ICBA
One Mission. **Community Banks.**

August 26, 2025

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Board of Governors of the Federal Reserve System
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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 (FRB Docket No. R-1867 and RIN 7100-AG96; Docket ID OCC-2025-0006; FDIC RIN 3064-AG11)

To whom it may concern:

The Independent Community Bankers of America (ICBA)[1] appreciates the opportunity to comment on a proposal jointly issued by the Board of Governors of the Federal Reserve (the Board), the Office of the Comptroller of the Currency (OCC), and the Federal Deposit Insurance Corporation (FDIC) (collectively, the agencies), entitled *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* (NPR or proposal).

[1] The Independent Community Bankers of America® has one mission: to create and promote an environment where community banks flourish. We power the potential of the nation's community banks through effective advocacy, education, and innovation. As local and trusted sources of credit, America's community banks leverage their relationship-based business model and innovative offerings to channel deposits into the neighborhoods they serve, creating jobs, fostering economic prosperity, and fueling their customers' financial goals and dreams. For more information, visit ICBA's website at icba.org.

ICBA opposes this proposal to modify the enhanced supplementary leverage ratio (eSLR) standards for global systemically important bank holding companies (GSIBs) and their subsidiary insured depository institutions (GSIB IDIs). While ICBA supports thoughtful regulatory modernization, this particular proposal fundamentally undermines critical safeguards and creates unacceptable systemic risks that exceed any claimed benefits. The agencies should carefully consider the following:

1. **The proposal, if finalized, increases the systemic risks posed by Too Big to Fail firms**. The proposal would give preferential treatment to the largest institutions and would further entrench the Too Big to Fail status of firms that pose the greatest threats to the financial system. Additionally, the agencies would loosen capital requirements at GSIB IDIs and rely on the GSIBs to serve as a source of strength to their subsidiary IDIs, despite having yet to complete the rulemaking to effectuate this Dodd-Frank requirement. Proposed amendments by the Board to the total loss-absorbing capacity (TLAC) and long-term debt (LTD) framework would further undermine the resiliency of GSIB IDIs during a crisis, undercutting the single point of entry (SPOE) strategy the firms have proposed and increasing resolution risks. This risk of catastrophic failure endangers the financial system and the Deposit Insurance Fund, with community banks and everyday Americans left to pay the price for loosening GSIB capital requirements.

2. **The proposal, if finalized, disrupts the competitive landscape and tilts the playing field even further in favor of Too Big to Fail institutions**. The proposal would benefit GSIBs by loosening their capital requirements, while community banks remain subject to existing capital requirements. Reduced capital requirements for GSIBs and GSIB IDIs could result in funding cost advantages, further concentrating market share for these institutions and exacerbating the consolidation that has taken place in the banking system. The agencies should conduct an analysis regarding the proposal's competitive effects, including the impact that its downstream negative effects on community banks would have for small businesses, agricultural lending, and customers across the country.

3. **The justification for the proposal is speculative and fails to outweigh the potential harms.** The possible impact the proposal could have on the Treasury market is speculative, and it is not clear that adjustments to the eSLR will positively impact the Treasury market. Crucially, the agencies fail to ensure that the GSIBs and their subsidiaries will use the newly available capital to participate in the Treasury market, as the proposal fails to include any mechanism to encourage their intended outcome. Finalizing the proposal with its lack of clear rationale would be arbitrary and capricious, and the agencies should withdraw it.

ICBA requests that the agencies withdraw the proposal and maintain the current eSLR standards for GSIBs and their subsidiaries. Additionally, ICBA requests that the agencies consider community bank capital needs in future rulemaking efforts and incorporate competitive impact analyses that account for the comprehensive impact to all insured depository institutions within the financial system into proposals to change the capital rules for the largest banks. Finally, ICBA cautions that changes to the capital rule that effectively soften crisis-era capital requirements for the largest banks should not be made through piecemeal rulemaking that prevents meaningful public evaluation of the cumulative impacts. Instead, this proposal and other regulatory changes that impact the systemic risk and competitive dynamics as a whole should be informed by thorough studies and be presented as part of a cohesive framework that allows stakeholders and the public to assess the overall impact and be able to give informed comments.

1. **The proposal, if finalized, increases the systemic risks posed by Too Big to Fail firms.**

   a. *Granting GSIBs exclusive capital relief reinforces the problem of Too Big to Fail firms.*

The proposal would unfairly ease key requirements for only GSIBs related to the eSLR, TLAC, and LTD, allowing them to grow even larger with weakened capital requirements. This increases risks to the financial system, and such preferential treatment fundamentally contradicts post-crisis reforms designed to reduce systemic risk posed by "Too Big to Fail" dynamics.

Research has found that losses at US GSIBs are predictive of worse losses for financial firms as a whole.[2] Stress at large banks negatively impacts the real economy, a result that increases relative to a bank's size.[3] Moreover, stress at the largest firms can impact the financial system even when firms remain solvent:

> Even absent outright failure and bankruptcy, perceived weakness of a large and connected financial firm can result in decrease valuation of other firms – due to perceived linkages – and overall decrease in market liquidity. Therefore, identifying the firms that pose the largest systemic risks is critical to appropriately developing regulatory and supervisory strategies that minimize financial instability.[4]

Despite these risks, Too Big to Fail firms receive significant subsidies and benefits as a result of their size and clout:

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[2] Andrew Hawley & Marco Migueis, FRB, FEDS Notes: Measuring the systemic importance of large US banks (Sept. 2021), https://www.federalreserve.gov/econres/notes/feds-notes/measuring-the-systemic-importance-of-large-us-banks-20210930.html.

[3] Amy G. Lorenc & Jeffery Y. Zhang, Board of Governors of the Federal Reserve System, The Differential Impact of Bank Size on Systemic Risk, Finance and Economics Discussion Series 2018-066 at 2 (2018), https://doi.org/10.17016/FEDS.2018.066 ("[O]ur empirical results show that financial stress at large banks has a statistically significant and negative impact on the real economy. This impact increases with bank size. For instance, scaling our empirical results to the size distribution of banks in the fourth quarter of 2017, we find that the negative impact on real quarterly GDP growth caused by stress at banks with greater than $250 billion in total assets is more than twice as large as the impact caused by stress at banks with greater than $50 billion in total assets, and more than three times as large as the impact caused by stress at banks with greater than $30 billion in total assets. These results are qualitatively similar when analyzing the impact on the unemployment rate.")

[4] Hawley & Migueis, *supra* n.2.

> The benefits of TBTF may be captured in numerous ways, such as gaining favor with uninsured bank creditors and other market participants, operating with lower regulatory costs, and increasing the chances of receiving regulatory forbearance. Access to the federal government's safety net allows TBTF institutions to operate with less capital and a lower funding cost relative to other institutions. To the extent that the public believes that the government would protect the TBTF banking organizations, their uninsured creditors do not charge as high a price for the use of their funds as they would in the absence of this perception.[5]

The proposal effectively provides additional benefits to the Too Big to Fail GSIBs, increasing systemic risk that puts the deposit insurance fund and the banking system at risk. As demonstrated by the 2008 financial crisis, American taxpayers, small businesses, and community banks will be left to pay the price.

b. *Reliance on GSIBs to serve as a source of strength to GSIB IDI subsidiaries may be overly optimistic, and reductions in TLAC and LTD requirements further undermine resiliency.*

The agencies state in the preamble that the proposed reductions in capital would not significantly increase risk because "GSIBs would continue to be a source of strength for their depository institution and other subsidiaries, providing them with equity financing and liquidity as needed."[6] However, because no rulemaking has occurred to implement this Dodd-Frank Act requirement, regulators are in a tenuous position should a GSIB's IDI subsidiary fail.[7]

Additionally, the proposed weakening of the TLAC and LTD framework, undermines resiliency of the GSIBs and GSIB IDIs and increases resolution risk. Under the SPOE strategy, the GSIB holding company should absorb losses and recapitalize the GSIB IDI via TLAC and LTD instruments.[8] However, reductions in TLAC and LTD requirements, as contemplated by the Board in this proposal, would result in a reduced volume of loss-absorbing instruments housed at the holding company. This could result in increased resolution risks, as it might leave GSIBs

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[5] Elijah Brewer III & Julapa Jagtiani, How Much Did Banks Pay to Become Too-Big-To-Fail and to Become Systemically Important? Working Paper No. 11-37 at 3-4 (2011), https://www.philadelphiafed.org/-/media/frbp/assets/working-papers/2011/wp11-37.pdf.

[6] OCC, FRB & FDIC, NPR: 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 FR 30780 at 30805 (July 10, 2025) [hereinafter Joint NPR].

[7] Section 616(d) of the Dodd-Frank Wall Street Reform Act, Pub. L. 111–203 (2010) (codified at section 38A of the FDI Act, 12 USC 1831o-1) formalized the requirement that a bank holding company or savings and loan holding company "serve as a source of financial strength for any subsidiary of the bank holding company or savings and loan holding company that is a depository institution." The agencies have yet to carry out the required rulemaking to implement this section. *See, generally,* Adam J. Levitin, Samson's Toupeé: Banking Law's Source-of-Strength Doctrine, 41 Yale J. of Regulation 1078, 1114-1115 (2024).

[8] FDIC, Overview of Resolution Under Title II of the Dodd-Frank Act at 9, 11 (April 2024), https://www.fdic.gov/system/files/2024-07/spapr1024b_0_1.pdf.

with insufficient resources to absorb losses or recapitalize their bank subsidiary. Reducing their loss-absorbing capacity with capital advantages while permitting GSIBs to gain market share increases systemic fragility – an outcome the agencies should prevent, in accordance with agency statutory mandates, rather than promote.

In the preamble, the agencies justify the proposal to loosen eSLR requirements imposed in the wake of the 2008 financial crisis by citing remaining protections those same crisis-era rules provide to the financial system (emphasis added):

> To the extent that the proposal would reduce capital requirements for insured depository institution subsidiaries of GSIBs, the proposal may increase costs in the event of failure. 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. <u>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.</u>[9]

Simply stated, these intended safeguards against the risks posed by the largest financial institutions will not work if they continue to be eroded by the agencies. Risks at the largest firms impact the broader financial system, and community banks and their customers should not be left to pay the price for loosening capital requirements at Too Big to Fail firms.

2. **The proposal, if finalized, disrupts the competitive landscape, and tilts the playing field even further in favor of Too Big to Fail institutions.**

Community banks already compete at a disadvantage to the largest banks that benefit from scale, diversified revenue, and implicit Too Big to Fail benefits. Despite this unequal playing field, community banks play a critical role in the banking system and maintain an outsized role in the provision of credit, particularly with regard to small business and agricultural lending. [10] The economic impacts are significant:

- *Community banks play a critical role in credit availability for small businesses*. Community banks hold a larger share of small business loans relative to regional and large banks: in the second quarter of 2024, small business loans as a percent of total loans at community

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[9] Joint NPR at 30804.
[10] *See, e.g.*, Kansas City Federal Reserve Bank, Community Banking Bulletin: The Critical Role of Community Banks (Aug. 2024), https://www.kansascityfed.org/banking/community-banking-bulletins/the-critical-role-of-community-banks/; Matt Hanauer, Brent Lytle, Chris Summers & Stephanie Ziadeh, Kansas City Federal Reserve Bank, Community Banks' Ongoing Role in the U.S. Economy at 48 (2021), https://www.kansascityfed.org/Economic%20Review/documents/8159/EconomicReviewV106N2HanauerLytleSummersZiadeh.pdf [hereinafter Kansas City Fed Report].

banks was more than double that of regional and large banks.[11] Small businesses are most likely to be approved for most or all of their applications for credit at community banks.[12]

- *Community banks play a vital role in agricultural lending*. They serve as "a major supplier of credit to agricultural producers and businesses, including during times of economic stress when the need for credit is most acute."[13] The majority of bank farm credit is provided by community banks, accounting for 81 percent of farm real estate debt held by commercial banks and 74 percent of operating debt.[14] Community banks are even more crucial to small dollar farm loans, accounting for almost 90 percent of commercial bank farmland loans with original amounts of $500,000 or less.[15]

- *Community banks are key providers of banking services to rural communities across the country*.[16] Based on data from the 2020 FDIC Community Banking Study, community bank branches represented over 71 percent of all bank branches in rural areas and held nearly two-thirds of rural deposits, in additional to accounting for more than 56 percent of total commercial bank branches in the 25 states with the largest rural population shares.[17] Additionally, rural households depend on physical bank branches, "with 88 percent stating they had visited a branch within the past 12 months, and over one-third reporting bank branches as their primary method for account access."[18]

However, actions by the agencies to weaken key safeguards imposed on GSIBs in the wake of the 2008 financial crisis would further put community banks and the customers that rely on them at a disadvantage. Loosening standards for GSIBs while leaving community banks subject to stringent capital requirements creates an unequal supervisory framework. Specifically, the agencies project that the proposal would "reduce the tier 1 capital requirement for depository institution subsidiaries of GSIBs by $213 billion, or 27 percent, in aggregate[.]"[19] This reduced capital requirement for GSIBs IDIs creates artificial funding advantages that distort natural competitive dynamics, and the funding cost advantages will likely translate into a competitive disadvantage for the remainder of the banking sector, including community banks.

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[11] Federal Reserve Bank of Kansas City, Community Banking Bulletin: Highlight: Community bank focus on small business lending (Oct. 2024), https://www.kansascityfed.org/documents/10524/Community_Banking_Bulletin_Highlight_-_Oct_2024_-_SBL.pdf.
[12] Federal Reserve Banks, 2025 Report on Employer Firms – Data Appendix, https://www.fedsmallbusiness.org/reports/survey/2025/2025-report-on-employer-firms.
[13] Kansas City Fed Report, *supra n*.9 at 48.
[14] *Id.* at 52.
[15] *Id*.
[16] *Id*. at 48.
[17] *Id*.
[18] *Id*. at 51.
[19] Joint NPR at 30803.

Despite this clear risk, the agencies failed to consider the competitive impact the proposal would have on the banking sector. **The proposal provides no evaluation of how an additional $226 billion in capital at GSIBs IDIs will affect their market share, profitability, or ability to outcompete other institutions, including community banks.** This oversight reflects a broader pattern of regulatory decisions that systematically favor the largest institutions at the expense of market competition and diversity.

The agencies must take a comprehensive look at how the competitive landscape has been systematically skewed in favor of GSIBs through regulatory arbitrage, how ongoing consolidation continues to concentrate their market power, and how proposals like this one further exacerbate these anti-competitive dynamics. This is not a simple matter of providing equivalent relief to community banks—the cumulative effect of GSIB advantages creates structural competitive imbalances that cannot be addressed through piecemeal adjustments like this proposal.

Because the agencies failed to adequately assess the systemic competitive implications of the proposal, including how community bank market share losses affect financial system diversity and resilience, the agencies should withdraw the proposal and give further consideration to these adverse impacts. ICBA urges the agencies to study the impact that granting further competitive advantages to GSIBs will have on the already significant consolidation that has occurred in the banking sector and the potential negative ramifications for small businesses, agricultural borrowers, and rural communities that depend on community banks for access to credit and banking services. A meaningful solution to this problem requires a holistic examination of how regulatory policy has tilted the playing field in favor of the GSIBs.

3. **The justification for the proposal is speculative and fails to outweigh the potential harms.**

The agencies state that the proposal would have two main economic benefits: "(1) it would reduce disincentives for these banking organizations to engage in low-risk activities as well as unintended incentives to engage in higher-risk activities; and (2) it could enhance the functioning of financial markets, including the U.S. Treasury market, by facilitating intermediation activities of the largest banking organizations."[20]

An agency may change position, but it must provide a reasonable justification: "One of the basic procedural requirements of administrative rulemaking is that an agency must give adequate reasons for its decisions. The agency 'must examine the relevant data and articulate a satisfactory explanation for its action including a rational connection between the facts found and the choice made.'"[21]

The potential benefits cited in the proposal are speculative, and the agencies fail to clearly tie

[20] Joint NPR at 30800.
[21] *Encino Motorcars, LLC v. Navarro*, 579 U.S. 211, 221 (2016) (quoting *Motor Vehicle Mfrs. Assn. of United States, Inc. v. State Farm Mut. Automobile Ins. Co.,* 463 U.S. 29, 43 (1983)).

the proposed modifications to their desired outcome. Such arbitrary and capricious decision making is contrary to the requirements of the Administrative Procedure Act.[22]

Multiple factors beyond dealer capital constraints impact Treasury market liquidity, including market structure, technology, and regulatory frameworks. For example, when assessing the impact the SLR has on the Treasury market, Board staff found that Treasury positions at the dealers of the big six US BHCs (Bank of America, Citibank, Goldman Sachs, JPMorgan Chase, Morgan Stanley, and Wells Fargo) did not change significantly in response to exemptive relief during the COVID-19 financial shock, concluding that “overall, our inspection during the temporary exclusions of Treasury securities and reserves from [total leverage exposure] between April 2020 and March 2021 does not show a noticeable effect on the big six dealers' Treasury intermediation, including direct holdings of Treasuries and [secured financing transactions] backed by Treasuries.”[23] Additionally, economic research suggests that relaxing the supplementary leverage ratio may not significantly impact Treasury market stability as proposed but rather could increase interest rate risks, conflict with firms’ internal market risk exposure limits, or weaken liquidity.[24]

Furthermore, the proposal would loosen eSLR requirements without requiring any specific action on the part of the GSIBs. Any increased participation in Treasury Market is optional, and the proposal acknowledges that the firms could instead distribute capital to external shareholders and replace it with new debt.[25] There is no mechanism to ensure that loosening capital requirements for the GSIBs and their subsidiaries would have the desired impact on their behavior and result in a better functioning Treasuries market.

Because these issues undercut the agencies’ stated justifications for the rule and show a lack of clear connection between the proposed action and the rationale, finalizing the proposal would be arbitrary and capricious and contrary to the Administrative Procedure Act.

Conclusion

ICBA urges the agencies to withdraw the NPR. If finalized, the proposal could increase the systemic risks posed by Too Big to Fail firms, would disrupt the competitive landscape by tilting the playing field even further in favor of Too Big to Fail institutions, and violate the Administrative Procedure Act because the justification for the proposal is speculative and fails to outweigh these

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[22] 5 U.S.C. 706(2)(A).
[23] Paul Cochran, Sebastian Infante, Lubomir Petrasek, Zack Saravay & Mary Tian, FEDS Notes: Dealers' Treasury Market Intermediation and the Supplementary Leverage Ratio (Aug. 3, 2023), https://www.federalreserve.gov/econres/notes/feds-notes/dealers-treasury-market-intermediation-and-the-supplementary-leverage-ratio-20230803.html.
[24] Celine Choulet, BNP Economic Research - United States: Will easing leverage requirements stimulate demand for Treasuries? (June 11, 2025), https://economic-research.bnpparibas.com/html/en-US/United-States-Will-easing-leverage-requirements-stimulate-demand-Treasuries-6/11/2025,51633.
[25] Joint NPR at 30803.

potential harms. ICBA cautions that releasing proposed modifications to the capital rule for large banks in a piecemeal manner does not allow the public to fully consider the impact of any potential changes to key capital requirements implemented in the wake of the 2008 financial crisis. Finally, ICBA requests that if the agencies pursue reforms to the capital rule, such regulatory relief be provided to banks on a commensurate basis rather than favoring Too Big to Fail firms.

Should you wish to discuss our positions in further detail, please contact the undersigned at [redacted].

Sincerely,

/s/

Amy Ledig
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Independent Community Bankers of America