August 26, 2025

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

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

Jennifer M. Jones, Deputy Executive Secretary
Attention: Comments/Legal OES (RIN 3064-AG11)
Federal Deposit Insurance Corporation
550 17th Street NW
Washington DC 20429

VIA EMAIL AND ELECTRONIC PORTAL

Re.: *Docket ID OCC-2025-0006; Docket No. R-1867 and RIN 7100-AG96; RIN 3064-AG11 Regulatory Capital Rule: Modifications to the Enhanced Supplementary Leverage Ratio*

Dear Sir or Madam:

The Committee on Capital Markets Regulation (the "Committee") offers these comments to the Board of Governors of the Federal Reserve System, the Office of the Comptroller of the Currency, and the Federal Deposit Insurance Corporation (the "Agencies") on their proposed rule entitled "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" (the "Proposal").[1]

Founded in 2006, the Committee is dedicated to enhancing the competitiveness of U.S. capital markets and ensuring the stability of the U.S. financial system. Our membership includes forty-two leaders drawn from the finance, investment, business, law, accounting, and academic communities. The Committee is chaired jointly by R. Glenn Hubbard (Emeritus Dean, Columbia

[1] DEPARTMENT OF THE TREASURY, OFFICE OF THE COMPTROLLER OF THE CURRENCY, FEDERAL RESERVE SYSTEM, FEDERAL DEPOSIT INSURANCE CORPORATION, *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 (2025), https://www.federalregister.gov/documents/2025/07/10/2025-12787/regulatory-capital-rule-modifications-to-the-enhanced-supplementary-leverage-ratio-standards-for-us [the "Proposal"].

Business School) and John L. Thornton (Former Chairman, The Brookings Institution) and is led by Hal S. Scott (Emeritus Nomura Professor of International Financial Systems at Harvard Law School and President of the Program on International Financial Systems). The Committee is an independent and nonpartisan 501(c)(3) research organization, financed by contributions from individuals, foundations, and corporations.

Our letter proceeds in two parts.

Part I describes how the Proposal would modify the formula for the enhanced supplementary leverage ratio that applies to U.S. GSIBs and their depository institution subsidiaries, giving U.S. GSIBs more balance sheet capacity and flexibility in how they allocate capital across their organizations, without significantly reducing aggregate required capital. It also summarizes the Proposal's corresponding changes to the total loss-absorbing capacity requirements for U.S. GSIBs.

Part II assesses the Proposal's changes and finds that they would likely produce significant benefits for the U.S. financial system and economy. In particular, there is substantial empirical evidence indicating that by increasing U.S. GSIBs' flexibility to allocate capital across their organizations, the Proposal would allow U.S. GSIBs to engage in more intermediation in the U.S. Treasury market, thus increasing the liquidity and stability of the U.S. Treasury market. Furthermore, the Proposal would bring U.S. leverage requirements into closer alignment with Basel standards and the requirements applied by other major jurisdictions, further strengthening U.S. GSIBs' competitive position.

We therefore recommend that the Agencies finalize the Proposal with the additions we specify herein. Furthermore, given the Proposal's potential benefits to the U.S. Treasury market, we recommend that the rule be finalized quickly, with an effective date of January 1, 2026. The Committee also supports additional reforms to the U.S. risk-based capital framework to be addressed in separate proposals, including reforms to stress test requirements, the GSIB capital surcharge, and Basel III Endgame.

I. Summary of Proposal

1. The enhanced supplementary leverage ratio

The enhanced supplementary leverage ratio ("eSLR") requires U.S. global systemically important bank holding companies ("GSIBs") and their insured depository institution subsidiaries to maintain a minimum ratio of "Tier 1" capital to total assets. For holding companies, the minimum ratio is 5% and for each depository institution subsidiary the minimum ratio is 6%. Tier 1 capital consists of equity capital (i.e., common stock, certain preferred stock, and retained earnings) and assets include all balance sheet assets plus certain off-balance sheet exposures (e.g., credit commitments and derivatives exposures). Because the eSLR requires U.S. GSIBs to hold capital against all assets regardless of risk, a U.S. GSIB's eSLR requirement increases even when it acquires assets that have a risk-weighting of zero, including Treasury securities and central bank deposits.

U.S. GSIBs must also comply with the Tier 1 leverage ratio, which requires a minimum 4% ratio of Tier 1 capital to balance sheet assets only. However, because the eSLR is higher and has a larger denominator (since it includes both balance sheet and off-balance sheet exposures), in practice the eSLR always sets the level of a U.S. GSIB's leverage-based capital requirements.

U.S. GSIBs are also subject to a separate "total loss absorbing capacity" ("TLAC") requirement, which requires U.S. GSIBs to issue long-term debt and equity equal to the higher of 18% of risk-weighted assets, or 7.5% of their leverage ratio exposure measure. TLAC is intended to ensure that U.S. GSIBs can absorb losses and be recapitalized in resolution.

U.S. GSIBs and their depository institution subsidiaries must also comply with risk-based capital requirements. In contrast to the leverage requirements, risk-based requirements base minimum capital on the riskiness of a bank's assets, with riskier assets requiring more capital than less risky assets. The eSLR applies in parallel with risk-based capital requirements, meaning that GSIBs must hold enough capital to meet the higher of the eSLR or risk-based requirements. The higher of the two requirements is referred to as the "binding" requirement.

Risk-based requirements are intended to serve as the binding requirements and leverage requirements to serve as a non-binding backstop. As the Agencies previously noted, this is because risk-weighted requirements "individualize bank capital requirements by tying them to the riskiness of a particular bank's assets and off-balance sheet activities" and are thus better suited to serve as the "primary determinant" of a bank's required capital.[2]

However, the eSLR, not the risk-based requirements, is now frequently the binding capital requirement for several U.S. GSIBs.[3] This is primarily a result of the growth in the supply of Treasuries and Fed deposits, which increase a U.S. GSIB's eSLR capital requirements but generally do not impact risk-based requirements. According to one estimate, the eSLR is now commonly the binding capital requirement for at least four of the six largest U.S. GSIBs.[4]

2. The Proposal's modifications to the eSLR

The Agencies observe that when a leverage capital requirement is "calibrated too high and becomes a banking organization's regularly binding capital requirement, it can create incentives for a banking organization to engage in higher-risk activities in search of higher returns and to reduce participation in lower-risk, lower-return activities."[5] As one example, "a binding or near-binding leverage capital requirement can disincentivize bank-affiliated broker-dealers from intermediating in the U.S. Treasury market, which may create problems for the smooth functioning of U.S. Treasury markets and of U.S. financial markets more broadly."[6] The Proposal would therefore modify the eSLR and TLAC leverage formulas in a manner that is intended to make the

[2] OFFICE OF THE COMPTROLLER OF THE CURRENCY, *Risk-Based Capital Guidelines; Final Rule* 54(17) FED. REG. 4168, 4170 (Jan. 27, 1989) https://archives.federalregister.gov/issue_slice/1989/1/27/4131-4201.pdf.

[3] *See, e.g.*, BANK POLICY INSTITUTE, *Empty Promises: Revisiting the Reasons to Fix the Supplementary Leverage Ratio* (July 8, 2024), https://bpi.com/empty-promises-revisiting-the-reasons-to-fix-the-supplementary-leverage-ratio/.

[4] *Id*.

[5] Proposal at 30,783.

[6] BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, *Draft Notice of Proposed Rulemaking to Modify the Enhanced Supplementary Leverage Ratio Standards* (Jun. 17, 2025).

eSLR "serve as a backstop to risk-based capital requirements rather than as a constraint that is frequently binding over time."[7]

Specifically, the Proposal would replace the current 5% minimum eSLR ratio for U.S. GSIB holding companies with a formula equal to 3% plus a buffer of 50% of the U.S. GSIB's Method 1 GSIB surcharge. The Method 1 GSIB surcharge is a component of a U.S. GSIB's risk-based capital requirements that varies from 0% to 3.5% based on the Agencies' assessment of the GSIB's size, interconnectedness, complexity, cross-jurisdictional exposures, and substitutability. Under the new formula a U.S. GSIB's eSLR requirement could vary from 3% (i.e., 3% + 0%) to 4.75% (i.e., 3% + 1.75%), which is lower than the current 5% minimum. However, we recommend that the final rule also cap the new buffer at 2% to ensure the new formula cannot exceed the current calibration.

The Proposal would also replace the 6% minimum eSLR ratio for depository institution subsidiaries with the same formula, thus equalizing the minimum eSLR ratio for the U.S. GSIB's holding company and its depository institution subsidiaries. The Proposal would also make corresponding adjustments to the TLAC leverage requirement for U.S. GSIBs, replacing the current fixed 2% TLAC leverage buffer with a variable buffer equal to a U.S. GSIB's new eSLR standard (i.e., 50% of its Method 1 GSIB surcharge), resulting in a lower TLAC leverage buffer of between 0% and 1.75%.

The Proposal estimates that these changes would reduce aggregate Tier 1 capital requirements by $13 billion for U.S. GSIB holding companies, a 1.4 percent reduction from current levels, and by $210 billion for U.S. GSIBs' depository institution subsidiaries, a 23% reduction from current levels.[8] However, because the holding company requirement is only being reduced moderately, U.S. GSIBs would need to retain almost all of the depository institution capital within the broader GSIB organization. The primary effect of the modification will therefore not be to reduce overall capital levels for U.S. GSIBs, but rather to allow U.S. GSIBs greater flexibility in allocating capital across their subsidiaries.

II. Analysis of Proposal

Section II analyzes the effect of the Proposal on the U.S. financial system and economy. We find that the Proposal is likely to increase the resiliency of U.S Treasury markets, bring U.S. requirements closer into alignment with international standards, and maintain the stability of the banking system. We therefore recommend that the Proposal be finalized.

1. The Proposal would allow banks to increase Treasury markets activity.

U.S. GSIBs play a central role in the U.S. Treasury market through their broker-dealer subsidiaries, many of which serve as primary dealers—firms authorized to transact directly with the Federal Reserve in Treasury operations. These broker-dealers engage in intermediation by buying and selling Treasury securities, including facilitating trades for clients, warehousing inventory, and making markets by standing ready to buy or sell at posted prices. This activity ensures continuous

[7] Proposal at 30,784.
[8] *Id*. at Part IV.

market liquidity, narrows bid-ask spreads and promotes efficient price discovery—making intermediation vital to the stability and resilience of the Treasury market.

When markets are under stress, robust dealer intermediation helps absorb imbalances between buyers and sellers. However, intermediation requires that a U.S. GSIB has sufficient capacity to acquire more assets (i.e., expand its balance sheet). Because the eSLR is calculated on total exposure regardless of asset risk, holding more Treasuries increases a U.S. GSIB's leverage denominator, which may discourage intermediation if capital costs outweigh returns. As a result, if the eSLR is binding it can reduce U.S. GSIBs' dealer subsidiaries' capacity to intermediate in times of heightened demand, contributing to Treasury market volatility and impairing the market's functioning during stress periods. As the eSLR has grown more binding, U.S. GSIBs have scaled back their Treasury markets intermediation activities.[9]

Academic research indicates that reducing the eSLR and thereby expanding U.S. GSIBs' balance sheet capacity will allow U.S. GSIBs to increase Treasury markets intermediation and thereby increase the resiliency of Treasury markets, especially during times of market stress.

Bräuning & Stein (2025) examined the impact of the temporary exemption of Treasuries from the SLR and eSLR that occurred in 2020 during the COVID crisis. The exclusion allowed banks to acquire Treasuries without increasing the amount of capital required under leverage requirements. The analysis concludes that the exemptions "succeeded in increasing Treasury trading activity" especially among banks that had been more constrained by leverage restrictions.[10]

Favara et al. (2024) examined how leverage requirements affect large banks' capacity to intermediate in the U.S. Treasury market.[11] The analysis examined historical data on credit line drawdowns that unexpectedly increase a bank's balance sheet, and thus also increase a bank's leverage requirements. The analysis found that these balance sheet increases caused banks to reduce their holdings of Treasuries, and that the reduction was larger for banks with lower capital buffers above applicable leverage requirements. The analysis also finds that when the Federal Reserve exempted Treasuries from leverage requirements in 2020, affected banks significantly increased their Treasury positions. These fundings indicate that binding leverage constraints can cause banks to reduce Treasury markets intermediation and suggest that relaxing leverage requirements will allow banks to increase their intermediation activities.

Liang & Zhu (2025) estimate the impact of impending central clearing reforms on intermediation in U.S. Treasury cash and repo markets. Central clearing increases balance sheet capacity for dealers by allowing them to net exposure, thus increasing their ability to transact without being

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[9] Francisco Covas & Felipe Rosa, BANK POLICY INSTITUTE, *Treasury Market Resiliency and Large Banks' Balance Sheet Constraints* (Feb. 6, 2025), https://bpi.com/treasury-market-resiliency-and-large-banks-balance-sheet-constraints/.

[10] Falk Bräuning & Hillary Stein *Evidence That Relaxing Dealers' Risk Constraints Can Make the Treasury Market More Liquid* FEDERAL RESERVE BANK OF BOSTON (2025), https://www.bostonfed.org/publications/current-policy-perspectives/2025/relaxing-dealers-risk-constraints-can-make-treasury-market-liquid.aspx.

[11] Giovanni Favara et al., *Leverage Regulations and Treasury Market Participation: Evidence from Credit Line Drawdowns* FEDERAL RESERVE BOARD (2024), https://papers.ssrn.com/sol3/papers.cfm?abstract_id=4175429.

required to raise more equity capital.[12] Its effect is thus similar to a relaxation of the eSLR. The analysis concludes that the expanded balance sheet capacity afforded by central clearing will enhance dealers' capacity to intermediate in Treasury markets. The authors also conclude that an appropriately calibrated relaxation of the eSLR "is consistent with better capital policy because a moderately reduced SLR requirement is less likely to be the binding regulatory capital constraint and does not lead to a significant reduction in required capital."[13]

The empirical literature therefore indicates that, all else equal, the Proposal would allow U.S. GSIBs to engage in increased low-risk, high volume activities such as Treasury market intermediation, which would increase the resiliency of Treasury markets. However, while lowering the eSLR would expand balance sheet capacity for GSIBs, it is not by itself a comprehensive solution to increasing intermediation in Treasury markets. Banks allocate capital based on a range of market factors—including prevailing interest rates, repo financing costs, and client demand—as well as other regulatory constraints, including risk-based capital requirements, the GSIB surcharge, and liquidity coverage ratios. These factors jointly influence where and how balance sheet resources are deployed. Nevertheless, the Proposal represents a useful first step toward enhancing market-making capacity in Treasuries and should be finalized promptly.

We note as well that the Proposal's approach of lowering the eSLR is likely to be a more effective and neutral way to increase bank balance sheet capacity than exempting specific asset classes, such as Treasuries or central bank reserves, from the denominator. In particular, a reduction in the eSLR maintains a consistent framework for measuring leverage across all asset classes, avoiding the market distortions that can arise when regulators grant preferential treatment to particular types of assets. Exempting all Treasuries would also fail to account for differences in the interest rate risks of longer-dated and shorter-dated Treasury securities, and could thus fail to capture important differences in the risk profiles of large banks' Treasury portfolios. A lower eSLR also preserves greater flexibility in stress periods, as banks are not constrained by the need to hold only exempted assets to manage leverage exposure. Furthermore, an across-the-board eSLR adjustment is simpler to administer and is likely to produce fewer compliance costs. However, we recommend that the final rule clarify that the Agencies have the authority to exclude specific assets and activities, including Treasuries and central bank reserves, from the eSLR denominator on a temporary basis during exigent macroeconomic circumstances, as they did in 2020 in response to the COVID crisis.

2. <u>The Proposal would further strengthen the competitive position of U.S. banks</u>.

The current eSLR framework subjects U.S. GSIBs to leverage requirements that are more stringent than Basel requirements and the frameworks that other major jurisdictions apply. The Basel III framework establishes a minimum leverage ratio requirement for GSIBs of 3% plus 50% of Basel's GSIB surcharge, which is the equivalent of the U.S.'s "Method 1" GSIB surcharge. Furthermore, the Basel standard applies only at the holding company level and does not apply to insured depository institution subsidiaries. Most other major jurisdictions apply only this Basel minimum: The UK, Japan, and the EU all apply leverage frameworks to their GSIBs that are essentially

[12] Nellie Liang & Haoxiang Zhu, *Clearing the Path for Treasury Market Resilience* BROOKINGS INSTITUTION (2025), https://www.brookings.edu/articles/clearing-the-path-for-treasury-market-resilience/.
[13] *Id*.

aligned with the Basel standard, rather than the more stringent approach the U.S. uses now. The Proposal would thus bring the eSLR into closer alignment with the Basel standard and the leverage requirements applied by other major jurisdictions.

3. The Proposal would maintain the stability of the U.S. banking system.

The Proposal estimates that its changes would reduce aggregate Tier 1 capital requirements by $13 billion for U.S. GSIB holding companies, a 1.4 percent reduction from current levels, and by $210 billion for U.S. GSIBs' depository institution subsidiaries, a 23% reduction from current levels.[14] However, the larger reduction in capital at the level of depository institution subsidiaries does not indicate that depository institutions' capital levels will be weakened.

The "source of strength" requirement obligates a U.S. GSIB parent to serve as a financial backstop for its insured depository institution subsidiaries. This means that the parent must provide capital, liquidity, and other support to its subsidiary banks when needed to maintain their financial health and regulatory compliance. This requirement ensures that the parent has the capacity to downstream resources to their depository institution subsidiaries in stress. The obligation is enforced by the Federal Reserve and failure to fulfill the source-of-strength duty can lead to enforcement action, including capital directives and other supervisory measures. Because capital required at the U.S. GSIB holding company level would be only moderately reduced by the Proposal, the U.S. GSIB must retain the majority of the freed-up depository institution capital within the GSIB organization. The U.S. GSIB holding company will therefore be just as well positioned to serve as a source of strength for the subsidiary.

4. Conclusion

For the foregoing reasons, we recommend that the Agencies finalize the Proposal with the additions we specify herein. Furthermore, given the Proposal's potential benefits to the U.S. Treasury market, we recommend that the rule be finalized quickly, with an effective date of January 1, 2026. In future, the Agencies should revisit the more fundamental question of whether the development of more accurate risk-sensitive capital standards could allow regulators to replace non-risk-based measures like the eSLR and TLAC leverage requirements and thus better align required capital with the actual risk profile of a bank's activities. The Committee also supports additional reforms to the U.S. risk-based capital framework to be addressed in separate proposals, including reforms to stress test requirements, the GSIB capital surcharge, and Basel III Endgame.

[14] See note 8 *supra*.

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Thank you very much for your consideration of the Committee's position. Should you have any questions or concerns, please do not hesitate to contact the Committee's President, Professor Hal S. Scott [redacted]) or its Executive Director, John Gulliver [redacted]) at your convenience.

Respectfully submitted,

[redacted] [redacted] [redacted]

John L. Thornton
CO-CHAIR

Hal S. Scott
PRESIDENT

R. Glenn Hubbard
CO-CHAIR