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The CFA Institute Systemic Risk Council (SRC) responds to the proposals to modify the enhanced Supplementary Leverage Ratio (“eSLR”), Total Loss-Absorbing Capacity (“TLAC”), and long-term debt-related capital requirements for US Global Systemically Important Banks (“GSIBs”) and their Insured Depository Institution subsidiaries (“IDIs”). See our full response attached.

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Department of the Treasury
Office of the Comptroller of the Currency
Docket ID OCC—2025-0006
RIN 1557-AF31

Federal Reserve System
Docket No. R-1867
RIN 7100-AG96

Federal Deposit Insurance Corporation
RIN 3064-AG11

Submitted via publiccomments@frb.gov, comments@FDIC.gov, and <https://regulations.gov>

August 25, 2025

Regulatory Capital Rule: Modifications to the Enhanced Supplementary Leverage Ratio Standards for US Global Systemically Important Bank Holding Companies and Their Subsidiary Depository Institutions; Total Loss-Absorbing Capacity and Long-Term Debt Requirements for US Global Systemically Important Bank Holding Companies

Dear Vice Chair Bowman, Acting Comptroller Hood, and Acting Chairman Hill:

The Systemic Risk Council (“the Council”)¹ appreciates the opportunity to respond to the recent rulemaking proposal to modify the enhanced Supplementary Leverage Ratio (“eSLR”)², Total Loss-Absorbing Capacity (“TLAC”), and long-term debt-related capital requirements for US Global Systemically Important Banks (“GSIBs”) and their Insured Depository Institution subsidiaries (“IDIs”).³

¹ CFA Institute Systemic Risk Council (CFA Institute SRC) is a private sector, non-partisan body of former government officials and financial and legal experts committed to addressing regulatory and structural issues relating to global systemic risk, with a particular focus on the United States and Europe. It has been formed to provide a strong, independent voice for reforms that are necessary to protect the public from financial instability. Its goal is to help ensure a financial system in which we can all have confidence.

² Please note that we use “SLR” to refer to the enhanced supplementary leverage ratio as well as the supplementary leverage ratio throughout this letter.

³ The full proposal is available here: <https://www.federalreserve.gov/aboutthefed/boardmeetings/files/fm-leverage-ratio-20250625.pdf>. Page number references throughout this letter refer to the Federal Reserve version of the release.

We are writing to strongly oppose the proposed changes, which we believe will add significant risk to the US banking system and deplete anti-crisis safeguards without any documented corresponding benefit to the real economy. Further, we seriously doubt that the stated rationales have a sound empirical basis. We also find it unconvincing to argue that the SLR functions as an improper constraint or a barrier to liquidity in the US Treasury (“UST”) market.

I. Executive Summary

We urge the Agencies to withdraw this proposal for the reasons discussed here. Failing that, the Agencies must repropose the changes in the context of all contemplated changes to the capital rules in the US. Further, such reproposal must address the gaps in data and analysis highlighted in the letter below. Specifically, we would like to draw your attention to the following:

- The SLR was designed to address well-established shortcomings of the risk based capital regime, which played heavily into financial crises in 2008 and 2010.
- The Agencies’ analysis lacks any credible estimate of how much capital could potentially leave the US banking system (through distribution to shareholders) or an analysis of the corresponding risks and costs from a decline in loss-absorbing capital.
- The Agencies fail to consider (or even mention) the broader deregulatory context in which they are making this proposal. They explicitly rely on other existing rules to rationalize this proposal while simultaneously contemplating weakening (or even abolishing) those same rules.
- Two important stated rationales are factually incorrect:
 - First, the SLR was intended as a backstop to complement the risk-based capital rules, and
 - Second, US capital regulations do not aim to reduce government interest costs. The Agencies have provided no credible evidence that the existing leverage ratio is interfering with the smooth functioning of the US Treasury market.
- Dramatic steps to reduce capital buffers should be reserved exclusively for macroeconomic emergencies and/or periods of extreme market stress.

The Agencies carefully calibrated current bank capital requirements, including the SLR, when they were originally imposed on the heels of the Great Financial Crisis.⁴ Numerous studies conducted since then show that banks with relatively low leverage levels do a better job of lending through the cycle and that at current levels, capital requirements provide benefits to financial stability that outweigh any incremental impact on lending.⁵

⁴ See “Regulatory Capital Rules: Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards for Certain Bank Holding Companies and Their Subsidiary Insured Depository Institutions” Proposed by *the Comptroller of the Currency, the Federal Reserve System, and the Federal Deposit Insurance Corporation* (Aug 20, 2013). Available at: <https://www.federalregister.gov/d/2013-20143/p-68>

⁵ See, for example, Barth and Miller, “Benefits and Costs of a Higher Bank Leverage Ratio” *Mercatus Center: George Mason University* (2017). Available at: <https://www.mercatus.org/system/files/barth-leverage-ratio-mercatus-working-paper-v1.pdf>

The Council feels strongly that weakening the SLR, TLAC, and long-term debt requirements is unwarranted and would undermine the safety and soundness of the US banking system.

II. Background

Prudential rules work to protect Americans and the economy from the worst outcomes in a financial crisis. Leverage limitations are a longstanding regulatory failsafe in the US dating back to the creation of the FDIC in 1933, when it required state-chartered banks to have loss-absorbing equity capital equal to at least 10% of deposits.⁶ Leverage is critical to understanding and measuring risk in the financial system. Not only is it a key metric of firm-level risk (i.e., a highly levered firm will fail faster), it is also a primary conduit for the transmission of risk throughout the financial system (i.e., a higher levered firm with more counterparties will spread failure further and faster).

The current SLR was implemented in 2014 as part of the Basel III standards in the wake of the Great Financial Crisis, in which nearly 10 million US families lost their homes and over \$10 trillion in household net worth was destroyed in a matter of months. It measures a bank's Tier 1 capital relative to its total leverage (i.e., the full extent of liabilities), including certain off-balance sheet transactions. At the holding company level, the eight US GSIBs are subject to the enhanced SLR, which is a 2% buffer on top of the 3% SLR that applies to all banks. Further, the insured depository institutions ("IDIs") that are subsidiaries of GSIBs are subject to a 6% enhanced SLR.⁷ These work alongside the risk-based capital ("RBC") rules and other capital requirements to form a key pillar of prudential regulation in the US.

The Agencies' proposal would replace the 2% additional buffer for GSIB holding companies with one equal to 50% of the GSIB surcharge calculated under Method 1. This method scores a GSIB based on the weighted sum of five systemic indicators: size, interconnectedness, complexity, cross-jurisdictional activity, and substitutability. Based on the analysis put forward in the proposal, the average holding company SLR would fall from 5% to 3.85%. In other words, the 2% enhanced buffer would be reduced, on average, to approximately 0.85%.⁸

The proposal would also replace the 6% enhanced SLR for IDI subsidiaries with a 3% SLR and a buffer equal to that of the holding company, i.e., 50% of the GSIB surcharge calculated under Method 1. This would effectively align the SLR at the IDI level with that of the holding company; however, the impact would be far greater, reducing the requirement from 6% to 3.84%.

⁶ Scott and Labonte, "Bank Capital Requirements: A Primer and Policy Issues" *Congressional Research Service* (March 9, 2023). Available at: <https://www.congress.gov/crs-product/R47447>.

⁷ Tapial, Leung and Hamandi, "Banks' Supplementary Leverage Ratio" *Office of Financial Research: The OFR Blog* (August 2, 2024). Available at: <https://www.financialresearch.gov/the-ofr-blog/2024/08/02/banks-supplementary-leverage-ratio/>

⁸ See Table 6 of the proposal showing an average 23% reduction from the current 5% SLR at the holding company level and an average 36% reduction from the current 6% SLR at the IDI level.

The Agencies also propose to reduce the TLAC buffer to match the SLR buffer at the holding company and the IDI, again, 50% of the GSIB surcharge calculated under Method 1. The current TLAC requirement applies to GSIB holding companies and comprises a 7.5% requirement plus a 2% buffer. The proposal would change the 2% buffer to approximately 0.85% and estimates an average 5% reduction in TLAC requirements overall.

Finally, the Agencies propose to reduce the long-term debt requirement for GSIB holding companies from 4.5% to 2.5%. The 4.5% level was set with reference to the “capital refill framework” based on the 5% SLR and the amount of long-term debt required to recapitalize the GSIB.

III. Risk-Based Capital Rules are Not Enough.

The RBCRs suffer from several well-documented shortcomings:

- (1) They are static and generally backward-looking assessments of risk.⁹
- (2) They introduce misperceptions of risk from regulators or firm management, which may be affected by moral hazard.
- (3) They create artificial incentives to hold lower-risk-weighted assets, which, in turn, may lead to “crowded trades” and correlated holdings among banks.

Specifically, the risk-based capital rules assign a 0% risk to UST holdings and repo transactions. While the relative risk of these products may be low, the scale of the transactions and of the market make the absolute risk highly significant at both the firm level and to the financial system as a whole. Furthermore, in times of stress both have shown volatility, indicating much greater risk.

The fact that the risk-based capital requirements exclude them entirely has two important consequences: (1) it obscures leverage that does, in fact, carry meaningful risk; and (2) it creates an incentive to direct capital to these transactions because they can generate returns without generating a capital charge.

The SLR mitigates these problems because it captures some off-balance sheet exposures and is agnostic to relative risk in a way that does not invite gaming or create “favored assets”. As the Fed recognized in its 2020 release, the SLR “protects against an underestimation of risk both by banking organizations and by the risk-based capital requirements.”¹⁰

⁹ See, the Systemic Risk Council letter to The Honorable Ben Bernanke, et. al., “Re: Regulatory Capital Rules: Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards for Certain Bank Holding Companies and Their Subsidiary Insured Depository Institutions” (October 15, 2013). Available at: <https://systemicrisk.wpengine.com/wp-content/uploads/2013/10/Final-SRC-Comment-Letter-re-Leverage-Ratio-10-15-13.pdf>.

¹⁰ Board of Governors of the Federal Reserve System “Temporary Exclusion of U.S. Treasury Securities and Deposits at Federal Reserve Banks From the Supplementary Leverage Ratio” *Federal Register* Vol. 85, No. 72 (April 14, 2020). Available at: <https://www.federalregister.gov/documents/2020/04/14/2020-07345/temporary-exclusion-of-us-treasury-securities-and-deposits-at-federal-reserve-banks-from-the>

The Agencies' proposal undermines the SLR's risk-agnosticism by introducing the risk-sensitive GSIB surcharge into the calculation. Three of four proposed alternatives lean into the "favored assets" problem of the RBCR by excluding UST from the calculation of the SLR, either in part or entirely.

Past financial crises demonstrate that risk-based capital rules alone are insufficient.

Risk-based rules helped fuel the Great Financial Crisis of 2008 by incentivizing exposure to mortgaged-backed securities ("MBS") and derivatives. Before 2008, the risk-based rules assigned highly rated MBS a 20% risk weighting. Many institutions identified MBS as having greater returns than other assets with the 20% risk weighting, incentivizing them to build greater exposure to MBS than they otherwise would have. The result was both artificially inflated demand and correlated losses across the financial system when the MBS failed. The risk-based rules introduced static and incomplete perceptions of risk, generating significant systemic risk that metastasized into a crisis. The SLR is, by design, agnostic to risk in order to mitigate and counteract these weaknesses in the risk-based rules.

Risk-based rules exacerbated the Eurozone sovereign debt crisis of the 2010s by treating government debt as risk-free, thereby incentivizing some banks subject to the rules to build their exposure. Here again, the risk-based capital rules incentivized exposure to a specific type of asset above and beyond what a firm's internal risk models might have supported. In this case, it created a negative feedback loop of failure between European governments and the financial sector exposed to their debt, which some referred to as the "doom loop" or a "deadly embrace" between banks and governments. Again, the SLR alleviates some of these risks and shortcomings by providing an overarching limit on leverage regardless of the assessment or perception of risk.

Silicon Valley Bank demonstrates the significance of interest rate risk to UST holdings on bank balance sheets. Silicon Valley Bank ("SVB") had built up a large exposure to long-dated treasuries, designated as "held to maturity" (i.e., they did not have to mark to market). When the FOMC raised the federal funds target rate by more than 4% over a single year in response to spiking inflation, the value of SVB's treasury holdings fell precipitously. News of these unrealized losses spread quickly among SVB's clients, leading to rapid withdrawals, forcing the bank to lock in those losses, further fueling the run on the bank and its ultimate failure.¹¹ Among other things, the SVB example illustrates the risk embedded in UST holdings.

¹¹ Neely and Neely, "Interest Rate Risk, Bank Runs and Silicon Valley Bank" *Federal Reserve Bank of St. Louis* (May 11, 2023). Available at: <https://www.stlouisfed.org/publications/regional-economist/2023/may/interest-rate-risk-bank-runs>

IV. The Agencies failed to discuss a plausible range of scenarios and almost certainly underestimate potential capital distributions under the proposed changes.

The proposal estimates that the SLR reduction would reduce the tier 1 capital requirements of the GSIBs by only \$13 billion and considers that amount potentially available for distribution. It expects that the \$213 billion reduction in capital requirements at the IDI level would remain within the banking organization.¹² This fails to consider, however, that the holding companies are likely to re-optimize their asset mix to maximize potential payouts.

As the proposal points out, banking organizations have reduced their risk-weighted asset densities over the past decade. In other words, they've shifted their overall asset mix towards low- or no-risk weighted assets. To illustrate, “[f]rom 2015 to 2024, the aggregate total consolidated assets of GSIBs grew by almost 50 percent, from \$10.5 trillion to \$15.5 trillion, while their average risk-weighted asset density declined from 58 percent to about 45 percent.”¹³ That is to say, GSIBs substantially grew their total leverage while *at the same time* reducing the amount of capital they were required to maintain under the RBC rules.

Reducing the SLR would further incentivize this reduction in risk-weighted asset density because it would increase the ability to distribute capital. While the proposal recognizes that the GSIB could distribute equity capital and replace it with new debt while keeping their balance sheet size and tier 1 ratios the same,¹⁴ just a page later,¹⁵ the proposal fails to consider that the GSIBs could treat the capital released from the IDI in the same manner. Instead, it suggests that capital could be used for “financing activities at other subsidiaries [or] paying down external debt.”¹⁶ However, there is precedent for expecting the GSIBs to distribute money to shareholders: nearly all GSIBs increased payouts after the most recent stress tests yielded capital requirement reductions.¹⁷

Any reasonable attempt at a cost-benefit analysis must include an upper and lower bound of potential shareholder payouts – in other words, capital leaving the US banking system – along with the increased risk and potential costs of failure within the US banking system.

¹² See the proposal at page 83. “[I]n the case that these depository institutions increase their leverage by distributing some of their equity capital and replacing it with new debt, most of this capital would be distributed to their parent companies and thus remain within GSIBs, which could not make large distributions to external shareholders because the proposal would reduce their tier 1 capital requirement only slightly.”

¹³ See the proposal at page 82, Footnote 97.

¹⁴ See the proposal at page 82.

¹⁵ See the proposal at page 83.

¹⁶ See the proposal at page 83.

¹⁷ Franklin and Quinio. “US Banks Announce Big Shareholder Payouts as Fed Eases Stress Tests.” Financial Times, July 1, 2025. Available at: <https://www.ft.com/content/081f8752-8022-4c02-9d85-cea6a133ac8f>.

V. The Agencies explicitly rely on other capital rules to mitigate the costs of this proposal while planning to weaken those same rules.

The Agencies fail to address their own contemplated changes to the RBC rules and the rest of the capital framework for large banks. In fact, throughout the economic analysis, the Agencies explicitly rely on the current regulatory framework to mitigate the risks and costs generated by this proposal. For example,

“All else equal, a reduction in required capital increases the size and likelihood of losses shifting from shareholders to creditors and the Deposit Insurance Fund in the event of failure. Such losses may lead to additional spillovers and costs. However, insured depository institution subsidiaries of GSIBs *would continue to be subject to heightened supervisory and regulatory standards, robust capital and leverage requirements, and resolution planning requirements*. The agencies believe that these requirements would appropriately mitigate such risks.”¹⁸

However, the Agencies are also contemplating changes to *each part* of the bank capital framework, including the risk-based capital requirements, leverage requirements, the surcharge, and stress testing. As Chair Powell pointed out at a recent conference,

it is of “great benefit ... to consider all elements of the capital framework in concert, rather than look at each in isolation. We need to ensure that all the different pieces of the capital framework work together effectively. Doing so will help maintain a safe, sound, and efficient banking system, for the benefit of the people we serve.”¹⁹

If the Agencies believe the US banking system is overcapitalized, that should be the explicit subject of the debate and analysis within the various proposals to change the capital framework. Further, those proposals should consider how such a reduction in capital might affect the likelihood of failure among US banks and bank holding companies, the magnitude of failure, the costs to the FDIC or other banks, the systemic impact given the interconnectedness of the GSIBs, and the impact on credit availability. A robust cost-benefit analysis must be conducted, considering all contemplated changes together, along with their likely impact on the safety and soundness of the US financial system. At a minimum, these changes should be proposed with a cost-benefit analysis that does not explicitly rely on rules and standards that are in the process of being changed.

¹⁸ See the proposal at page 84, emphasis added.

¹⁹ Chairman of the Federal Reserve Jerome Powell, Opening Remarks at Integrated Review of the Capital Framework for Large Banks Conference, “A great benefit of this conference is the chance to consider all elements of the capital framework in concert, rather than look at each in isolation. We need to ensure that all the different pieces of the capital framework work together effectively. Doing so will help maintain a safe, sound, and efficient banking system, for the benefit of the people we serve.” Available at: <https://www.federalreserve.gov/newsevents/speech/files/powell20250722a.pdf>

VI. The primary rationale that SLR should not be a binding constraint does not make sense.

The primary stated rationale for these proposed changes is that the SLR is calibrated “too high” and is too often a binding constraint when it was intended as only a backstop, and further, that when it is binding, it discourages low-risk activities. The problems with this rationale are numerous:

- 1) Recent reporting and market research suggest that the SLR is not, in fact, binding on GSIBs today.
- 2) The authors acknowledge that banks dramatically increased their UST exposure, which “increased [the] bindingness”²⁰ of the SLR. Yet, they fail to recognize how that pattern will likely repeat until the SLR is again binding ... and we are presented with the exact same issues.
- 3) The SLR was *not* intended to be only a backstop; it was explicitly intended to complement the risk-based rules.
- 4) Even if the SLR was intended as a backstop, the notion that it should be moved because it functions as intended is inconsistent with sensible regulation.

First, there are several indicators that the RBC rules are more often the binding tier 1 capital requirement for GSIBs. The proposal states that, from Q2 2021 to Q4 2024, the SLR “was the binding tier 1 capital requirement 60% of the time, on average, for seven out of the eight GSIBs.”²¹ However, the results of the most recent stress tests led to a 1.8% decline in required CET1,²² which drove a boost in dividend payouts and share buybacks.²³ This would suggest the SLR was not binding on those banks. Additionally, recent market research indicated that only one large-cap US bank in its universe was constrained by the SLR buffer and that banks were running 50-270 bps above their SLR minimums on average.²⁴ While not mutually exclusive, it is unclear how to reconcile these sources with the assertions in the proposal.

Second, the proposal acknowledges that the SLR is more frequently binding today in part because banks optimized their asset allocation under the rules and increased exposure to 0% risk-weight assets, i.e., UST. Yet, the proposal fails to take the next logical step and recognize that market actors will respond dynamically to these changes and will likely re-optimize their balance sheets, further increasing the allocation to 0% or low-risk-weighted assets until the SLR becomes binding

²⁰ See the proposal at page 57.

²¹ See the proposal at page 46.

²² Board of Governors of the Federal Reserve System. “Federal Reserve Board’s Annual Bank Stress Test Showed That Large Banks Are Well Positioned to Weather a Severe Recession, While Staying above Minimum Capital Requirements and Continuing to Lend to Households and Businesses.” Press release, June 27, 2025. Federal Reserve. Available at: <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250627b.htm>

²³ Franklin and Quinio. “US Banks Announce Big Shareholder Payouts as Fed Eases Stress Tests.” Financial Times, July 1, 2025. Available at: <https://www.ft.com/content/081f8752-8022-4c02-9d85-cea6a133ac8f>

²⁴ “US Banks: A New Era for Bank Regulation” *Morgan Stanley Research* (March 9, 2025).

again. Per the logic of this proposal, the answer in that future scenario would be to move the limit again. And again.

Third, despite repeated claims in the proposal that the SLR was only ever intended as a “backstop” to the RBC rules, the 2014 adopting release for the SLR revisions explicitly stated that the SLR and the RBC rules should be complementary.²⁵ The SLR was *not* intended solely as a backstop. The SLR must be allowed to function alongside the RBC rules because of the optimization described above. As discussed above, the SLR addresses critical weaknesses in the RBC rules, including their ability to get the risk-weights wrong (e.g., assigning a low-risk weight to mortgage-backed securities in 2007).

Finally, backstop or not, the notion that a regulatory limit must be moved because it is working (as a limit) renders the whole idea of regulatory limits meaningless.

The entire first rationale, then, rests on its assertion that the SLR is creating a negative bias against low-risk activities like US Treasury market intermediation. Yet this too fails. As the proposal points out, IDIs have more than doubled their exposure to UST relative to their total assets in the last decade – i.e., under the existing SLR.²⁶ Primary dealers also more than doubled their UST exposure in absolute terms (a 155% increase versus only a 29% increase in the total assets of the primary dealers).²⁷ Far from preventing low-risk activities like UST market intermediation, the SLR has accommodated significant growth in those segments of banks’ balance sheets. If the Agencies believe the US GIBs are over-allocating to high-risk activities, that should be the subject of this proposal.

VII. The Agencies fail to clearly state a problem with UST intermediation but appear focused on bolstering demand for UST.

This brings us to the second rationale: that reducing the bindingness of the SLR could improve the functioning of financial markets and of the UST market in particular. The proposal identifies two primary functions of banking organizations in the UST market: as intermediaries and as investors. The bank’s broker-dealer subsidiaries perform the lion’s share of intermediation and hold most of the UST held as trading assets. In contrast, the IDIs hold most of the UST as investment securities.

²⁵ Federal Reserve; Federal Deposit Insurance Corporation; Office of the Comptroller of the Currency. “Regulatory Capital Rules; Regulatory Capital Revisions to the Supplementary Leverage Ratio.” Federal Register 79, no. 186 (September 26, 2014): p57727, 57729. Available at: <https://www.federalregister.gov/d/2014-22083/p-22>.

“Regardless of which framework is binding, banking organizations could potentially increase their holdings of assets whose risks are not adequately addressed by the binding framework. In this regard, the agencies note the importance of the complementary nature of the two frameworks in counterbalancing such incentives. Moreover, the agencies observe that banking organizations choose their asset mix based on a variety of factors, including yields available relative to the overall cost of funds, the need to preserve financial flexibility and liquidity, revenue generation and the maintenance of market share and business relationships, and the likelihood that principal will be repaid, in addition to regulatory capital considerations.”

²⁶ See the proposal at page 61-62, Table 6.

²⁷ See the proposal at page 49, Table 2.

Reducing the SLR would *permit* both broker-dealers and IDIs to hold more UST, which is supposed to facilitate intermediation. Again, there are several problems with this rationale.

- 1) The proposal offers no basis for expecting that new balance sheet capacity will be directed towards UST market intermediation instead of higher-yielding activities with low-risk weights like lending through a prime brokerage.
- 2) Expanding IDI capacity for UST exposure appears geared at bolstering demand for UST without considering risks related to creating a “sovereign subsidy” or manipulating the reference rate for a broad range of financial products. Again, we would stress that the purpose of bank capital rules is to protect the US banking system rather than help finance budget deficits.
- 3) The analysis of broker-dealer balance sheet capacity ignores the impact of netting under new treasury clearing requirements, which may reduce or even obviate the need for additional capacity at broker dealers.
- 4) The discussion of the UST exclusion during the COVID crisis ignores the fact that by providing capital flexibility now, it will not be available in the event of another genuine emergency.

First, a central benefit of the proposal – that it will support UST market intermediation – depends on the unsupported assumption that GSIBs and their IDIs will allocate a substantial portion of their newfound balance-sheet capacity towards that activity. UST exposure might typically be expected to offer a ~4% rate of return while banks might be trying to meet an internal hurdle rate of closer to 12%.²⁸ The prime brokerages of the GSIBs, on the other hand, have been major growth drivers for the firms.²⁹ Hedge fund borrowing in particular has more than doubled over the last decade³⁰ and typically is not captured by the RBC rules.³¹ A far more reasonable assumption, then, would be to expect a large portion of the balance sheet capacity created by the proposal to be directed to lending to hedge funds through the GSIBs’ prime brokerages.

Insofar as *this* is the intermediation activity that the proposal does anticipate, it failed to fulfil its obligation to consider the attendant costs and benefits of such activity. The Agencies must analyze and consider the risks associated with the relationships between GSIBs’ prime brokerages and their clients. Recent research shows that prime brokerages have a range of vulnerabilities related to their hedge fund lending, including wrong-way risk, a lack of visibility into their counterparties, and poor risk management by their counterparties.³²

²⁸ We may infer a typical internal hurdle rate from the publicly disclosed return on equity targets and typical cost of equity.

²⁹ Rupak Ghose, “Hedge funds > private equity: Wall Street has a new captain” *Financial Times*, (May 2, 2025). Available at: <https://www.ft.com/content/9777f1b2-fc62-4f62-aad0-f0e3022a22f3>

³⁰ “Hedge Fund Monitor” *Office of Financial Research*. Available at: <https://www.financialresearch.gov/hedge-fund-monitor/categories/leverage/chart-23/>.

³¹ The RBC rules generally do not capture repo transactions that typically accounted for are off balance sheet.

³² Cohen, Kiarrelly Godoy de Araujo, Tracol, “The prime broker–hedge fund nexus: recent evolution and implications for bank risks” *Bank for International Settlements*, (March 4, 2024). Available at: https://www.bis.org/publ/qtrpdf/r_qt2403y.htm

Second, the largest implied benefit of adding approximately \$1.1 trillion in balance sheet capacity (or more in the case of the Alternatives) is bolstering demand for UST at a time of expected heightened issuance. Regulators assigning a low/zero risk to their own debt has led to considerable risk in the past³³ and may create a “sovereign subsidy”.³⁴ Additionally, USTs provide the reference rate for countless financial products including mortgage-backed securities, corporate debt and municipal bonds. UST rates are also treated as the “risk free rate” in most financial models. Manipulating demand and therefore rates on UST could have knock on effects for the broader economy far beyond what is contemplated in the proposal.

Furthermore, deploying the bank capital rules is at odds with the stated purpose of bank legislation and regulation which generally works to protect US citizens and the financial system from bank failure. We question whether it is prudent or legal to use the bank capital rules to support the market for US government debt. We note that the Federal Reserve has declined to lower interest rates due to concerns about inflation. Yet this proposal would appear to pursue the same end – lowering borrowing costs – through regulatory policy rather than monetary policy.

Third, the analysis of primary dealer capacity to hold UST appears to ignore other regulatory changes currently being implemented. According to the proposal, the changes would yield \$2.1 trillion of additional capacity for holding UST at GSIBs’ broker dealer subsidiaries. It is unclear if or how the analysis considers the impact of the treasury clearing requirements. Recent research estimates that the balance-sheet netting benefits of those requirements could provide up to \$700 billion of balance sheet capacity for primary dealers.³⁵ Furthermore, the proposal does not refer to the CBO estimates of \$49.6 trillion UST outstanding in 2034. If the broker dealer subsidiaries maintained their relative exposure of 2.5% of UST outstanding as they have over their past decade, they would only need to maintain a \$1 trillion UST exposure. This is only approximately \$400 billion of additional exposure. Thus the proposal provides GSIBs far more opportunity for leverage that would be necessary to maintain the intermediation functioning of their broker dealer subsidiaries.

Finally, insofar as the cited research on the impact of the Covid measures is accurate, the proposal fails to recognize that by deploying the capital cushion in a period of relative market strength it will be unavailable in the event of a crisis. As discussed above, market actors are likely to respond to these changes dynamically. There is no reason to expect that they will preserve this balance sheet capacity to use in case of a market emergency. That is precisely the role of prudential regulation.

³³ See discussion of the Eurozone sovereign debt crisis in Section II above.

³⁴ Steffen, Sascha. “A ‘Sovereign Subsidy’ – Zero Risk Weights and Sovereign Risk Spillovers.” VoxEU.org, September 7, 2014. Available at: <https://cepr.org/voxeu/columns/sovereign-subsidy-zero-risk-weights-and-sovereign-risk-spillovers>

³⁵ Liang, Nellie, and Haoxiang Zhu. “Clearing the Path for Treasury Market Resilience.” Brookings, July 29, 2025. Available at: <https://www.brookings.edu/articles/clearing-the-path-for-treasury-market-resilience/>.

Conclusion

In closing, the core rationales for this proposal do not hold water and the proposal fails to adequately consider, estimate or analyze significant costs and risks associated with the proposed changes.

We believe the most prudent course of action would be to withdraw the proposal. Failing that, we believe the agencies must repropose the changes contemplated here alongside a full consideration of other pending changes to the capital framework for US banks. Further, such reproposal should also include a consideration of the risks and data overlooked by the original proposal, including those highlighted in this letter.

The Council appreciates this opportunity to share its views on the proposal and would welcome any follow-up conversation that might be helpful.

Sincerely,

Simon Johnson

Erkki Liikanen

Co-Chair,

Co-Chair

Note: The views expressed herein represent the collective views of the SRC and not all members may agree with all aspects of this comment letter.

Members of the CFA Institute Systemic Risk Council

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SRC Co-Chair, 2024 Nobel Prize laureate in Economics and former IMF Chief Economist

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