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Dear Committee:

I write to provide a short comment on 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; Docket ID OCC-2025-0006 (OCC); Docket No. R-1867, RIN 7100-AG96 (FRB); RIN 3064-AG11 (FDIC)).

I focus on the proposal to amend the Enhanced Supplementary Leverage Ratio (or "eSLR") and associated requirements, and in particular to debunk the idea that the relaxation of the eSLR will contribute to the stability and resilience of the financial marketplace for trading Treasury securities. I focus on economics and efficiency, not on the law or other existing regulations.

Relaxing the eSLR would mean that participants can allocate less regulatory capital to trading Treasury securities in normal times, which also means they will have less regulatory capital available in bad times, when risks are larger. While the same ratio applies to normal times and in bad times, the cost of capital is higher in bad times and other regulatory constraints can further limit available capital. That is, when the bad times hit – when Treasury market volatility rises, when prices drop suddenly, or when financial intermediaries suffer large losses from other sources – the Treasury market participants

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would have less regulatory capital and greater leverage, and thus be less able to make markets and conduct trades, because doing so would lead to more leverage and/or more risk on their balance sheets. Thus, the market would be less functional in such bad times. The relaxation of the eSLR would therefore be destabilizing. The historical evidence on my claim is overwhelming, and includes the U.S. financial crisis at the end of the Bush Administration, the European Sovereign debt crisis, the 1989 Stock market crash, and the 1929 stock market crash and ensuing Great Depression at the end of the Hoover Administration. You are considering adding your names and a future crisis to this not-very-illustrious list.

Treasury markets are risky. First, it hardly needs mentioning that interest rate risk is important in Treasury markets. And hedging interest rate risk becomes both risky and costly in bad times, which means that banks often need to reduce leverage and hold less interest rate risk in bad times. Second, we have never in the history of the United States had this high a debt to GDP ratio, this long a history of budget deficits, or this grim a fiscal outlook, with growing projected future deficits and debt to GDP ratios under current law. Under these conditions, countries face risk of default, so that Treasury debt should never be counted as riskless on bank balance sheets. Critically, the small risk in Treasury debt is “wrong way risk:” the debt is worth less precisely when banks need more capital because the government is financially more shaky. Thus, the small risk should command an outsized penalty on bank balance sheets, greater its low probability would normally imply.

Considering Treasuries to be riskless based on history is foolish when today looks nothing like the past.¹

To achieve resilience of the Treasury market, and to ensure that it functions as well as possible through times of heightened risks and stresses, there is a simple and proven solution: **tighten** the eSLR, but **relax it in bad times**. This allows banks to allocate capital to profitable trades with fewer constraints in bad times, and so leads to **better market function**. There are many examples of this type of regulation that implements some form of “countercyclical capital buffer” and these have been successful. These policies stabilize markets. In contrast, what you are considering now – relaxing constraints in good times – is the reverse of this. Banks that are so big that taxpayers and policymakers will find it very difficult not to bail them out in bad times are incentivized to lever up and take risks to make profits in good times, relying on this implicit taxpayer guarantee when the bad times arrive.

Why not use markets and fund at market prices instead?

I am somewhat surprised that your agencies are considering this change. I am sure that your comment box is full of detail-heavy attempts to obfuscate and confuse, that spew

¹ Even in the past, treating sovereign debt was a puzzle. See <https://bpi.com/when-was-interest-rate-risk-dropped-from-u-s-bank-capital-requirements/>

legalese and jargon and hope you confuse lack of clarity with erudition. This leads me to two final points.

First, let me counter one argument: some may claim for example claim that equity funding is more expensive than debt funding for banks and that therefore leverage reduces profits and competitiveness and hurts American banks. Wrong. Equity funding is only more expensive than debt funding if debt ends up bailed out by taxpayers in bad times. That is: more leverage is only more profitable if there is some reason that debt is subsidized, and the big subsidy is the too-big-to fail bailouts that this rule would make more likely. The argument that equity is expensive is an admission that the large financial institutions are gambling with taxpayer money and that they have an implicit taxpayer subsidy. If you get a taxpayer subsidy, then you should also get regulated to make sure you keep that subsidy small. Keeping leverage low in good times will mean that equity isn't so relatively expensive after all.

Second, there are proposals that allow relaxation of the Supplemental Leverage Ratio, but only when also tightening other regulation to protect taxpayers (and minimize the subsidy we taxpayers would pay out in bad states of the world). While it is simpler to not relax the eSLR, here is a clear and short overview of the Treasury market to remind you what you are all doing here: "How U.S. Treasuries Can Remain the World's Safe Haven," Journal of Economic Perspectives, Volume 39 (2025), Number 2 (Spring), pp. 195–214 by Darrell Duffie.² And here is a proposal that allows a relaxation of the eSLR but in conjunction with other macroprudential regulations that limit financial intermediaries so as to protect taxpayers: "Clearing the Path for Treasury Market Resilience" Hutchins Center Working Paper #103, July 2025, by Nellie Liang and Haoxiang Zhu.

Thank you.

Sincerely,



Jonathan A. Parker

² <https://pubs.aeaweb.org/doi/pdfplus/10.1257/jep.20241412> See also: "Examining Treasury Market Fragilities and Preventative Solutions," Testimony before the House Financial Services Committee Task Force on Monetary Policy, Treasury Market Resilience, and Economic Prosperity, May 15, 2025.

https://www.darrellduffie.com/uploads/1/4/8/0/148007615/hearing_on_us_treasury_debt_in_the_monetary_system-may2025-duffie.pdf