effect for insured depository institutions ("IDIs") as of July 21, 2010, the date of enactment of the Dodd-Frank Act. The Collins Amendment provides a specific definition of the term "generally applicable leverage capital requirements" that references the leverage ratio applicable to IDIs under the PCA framework, in particular "the minimum ratios of tier 1 capital to average total assets . . . *regardless of total consolidated asset size or foreign financial exposure*" (emphasis added).[15]

With respect to the "quantitatively lower" requirement of the Collins Amendment, as of July 21, 2010, an IDI was considered "adequately capitalized" under the Agencies' PCA framework if the IDI had a leverage ratio of (i) 4% or greater or (ii) 3% or greater and (a) was rated composite 1 under the CAMELS rating system in its most recent examination and, (b) in the case of a state member bank or state nonmember bank, was not experiencing or anticipating significant growth.

Under the plain language of the text of the Collins Amendment, the Agencies may lower the tier 1 leverage ratio from 4% to 3% in compliance with the not "quantitatively lower" requirement because the minimum tier 1 leverage ratio applicable to IDIs as of July 21, 2010, regardless of the IDI's total consolidated asset size or financial exposure, was 3%. In other words, the conditions that had been required for a bank to be considered "adequately capitalized" based on a 3% leverage ratio—a composite 1 CAMELS rating in its most examination and, for state member banks and state nonmember banks, not experiencing or anticipating significant growth—applied as of July 21, 2010 "regardless of total consolidated asset size or foreign financial exposure." In broad terms, under canons of statutory interpretation, the specific definition of a statutory term should apply, rather than an interpretation based on ordinary meaning.[16] The fact that the 3% leverage ratio requirement was available only to highly rated IDIs or IDIs not experiencing or anticipating significant growth does not prevent a 3% leverage ratio requirement from being the "generally applicable leverage capital requirements" within the meaning of the statutory definition in the Collins Amendment. The Collins Amendment expressly provides for identification of the relevant minimum requirement "regardless of total consolidated asset size or foreign financial exposure." The Collins Amendment does not require identification of the relevant minimum requirement regardless of CAMELS ratings or growth. In this regard, the minimum 3% leverage ratio requirement to be considered "adequately capitalized" applied through December 31, 2014. The 2011 interagency final rule implementing the Collins Amendment reflects that a 3% leverage ratio is consistent with the Collins Amendment given that the Agencies maintained the 3% minimum requirement in that final rule.[17]

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15 12 U.S.C. § 5371(a)(1)(A).

16 *Burgess* v. *U.S.*, 553 U.S. 124, 130-1 (2008) ("Statutory definitions control the meaning of statutory words . . . in the usual case"), citing *Lawson* v. *Suwannee Fruit & S.S. Co.,* 336 U.S. 198, 201 (1949); *Munoz* v. *Intercontinental Terminals Co., L.L.C.*, 85 F.4th 343, 349 (5th Cir. 2023), citing *Stenberg* v. *Carhart*, 530 U.S. 914, 942 (2000) ("[w]hen a statute includes an explicit definition, we must follow that definition, even if it varies from that term's ordinary meaning"); *Meese* v. *Keene*, 481 U.S. 465, 484 (1987) ("It is axiomatic that the statutory definition of the term excludes unstated meanings of that term").

17 *Risk-Based Capital Standards: Advanced Capital Adequacy Framework—Basel II; Establishment of a Risk-Based Capital Floor*, 76 Fed. Reg. 37,620, 37,622, fn. 12 (Jun. 28, 2011) ("Banking organizations that use the advanced approaches rules are subject to the same minimum leverage requirements that apply to other banking organizations. That is, advanced approaches banks calculate only one leverage ratio using the numerator as calculated under the generally risk-based capital rules. Accordingly, the agencies did not

There are, generally, two ways the Agencies could reform minimum tier 1 leverage ratio requirements consistent with the not "quantitatively lower" requirement of the Collins Amendment. Under one approach, the Agencies could reduce the current 4% minimum requirement to the 3% floor established by the Collins Amendment and make corresponding changes to the PCA framework (including recalibration of the well-capitalized standard and the other PCA capital categories).[18] Alternatively, as the Agencies did in 2020, the Agencies could keep the current 4% minimum requirement and implement exclusions from the denominator of the ratio calculation (e.g., for Reserve Bank deposits or Treasuries).[19] Under this alternative approach, consistent with the Agencies' analysis when they first implemented the Collins Amendment, the Agencies could compare, on an aggregate basis, (i) capital requirements under a 4% leverage ratio requirement with the denominator exclusions (representing the revised minimum leverage capital requirements) to (ii) the capital requirements under a 3% leverage ratio requirement without the denominator exclusions (representing the "generally applicable leverage capital requirements" in effect for IDIs as of July 21, 2010).[20] In all cases, in addition to the not "quantitatively lower" requirement, any reform also would need to be consistent with the "floor" requirement of the Collins Amendment.[21]

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propose any change to the calculation of the leverage ratio requirements for banking organizations that use the advanced approaches rules.").

[18] The PCA statute does not prescribe a specific leverage ratio requirement for an IDI to be considered "well-capitalized." Under the statute, an IDI is well capitalized if it "*significantly exceeds* the required minimum level for each relevant capital measure" (emphasis added). 12 U.S.C. § 1831o(b)(1)(A). However, a firm is "critically undercapitalized" if its leverage limit (*i.e.*, the ratio of tangible equity to total assets) is less than 2% of total assets. 12 U.S.C. § 1831o(c)(3)(B). A firm is "adequately capitalized" if it meets the required minimum level. 12 U.S.C. § 1831o(b)(1)(B). Accordingly, if the minimum tier 1 leverage ratio is lowered from 4% to 3%, the leverage ratio to be considered "well capitalized" must "significantly exceed" 3%. Currently, to be considered well capitalized, an IDI must have a tier 1 leverage ratio of at least 5%, which is 100 basis points or 25% higher than the 4% leverage ratio to be considered "adequately capitalized."

[19] *Regulatory Capital Rule: Money Market Mutual Fund Liquidity Facility*, 85 Fed. Reg. 16,232 (Mar. 23, 2020); *Regulatory Capital Rule: Paycheck Protection Program Lending Facility and Paycheck Protection Program Loans*, 85 Fed. Reg. 20,387 (Apr. 13, 2020); *Regulatory Capital Rule: Temporary Exclusion of U.S. Treasury Securities and Deposits at Federal Reserve Banks From the Supplementary Leverage Ratio for Depository Institutions*, 85 Fed. Reg. 32,980 (Jun. 1, 2020); *Treatment of Certain Emergency Facilities in the Regulatory Capital Rule and the Liquidity Coverage Ratio Rule*, 85 Fed. Reg. 68,243 (Oct. 28, 2020).

[20] The adopting release to the 2011 interagency final rule implementing the Collins Amendment provides that "comparing capital requirements *on an aggregate basis* is an effective way of conducting the 'quantitatively lower' analysis" (emphasis added). *Risk-Based Capital Standards: Advanced Capital Adequacy Framework—Basel II; Establishment of a Risk-Based Capital Floor*, 76 Fed. Reg. 37,620, 37,626 (Jun. 28, 2011). The adopting release to the 2013 final rule implementing Basel III provides that the minimum capital requirements as determined using the standardized approach establish the "generally applicable" capital requirements for purposes of Section 171, implying that the Agencies determined that the risk-based capital requirements under the Basel III standardized approach as implemented in the U.S. are not quantitatively lower than the generally applicable risk-based capital requirements in effect for IDIs as of July 21, 2010. *See* 78 Fed. Reg. 62,018, 62,021 (Oct. 11, 2013); 78 Fed. Reg. 55,340, 55,343 (Sep. 10, 2013).

[21] Under the Collins Amendment, the minimum leverage capital requirements may not be less than the generally applicable leverage capital requirements, which serve as a floor for any capital requirements required by the Agencies. 12 U.S.C. § 5371(b)(1).

B. Category III banking organizations should not be subject to the SLR framework.

The SLR currently applies to Category I through Category III banking organizations.[22] The scope of application of the SLR should be revised such that the SLR applies only to Category I and Category II banking organizations, not Category III firms.

Eliminating the SLR requirement for Category III banking organizations would be broadly consistent with the scope of application of the Basel framework to large, internationally-active banking organizations, which generally corresponds to Category I and Category II firms under the Federal Reserve's regulatory tailoring framework. Removing the SLR requirement for Category III firms also would be consistent with the Agencies' initial implementation of the Basel III standards, which applied the SLR exclusively to advanced approaches banking organizations.[23]

Under this proposed approach, Category III firms would remain subject to the tier 1 leverage ratio. In this regard, because the tier 1 leverage ratio may be a binding constraint for Category III firms, subjecting Category III firms to the SLR is duplicative.

III. TLAC Leverage Buffer and LTD Requirements

A. We strongly support conforming changes to the TLAC leverage buffer and LTD requirements.

We strongly support the proposed recalibration of the TLAC leverage-based capital buffer from a uniform 2% leverage buffer to a buffer equal to 50% of the applicable surcharge as calculated under Method 1. We also strongly support the proposed recalibration of the eligible LTD requirement from 4.5% of total leverage exposure to 2.5% plus 50% of the GSIB surcharge as calculated under Method 1, if the Federal Reserve does not remove LTD requirements, as discussed in Section III.B below.

In addition to these conforming changes, there should not be a 50% haircut for LTD with a maturity of one year or more but less than two years for purposes of the TLAC requirements.[24] The TLAC rules apply a 50% haircut for purposes of satisfying the LTD requirement but not the TLAC requirement. The 2023 interagency LTD proposal indicated that the haircut that applies to the LTD requirement is intended to "incentivize firms to reduce reliance on eligible LTD with maturities of less than two years and increase the

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22 Section 10(a)(1)(v) of the U.S. capital rules.

23 Federal Reserve, OCC, *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule*, 78 Fed. Reg. 62,018, 62,031 (Oct. 11, 2013); FDIC, *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule*, 78 Fed. Reg. 55,340, 55,351 (Sept. 10, 2013).

24 Question 14 of the proposal addresses the advantages and disadvantages of reducing by 50% the amount of long-term debt principal due to be paid in one year or more but less than two years that can be considered for purposes of satisfying the minimum TLAC requirements and buffers.

TLAC requirement for firms that rely heavily on eligible LTD with maturities of less than two years."[25]

U.S. GSIBs are active issuers of LTD, have demonstrated consistent market access throughout a range of economic and market conditions, and have liquidity and funding risk management practices to address, among other things, funding maturity concentration risks. U.S. GSIBs have also developed issuance structures, including callable structures, to provide additional flexibility in managing maturities and refinancings of LTD. Adding the 50% haircut to the TLAC would increase overall loss-absorbency requirements, and associated interest costs, while reducing the flexibility of U.S. GSIBs to manage their balance sheets without any evidence that either higher loss-absorbency requirements or more prescriptive requirements for LTD refinancing are necessary. Accordingly, the Federal Reserve should not include a 50% haircut in respect of LTD with a maturity of more than one year but less than two years for purposes of TLAC requirements.

In addition, for similar reasons, the 50% haircut that currently applies in respect of LTD with a maturity of more than one year but less than two years for purposes of the LTD requirements should be removed, if the separate LTD requirement—discussed below—is retained.[26] Given U.S. GSIB's LTD market access and issuance structures, there is not a sufficient basis for imposing a 50% haircut for purposes of LTD requirements, which increases overall LTD requirements and associated costs and reduces balance sheet flexibility without corresponding benefits.

B. The Federal Reserve should remove the separate eligible LTD requirements applicable to U.S. GSIBs and covered U.S. IHCs and the 2023 interagency LTD proposal should be rescinded.

U.S. GSIBs and covered U.S. intermediate holding companies of foreign banking organizations ("IHCs") currently are subject to both TLAC requirements and separate LTD requirements.[27] These separate LTD requirements should be eliminated for both U.S. GSIBs and covered IHCs.[28]

U.S. GSIBs are already subject to the internationally-agreed TLAC standard and should be permitted to satisfy minimum TLAC requirements using equity and long-term debt securities as appropriate, subject to applicable regulatory capital requirements. This flexibility would be consistent with

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25 *Long-Term Debt Requirements for Large Bank Holding Companies, Certain Intermediate Holding Companies of Foreign Banking Organizations, and Large Insured Depository Institutions*, 88 Fed. Reg. 64,524, 64,547 (Sept. 19, 2023).

26 12 C.F.R. §§ 252.62(b)(1)(ii), 252.162(b)(1)(ii).

27 12 C.F.R. Part 252, Subpart G and Subpart P.

28 *See* Letter from The Clearing House, the Securities Industry and Financial Markets Association, the American Bankers Association, the Financial Services Roundtable and the Financial Services Forum to the Federal Reserve, *Comment Letter on the Notice of Proposed Rulemaking on Internal TLAC, Long-Term Debt, Clean Holding Company and Other Requirements Applicable to the U.S. IHCs of Foreign G-SIBs* (Feb. 19, 2016), *available at* https://bpi.com/wp-content/uploads/2018/07/d5889d6659814d1aaac3b72a84840ac8.pdf; Letter from The Clearing House, the Securities Industry and Financial Markets Association, the American Bankers Association, the Financial Services Roundtable and the Financial Services Forum to the Federal Reserve, *Comment Letter on the Notice of Proposed Rulemaking on External TLAC, Long-Term Debt, Clean Holding Company and Other Requirements Applicable to U.S. G-SIBS* (Feb. 19, 2016), *available at* https://bpi.com/wp-content/uploads/2018/07/20160219-tch-us-g-sib-tlac-comment-letter-1.pdf.

the resolution planning guidance for the U.S. GSIBs[29] as well as their single point of entry ("SPOE") resolution strategy and the capabilities they have developed to implement that strategy.

As contemplated by the resolution planning guidance, the U.S. GSIBs have developed modeling capabilities and governance structures, including contractually binding mechanisms referred to as secured support agreements, designated to commence resolution when there is sufficient loss-absorbing capacity to successfully execute an SPOE resolution. In the context of resolution, equity is able to absorb losses both during and outside of a bankruptcy or Title II proceeding and, accordingly, can serve as capital—and therefore loss-absorbing capacity—both in a going-concern and gone-concern scenario. LTD securities, in contrast to equity, represent balance-sheet liabilities that may absorb losses only in the context of a bankruptcy or Title II proceeding. For that reason, LTD securities generally function only as gone-concern (not going-concern) capital, absent some mechanism to convert the debt liabilities to equity while the issuer remains a solvent going concern. Given the broader resolution planning framework applicable to U.S. GSIBs, there is not a principled reason to prohibit a U.S. GSIB from choosing to satisfy its TLAC requirements with a larger proportion of equity instead of debt.

With respect to covered IHCs, the adopting release specified that the rationale for applying internal LTD requirements for covered IHCs is "generally parallel to the rationale for the TLAC and LTD requirements" for U.S. GSIBs.[30] Accordingly, given that internal LTD requirements for covered IHCs were derived from the LTD requirements for U.S. GSIBs, LTD requirements for covered IHCs also should be removed.

In addition, the Agencies issued a proposed rule in September 2023 that would have required certain large depository institution holding companies, IHCs and IDIs to issue and maintain outstanding a minimum amount of LTD.[31] The Agencies should withdraw that proposal given the significant conceptual and substantive issues.[32] If the Agencies decide to pursue future regulatory action with respect to applying LTD requirements to firms beyond GSIBs and covered IHCs subject to TLAC requirements, the Agencies should issue a new proposed rule consistent with the requirements of the Administrative Procedure Act. Formally rescinding the proposal, as the FDIC and other agencies recently have done for other proposals, would confirm that any next procedural step with respect to potential LTD requirements for those firms

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29 *Guidance for section 165(d) Resolution Plan Submissions by Domestic Covered Companies applicable to the Eight Largest, Complex U.S. Banking Organizations*, 84 Fed. Reg. 1,438 (Feb. 4, 2019).

30 *Total Loss-Absorbing Capacity, Long-Term Debt, and Clean Holding Company Requirements for Systemically Important U.S. Bank Holding Companies and Intermediate Holding Companies of Systemically Important Foreign Banking Organizations*, 82 Fed. Reg. 8,266, 8,291 (Jan. 24, 2017).

31 Long-Term Debt Requirements for Large Bank Holding Companies, Certain Intermediate Holding Companies of Foreign Banking Organizations, and Large Insured Depository Institutions, 88 Fed. Reg. 64,524 (Sept. 19, 2023).

32 *See* Letter from the Bank Policy Institute to the Federal Reserve, the FDIC and the OCC, *Long-Term Debt Requirements for Large Bank Holding Companies, Certain Intermediate Holding Companies of Foreign Banking Organizations, and Large Insured Depository Institutions* (Jan. 16, 2024), *available at* https://bpi.com/wp-content/uploads/2024/01/BPI-Comment-Letter-Long-Term-Debt-Requirements-01.16.24.pdf; Letter from the Bank Policy Institute to the Federal Reserve, the FDIC and the OCC, *Long-Term Debt Requirements for Large Bank Holding Companies, Certain Intermediate Holding Companies of Foreign Banking Organizations, and Large Insured Depository Institutions* (June 5, 2024), *available at* https://bpi.com/wp-content/uploads/2024/06/BPI-Long-Term-Debt-Supplemental-Comment-June-5-2024-as-submitted-4873-1134-0485-v1-1.pdf.

would be a new proposal.[33]

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If you have any questions, please contact Sarah Flowers, Senior Vice President and Head of Capital Advocacy, Bank Policy Institute by email at [redacted].

Respectfully submitted,

[redacted]

Sarah Flowers
Senior Vice President
Head of Capital Advocacy
Bank Policy Institute

[33] *See*, *e.g.*, Federal Deposit Insurance Corporation, *Unsafe and Unsound Banking Practices: Brokered Deposits Restrictions; Guidelines Establishing Standards for Corporate Governance and Risk Management for Covered Institutions With Total Consolidated Assets of $10 Billion or More; Regulations Implementing the Change in Bank Control Act; Withdrawal*, 90 Fed. Reg. 12,115 (Mar. 14, 2025); Securities and Exchange Commission, *Withdrawal of Proposed Regulatory Actions*, 90 Fed. Reg. 25,531 (June 17, 2025).

Appendix

Below are select, non-exhaustive additional recommendations to enhance the functioning of the capital framework across business cycles and facilitate U.S. Treasury market intermediation, which should be considered in connection with future rulemakings.

- *GSIB surcharge*: Significant revisions to the GSIB surcharge and the associated systemic indicators are required. For example, Method 2, which is not part of the Basel framework, uses fixed coefficients that over time result in increased scores and surcharges as a result of economic growth and over-weights short-term wholesale funding in the calculation.[34] As implemented in the United States, the Method 1 calculation for underwriting activity and trading volumes is not currently consistent with the Basel framework.[35] The calibration of U.S. Treasuries in the weighted short-term wholesale funding systemic indicator—particularly cleared U.S. Treasuries—can unduly limit bank participation in U.S. Treasury markets.

- *Procyclicality in the capital framework*: Aspects of the regulatory capital framework produce undue procyclicality in times of stress, including the treatment of VaR backtesting exceptions in determining market risk capital requirements.

- *Securities Lending Activities Under a Bankruptcy-Remote Pledge Model*. To enhance market liquidity during periods of stress and improve Treasury market functioning, the Agencies should revise the capital rules so that a borrower does not have an exposure to a securities lender for purposes of calculating risk-weighted assets or total leverage exposure if the borrower uses a bankruptcy-remote pledge model, retains title to the securities, and does not provide rehypothecation rights with respect to the collateral.

- *Global market shock*. The overall calibration of the global market shock ("GMS"), as well as the scope of GMS firms, should be revisited, including given the effects of the GMS on U.S. Treasury market intermediation.

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[34] Sean Campbell, Francisco Covas and Guowei Zhang, *The Federal Reserve Should Revise the U.S. GSIB Surcharge Methodology to Reflect Real Risks and Support the Economy* (Oct. 11, 2023), *available at* https://bpi.com/the-federal-reserve-should-revise-the-u-s-gsib-surcharge-methodology-to-reflect-real-risks-and-support-the-economy/; Francisco Covas and Brett Waxman, *GSIB Method 2 Fixed Coefficients Must Be Adjusted for Economic Growth* (Dec. 4, 2020), *available at* https://bpi.com/gsib-method-2-fixed-coefficients-must-be-adjusted-for-economic-growth/.

[35] Basel Committee on Banking Supervision, *Scope and Definitions – Global Systemically Important Banks*, ¶40.9 (eff. Nov. 9, 2021), *available at* https://www.bis.org/basel_framework/chapter/SCO/40.htm?inforce=20211109&published=20211109.