DEPARTMENT OF THE TREASURY

Office of the Comptroller of the Currency

12 CFR Parts 3 and 6

[Docket ID OCC —2025-0006]

RIN 1557-AF31

FEDERAL RESERVE SYSTEM

12 CFR Parts 208, 217, and 252

[Regulations H, Q, and YY; Docket No. R-[•]]

RIN [•]

FEDERAL DEPOSIT INSURANCE CORPORATION

12 CFR Part 324

RIN 3064-AG11

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

AGENCY: Office of the Comptroller of the Currency, Treasury; the Board of Governors of the Federal Reserve System; and the Federal Deposit Insurance Corporation.

ACTION: Notice of proposed rulemaking.

SUMMARY: The Office of the Comptroller of the Currency, Board of Governors of the Federal Reserve System (Board), and Federal Deposit Insurance Corporation are inviting public comment on a notice of proposed rulemaking (proposal) to modify the enhanced supplementary leverage ratio standards applicable to U.S. bank holding companies identified as global systemically important bank holding companies (GSIBs) and their depository institution

subsidiaries. Specifically, the proposal would modify the enhanced supplementary leverage ratio buffer standard applicable to GSIBs to equal 50 percent of the bank holding company's method 1 surcharge as determined by the Board's GSIB risk-based capital surcharge framework. The proposal would also modify the enhanced supplementary leverage ratio standard for depository institution subsidiaries of GSIBs to have the same form and calibration as the GSIB parent level standard. The proposed modifications would help ensure that the enhanced supplementary leverage ratio standards serve as a backstop to risk-based capital requirements rather than as a constraint that is frequently binding over time and through most points in the economic and credit cycle, thus reducing potential disincentives for GSIBs and their depository institution subsidiaries to participate in low-risk, low-return businesses. The Board is also proposing to amend its total loss-absorbing capacity and long-term debt requirements to maintain alignment between these requirements and the enhanced supplementary leverage ratio standards.

The Office of the Comptroller of the Currency is proposing to revise the methodology it uses to identify which national banks and Federal savings associations are subject to the enhanced supplementary leverage ratio standards to better align with the agencies' regulatory tailoring framework for large banking organizations and ensure that the standards apply only to those national banks and Federal savings associations that are subsidiaries of a GSIB. The Board is also proposing to make conforming amendments to relevant regulatory reporting forms. The Board and Federal Deposit Insurance Corporation are also proposing to make certain technical corrections to the capital rule.

DATES: Comments must be received on or before: [PLACEHOLDER FOR DATE 60 DAYS FROM PRESS RELEASE OF PROPOSAL].

ADDRESSES: Comments should be directed to:

OCC: You may submit comments to the OCC by any of the methods set forth below. Commenters are encouraged to submit comments through the Federal eRulemaking Portal. Please use the title "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" to facilitate the organization and distribution of the comments. You may submit comments by any of the following methods:

- *Federal eRulemaking Portal – Regulations.gov:*

  Go to *https://regulations.gov/*. Enter "Docket ID OCC-2025-0006" in the Search Box and click "Search." Public comments can be submitted via the "Comment" box below the displayed document information or by clicking on the document title and then clicking the "Comment" box on the top-left side of the screen. For help with submitting effective comments, please click on "Commenter's Checklist." For assistance with the *Regulations.gov* site, please call 1-866-498-2945 (toll free) Monday-Friday, 8am-7pm ET, or e-mail *regulationshelpdesk@gsa.gov*.
- *Mail:* Chief Counsel's Office, Attention: Comment Processing, Office of the Comptroller of the Currency, 400 7th Street, SW, Suite 3E-218, Washington, DC 20219.
- *Hand Delivery/Courier:* 400 7th Street, SW, Suite 3E-218, Washington, DC 20219.

  Instructions: You must include "OCC" as the agency name and "Docket ID OCC-2025-0006" in your comment. In general, the OCC will enter all comments received into the docket and publish the comments on the *Regulations.gov* website without change, including any business or personal information provided such as name

and address information, e-mail addresses, or phone numbers. Comments received, including attachments and other supporting materials, are part of the public record and subject to public disclosure. Do not include any information in your comment or supporting materials that you consider confidential or inappropriate for public disclosure.

You may review comments and other related materials that pertain to this action by the following methods:

- *Viewing Comments Electronically – Regulations.gov:*

Go to *https://regulations.gov/*. Enter "Docket ID OCC-2025-0006" in the Search Box and click "Search." Click on the "Dockets" tab and then the document's title. After clicking the document's title, click the "Browse All Comments" tab. Comments can be viewed and filtered by clicking on the "Sort By" drop-down on the right side of the screen or the "Refine Comments Results" options on the left side of the screen. Supporting materials can be viewed by clicking on the "Browse Documents" tab. Click on the "Sort By" drop-down on the right side of the screen or the "Refine Results" options on the left side of the screen checking the "Supporting & Related Material" checkbox. For assistance with the *Regulations.gov* site, please call 1-866-498-2945 (toll free) Monday-Friday, 8am-7pm ET, or e-mail *regulationshelpdesk@gsa.gov*.

The docket may be viewed after the close of the comment period in the same manner as during the comment period.

Board: You may submit comments, identified by Docket No. [•], by any of the following methods:

Agency Web Site: https://www.federalreserve.gov/apps/proposals/. Follow the instructions for submitting comments, including attachments. *Preferred Method*.

Federal eRulemaking Portal: http://www.regulations.gov. Follow the instructions for submitting comments.

E-mail: publiccomments@frb.gov. You must include docket number and RIN in the subject line of the message.

FAX: (202) 452-3819 or (202) 452-3102.

Mail, Courier and Hand Delivery: Ann Misback, Secretary, Board of Governors of the Federal Reserve System, 20th Street and Constitution Avenue NW, Washington, DC 20551.

Instructions: All public comments are available from the Board's web site at https://www.federalreserve.gov/apps/proposals/ as submitted, unless modified for technical reasons. Accordingly, comments will not be edited to remove any identifying or contact information. Public comments may also be viewed electronically or in paper form in Room M–4365A, 2001 C Street NW, Washington, DC 20551, between 9:00 a.m. and 5:00 p.m. on federal weekdays. For security reasons, the Board requires that visitors make an appointment to inspect comments. You may do so by calling (202) 452-3684. Upon arrival, visitors will be required to present valid government-issued photo identification and to submit to security screening in order to inspect and photocopy comments. For users of TTY-TRS, please call 711 from any telephone, anywhere in the United States.

FDIC: The FDIC encourages interested parties to submit written comments. Please include your name, affiliation, address, email address, and telephone number(s) in your comment. You may submit comments to the FDIC, identified by RIN [3064-AG11] by any of the following methods:

Agency Web Site: https://www.fdic.gov/federal-register-publications. Follow instructions for submitting comments on the FDIC's website.

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

Hand Delivered/Courier: Comments may be hand-delivered to the guard station at the rear of the 550 17th Street, NW, building (located on F Street NW) on business days between 7:00 a.m. and 5:00 p.m. ET.

E-mail: comments@FDIC.gov. Include the RIN [3064-AG11] on the subject line of the message.

Public Inspection: Comments received, including any personal information provided, may be posted without change to https://www.fdic.gov/federal-register-publications. Commenters should submit only information that the commenter wishes to make available publicly. The FDIC may review, redact, or refrain from posting all or any portion of any comment that it may deem to be inappropriate for publication, such as irrelevant or obscene material. The FDIC may post only a single representative example of identical or substantially identical comments, and in such cases will generally identify the number of identical or substantially identical comments represented by the posted example. All comments that have been redacted, as well as those that have not been posted, that contain comments on the merits of this notice will be retained in the public comment file and will be considered as required under all applicable laws. All comments may be accessible under the Freedom of Information Act.

FOR FURTHER INFORMATION CONTACT:

OCC: Venus Fan, Risk Expert, Benjamin Pegg, Technical Expert, Capital Policy, (202) 649-6370; Carl Kaminski, Assistant Director, Ron Shimabukuro, Senior Counsel, Scott Burnett, Counsel, Chief Counsel's Office, (202) 649-5490, Office of the Comptroller of the Currency,

400 7th Street SW., Washington, DC 20219. If you are deaf, hard of hearing, or have a speech disability, please dial 7-1-1 to access telecommunications relay services.

Board: Anna Lee Hewko, Associate Director, (202) 530-6260; Juan Climent, Deputy Associate Director, (202) 872-7526; Brian Chernoff, Manager, (202) 731-8914; Missaka Warusawitharana, Manager, (202) 452-3461; Nadya Zeltser, Senior Financial Institution Policy Analyst, (202) 452-3164; Akos Horvath, Principal Economist, (202) 452-3048; Anthony Sarver, Senior Financial Institution Policy Analyst, (202) 475-6317, Division of Supervision and Regulation; Skander Van den Heuvel, Associate Director, (202) 452-2903, Division of Financial Stability; or Jay Schwarz, Deputy Associate General Counsel, (202) 731-8852; Mark Buresh, Senior Special Counsel, (202) 499-0261; Ryan Rossner, Senior Attorney, (202) 430-1368; Isabel Echarte, Attorney, (202) 945-2412, Legal Division, Board of Governors of the Federal Reserve System, 20th and C Streets, N.W., Washington, D.C. 20551. For the hearing impaired only, Telecommunication Device for the Deaf (TDD), (202) 263-4869.

FDIC: Benedetto Bosco, Chief, Capital Policy Section; Michael Maloney, Senior Policy Analyst; Kyle McCormick, Senior Policy Analyst; Keith Bergstresser, Senior Policy Analyst; Eric Schatten, Senior Policy Analyst; Soo Jeong Kim, Policy Analyst; Matthew Park, Financial Analyst; Capital Markets and Accounting Policy Branch, Division of Risk Management Supervision; Catherine Wood, Counsel; Merritt Pardini, Counsel; Kevin Zhao, Senior Attorney; Jimi Du, Senior Attorney, Legal Division; regulatorycapital@fdic.gov, (202) 898–6888; Federal Deposit Insurance Corporation, 550 17th Street, NW., Washington, DC 20429.

SUPPLEMENTARY INFORMATION:

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I. Introduction

The Office of the Comptroller of the Currency (OCC), Board of Governors of the Federal Reserve System (Board), and Federal Deposit Insurance Corporation (FDIC) (collectively, the agencies) are proposing to modify the enhanced supplementary leverage ratio (eSLR) standards that apply to U.S. bank holding companies identified as global systemically important bank holding companies (GSIBs) and their depository institution subsidiaries.[1]

The proposal would adjust the calibration of the eSLR standards, as discussed in section II.A of this **Supplementary Information**, 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.[2] This recalibration would reduce disincentives for GSIBs and their depository institution subsidiaries to participate in low-risk, low-return businesses, such as U.S. Treasury market intermediation conducted by broker-dealer subsidiaries of GSIBs.

In section II.B of this **Supplementary Information**, the Board invites comment on the advantages and disadvantages of a potential modification to the supplementary leverage ratio calculation to help further address concerns regarding undesired disincentives of a regularly binding supplementary leverage ratio requirement on U.S. Treasury market intermediation. This

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[1] See 12 CFR part 217, subpart H (GSIB surcharge framework). A bank holding company subject to the GSIB surcharge framework must determine whether it is a GSIB by applying a multifactor methodology based on size, interconnectedness, substitutability, complexity, and cross-jurisdictional activity. See 12 CFR 217.402.

[2] Under the capital rule, banking organizations are required to satisfy multiple minimum capital requirements, which are augmented by the capital buffer framework. In addition, insured depository institutions are subject to the prompt corrective action framework. In the context of this **Supplementary Information**, a banking organization's "binding tier 1 capital requirement" refers to the highest of all of its tier 1 capital requirements, inclusive of the capital buffer framework and the prompt corrective action framework, expressed in dollar terms.

potential modification would exclude from the denominator of the supplementary leverage ratio held-for-trading Treasury securities of a broker-dealer subsidiary of a depository institution holding company that is not a subsidiary of a depository institution.

The proposal would also modify the form of the eSLR standard for depository institution subsidiaries of GSIBs, as discussed in section II.C of this **Supplementary Information**, to align with the eSLR standard applicable at the parent GSIB level.

In addition, the Board is proposing to amend its total loss-absorbing capacity (TLAC) and long-term debt requirements, as discussed in section III of this **Supplementary Information**, to reflect the proposed change to the eSLR standard. Elements of these requirements were calibrated to align with the eSLR standard, and the proposal would maintain such alignment.

The OCC is proposing to modify the criteria it uses to determine applicability of the eSLR standard for depository institutions, such that the standard would apply to those national banks and federal savings associations that are subsidiaries of U.S. GSIBs identified by the Board. This proposed change is discussed in section IV of this **Supplementary Information**. The Board and FDIC are also proposing to make certain technical corrections to the capital rule, as discussed in section V of this **Supplementary Information**.

Section VI of this **Supplementary Information** presents the economic analysis of the proposed changes.

The agencies seek comment on all aspects of the proposal.

A. Overview of Leverage Capital Requirements for Large Banking Organizations

In 2013, the agencies adopted a revised regulatory capital rule (capital rule) to address weaknesses that became apparent during the financial crisis of 2007-08.[3] The agencies' capital rule includes two leverage-based requirements for large banking organizations.[4] The tier 1 leverage ratio, measured as the ratio of a banking organization's tier 1 capital to average total consolidated assets, applies to all banking organizations subject to the capital rule. Under this requirement, a banking organization is required to maintain a minimum leverage ratio of at least four percent, and an insured depository institution is required to maintain a leverage ratio of at least five percent to be considered "well capitalized" under the prompt corrective action framework.[5] The supplementary leverage ratio, measured as the ratio of a banking organization's tier 1 capital to its total leverage exposure, applies only to banking organizations

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[3] See 12 CFR Part 3 (OCC); 12 CFR Part 217 (Board); 12 CFR 324 (FDIC). The Board and the OCC issued a joint final rule on October 11, 2013 (78 FR 62018), and the FDIC issued a substantially identical interim final rule on September 10, 2013 (78 FR 55340). The FDIC adopted the interim final rule as a final rule with no substantive changes on April 14, 2014 (79 FR 20754).

[4] See 12 CFR 3.10(a) (OCC); 12 CFR 217.10(a) (Board); 12 CFR 324.10(a) (FDIC). The term "banking organizations," as used in this **Supplementary Information**, includes national banks; state member banks; state nonmember banks; Federal savings associations; state savings associations; top-tier bank holding companies domiciled in the United States not subject to the Board's Small Bank Holding Company and Savings and Loan Holding Company Policy Statement (12 CFR Part 225 App'x. C); U.S. intermediate holding companies of foreign banking organizations; and top-tier savings and loan holding companies domiciled in the United States, except for certain savings and loan holding companies that are significantly engaged in commercial activities and certain savings and loan holding companies that are subject to the Small Bank Holding Company and Savings and Loan Holding Company Policy Statement.

[5] See 12 CFR 6.4(b)(1)(i)(D), 3.10(a)(1)(iv) (OCC); 12 CFR 208.43(b)(1)(i)(D), 217.10(a)(1)(iv) (Board); 12 CFR 324.10(a)(1)(iv) 324.403(b)(1)(i)(D) (FDIC); see also 12 CFR 3.12 (OCC); 12 CFR 217.12 (Board); 12 CFR 324.12 (FDIC).

subject to Category I-III capital standards.[6] Each of these banking organizations must maintain a supplementary leverage ratio of at least three percent. Total leverage exposure includes certain off-balance sheet exposures in addition to all on-balance sheet assets.[7]

In 2014, the agencies adopted a final rule that requires GSIBs and their insured depository institution subsidiaries to meet enhanced supplementary leverage ratio standards.[8] Specifically, each GSIB must maintain a supplementary leverage ratio of at least three percent plus a leverage buffer greater than two percent to avoid limitations on the GSIB's capital

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[6] In 2019, the agencies adopted rules establishing four categories of capital standards for U.S. banking organizations with $100 billion or more in total assets and foreign banking organizations with $100 billion or more in combined U.S. assets. Under this framework, Category I standards apply to GSIBs and their depository institution subsidiaries. Category II standards apply to banking organizations with at least $700 billion in total consolidated assets or at least $75 billion in cross-jurisdictional activity and their depository institution subsidiaries. Category III standards apply to banking organizations with total consolidated assets of at least $250 billion or at least $75 billion in weighted short-term wholesale funding, nonbank assets, or off-balance sheet exposure and their depository institution subsidiaries. Category IV standards apply to banking organizations with total consolidated assets of at least $100 billion that do not meet the thresholds for a higher category and their depository institution subsidiaries. See 12 CFR 3.2 (OCC), 12 CFR 238.10, 12 CFR 252.5, (Board), 12 CFR 324.2 (FDIC); "Prudential Standards for Large Bank Holding Companies, Savings and Loan Holding Companies, and Foreign Banking Organizations," 84 FR 59032 (November 1, 2019); and "Changes to Applicability Thresholds for Regulatory Capital and Liquidity Requirements," 84 FR 59230 (November 1, 2019).

[7] See 12 CFR 3.10(c) (OCC); 12 CFR 217.10(c) (Board); 12 CFR 324.10(c) (FDIC).

[8] See "Regulatory Capital Rules: Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards for Certain Bank Holding Companies and Their Subsidiary Insured Depository Institutions," 79 FR 24528 (May 1, 2014). The eSLR standards were originally applicable to bank holding companies with more than $700 billion in total consolidated assets or $10 trillion in assets under custody and their subsidiary depository institutions. The Board revised the applicability of the eSLR standards in its rules to apply to GSIBs and their subsidiary depository institutions in connection with the GSIB surcharge rule. See 80 FR 49082 (August 14, 2015). The FDIC made an equivalent change in 2020 and the OCC would make an equivalent change as part of this proposal. See 85 FR 74257 (November 20, 2020).

distributions and certain discretionary bonus payments.[9] In addition, any insured depository institution subsidiary of a GSIB must maintain a supplementary leverage ratio of at least six percent to be "well capitalized" under the prompt corrective action framework of the Board, OCC, or FDIC, as applicable.[10]

Statutory Authority for the Agencies' Supplementary Leverage Ratio Framework

Congress has authorized the agencies to establish leverage capital requirements and standards for banking organizations subject to this proposal. Section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (Dodd-Frank Act),[11] as amended by section 401 of the Economic Growth, Regulatory Relief, and Consumer Protection Act,[12] requires the Board to establish leverage limits for bank holding companies with $250 billion or more in total consolidated assets.[13] It also provides that the Board may apply any prudential standard

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[9] The leverage buffer requirement follows the same general mechanics and structure as the capital conservation buffer requirement that applies to all banking organizations subject to the capital rule, though the capital conservation buffer requirement is calibrated differently. Specifically, a GSIB that maintains a leverage buffer of more than two percent of its total leverage exposure would not be subject to limitations on its distributions and certain discretionary bonus payments. A GSIB that maintains a leverage buffer of two percent or less would be subject to increasingly strict limitations on such payouts. See 12 CFR 217.11.

[10] See 12 CFR 6.4(b)(1)(i)(D)(2) (OCC); 12 CFR 208(b)(1)(i)(D)(*2*) (Board); 12 CFR 324.403(b)(1)(ii).

[11] Dodd-Frank Wall Street Reform and Consumer Protection Act, Public Law 111-203, 124 Stat. 1376 (2010).

[12] Economic Growth, Regulatory Relief, and Consumer Protection Act, Public Law 115-174, 132 Stat. 1296 (2018).

[13] See 12 U.S.C. 5365(a)(1), (b)(1)(A)(i). These provisions also apply to foreign banks or companies that are treated as a bank holding company for purposes of the Bank Holding Company Act. See 12 U.S.C. 3106(a), 5311(a)(1). See also section 401(g) of the Economic Growth, Regulatory Relief, and Consumer Protection Act (regarding the Board's authority to establish enhanced prudential standards for foreign banking organizations with total consolidated assets of $100 billion or more).

established under section 165 to any bank holding company or bank holding companies with $100 billion or more in total consolidated assets to which the prudential standard does not otherwise apply, under certain circumstances.[14] The prompt corrective action framework in section 38 of the Federal Deposit Insurance Act requires the agencies to prescribe capital standards for insured depository institutions that include a leverage limit and provides that the agencies may establish any additional relevant capital measures to carry out the purpose of that section.[15]

Furthermore, various statutory authorities provide the agencies with broad discretionary authority to set capital requirements and standards for banking organizations supervised by the agencies, including national banking associations, state-chartered banks, savings associations, and depository institution holding companies.[16]

B. Objective of Rulemaking

The 2007-08 financial crisis demonstrated the importance of strong regulatory capital standards for the safety and soundness of individual banking organizations, as well as for the financial system as a whole. Within the regulatory capital framework, leverage and risk-based capital requirements play complementary roles, with each addressing potential risks not

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[14] 12 U.S.C. 5365(a)(2)(C).

[15] See 12 U.S.C. 1831o(c)(1)(A), (B)(i).

[16] See 12 U.S.C. 93a (national banking associations); 12 U.S.C. 248(i), 324, 327, 329 (state member banks); 12 U.S.C. 1463 (savings associations); 12 U.S.C. 1467a(g)(1) (savings and loan holding companies); 12 U.S.C. 1844(b) (bank holding companies); 12 U.S.C. 3106 (certain U.S. operations of foreign banking organizations); 12 U.S.C. 3902(1)-(2), 3907(a), 3909(a), (c)(1)-(2) (depository institutions; affiliates of depository institutions, including holding companies; and certain U.S. operations of foreign banking organizations); 12 U.S.C. 5371 (insured depository institutions, depository institution holding companies, and nonbank financial companies supervised by the Board).

addressed by the other.[17] Risk-based capital requirements that are commensurate with the risk profile of a banking organization's exposures help to encourage prudent behavior by requiring a banking organization to maintain higher levels of capital for activities and exposures that present greater risk. Historical experience, however, has demonstrated that risk-based measures alone may be insufficient to support loss-absorbing capacity at banking organizations through economic cycles. For example, the 2007-08 financial crisis highlighted weaknesses in the design and calibration of risk-based capital requirements. Leverage capital requirements, which do not take into account the risks of a banking organization's exposures, can help to mitigate underestimations of risk both by banking organizations and risk-based capital requirements.[18]

An appropriately calibrated leverage capital requirement sets a simple and transparent limit on a banking organization's leverage. In addition, leverage capital requirements can be useful to address cases where the level of risk at a particular banking organization or across the financial system is difficult to measure. However, 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. A banking

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[17] The regulatory capital framework is designed to help ensure that banking organizations maintain sufficient resources to absorb losses and prevent the distress or failure of a banking organization. See 12 CFR 3.1 (OCC); 12 CFR 217.1 (Board); 12 CFR 324.1 (FDIC). The regulatory capital framework is comprised of both risk-based and leverage capital requirements. Risk-based capital requirements establish a minimum amount of regulatory capital a banking organization must maintain based on the risk profile of its on- and off-balance sheet exposures, whereas leverage capital requirements establish minimum risk-insensitive capital requirements. See 12 CFR 3.10 (OCC); 12 CFR 217.10 (Board); 12 CFR 324.10 (FDIC).

[18] Risk-based and leverage capital measures can also contain complementary information about a banking organization's condition. See, e.g., Arturo Estrella, Sangkyun Park, and Stavros Peristiani, "Capital Ratios as Predictors of Bank Failure," *Federal Reserve Bank of New York Economic Policy Review* (2000).

organization that has a leverage capital requirement as its binding capital requirement can, on the margin, replace a lower-risk asset with a higher-risk asset without a corresponding increase in its overall regulatory capital requirement, a suboptimal outcome that runs counter to objectives of the regulatory capital framework.

As a notable example of concerns regarding the incentive effects of a binding supplementary leverage ratio requirement, a regularly binding leverage capital requirement could disincentivize large banking organizations from intermediating in the U.S. Treasury market. Market participants have suggested that such disincentives could, under certain circumstances, impede the orderly functioning of the U.S. Treasury market and of U.S. and global financial markets more broadly.[19] The U.S. Treasury market is one of the deepest and most liquid markets in the world and serves as a source of safe and liquid assets that are used for a variety of purposes in the financial markets.[20] Confidence in the efficient functioning of the U.S. Treasury market, including during times of stress, is critical to the stability of the domestic and global banking and financial systems.

Large banking organizations play important roles in all segments of the U.S. Treasury market. Many large banking organizations have broker-dealer subsidiaries that act as primary dealers in Treasury security auctions, serve as brokers and market makers in the secondary markets for Treasury securities and in related derivatives markets, and intermediate in securities

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[19] See, e.g., Z. He, S. Nagel, & Z. Song, Treasury Inconvenience Yields During the COVID-19 Crisis. 143 J. Fin. Econ.57-79 (2022); Group of Thirty Working Group on Treasury Market Liquidity, U.S. Treasury Markets: Steps Toward Increased Resilience (2021).

[20] See U.S. Department of the Treasury, Board of Governors of the Federal Reserve System, Federal Reserve Bank of New York, U.S. Securities and Exchange Commission, and U.S. Commodity Futures Trading Commission, Enhancing the Resilience of the U.S. Treasury Market: 2023 Staff Progress Report (November 6, 2023).

financing transactions with Treasury securities as collateral. They also have depository institution subsidiaries that perform some of these functions, act as custodians holding Treasury securities on behalf of clients, and also transact in Treasury securities for investment, liquidity, and risk-management purposes. When large banking organizations become bound by leverage capital requirements, they can potentially face incentives to limit their intermediation in low-risk, low-return activities in the U.S. Treasury markets and reduce holdings of low-risk assets in general.

Appropriate calibration of regulatory capital requirements involves a balancing of considerations. A banking organization should maintain sufficient capital to absorb losses and remain a going concern over a range of conditions. In addition, it is important for the capital framework to not create potential disincentives for a banking organization to prudently act as a financial intermediary and to otherwise engage in low-risk activities or important market functions. The agencies regularly review the regulatory capital framework to help ensure requirements are appropriate in view of evolving risks and financial innovations and that the framework is functioning as intended. In reviewing the eSLR framework, the agencies considered factors such as alignment of requirements with risks; incentives for a banking organization to perform critical financial services over a range of economic conditions; and ways to enhance the efficiency of the framework.

Since the adoption of the eSLR standards, the agencies have observed that such standards have, for certain banking organizations, become a regularly binding constraint relative to risk-based capital requirements, as discussed in section VI of this **Supplementary Information**. Consequently, the Board and the OCC in 2018 proposed to recalibrate the eSLR standards for GSIBs and their insured depository institution subsidiaries from the fixed two percent, which

applies to each GSIB, and three percent, which applies to their insured depository institutions, to equal 50 percent of the banking organization's GSIB risk-based capital surcharge to help ensure that the eSLR standards generally serve as a backstop to risk-based capital requirements.[21]

In 2020, the agencies finalized a rule to implement section 402 of the Economic Growth, Regulatory Relief, and Consumer Protection Act, to exclude from the denominator of the supplementary leverage ratio certain central bank deposits of banking organizations predominately engaged in custody, safekeeping, and asset servicing activities.[22] Also in 2020, as the onset of the COVID pandemic significantly and adversely affected global financial markets, large banking organizations faced reduced balance sheet capacity under the supplementary leverage ratio due to customer draws on credit lines, acquisition of significant amounts of Treasury securities, substantial increases in deposits in their accounts at Federal Reserve Banks, and other financial intermediation activities. In response, the agencies adjusted the denominator of the supplementary leverage ratio to exclude Treasury securities and deposits at Federal

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[21] See "Regulatory Capital Rules: Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards for U.S. Global Systemically Important Bank Holding Companies and Certain of Their Subsidiary Insured Depository Institutions; Total Loss-Absorbing Capacity Requirements for U.S. Global Systemically Important Bank Holding Companies," 83 FR 17317 (April 18, 2018). The Board and the OCC did not finalize this proposal.

[22] "Regulatory Capital Rule: Revisions to the Supplementary Leverage Ratio to Exclude Certain Central Bank Deposits of Banking Organizations Predominantly Engaged in Custody, Safekeeping, and Asset Servicing Activities," 85 FR 4569 (Jan. 27, 2020).

Reserve Banks (reserves) on a temporary basis to provide these banking organizations additional flexibility to continue to act as financial intermediaries.[23]

In light of the experience gained since the initial adoption of the eSLR standards, and to avoid potential negative outcomes due to regularly binding eSLR standards, the agencies are proposing to recalibrate the eSLR standards to reduce the likelihood and frequency of the eSLR standards becoming a binding capital requirement for GSIBs and their depository institution subsidiaries. In addition, the proposed recalibration of the eSLR standards seeks to reduce disincentives for banking organizations to participate in U.S. Treasury market intermediation and reduce the need for temporary adjustments in the event of severe market stress, as occurred in 2020.

C. Overview of the Proposal

The proposal would make changes to the eSLR standards to reduce the likelihood of the eSLR standards being the binding regulatory capital constraint for GSIBs and their depository institution subsidiaries. Specifically, the Board is proposing to recalibrate the eSLR buffer standard for GSIBs to equal 50 percent of a GSIB's method 1 surcharge calculated under the

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[23] For example, during the March 2020 economic turmoil, U.S. Treasury market liquidity rapidly deteriorated as a result of supply-demand imbalance, while primary dealers were reluctant to increase their holdings of U.S. Treasury securities, prompting market participants and regulators to consider enhancements to the resilience of the U.S. Treasury market. On April 1, 2020, the Board provided holding companies a temporary exclusion for U.S. Treasury securities and deposits at the Federal Reserve from the denominator of the supplementary leverage ratio through March 31, 2021. On May 15, 2020, the Board, the OCC, and the FDIC extended comparable treatment to depository institutions, which could elect this exclusion subject to capital action preapproval. Both interim final rules expired as scheduled on March 31, 2021. See "Temporary Exclusion of U.S. Treasury Securities and Deposits at Federal Reserve Banks from the Supplementary Leverage Ratio," 85 FR 20578 (April 14, 2020) and "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 FR 32980 (June 1, 2020).

Board's GSIB surcharge framework, rather than the current leverage buffer standard of two percent.[24] Similarly, the agencies would modify the eSLR standard for depository institution subsidiaries of GSIBs from the current six percent "well capitalized" threshold under the prompt corrective action framework to an eSLR buffer standard equal to 50 percent of the parent GSIB's method 1 surcharge calculation. As a result, the eSLR standards would be the same in both form and calibration at the bank holding company and subsidiary depository institution levels.[25]

In addition to these changes, the OCC is proposing to revise the methodology it uses to identify which national banks and Federal savings associations are subject to the eSLR standard to align with the agencies' regulatory tailoring framework and ensure that the standard applies only to those national banks and Federal savings associations that are subsidiaries of a GSIB. The Board is also proposing to make conforming modifications to the leverage-based components of the Board's total loss-absorbing capacity and long-term debt requirements that currently incorporate the eSLR standard's fixed two percent buffer construct. Lastly, the agencies are proposing to make certain technical corrections to the capital rule.

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[24] The Board's capital rule requires a GSIB to calculate its GSIB risk-based surcharge in two ways, known as method 1 and method 2, and apply the higher of the two results. See 12 CFR 217.402, subpart H. Under the rule, a firm identified as a GSIB must calculate its GSIB surcharge under two methods and be subject to the higher surcharge. The first method (method 1) is based on five categories that are correlated with systemic importance—size, interconnectedness, cross-jurisdictional activity, substitutability, and complexity. The second method (method 2) uses similar inputs but replaces substitutability with the use of short-term wholesale funding and is calibrated in a manner that generally will result in surcharge levels for GSIBs that are higher than those calculated under method 1.

[25] As a result of this change, certain national bank subsidiaries, specifically, uninsured national banks chartered pursuant to 12 U.S.C. 27(a), would become subject to the eSLR standard. This change in scope is a result of the prompt corrective action framework's applicability to insured depository institutions and the capital rule's applicability to certain uninsured depository institutions.

As further discussed in the economic analysis in section VI of this **Supplementary Information**, recalibrating the eSLR buffer standards for GSIBs and their depository institution subsidiaries would reduce unintended incentives for these banking organizations to engage in higher-risk activities and create significant balance sheet capacity for GSIBs and their depository institution subsidiaries to engage in lower-risk activities. Moreover, by recalibrating the eSLR standards such that they more often serve as a backstop than a binding constraint, the regulatory capital framework for these banking organizations would be more aligned with risk, supporting these banking organizations' role as financial intermediaries. The additional capacity for GSIBs could also help support the orderly functioning of U.S. Treasury markets, as their broker-dealer subsidiaries play a key role in intermediating these markets.

The proposal would lead to a less-than-two percent aggregate reduction in the tier 1 capital requirement for GSIBs and about 27 percent aggregate reduction in the tier 1 capital requirement for their depository institution subsidiaries. Although the capital requirements of the depository institution subsidiaries of GSIBs would decline, capital requirements applicable to GSIBs would remain approximately at their present level and with better incentive effects from leverage-based requirements declining below risk-based requirements. GSIBs would not be able to significantly increase dividend payments or other capital distributions, due to bank holding company capital requirements. The proposal would instead provide GSIBs greater discretion to determine the optimal allocation of capital within the consolidated organization. In addition, the capital rule would continue to require these banking organizations, notwithstanding the minimum requirements under the capital rule, to maintain capital commensurate with the level and nature of all risks to which they are exposed, to have a process for assessing their overall capital

adequacy in relation to their risk profile, and to have a comprehensive strategy for maintaining an appropriate level of capital.[26]

As discussed further in section VI.H of this **Supplementary Information**, under the proposal, aggregate TLAC requirements that apply to GSIBs would decline by approximately five percent, and aggregate long-term debt requirements would decline by approximately 16 percent. Although the reduction in long-term debt and TLAC requirements could reduce overall loss-absorbing capacity, including gone-concern resources available in resolution, the proposal would maintain the existing alignment of long-term debt and TLAC requirements with capital requirements, consistent with the approaches used to calibrate these requirements. The proposal is expected to support increased lending and economic activity and would be consistent with international standards.[27]

Overall, the agencies assess that the benefits of the proposal justify the costs.

II. Proposed Modifications to the Enhanced Supplementary Leverage Ratio Standards

A. Calibration of the Holding Company and Depository Institution Standards

The proposal would modify the eSLR standard applicable to GSIBs by recalibrating the fixed two percent eSLR buffer standard to equal 50 percent of a GSIB's method 1 surcharge as

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[26] 12 CFR 3.10(e) (OCC); 12 CFR 217.10(e) (Board); 12 CFR 324.10(e) (FDIC).

[27] The decline in long-term debt requirements can primarily be viewed as a compositional shift within the instruments needed to meet the TLAC requirements and thus unlikely to have a significant effect on lending or economic activity.

determined under the Board's GSIB surcharge framework.[28] The proposal would also align the calibration and, as discussed further in section II.C of this **Supplementary Information**, the form, of the eSLR standard applicable to depository institution subsidiaries of GSIBs with that applicable to their GSIB parent holding companies. Since the eSLR standards took effect in 2018, the current calibration has frequently become a binding capital constraint for GSIBs, as discussed in section VI.A of this **Supplementary Information**. Recalibrating the eSLR buffer standard to equal 50 percent of a GSIB's method 1 surcharge would reduce the supplementary leverage ratio requirement relative to risk-based requirements at the holding company level and allow leverage capital requirements and standards to generally serve as a backstop to risk-based capital requirements rather than as a regularly binding constraint.[29]

Calibration based on the GSIB surcharge framework would take a GSIB's systemic footprint into account in the determination of its eSLR buffer standard. This approach would align with the purposes of the eSLR standards to strengthen the ability of these banking organizations to remain a going concern during times of economic stress and to minimize the

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[28] In September 2023, the Board issued a notice of proposed rulemaking to amend the GSIB surcharge framework and related Systemic Risk Report (FR Y-15) to improve the precision of the GSIB surcharge and better measure systemic risk under the framework. See "Regulatory Capital Rule: Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15)," 88 FR 60385 (September 1, 2023). Any change to the GSIB surcharge framework could impact the magnitude of the eSLR buffer standards under this proposal.

[29] For about half of depository institution subsidiaries of GSIBs, the tier 1 leverage ratio requirement would continue to exceed the risk-based requirement. Changing the tier 1 leverage requirement would implicate section 171 of the Dodd-Frank Act. See 12 U.S.C. 5371.

likelihood that problems at these organizations would contribute to financial instability.[30] At the time the agencies adopted the eSLR standards, the Board had not yet proposed the GSIB surcharge framework. Using a GSIB's method 1 surcharge, rather than the higher of its method 1 or method 2 surcharge that determines its risk-based surcharge, produces a generally lower calibration that is consistent with the objective for leverage capital requirements to act as a backstop to risk-based capital requirements. A calibration based on the GSIB surcharge framework would also help promote consistency in the eSLR standards for large, complex, and internationally active banking organizations across jurisdictions, as it would be consistent with the leverage ratio framework published by the Basel Committee on Banking Supervision (Basel Committee).[31]

Where appropriate and consistent with the agencies' statutory authorities and policy objectives, general alignment of domestic financial regulatory policy with international standards can generate significant benefits, particularly regarding large, internationally active banking organizations. For example, international alignment can enhance the resilience of the U.S. financial system by limiting the potential for a global "race to the bottom" on prudential

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[30] See 79 FR 24529 (May 1, 2014). Consistent with the original design of the eSLR standards, depository institution subsidiaries of GSIBs would be subject to requirements on the basis of their positions as components of the consolidated GSIBs, and often as major components in terms of size, operations, and business activity. The proposal would align GSIB and subsidiary eSLR standards, removing the discrepancy in requirements in the current eSLR standards.

[31] See Basel Committee, "Basel III leverage ratio framework and disclosure requirements" (January 2014) available at *http://www.bis.org/publ/bcbs270.htm*. The Basel Committee is an international coordinating committee of banking supervisory authorities, established by the central bank governors of the G-10 countries in 1975, and comprised of representatives from supervisory authorities of 28 jurisdictions, that develops prudential minimum standards. More information regarding the Basel Committee and its membership is available at *https://www.bis.org/bcbs/about.htm*. Documents issued by the Basel Committee are available through the Bank for International Settlements website at *https://www.bis.org*.

standards. The U.S. financial system is highly interconnected with the global financial system. By supporting robust prudential standards across the world, international alignment can enhance the resilience of the U.S. financial system by reducing the likelihood of distress or other problems that arise in a foreign jurisdiction from having negative effects in the United States.[32]

The proposed recalibration of the eSLR standards would help mitigate potential disincentives for GSIBs and their depository institution subsidiaries to engage in low-risk, low-return, balance-sheet-intensive activities, such as intermediation by GSIBs' broker-dealer subsidiaries in markets for Treasury securities, and from holding low-risk assets in general. GSIBs and their depository institution subsidiaries play a key role in supporting market liquidity and providing financing in Treasury markets, as discussed above.

The proposal would differ from the agencies' 2020 temporary exclusion of Treasury securities and reserves in that it would maintain the principle that the denominator of the supplementary leverage ratio should be broad and not create preferences for certain low-risk assets over others. Additionally, the recalibration approach of the proposal would better achieve the objectives of the proposal than would the 2020 exclusion approach. It would more comprehensively address the undesired incentive effects of binding leverage ratio requirements. It would also provide large banking organizations significant additional flexibility and capacity to maintain or increase low-risk, low-return activities, including but not limited to U.S. Treasury

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[32] For example, the Basel Committee was originally formed after the failure of Herstatt Bank in Germany in 1974, which contributed to serious disruptions to foreign currency and banking markets within and beyond Germany, demonstrating the need for better coordination among bank regulators in different jurisdictions. See *https://www.bis.org/bcbs/history.htm*. See, e.g., 12 U.S.C. 1828 note, 3901, 3907, 3911, and 5373; see also 22 U.S.C. 9522 note; Federal Deposit Insurance Corporation Improvement Act of 1991 § 305(b)(2), Pub. L. 102-242, 105 Stat. 2236, 2355.

market intermediation. This flexibility would be beneficial throughout economic and credit cycles.[33]

As discussed in section VI of this **Supplementary Information**, the proposed change to the calibration of the eSLR standard for bank holding companies would reduce the eSLR standard relative to risk-based capital requirements for GSIBs, which would reduce the frequency of the eSLR standards being these banking organizations' binding capital constraint without significantly reducing their overall level of required capital. Accordingly, this proposed change would reduce undesired incentive effects from a regularly binding or near-binding leverage capital requirement, while not materially altering the risk profile of these banking organizations.

As further discussed in section VI of this **Supplementary Information**, since depository institution subsidiaries of GSIBs are not subject to the more stringent risk-based capital buffers and surcharges applicable to their GSIB parent holding companies, risk-based capital requirements for such depository institutions tend to be generally lower relative to leverage capital requirements.[34] Therefore, addressing bindingness of the eSLR standard for depository institution subsidiaries of GSIBs would more significantly reduce levels of required capital relative to the reduction in required capital of their parent holding companies. Although the

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[33] Excluding exposures from total leverage exposure would also differ from the leverage capital standard published by the Basel Committee. The Basel standard provides for a potential temporary exclusion of central bank reserves, but solely under exceptional macroeconomic circumstances and only when paired with an upward calibration of the minimum requirement. See the Basel standard's provision LEV30.4, available at *https://www.bis.org/basel_framework/chapter/LEV/30.htm?inforce=20191215&published=20191215*.

[34] For example, the capital conservation buffer for depository institutions is set to 2.5 percent of risk-weighted assets and is not expanded by the stress capital buffer and GSIB surcharge applicable at the top-tier GSIB level.

proposal would reduce tier 1 capital requirements for these depository institutions, almost all of this capital would need to be retained within their consolidated holding companies because the proposal would only slightly reduce GSIB holding company tier 1 capital requirements.

Question 1: What are the advantages and disadvantages of replacing the fixed two percent eSLR buffer standard applicable to a GSIB with a buffer standard equal to 50 percent of a GSIB's method 1 risk-based surcharge? What other modifications should the Board consider for purposes of ensuring that the eSLR buffer standard generally does not serve as the binding capital constraint for GSIBs, and why? Please provide any rationale or data that may be helpful for the Board to consider.

Question 2: What are the advantages and disadvantages of the proposed calibration of the eSLR buffer standard for a depository institution subsidiary of a GSIB? What alternative calibration, such as a fixed buffer lower than three percent, should the agencies consider, and why? What would be the advantages and disadvantages of adding a fixed component for the eSLR buffer of depository institution subsidiaries (for example, 50 percent of a GSIB's method 1 surcharge plus a fixed component in the range of 0.5 percent to 1 percent)?

Question 3: What other potential modifications to the regulatory capital framework should the agencies consider to address the binding nature of the supplementary leverage ratio requirements relative to risk-based capital requirements, consistent with safety and soundness? For example, what would be the advantages and disadvantages of establishing a risk-based surcharge for depository institution subsidiaries of GSIBs? Please provide any rationale or data that may be helpful for the agencies to consider.

Question 4: How, if at all, would the proposed calibration of the eSLR standards affect business decisions of GSIBs and their depository institution subsidiaries, such as their ability to

serve as a source of credit to the economy during periods of economic stress? How, if at all, would the proposal change the incentives for GSIBs and their depository institution subsidiaries to participate in low-risk, low-return businesses? How, if at all, would the proposed calibration of the eSLR standards affect safety and soundness? Please provide any rationale or data that may be helpful for the agencies to consider.

B. Potential Modification to the Supplementary Leverage Ratio Calculation

In contrast to risk-based capital requirements, leverage capital requirements generally do not differentiate the amount of capital required by exposure type. A banking organization is required to include all of its on-balance sheet assets, including Treasury securities and other low-risk exposures, and certain off-balance sheet exposures in total leverage exposure, the denominator of the supplementary leverage ratio.

The proposed recalibration of the eSLR standards is intended to reduce the likelihood that such standards become a regularly binding capital constraint for GSIBs and their depository institution subsidiaries and thus reduce disincentives for these banking organizations to participate in low-risk activities that might be associated with important market functions. Although all depository institution holding companies subject to the supplementary leverage ratio requirement or eSLR standards would have substantial balance-sheet capacity under the proposal before these requirements or standards become binding, as discussed in section VI of this **Supplementary Information**, the Board is considering the benefits and drawbacks of an additional approach to complement the proposed recalibration.

In particular, the ability of a banking organization to hold certain assets, such as Treasury securities, is essential to U.S. Treasury market functioning, financial intermediation, and funding market activity, particularly in periods of financial uncertainty. Therefore, the Board is seeking

comment on a potential modification to the calculation of total leverage exposure for depository institution holding companies to exclude Treasury securities that are reported as trading assets on the organizations' balance sheets and that are held at broker-dealer subsidiaries (and foreign equivalents thereof) that are not subsidiaries of a depository institution (broker-dealer subsidiaries) (narrow exclusion approach).[35] The narrow exclusion approach could provide further certainty such that, if these holding companies' balance sheets or activities change in the future, they would not face disincentives to Treasury market intermediation due to a binding supplementary leverage ratio requirement.

This narrow exclusion approach would provide an automatic "safety valve" for Treasury market intermediation for cases in which balance sheets rapidly expand, as they did in 2020. In addition, this approach would enable a larger group of depository institution holding companies, including those subject to Category II or III capital standards in addition to GSIBs, to increase their U.S. Treasury market intermediation without affecting the required amount of tier 1 capital under the supplementary leverage ratio requirement and the potential for it to become a regularly binding regulatory capital constraint.[36]

The narrow exclusion approach would focus on the legal entities and balance sheet exposures directly involved in making markets in U.S. Treasury securities. It thus attempts to balance the incentive goals discussed above with the conceptual basis of the supplementary leverage ratio requirement, which broadly includes exposures in total leverage exposure in order

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[35] Under the narrow exclusion approach, a broker-dealer subsidiary would be covered if it is registered with the U.S. Securities and Exchange Commission or is a foreign equivalent to a registered broker-dealer.

[36] As discussed in section VI of this **Supplementary Information**, supplementary leverage ratio requirements are not currently binding for any banking organizations subject to Category II or III standards.

to serve as a risk-insensitive backstop to risk-based capital requirements. A potential drawback of this approach is that excluding exposures from the denominator of the supplementary leverage ratio could lead to requests to exclude additional exposures. Excluding material quantities or categories of exposures from the supplementary leverage ratio would undermine its effectiveness as a risk-insensitive backstop and would differ from the international leverage standard published by the Basel Committee.

Importantly, under the narrow exclusion approach, most banking organizations' exposures to excluded Treasury securities would continue to be subject to regulatory capital requirements. Specifically, for banking organizations subject to the market risk capital framework, the interest-rate risk of the excluded Treasury securities would be captured by the market risk elements of the risk-based capital framework.[37] In addition, under U.S. GAAP, Treasury securities classified as trading are measured at fair value, with profits and losses recorded in the organization's consolidated income statement. As such, the associated earnings volatility and its effects on regulatory capital could limit incentives for regulatory arbitrage.

The Board requests comment on all aspects of the narrow exclusion approach.

Question 5: What would be the advantages and disadvantages of incorporating the narrow exclusion approach in any final rule, and why? What, if any, challenges would banking organizations have in identifying the securities to be excluded from total leverage exposure as described above and what clarifications would be helpful to address any such challenges?

Question 6: What modifications, if any, to the narrow exclusion approach should the Board consider, and why?

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[37] See 12 CFR 217, subpart F.

Question 7: What incentive effects would exempting only Treasury securities classified as trading and held by broker-dealer subsidiaries have on capital allocation or the conduct of activities within a consolidated banking organization, and what adjustments should the Board consider due to such effects?

Question 8: To what extent do legal entities other than broker-dealers within consolidated banking organizations engage in material U.S. Treasury market intermediation? What would be the advantages and disadvantages of including some or all Treasury securities held by such entities in any exclusion from the supplementary leverage ratio, and why? What alternative methods of targeting exclusions from the supplementary leverage ratio should the agencies consider (for example, based on specific activities such as Treasury-based repurchase or reverse repurchase arrangements), and why? In such cases, how could the agencies address boundary issues to ensure that the exclusion targets Treasury market intermediation? Please provide any supporting data and rationale that the agencies should consider.

Question 9: In addition to the changes to the supplementary leverage ratio requirements being considered in this proposal, what other changes to the bank regulatory framework, if any, should the agencies consider to reduce regulatory impediments to well-functioning U.S. Treasury markets while appropriately taking into consideration the objectives of the framework? For example, what additional changes should the agencies consider in the context of the mandatory central clearing of certain U.S. Treasury transactions? How might repo-style transactions, including transactions with the Federal Reserve, be more appropriately reflected in the supplementary leverage capital requirements or other areas of the regulatory framework? What are the potential costs and benefits of such changes?

Question 10: What additional or alternative changes to the capital rule should the agencies consider to ensure that the capital rule is able to function appropriately throughout the business cycle and particularly during periods of stress? What, if any, additional "safety valves" should the agencies consider incorporating into the capital rule to better respond to periods of stress and to reduce the risk that emergency action may be necessary (for example, a more specific reservation of authority, in addition to 12 CFR 3.1(d)(4), 217.1(d)(4), 324.1(d)(4))?

C. Modification to the Form of the Depository Institution Standard

The proposal would remove the eSLR threshold for a depository institution subsidiary of a GSIB to be considered "well capitalized" under the prompt corrective action framework and instead implement the eSLR for such banking organizations as a buffer standard.

The prompt corrective action framework establishes capital categories at which an insured depository institution will become subject to increasingly stringent limitations on its activities.[38] Among other measures, this framework includes a three percent supplementary leverage ratio threshold for any insured depository institution subject to Category I, II, or III capital standards to be considered "adequately capitalized." Until the adoption of the eSLR standards in 2014, the framework did not specify a corresponding supplementary leverage ratio threshold at which such an insured depository institution subsidiary would be considered "well

[38] Each of the agencies have issued regulations to implement the statutory Prompt Corrective Action framework, set forth at 12 U.S.C. 1831o, which codifies section 131 of the Federal Deposit Insurance Corporation Improvements Act of 1991 (FDICIA). Pub. L. No. 102-242, 105 Stat. 2253 (December 19, 1991). The Prompt Corrective Action capital categories are critically undercapitalized, significantly undercapitalized, undercapitalized, adequately capitalized, and well capitalized. See 12 CFR part 6 (national banks and Federal savings associations) (OCC); 12 CFR part 208, subpart D (state member banks) (Board); 12 CFR part 324, subpart H (state nonmember banks and state savings associations) (FDIC).

capitalized." The 2014 eSLR standards established a six percent supplementary leverage ratio threshold at which insured depository institution subsidiaries of the largest and most complex banking organizations would be considered "well capitalized."

In April 2018, the Board and OCC jointly proposed certain modifications to the eSLR standards for GSIB holding companies and Board- and OCC-regulated insured depository institution subsidiaries (2018 proposal) that would have relied on a requirement derived from the GSIB surcharge framework to determine a banking organization's applicable eSLR standard (similar to the approach included in this proposal).[39] As part of the 2018 proposal, the two agencies requested comment on the appropriateness of an alternative that would have implemented the proposed eSLR standard for GSIBs' depository institution subsidiaries as a capital buffer standard instead of as a threshold for such banking organizations to be considered "well capitalized." Specifically, under this approach, the prompt corrective action framework would have retained the three percent supplementary leverage ratio requirement to be considered "adequately capitalized," but would have no longer included the heightened six percent supplementary leverage ratio threshold to be considered "well capitalized." Instead, the eSLR standard would have been applied to depository institution subsidiaries of GSIBs alongside the existing capital conservation buffer (in the same manner that the eSLR standard applies to GSIBs). In considering this alternative, the two agencies noted that tying a banking organization's eSLR standard to its GSIB surcharge meant that the "well capitalized" threshold could change from year to year depending on the activities of the organization.

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[39] 83 FR 17317 (April 18, 2018).

The majority of commenters on the 2018 proposal supported the alternative form of the eSLR as a buffer standard at the depository institution level. Several of these commenters supported this approach as a means of harmonizing and aligning with the eSLR standard applicable to holding companies. Two of these commenters stated that the payout restriction of a buffer provided a type of "early warning" threshold that should trigger changes in capital management before the more severe consequences of prompt corrective action framework limitations apply.[40] Further to this point, one of these commenters stated that in the context of risk-based capital requirements, the agencies calibrated the capital conservation buffer requirement and risk-based prompt corrective action well-capitalized thresholds so that insured depository institutions would be subject to payout restrictions under the buffer requirements before losing well-capitalized status. Another of these commenters expressed concern that maintaining the eSLR standard as part of the prompt corrective action framework, which historically has used fixed ratios to establish uniform standards across insured depository institutions, could result in different standards being used across banking organizations as a result of surcharges that can differ across GSIBs.

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[40] The "well capitalized" threshold is used to determine eligibility for a variety of regulatory purposes, such as streamlined application procedures, status as a financial holding company for parent bank holding companies, the ability to control or hold a financial interest in a financial subsidiary, and in certain expansionary interstate applications. See e.g., 12 U.S.C. 24a; 12 U.S.C.1831u(b)(4); 12 U.S.C. 1842(d); 12 U.S.C. 1843(j)(4)(A). Insured depository institutions that do not meet the requirements to be considered "well capitalized" under the prompt corrective action framework face restrictions on their operations; for example, such insured depository institutions may not control or own an interest in a financial subsidiary. 12 U.S.C. 1831o. They also face restrictions on accepting brokered deposits without a waiver from the FDIC, a prohibition from accepting employee benefit plan deposits, limits on exposure to interbank liabilities, potential restrictions on opening a branch, and in certain situations, potential effects on Deposit-Insurance Fund premiums. 12 U.S.C. 371b-2 (implemented in 12 CFR part 206); 12 U.S.C. 1821(a)(1)(D)(ii); 12 U.S.C. 1831f; 12 U.S.C. 1831o(e)(4); 12 CFR part 327.

Based on further consideration by the agencies on the form of the eSLR standard at the depository institution level, including considerations raised in comments the Board and OCC received on the 2018 proposal, the agencies are proposing to implement the eSLR standard for depository institutions as a buffer standard rather than as a threshold to be considered "well capitalized" within the prompt corrective action framework.[41] This approach would align the form of the depository institution eSLR standard with that of the holding company, which could enhance effective capital management across a banking organization. In addition, a buffer approach may have less pro-cyclical effects because a banking organization may choose to use its buffer during times of economic stress, which could lessen the likelihood that the banking organization would reduce lending and other activities during such times. At the same time, the payout restrictions of a leverage buffer framework would continue to provide an incentive for covered depository institutions to maintain sufficient capital and reduce the risk that their capital levels would fall below their minimum requirements during economic downturns. A leverage buffer framework would provide "early warning" benefits relative to prompt corrective action thresholds, consistent with commenters' views on the 2018 proposal.

Specifically, under the proposal, a depository institution subsidiary of a GSIB would have an eSLR buffer standard equal to 50 percent of its parent company's method 1 surcharge in order to avoid facing restrictions on capital distributions and certain discretionary bonus payments. The proposed leverage buffer framework would follow the same general mechanics and structure

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[41] As discussed supra n.25, as a result of this change, certain national bank subsidiaries, specifically, uninsured national banks chartered pursuant to 12 U.S.C. 27(a), would become subject to the eSLR standard. This change in scope is a result of the prompt corrective action framework's applicability to insured depository institutions and the capital rule's applicability to certain uninsured depository institutions.

as the capital conservation buffer contained in the agencies' respective capital rules.[42] For example, if a GSIB calculates a method 1 surcharge of 1.5 percent, a depository institution subsidiary of the GSIB would be subject to an eSLR buffer standard of 0.75 percent (one-half of the parent GSIB's 1.5 percent method 1 surcharge). Therefore, the depository institution subsidiary would need to have a supplementary leverage ratio greater than 3.75 percent (three percent minimum supplementary leverage ratio plus 0.75 percent eSLR buffer standard) to avoid limitations on capital distributions and certain discretionary bonus payments.

If the depository institution subsidiary of a GSIB maintains a leverage buffer that is less than or equal to 100 percent of its leverage buffer standard, a payout limitation would apply in accordance with Table 1 below. The leverage buffer's potential limitations on distributions and discretionary bonus payments would be applied to a covered depository institution alongside any limitations imposed by the capital conservation buffer or any other supervisory or regulatory measures. Similar to its parent GSIB, if the depository institution subsidiary of a GSIB is constrained by either or both a capital conservation buffer and the leverage buffer, the depository institution would be required to apply the more binding payout ratio.

Table 1—Calculation of Maximum Leverage Payout Amount

Leverage buffer	**Maximum payout ratio (as a percentage of eligible retained income)**
Greater than the depository institution's leverage buffer standard	No payout ratio limitation applies.

[42] See 12 CFR 3.11(a) (OCC); 12 CFR 217.11(a) (Board); 12 CFR 324.11(a) (FDIC).

Less than or equal to 100 percent of the depository institution's leverage buffer standard, and greater than 75 percent of the depository institution's leverage buffer standard	60 percent.
Less than or equal to 75 percent of the depository institution's leverage buffer standard, and greater than 50 percent of the depository institution's leverage buffer	40 percent.
Less than or equal to 50 percent of the depository institution's leverage buffer standard, and greater than 25 percent of the depository institution's leverage buffer standard	20 percent.
Less than or equal to 25 percent of the depository institution's leverage buffer standard	0 percent

Continuing the earlier example, assume the depository institution subsidiary described above reported a supplementary leverage ratio of 3.5 percent on its most recent Call Report. Although the depository institution exceeds its three percent minimum supplementary leverage ratio requirement, its reported supplementary leverage ratio is less than 100 percent of the depository institution's leverage buffer standard. The depository institution has a leverage buffer

standard of 0.75 percent, but maintains a leverage buffer of only 0.5 percent. Because the depository institution's leverage buffer is approximately only 67 percent of its leverage buffer standard, according to the Table 1 above, the depository institution would be subject to a 40 percent maximum payout ratio (assuming it does not face any further constraints imposed by the current capital conservation buffer or any other supervisory or regulatory measures).

The proposal would retain the minimum supplementary leverage ratio threshold of three percent to be considered "adequately capitalized" under the prompt corrective action framework.

Question 11: What are the advantages and disadvantages of applying the eSLR standard as a leverage buffer rather than as part of the prompt corrective action framework for depository institution subsidiaries of GSIBs? What alternatives, if any, should the agencies consider, and why?

III. Amendments to Total Loss-Absorbing Capacity and Long-Term Debt Requirements

The Board requires GSIBs to maintain outstanding minimum levels of TLAC based on risk-based and leverage-based measures and to meet buffers on top of both the risk-weighted asset and leverage components of the TLAC requirements in order to avoid limitations on the firm's capital distributions and certain discretionary bonus payments.[43] The leverage-based TLAC buffer is equal to two percent, above the 7.5 percent minimum leverage component of a

[43] See 12 CFR part 252, subpart G.

GSIB's external TLAC requirement.[44] This buffer amount was expressly designed to align with the eSLR buffer standard applicable to these firms.[45] Accordingly, the Board is proposing to replace the two percent TLAC leverage buffer with a new TLAC leverage buffer equal to the eSLR buffer standard under the proposal. This change would maintain the original alignment of the TLAC leverage buffer and the eSLR standards. The Board is not proposing to change the minimum level of TLAC that a GSIB is required to maintain.[46]

The Board also requires GSIBs to maintain a minimum leverage-based external long-term debt amount equal to a GSIB's total leverage exposure multiplied by 4.5 percent. As described in the preamble to the final rule that established the long-term debt requirement, the requirement was calibrated primarily on the basis of a "capital refill" framework.[47] According to the capital refill framework, the objective of the external long-term debt requirement is to ensure that each GSIB has a minimum amount of eligible external long-term debt such that, if the GSIB's going-concern capital is depleted and the covered bank holding company fails and enters

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[44] See 12 CFR 252.63. There is no buffer requirement over the leverage-based minimum total loss-absorbing capacity requirement for a U.S. intermediate holding company of a foreign banking organization subject to TLAC requirements. The TLAC requirement based on total leverage exposure for a U.S. intermediate holding company of a foreign banking organization subject to the TLAC framework is either 6.75 percent or six percent, depending on the planned resolution strategy of the company's parent global systemically important foreign banking organization. 12 CFR 252.165.

[45] See "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 FR 8266 (Jan. 24, 2017), 8276.

[46] This proposal would not impact the total loss-absorbing capacity or long-term debt requirements applicable to any U.S. intermediate holding company required to be established pursuant to 12 CFR 252.153 that is controlled by a global systemically important foreign banking organization, as such requirements were not calibrated based on the eSLR framework. 12 CFR part 252, subpart P.

[47] 82 FR 8266, 8275.

resolution, the eligible external long-term debt can be used to replenish the GSIB's going-concern capital. GSIBs are therefore subject to an external long-term debt requirement equal to 4.5 percent of their total leverage exposure (the five percent eSLR standard minus a balance-sheet depletion allowance of 0.5 percent). As a result, the leverage-based component of the external long-term debt requirement seeks to ensure that if the GSIB's tier 1 capital is depleted, and the GSIB fails and enters resolution, the eligible external long-term debt would be sufficient to fully recapitalize the GSIB by replenishing its capital to at least the amount required to meet the minimum leverage capital requirement and buffer applicable to GSIBs.

When establishing the long-term debt requirement, the Board stated that it would consider updating the requirement in the event that it updated capital requirements for GSIBs in a way that materially changes their structure or calibration.[48] Accordingly, the Board is proposing to revise the minimum leverage-based external long-term debt requirement to reflect the proposed change to the eSLR standard. The proposed minimum leverage-based external long-term debt requirement would therefore be total leverage exposure multiplied by 2.5 percent (the minimum supplementary leverage ratio of three percent minus 0.5 percent to allow for balance sheet depletion) plus the eSLR buffer standard under the proposal as discussed in section II.A of this **Supplementary Information**.

As discussed further in section VI.H of this **Supplementary Information**, the proposed changes would reduce GSIBs' TLAC leverage-based buffer and long-term debt leverage-based minimum requirement by between 0.75 and 1.50 percentage points. The Board's TLAC and long-term debt framework applicable to GSIBs would continue to be consistent with and exceed

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[48] Id.

international standards developed by the Financial Stability Board, which do not include a minimum long-term debt amount and have a somewhat lower minimum leverage-based TLAC requirement.

Question 12: What are the advantages and disadvantages of the proposed modification of the external TLAC leverage buffer and long-term debt requirements to align with the proposed changes to the eSLR standard, and why? What, if any, alternative approaches should the Board consider with respect to the calibration of total leverage exposure-based TLAC and long-term debt requirements and why?

Question 13: What effect, if any, would the proposed modification to the external TLAC leverage buffer and long-term debt requirements have on the potential for an orderly resolution of a failed GSIB? With respect to any adverse effects that may be identified, what alternatives should the Board consider, and why?

Question 14: In light of the proposed changes to the external TLAC leverage buffer and long-term debt requirements, what other adjustments to the long-term debt and TLAC framework should the Board consider, if any? What would be the advantages and disadvantages of reducing by 50 percent the amount of long-term debt principal that is due to be paid in one year or more but less than two years that can be considered for purposes of the minimum TLAC requirements and buffers? What would be the advantages and disadvantages of adjusting the amount of balance sheet run-off embedded in the minimum long-term debt requirement, or of removing the assumption of balance sheet run-off entirely from the minimum long-term debt requirement?

IV. Applicability Thresholds of the eSLR Standard for OCC-Supervised Institutions

When the agencies adopted a final rule that established the eSLR standards in 2014, the final rule applied to U.S. top-tier bank holding companies with consolidated assets over $700 billion or more than $10 trillion in assets under custody and their insured depository institution subsidiaries. Subsequently, in 2015, the Board adopted a final rule establishing the GSIB surcharge framework, which provides for a methodology for identifying a holding company as a GSIB and applies a risk-based capital surcharge to such a banking organization.[49] As part of the GSIB surcharge framework, the Board revised the scope of application of the eSLR standards to any holding company identified as a GSIB and to each Board-regulated insured depository institution subsidiary of a GSIB. In November 2020, the FDIC issued a final rule to align the applicability of the eSLR standard with the revisions implemented by the Board, to cover only FDIC-supervised institutions that are subsidiaries of GSIBs.[50]

The OCC's current eSLR standard applies to national banks and Federal savings associations with more than $700 billion in total consolidated assets or more than $10 trillion total in assets under custody, or that are subsidiaries of holding companies that meet those thresholds. To be consistent with the Board's regulations for identifying GSIBs and applying the eSLR standards for holding companies and their depository institution subsidiaries, and consistent with the FDIC's regulations, the OCC is proposing to modify the scope of application of the eSLR standard for OCC-supervised banks. Specifically, the OCC proposes to remove the existing asset size thresholds and instead apply the eSLR standard to those national banks and

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[49] 12 CFR part 217, subpart H; see also "Regulatory Capital Rules: Implementation of Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies," 80 FR 49082 (August 14, 2015).

[50] 12 CFR 324.403(b)(1)(ii); 85 FR 74257 (November 20, 2020).

federal savings associations that are subsidiaries of GSIBs identified by the Board's GSIB surcharge framework. Currently, the asset thresholds the OCC uses to determine applicability of the eSLR standard scope in all the national bank and federal savings association subsidiaries of GSIBs, but no other institutions. As a result, this proposed change would not have any impact on the current application of the eSLR standard. Additionally, this proposed change would also result in a consistent scope of application of the eSLR standards across the Federal banking agencies and would be consistent with the regulatory tailoring framework for large banking organizations adopted by the agencies in 2019.[51]

Question 15: What, if any, unintended consequences may result from removing the current asset size and assets under custody thresholds of the eSLR standard for OCC-supervised institutions, and why?

V. Technical Corrections

The proposal includes certain technical corrections. The Board is proposing to revise 12 CFR 217.11(c)(3)(ii)(A)-(C) to correct certain cross references. Those paragraphs had erroneously referred to 12 CFR 217.10(c)(1)(ii), (c)(2)(ii), and (c)(3)(ii), respectively; the proposed technical correction would replace those references with the appropriate references to 12 CFR 217.10(d)(1)(ii), (d)(2)(ii), and (d)(3)(ii), respectively. Second, the FDIC is proposing to remove outdated references in its prompt corrective action regulation to the supplementary leverage ratio's effective date of January 1, 2018.

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[51] See 84 FR 59230 (Nov. 1, 2019).

VI. Economic Analysis

A. Introduction

As discussed in section I.B of this **Supplementary Information**, the proposal aims generally for the supplementary leverage ratio requirement to be a backstop to risk-based tier 1 capital requirements for GSIBs and their depository institution subsidiaries.[52] The rationale for the proposed recalibration of the eSLR standards is twofold. First, this change would reduce the likelihood and frequency of the supplementary leverage ratio requirement being a binding tier 1 capital requirement for these banking organizations. Second, this change would reduce disincentives for these banking organizations to participate in low-risk, low-return activities, such as U.S. Treasury market intermediation.

In recent years, the supplementary leverage ratio requirement has regularly been the binding tier 1 capital requirement for many GSIBs and most of their depository institution subsidiaries. This can create unintended incentives for these banking organizations to engage in higher-risk activities and to reduce their participation in low-risk, low-return activities. The proposal would address these incentives by reducing the calibration of the eSLR standards, thereby enabling most GSIBs to increase their U.S. Treasury market intermediation activities up to their available capacity without causing the supplementary leverage ratio requirement to become binding, which would also reduce the need for temporary adjustments in the event of severe market stress.

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[52] Throughout the economic analysis section, the agencies use the term "supplementary leverage ratio requirement" to refer to the combination of the supplementary leverage ratio minimum requirement, which is three percent for all banking organizations subject to Category I to III standards, plus the eSLR standards, which are an additional two percent for GSIBs and an additional three percent for their depository institution subsidiaries. See section I.A of this **Supplementary Information** for a detailed description of the eSLR standards.

The agencies estimate that, in the period from Q2 2021 to Q4 2024, the supplementary leverage ratio requirement was the binding tier 1 capital requirement 60 percent of the time, on average, for seven out of the eight GSIBs. In the same period, the supplementary leverage ratio requirement was the binding tier 1 capital requirement 87 percent of the time, on average, for "major" depository institution subsidiaries of GSIBs.[53]

When the binding capital requirement for a banking organization is a leverage ratio requirement, it can discourage the banking organization from engaging in low-risk activities, especially in high-volume, low-return activities, while creating incentives for the banking organization to conduct higher-risk activities. These incentives are due to what may be called the "level effect" and the "marginal effect" of a binding leverage ratio requirement. Specifically, for a given amount of tier 1 capital, the level effect of a binding leverage ratio requirement restricts the growth of the banking organization because it cannot engage in even low-risk activities without further increasing its tier 1 capital requirement. Additionally, the marginal effect of a binding leverage ratio requirement makes the banking organization prefer higher-risk activities to low-risk activities because both activities need to be financed by the same amount of tier 1 capital under the supplementary leverage ratio requirement, while higher-risk activities typically have higher expected returns. This marginal effect could incentivize the banking organization to forego investments in low-risk activities or, in the extreme, substitute its existing low-risk exposures with higher-risk ones. Such unintended incentives are further amplified by the fact that low-risk activities tend to be balance sheet intensive because their typically low

[53] For each GSIB, this calculation reflects its largest depository institution subsidiary as well as any of its depository institution subsidiaries with total assets greater than $50 billion at the end of any quarter in 2024 ("major" depository institution subsidiaries).

expected returns make them profitable only if they are conducted in large volumes. Overall, general economic theory predicts that a binding leverage ratio requirement can discourage banking organizations from engaging in low-risk activities, which might reduce social welfare.

A prime example of such low-risk, low-return, high-volume activities conducted by banking organizations is intermediation in the U.S. Treasury market, a key financial market.[54] Acting as intermediaries in this market, banking organizations enter into temporary positions in U.S. Treasury securities, classified as trading assets on their balance sheets. Most of these trading assets are held by the broker-dealer subsidiaries of banking organizations to facilitate transactions across different participants and segments in the U.S. Treasury market.[55] These broker-dealers play a critical role in the U.S. Treasury market by providing liquidity to market participants through both market making and securities financing activities; in particular, GSIBs' primary dealer subsidiaries are the largest U.S. Treasury securities dealers.[56]

Both the U.S. Treasury market and primary dealers' U.S. Treasury securities positions have grown rapidly over the last decade. As Table 2 shows, the amount of U.S. Treasury securities outstanding, excluding holdings of the Federal Reserve System Open Market Account,

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[54] The U.S. Treasury market is a key financial market because it (i) constitutes an important channel through which the Federal Reserve can conduct its monetary policy; (ii) enables the U.S. government to obtain financing at a low and stable cost; (iii) provides the yield curve widely used as a risk-free benchmark in the valuation of other financial assets and derivatives; and (iv) offers a large supply of safe and liquid assets for global investors.

[55] See the discussion related to Table 5 in section VI.B of this **Supplementary Information**.

[56] The activities of U.S. Treasury securities dealers extend well beyond buying and selling U.S. Treasury securities outright in the primary and secondary markets. In particular, these entities also act as key counterparties in secured financing and derivatives transactions. For a detailed analysis of how the activities and positions of the broker-dealer subsidiaries of GSIBs evolved over time, see P. Cochran et al., Dealers' Treasury Market Intermediation and the Supplementary Leverage Ratio, FEDS Notes, Board of Governors of the Federal Reserve System (August 3, 2023).

has expanded by 139 percent, from $10 trillion to $24 trillion, since 2014.[57] Meanwhile, the U.S. Treasury securities positions of primary dealers have grown by 155 percent, reaching $0.6 trillion in aggregate. This expansion in primary dealers' U.S. Treasury securities positions reflects both the abundant supply of these securities and the central role of these broker-dealer subsidiaries of banking organizations as intermediaries in this market. Notably, despite the rapid increase in primary dealers' U.S. Treasury securities positions, measured in dollar terms, the size of these positions relative to the size of the market has been stable over time. Specifically, relative to the amount of U.S. Treasury securities outstanding, excluding holdings of the Federal Reserve System Open Market Account, the U.S. Treasury securities positions of primary dealers stayed at about 2.5 percent over the last decade, which indicates the strong connection between the size of the U.S. Treasury market and the magnitude of market intermediation activities by these broker-dealers.[58]

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[57] To assess the size of the U.S. Treasury market from the perspective of broker-dealers, the agencies exclude the U.S. Treasury securities holdings of Federal Reserve System Open Market Account because market intermediation activity is closely related to U.S. Treasury securities held by the public sector.

[58] The positive empirical relationship between the size of the U.S. Treasury market and primary dealers' U.S. Treasury securities positions is also documented in P. Cochran et al., Assessment of Dealer Capacity to Intermediate in Treasury and Agency MBS Markets, FEDS Notes, Board of Governors of the Federal Reserve System (October 22, 2024).

Table 2: Growth of the U.S. Treasury Market, U.S. Primary Dealers, and the U.S. Treasury Securities Holdings of U.S. Primary Dealers Over the Last Decade[59]

This table shows the aggregate amounts of U.S. Treasury securities outstanding, the total assets of primary dealers, and the long U.S. Treasury securities positions of primary dealers, measured in trillions of dollars at the end of 2014 and 2024. The right column shows percentage changes in these aggregates from 2014 to 2024. The amount of U.S. Treasury securities outstanding excludes the amount of U.S. Treasury securities holdings in the System Open Market Account (SOMA) of the Federal Reserve. The last row shows the percentage ratio of the amount of U.S. Treasury securities held by primary dealers to the amount of U.S. Treasury securities outstanding, excluding SOMA holdings.

	2014	**2024**	**Growth**
U.S. Treasury securities outstanding (excl. SOMA holdings)	\$10.0tr	\$24.0tr	139%
Total assets of primary dealers	\$3.3tr	\$4.2tr	29%
Primary dealer U.S. Treasury securities positions (long only)	\$0.24tr	\$0.61tr	155%
Relative to U.S. Treasury securities outstanding:	2.4%	2.5%	

The rapid growth of the U.S. Treasury market has raised concerns about its liquidity and resiliency, especially considering that the balance sheets of primary dealers, key intermediaries in this market, have grown at a more moderate pace (by 29 percent, in aggregate, since 2014).[60] These concerns partly drove the agencies' decision to temporarily exclude deposits at Federal Reserve Banks and U.S. Treasury securities holdings from the calculation of total leverage

[59] In this table, the agencies use publicly available data reported in field FL313161105 of the Financial Accounts of the United States (Z.1) for the amount of U.S. Treasury securities outstanding; the Federal Reserve Bank of New York's public reports for the amount of U.S. Treasury securities holdings in the System Open Market Account of the Federal Reserve (see: https://www.newyorkfed.org/markets/soma-holdings); publicly available data reported in SEC Form X-14A-5 Part IIA filings for the total assets of primary dealers; and the sum of the values reported in fields GSWA M438, N749, M440, M442, M444, M446, M448, M450, LF56, LF58, M452, M454, M456, M458 of the confidential FR 2004A filings for the amount of long U.S. Treasury securities positions of primary dealers, measured at the end of 2014 and 2024.

[60] See, e.g., the discussion of concerns about U.S. Treasury market functioning and proposed solutions, for example, in D. Duffie, Still the World's Safe Haven? Redesigning the U.S. Treasury Market After the COVID-19 Crisis, Hutchins Center on Fiscal and Monetary Policy, Brookings (June 22, 2020) and N. Liang and P. Parkinson, Enhancing Liquidity of the U.S. Treasury Market Under Stress, Hutchins Center on Fiscal and Monetary Policy, Brookings (December 16, 2020).

exposure for banking organizations subject to Category I to III standards in the wake of the COVID-19 market stress.[61] Empirical evidence in BCBS (2021) suggests that the exclusions enabled these banking organizations, and especially GSIBs, which had smaller supplementary leverage ratio management buffers than holding companies subject to Category II and III standards, to significantly expand their U.S. Treasury securities holdings.[62]

There are several factors that influence broker-dealers' decisions to engage in financial market intermediation.[63] Academic studies also provide support for the concern that the supplementary leverage ratio requirement could potentially discourage U.S. Treasury market intermediation by the broker-dealer subsidiaries of large banking organizations. Favara, Infante, Rezende (2022) find that large and unexpected increases to GSIBs' balance sheets discourage GSIBs' broker-dealer subsidiaries from participating in the U.S. Treasury market, with the estimated effect being stronger for GSIBs with smaller supplementary leverage ratio management buffers.[64] Duffie et al. (2023) show that U.S. Treasury market liquidity measures

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[61] See the Board's and the agencies' interim final rules temporarily excluding these assets from the calculation of total leverage exposure for holding companies subject to Category I to III standards, as well as their depository institution subsidiaries, effective April 14, 2020, and June 1, 2020. 85 FR 20578 (April 14, 2020); 85 FR 32980 (June 1, 2020).

[62] Basel Committee on Banking Supervision, Early lessons from the Covid-19 pandemic on the Basel reforms, Bank for International Settlements (July 2021) ("BCBS (2021)"). Throughout the economic analysis section, the agencies use the term "management buffer" to refer to the amount of regulatory capital that a company has in excess of the sum of its minimum regulatory capital requirements and any regulatory capital buffer requirements.

[63] For example, Li, Petrasek, Tian (2024) finds that internal risk limits are important determinants of broker-dealers' capacity and willingness to intermediate financial markets. D. Li, L. Petrasek, and M. H. Tian, Risk-Averse Dealers in a Risk-Free Market – The Role of Internal Risk Limits, SSRN (March 1, 2024) ("Li, Petrasek, Tian (2024)").

[64] G. Favara, S. Infante, and M. Rezende, Leverage Regulations and Treasury Market Participation: Evidence from Credit Line Drawdowns, SSRN (August 4, 2022) ("Favara, Infante, Rezende (2022)").

deteriorate as primary dealers face capacity constraints, suggesting that a lack of ability by broker-dealers to participate in U.S. Treasury markets can have a detrimental effect on market liquidity.[65] The empirical findings in Bräuning and Stein (2024) indicate that the primary dealer subsidiaries of banking organizations subject to Category I to III standards that face relatively more binding supplementary leverage ratio requirements or internal risk limits reduce their U.S. Treasury securities positions relative to less constrained primary dealers, which in turn leads to a decrease in market liquidity in the form of lower aggregate turnover and wider bid-ask spreads.[66] Overall, the academic literature suggests that reducing the supplementary leverage ratio requirement's bindingness could improve the functioning of the U.S Treasury market.

The structure of the economic analysis is as follows. Section VI.B describes the baseline for the impact assessment, which is the current regulatory framework, and the data sources used. Sections VI.C and VI.D present the proposal and four reasonable policy alternatives to the proposal. Section VI.E estimates the change in the supplementary leverage ratio requirement and the binding tier 1 capital requirement for banking organizations subject to Category I to III standards under the proposal and the policy alternatives, relative to the baseline. Sections VI.F and VI.G evaluate the economic benefits and costs, respectively, of the proposal and the policy alternatives. Section VI.H analyzes the impact of the proposed changes to the long-term debt and total loss-absorbing capacity buffer requirements. Section VI.I concludes the economic analysis.

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[65] D. Duffie et al., Dealer Capacity and U.S. Treasury Market Functionality, Federal Reserve Bank of New York Staff Report (August 2023, *rev.* October 2023) ("Duffie et al. (2023)").

[66] F. Bräuning and H. Stein, The Effect of Primary Dealer Constraints on Intermediation in the Treasury Market, Federal Reserve Bank of Boston Research Department Working Papers (2024) ("Bräuning and Stein (2024)").

B. Baseline

The economic analysis uses the current regulatory framework as a baseline, which includes the current supplementary leverage ratio requirement, described in section I.A of this **Supplementary Information**. The baseline represents the state of banking organizations subject to Category I to III standards in the absence of a policy change. Accordingly, throughout the analysis, the agencies assess the economic impact of the proposal and the policy alternatives considered, described in sections VI.C and VI.D of this **Supplementary Information**, respectively, by comparing outcomes estimated under the proposal and the alternatives to the outcome estimated under the baseline.

The analysis uses the year 2024 as the sample period to produce quantitative estimates, which reflects a recent state of banking organizations subject to Category I to III standards. Unless stated otherwise, the calculations and estimates in the analysis take the average values of balance sheet quantities and ratios measured at the end of each quarter in 2024. A review of balance sheets of banking organizations subject to Category I to III standards from 2021 to 2024 indicates that using a longer sample period would yield similar estimates.

Unless stated otherwise, the analysis uses publicly available data reported in FR Y-9C filings for holding companies and FFIEC Call Reports for depository institutions.[67] In certain calculations related to the total leverage exposure of holding companies, the agencies use publicly available data reported in FFIEC 101 filings.[68] The agencies calculate method 1 and

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[67] From FR Y-9C filings, the agencies use the fields BHCA8274, BHCAA223, BHCWA223, BHCAA224, BHCK2170, BHCK3368, BHCM3531, BHCK0211, BHCK0213, BHCK1286, BHCK1287, BHCALE85. From FFIEC Call Reports, the agencies use the fields RCFA8274, RCFAA223, RCFWA223, RCFAA224, RCFD2170, RCFAH015, RCFD3531, RCFD0211, RCFD0213, RCFD1286, RCFD1287, RCFD0090, RCON0090.

[68] From FFIEC 101 filings, the agencies use the field AAABH015.

method 2 surcharges by using publicly available data from FR Y-15 filings as well as the aggregate global systemic indicator amounts published annually by the Board.[69] The agencies calculate the amount of U.S. Treasury securities holdings of primary dealers by using confidential data from FR 2004A filings.[70]

In calculations involving the depository institution subsidiaries of holding companies subject to Category I to III standards, the agencies focus on each holding company's largest depository institution subsidiary as well as any of its depository institution subsidiaries with total assets greater than $50 billion at the end of any quarter in 2024 ("major" depository institution subsidiaries). The rest of their depository institution subsidiaries, with total assets less than $50 billion in 2024, account for 0.7 percent of the consolidated total assets of these holding companies, in aggregate.[71]

Table 3 compares the baseline levels of the different tier 1 capital requirements, inclusive of buffer requirements, for banking organizations subject to Category I to III standards in 2024.[72] On average, for GSIBs, the supplementary leverage ratio requirement is at a similar level to the

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[69] From FR Y-15 filings, the agencies use the fields RISK Y832, M362, M370, M376, M390, M405, M408, M411, N255, G506, M422, M426, Y896. Additionally, in method 1 surcharge calculations, the agencies use the aggregate global indicator amounts published by the Board at *https://www.federalreserve.gov/supervisionreg/basel/denominators.htm*.

[70] From FR 2004A filings, the agencies use the sum of the values reported in fields GSWA M438, N749, M440, M442, M444, M446, M448, M450, LF56, LF58, M452, M454, M456, M458 to calculate the amount of long U.S. Treasury securities positions of primary dealers.

[71] These depository institution subsidiaries include the uninsured national trust bank subsidiaries of GSIBs that would become subject to the eSLR standard under the proposal, as discussed in section I.C of this **Supplementary Information**. There are six such uninsured national trust bank subsidiaries, which account for 0.01 percent of the total assets of GSIBs, in aggregate.

[72] The agencies calculated tier 1 capital requirements for banking organizations subject to Category I to III standards as per the applicable rules. See 12 CFR 3.10 and 3.11, 12 CFR 6.4 (OCC); 12 CFR 208.43, 12 CFR 217.10 and 217.11 (Board); 12 CFR 324.10, 324.11, and 324.403 (FDIC).

risk-based tier 1 capital requirement. On average, for the major depository institution subsidiaries of GSIBs, the supplementary leverage ratio requirement is higher than the risk-based tier 1 capital requirement. On average, for banking organizations subject to Category II and III standards, the risk-based tier 1 capital requirement is higher than the tier 1 leverage ratio requirement, which in turn is higher than the supplementary leverage ratio requirement.

Table 3: Baseline Tier 1 Capital Requirements (Percentage of Total Leverage Exposure)

This table shows the tier 1 capital requirements for holding companies subject to Category I and Category II/III standards (Panel A), and their "major" depository institution subsidiaries (Panel B), expressed as a percentage of their total leverage exposures, under the baseline. The numbers represent averages calculated across banking organizations in each category over the four quarters of 2024, weighted by their total assets. The data used in this table are described in section VI.B of this **Supplementary Information**.

Panel A: Holding Companies

	Risk-Based	**Leverage Ratio**	**Supplementary Leverage Ratio**
Category I	5.1	3.4	5.0
Category II/III	5.2	3.5	3.0

Panel B: Depository Institutions

	Risk-Based	**Leverage Ratio**	**Supplementary Leverage Ratio**
Category I	4.0	4.2	6.0
Category II/III	5.0	4.3	3.0

The agencies estimate that the supplementary leverage ratio requirement is the binding tier 1 capital requirement for five out of the eight GSIBs and eight out of their nine major depository institution subsidiaries under the baseline. By contrast, for almost all holding companies subject to Category II and III standards, as well as for nine out of their 12 major depository institution subsidiaries, the risk-based tier 1 capital requirement is the binding tier 1 capital requirement.

Table 3 also shows that, compared to the risk-based tier 1 requirement, the relative level of the supplementary leverage ratio requirement is significantly lower for GSIBs than for their major depository institution subsidiaries under the baseline. For GSIBs, the level of the

supplementary leverage ratio requirement ranges from 87 to 111 percent of the risk-based tier 1 capital requirement, whereas for their major depository institution subsidiaries, the level of the supplementary leverage ratio requirement ranges from 128 to 244 percent of the risk-based tier 1 capital requirement. This difference between GSIBs and their depository institution subsidiaries in the level of the supplementary leverage ratio requirement is due to the lower risk-based capital buffer requirements and the higher eSLR standard at the depository institutions.[73] Accordingly, any adjustment to the eSLR standards that aims for the supplementary leverage ratio requirement to be a backstop to risk-based capital requirements would lead to a larger reduction in tier 1 capital requirements for GSIBs' depository institution subsidiaries than for GSIBs.

The proposal also affects requirements and buffer standards for TLAC and long-term debt. The agencies present a baseline analysis for these standards in section VI.H of this **Supplementary Information**.

1. Role of Banking Organizations as Investors in U.S. Treasury Markets

In addition to their critical role as intermediaries in the U.S. Treasury market, banking organizations also act as investors in this market. Specifically, in addition to U.S. Treasury securities held as trading assets, banking organizations also hold such securities as investment securities on their balance sheets, typically for longer periods, and possibly until maturity.[74] Most of these investment securities are held by depository institution subsidiaries.[75]

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[73] Risk-based capital buffer requirements are higher for GSIBs than for their depository institution subsidiaries because of the GSIB surcharge and the stress capital buffer.

[74] Under U.S. GAAP, investment securities holdings can be classified as "available-for-sale" or "held-to-maturity" securities on banking organizations' balance sheets.

[75] See the discussion related to Table 5 in section VI.B of this **Supplementary Information**.

Over the last decade, banking organizations have increased their market share as investors in the U.S. Treasury market, with the growth of U.S. Treasury securities held by depository institutions outpacing the expansion of the market. Indeed, Table 4 shows that the amount of U.S. Treasury securities outstanding has expanded by 125 percent, from $12.5 trillion to $28.1 trillion, whereas the U.S. Treasury securities holdings of U.S. depository institutions have grown by 264 percent, reaching $1.54 trillion in aggregate. Hence, the aggregate market share of depository institutions has increased from 3.4 percent to 5.5 percent.

Table 4: Growth of the U.S. Treasury Market, U.S. Depository Institutions, and their U.S. Treasury Securities Holdings over the Past Decade[76]

This table shows the aggregate amounts of U.S. Treasury securities outstanding, the total assets of U.S. depository institutions, and the U.S. Treasury securities of U.S. depository institutions, measured in trillions of dollars at the end of 2014 and 2024. The right column shows the percentage changes in these aggregates from 2014 to 2024. The two rows at the bottom show the percentage ratios of the amount of U.S. Treasury securities holdings by U.S. depository institutions to the amount of U.S. Treasury securities outstanding and their total assets, respectively.

	2014	**2024**	**Growth**
U.S. Treasury securities outstanding	$12.5tr	$28.1tr	125%
Total assets of U.S. depository institutions	$14.1tr	$22.5tr	60%
Treasury securities held by depository institutions	$0.42tr	$1.54tr	264%
Relative to Treasury securities outstanding:	3.4%	5.5%	
Relative to the total assets of depository institutions:	3.0%	6.8%	

Table 4 shows that while the U.S. Treasury securities holdings of U.S. depository institutions have grown significantly, their balance sheets have grown at a more moderate pace, by 60 percent, in aggregate, since 2014. Consequently, the aggregate share of U.S. Treasury

[76] In this table, the agencies use publicly available data reported in the Financial Accounts of the United States (Z.1): field FL313161105 for the amount of U.S. Treasury securities outstanding; field FL764194005 for the total assets of U.S. depository institutions; and field LM763061100 for the U.S. Treasury securities holdings of U.S. depository institutions, measured at the end of 2014 and 2024.

securities held on their balance sheets has more than doubled, from 3.0 percent to 6.8 percent, which indicates that the relative importance of U.S. Treasury securities as investment assets has increased for banking organizations over the last decade. These developments contribute to the increased bindingness of leverage ratio requirements because U.S. Treasury securities held on the balance sheet of a depository institution have zero risk weight under the risk-based capital framework; hence, increases in such securities holdings can increase leverage ratio requirements relative to risk-based capital requirements.

2. Treasury Securities Held by Banking Organizations Subject to Category I to III Standards

Banking organizations subject to Category I to III standards had large U.S. Treasury holdings, in both nominal and relative terms, in 2024. As Table 5 shows, measured at fair value at the consolidated holding company level, these banking organizations held $1.9 trillion of U.S. Treasury securities, in aggregate, which was almost 7 percent of the total amount of U.S. Treasury securities outstanding. On average, these securities holdings constituted 9 percent of GSIBs' total leverage exposures and 5 percent of the total leverage exposures of holding companies subject to Category II and III standards.

Table 5: U.S. Treasury Securities Holdings

This table shows the magnitude of U.S. Treasury securities holdings of banking organizations subject to Category I to III standards. The numbers represent averages taken across banking organizations within each category over the four quarters in 2024. The table distinguishes all U.S. Treasury securities from those reported as trading assets by these banking organizations. The left side of the table quantifies the U.S. Treasury securities holdings of holding companies, measured both in trillions of dollars, at fair value, and as a percentage of total leverage exposure. The right side of the table shows the percentage share of consolidated holding companies' U.S. Treasury securities held by their depository institution subsidiaries, with the last column reflecting only those consolidated holding companies whose holdings of U.S. Treasury securities reported as trading assets exceed one percent of their total leverage exposures. The data used in this table are described in section VI.B of this **Supplementary Information**. In particular, for these holding companies and their depository institution subsidiaries, the fair value amounts of U.S. Treasury securities holdings reported as trading assets are obtained from FR Y-9C and FFIEC Call Report data fields BHCM 3531 and RCFD 3531, respectively.

	Holding Company			**Depository Institution Share**	
	($ trillion)	(Percentage of Total Leverage Exposures)		(Relative to Holding Company Securities Holdings)	
	All	**All**	**Trading**	**Within All**	**Within Trading**
Category I	1.7	9%	3%	69%	23%
Category II/III	0.2	5%	2%	63%	0%

Table 5 also shows that the two distinct roles of banking organizations subject to Category I to III standards as intermediaries and investors in the U.S. Treasury market have a disproportionate footprint on their balance sheets, both at their consolidated holding companies and across their subsidiaries. On average across these banking organizations, about two thirds of U.S. Treasury securities held on consolidated holding company balance sheets are classified as investment assets, with the remaining one third classified as trading assets. In aggregate, the depository institution subsidiaries of these banking organizations hold the majority of the U.S. Treasury securities classified as investment assets and a minor share of U.S. Treasury securities classified as trading assets on the consolidated balance sheets of their parent holding

companies. As noted earlier, most of the U.S. Treasury holdings classified as trading assets are held by the broker-dealer subsidiaries of these banking organizations.[77]

C. Proposed Policy Change

The proposal would set the eSLR standard for GSIBs to half of their method 1 surcharge instead of the two percent buffer standard applicable under the baseline. Additionally, for the depository institution subsidiaries of GSIBs, the proposal would set the eSLR buffer standard to half of the method 1 surcharge of their parent holding companies, removing the six-percent threshold for these depository institutions to be considered "well-capitalized" under the prompt corrective action framework under the baseline.

The proposal would not change the three percent supplementary leverage ratio minimum requirement or the calculation of total leverage exposure for banking organizations subject to Category I to III standards.

D. Reasonable Alternatives

The analysis considers four reasonable alternatives to the proposal. The agencies assess the expected benefits and costs of these alternatives relative to the baseline and compare them to the expected benefits and costs of the proposal.

Alternative 1 is the "additional narrow exclusion" approach described in section II.B of this **Supplementary Information**. It would include all proposed changes for GSIBs and their depository institution subsidiaries and would additionally exclude from the calculation of total

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[77] Using confidential FR 2004 data for GSIBs' primary dealer subsidiaries, the agencies confirm that, on average, 92 percent of the U.S. Treasury securities holdings classified as trading assets on GSIBs' consolidated balance sheets and not held by their depository institution subsidiaries are indeed held by their primary dealer subsidiaries. Section VI.B of this **Supplementary Information** describes the data used in this calculation.

leverage exposure for holding companies subject to Category I to III standards U.S. Treasury securities that are reported as trading assets on the holding companies' balance sheets and that are held at broker-dealer subsidiaries (and foreign equivalents thereof) that are not subsidiaries of a depository institution.

Alternative 2 is the "broader exclusion" approach, which would not change the eSLR standards like the proposal but would instead exclude deposits held at Federal Reserve Banks (reserves) and all U.S. Treasury securities holdings from the calculation of total leverage exposure for all banking organizations subject to Category I to III standards. This policy alternative would be similar to the temporary exclusion of these assets from the calculation of total leverage exposure implemented by the agencies in 2020.[78]

Alternative 3 ("2018 proposal") would set the eSLR standards for GSIBs and their depository institution subsidiaries equal to half of the higher of method 1 and method 2 surcharges. This policy alternative would be similar to the notice of proposed rulemaking published in the Federal Register by the Board and OCC on April 19, 2018, which would have recalibrated the eSLR standards for these banking organizations.[79] This proposed rule was not finalized. Using the higher of a GSIB's method 1 and method 2 surcharge would be consistent with the calculation of the GSIB surcharge under the risk-based capital framework for GSIBs.

Alternative 4 ("combined") would be a combination of the proposal and Alternative 2. As such, this policy alternative would both set eSLR standards for GSIBs as well as their

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[78] See the Board's and the agencies' interim final rules temporarily excluding these assets from the calculation of total leverage exposure for holding companies subject to Category I to III standards, as well as their depository institution subsidiaries, effective April 14, 2020, and June 1, 2020. 85 FR 20578 (April 14, 2020); 85 FR 32980 (June 1, 2020).

[79] See 83 FR 17317 (April 19, 2018).

depository institution subsidiaries like the proposal and exclude reserves as well as U.S. Treasury securities holdings from the calculation of total leverage ratio exposure for all banking organizations subject to Category I to III standards.

E. Changes in the Supplementary Leverage Ratio and Tier 1 Capital Requirements

The agencies estimate that the proposal would substantially reduce the supplementary leverage ratio requirement for GSIBs and their depository institution subsidiaries relative to the baseline. As Table 6 shows, the proposal would reduce the requirement by 23 percent, on average, for the holding companies, ranging from 15 to 30 percent across GSIBs, and by 36 percent, on average, for the major depository institution subsidiaries of GSIBs, ranging from 29 to 42 percent across these subsidiaries. Meanwhile, banking organizations subject to Category II and III standards would see no reduction in the supplementary leverage ratio requirement because the proposal would not change their baseline requirement.

Table 6: Estimated Percentage Change in the Supplementary Leverage Ratio Requirement

This table shows the estimated percentage change in the supplementary leverage ratio requirement relative to the current (that is, baseline) requirement, measured in dollars, under the proposal and the different policy alternatives, described in section VI.D of this **Supplementary Information**. The numbers represent averages calculated across holding companies subject to Category I and Category II/III standards (Panel A), and their "major" depository institution subsidiaries (Panel B) over the four quarters of 2024, weighted by their total assets. The data used in this table are described in section VI.B of this **Supplementary Information**.

Panel A: Holding Companies

	Proposal	**Policy Alternatives**			
		#1	**#2**	**#3**	**#4**
Category I	–23	–25	–14	–8	–34
Category II/III	0	–1	–11	0	–11
Category I-III	**–18**	**–20**	**–14**	**–6**	**–29**

Panel B: Depository Institutions

	Proposal	Policy Alternatives			
		#1	#2	#3	#4
Category I	–36	–36	–15	–23	–45
Category II/III	0	0	–12	0	–12
Category I-III	**–27**	**–27**	**–14**	**–17**	**–37**

Alternative 1 ("additional narrow exclusion") would have a quantitatively similar effect to that of the proposal, reducing the supplementary leverage ratio requirement slightly more, by 25 percent, on average, for GSIBs and by the same amount, 36 percent, on average, for their major depository institution subsidiaries. Relative to the baseline, this policy alternative would slightly reduce the supplementary leverage ratio requirement for holding companies subject to Category II and III standards.[80] This small incremental reduction in the supplementary leverage ratio requirement for holding companies would be due to the exclusion of U.S. Treasury securities held by their broker-dealer subsidiaries from the calculation of total leverage exposure for these holding companies.[81]

Alternative 2 ("broader exclusion") would lead to a much smaller reduction in the supplementary leverage ratio requirement for GSIBs and their depository institution subsidiaries than the proposal. This policy alternative would affect GSIBs and banking organizations subject to Category II to III standards to a similar extent because it would exclude reserves and all

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[80] Under Alternative 1, the estimated reduction in the supplementary leverage ratio requirement for holding companies subject to Category II and III would be modest because it would solely be driven by the exclusion of U.S. Treasury securities held by their broker-dealer subsidiaries from the calculation of total leverage exposure for these holding companies, while their minimum supplementary leverage ratio requirement would remain unchanged.

[81] Throughout the economic analysis, for each holding company subject to Category I to III standards, the agencies approximate the amount of U.S. Treasury securities classified as trading assets and held by its broker-dealer subsidiaries by taking the amount of U.S. Treasury securities reported as trading assets by the consolidated holding company and subtracting the amount of U.S. Treasury securities reported as trading assets by its depository institution subsidiaries.

U.S. Treasury securities holdings from the calculation of total leverage exposure for all of these banking organizations. Specifically, it would reduce the supplementary leverage ratio requirement for these banking organizations by 14 percent, on average. The reduction in the requirement would be similar between holding companies and depository institution subsidiaries because most of the excluded assets are held at the depository institution subsidiaries.

Alternative 3 ("2018 proposal") would lead to a smaller reduction in the supplementary leverage ratio requirement for GSIBs and their depository institution subsidiaries than the proposal. This is because, as discussed in section VI.D of this **Supplementary Information**, the proposal would set the eSLR standards to half of the method 1 surcharge, whereas this policy alternative would set the eSLR standards to half of the higher of the method 1 and method 2 surcharges. Specifically, Alternative 3 would reduce the supplementary leverage ratio requirement by 8 percent, on average, for GSIBs and by 23 percent, on average, for their major depository institution subsidiaries. Like the proposal, this policy alternative would lead to a much larger reduction in the supplementary leverage ratio requirement for the depository institutions than for the holding companies because, as described in section VI.D of this **Supplementary Information**, it would set eSLR standards to the same percentage amount for both GSIBs and their major depository institution subsidiaries, whereas the eSLR standard is one percentage point higher for their depository institution subsidiaries under the baseline. Like the proposal, this policy alternative would not change the supplementary leverage ratio requirement for banking organizations subject to Category II and III standards.

Alternative 4 ("combined") would combine the effects of the proposal and the "broader exclusion" alternative, reducing the supplementary leverage ratio requirement by 34 percent and 45 percent, on average, for GSIBs and their major depository institution subsidiaries,

respectively, and by a little more than 10 percent, on average, for banking organizations subject to Category II and III standards.[82] Similar to the "additional narrow exclusion" alternative, the "combined" alternative would reduce tier 1 capital requirements for GSIBs and their depository institution subsidiaries much more than for banking organizations subject to Category II and III standards because GSIBs and their depository institution subsidiaries would be affected by both the reduced calibration of the eSLR standards and the exclusion of reserves and U.S. Treasury securities holdings from the calculation of total leverage exposure, while banking organizations subject to Category II and III standards would only be affected by the exclusion.

Turning to the backstop objective of the proposal, the proposal would meaningfully reduce the supplementary leverage ratio requirement relative to the risk-based tier 1 capital requirement for GSIBs and their depository institution subsidiaries. As Table 7 shows, the proposal would reduce the level of the supplementary leverage ratio requirement from about 100 percent and 155 percent of the risk-based tier 1 capital requirement to about 75 percent and 100 percent of it, on average, for GSIBs and their major depository institution subsidiaries, respectively. Under the proposal, the level of the supplementary leverage ratio requirement would range from 61 percent to 86 percent of the risk-based tier 1 requirement for GSIBs and from 75 percent to 143 percent of the risk-based tier 1 requirement for their major depository institution subsidiaries. Therefore, the proposal would set the level of the supplementary leverage ratio requirement below the level of the risk-based tier 1 capital requirement for all GSIBs, thereby making the supplementary leverage ratio a backstop for all holding companies

[82] The effect of Alternative 4 would be less than the sum of the proposal's effect and the effect of Alternative 2 because the exclusion of reserves and U.S. Treasury securities holdings from the supplementary leverage ratio's denominator reduces the effect of the reduced calibration of the eSLR standard under this combined policy alternative.

subject to Category I to III standards. Furthermore, the proposal would set the level of the supplementary leverage ratio requirement below the level of the risk-based tier 1 capital requirement for 6 out of the 9 major depository institution subsidiaries of GSIBs under the proposal. As explained, the proposal would not change the supplementary leverage ratio requirement for banking organizations subject to Category II and III standards. However, the supplementary leverage ratio requirement is already well below (about 65 percent of) the risk-based tier 1 capital requirement for these banking organizations under the baseline.

Table 7: Ratio of the Supplementary Leverage Ratio Requirement to the Risk-Based Tier 1 Capital Requirement

This table shows the ratio of the supplementary leverage ratio requirement, measured in dollars, to the higher of the standardized approach and advanced approaches risk-based tier 1 capital requirements, measured in dollars. The ratio is calculated under the baseline, the proposal, and the different policy alternatives described in section VI.D of this **Supplementary Information**. The numbers represent averages calculated across holding companies subject to Category I and Category II/III standards (Panel A), and their "major" depository institution subsidiaries (Panel B) over the four quarters of 2024, weighted by their total assets. The data used in this table are described in section VI.B of this **Supplementary Information**.

Panel A: Holding Companies

	Baseline	**Proposal**	**Policy Alternatives**			
			#1	**#2**	**#3**	**#4**
Category I	0.98	0.75	0.74	0.84	0.91	0.65
Category II/III	0.65	0.65	0.64	0.58	0.65	0.58
Category I-III	**0.91**	**0.73**	**0.71**	**0.78**	**0.85**	**0.63**

Panel B: Depository Institutions

	Baseline	**Proposal**	**Policy Alternatives**			
			#1	**#2**	**#3**	**#4**
Category I	1.54	1.00	1.00	1.31	1.19	0.85
Category II/III	0.64	0.64	0.64	0.57	0.64	0.57
Category I-III	**1.32**	**0.91**	**0.91**	**1.12**	**1.06**	**0.78**

The changes in the relative level of the supplementary leverage ratio requirement under the policy alternatives would be consistent with the estimated percentage changes in the supplementary leverage ratio requirement discussed earlier. The effect of Alternative 1

("additional narrow exclusion") would be quantitatively similar to that of the proposal. Alternative 2 ("broader exclusion") would reduce the relative level of the leverage ratio requirement for GSIBs and their depository institution subsidiaries by less than the proposal. For banking organizations subject to Category II and III standards, the reduction would be larger than under the proposal. Alternative 3 ("2018 proposal") would reduce the relative level of the leverage ratio requirement less for GSIBs and their depository institutions than the proposal. Importantly, Alternatives 2 and 3 would not achieve the goal of making the supplementary leverage ratio requirement a backstop for GSIBs because it would exceed the risk-based tier 1 capital requirement for some GSIBs under these policy alternatives. Alternative 4 would reduce the relative level of the leverage ratio requirement the most of all policy alternatives. However, the supplementary leverage ratio requirement would still exceed the risk-based tier 1 capital requirement for two depository institution subsidiaries of GSIBs under this policy alternative.

Turning to changes in tier 1 capital requirements, the agencies estimate that the proposal would reduce tier 1 requirements for most GSIBs and their depository institution subsidiaries. Table 8 shows that the aggregate reduction in tier 1 capital requirement would be $13 billion for GSIBs and $213 billion for their major depository institution subsidiaries in the long-term under the proposal. For GSIBs, the estimated reduction in tier 1 capital requirement relative to the baseline is small, less than 2 percent, in aggregate, ranging from zero to 7.4 percent. This is because the baseline levels of the supplementary leverage ratio requirement and the risk-based tier 1 capital requirement, expressed in dollar terms, are similar for GSIBs, and thus lowering the supplementary leverage ratio requirement reduces the tier 1 capital requirement only up to the

point that other tier 1 capital requirements become binding.[83] By contrast, for the major depository institution subsidiaries of GSIBs, the estimated reduction in tier 1 capital requirement relative to the baseline is sizable, about 27 percent, in aggregate, ranging from zero to 37 percent. This is because, for these depository institutions, the baseline level of the supplementary leverage ratio requirement, in dollar terms, is significantly higher than the baseline levels of the other tier 1 capital requirements, which implies that the substantial estimated reduction in the supplementary leverage ratio requirement for these depository institutions under the proposal would mostly translate to a reduction in their tier 1 capital requirements.[84]

Table 8: Estimated Change in Tier 1 Capital Requirement ($ billion)

This table shows the baseline amount of tier 1 capital and the estimated change in tier 1 capital requirement under the proposal and the different policy alternatives, described in section VI.D of this Supplementary Information. The numbers are measured in billions of dollars and represent aggregate amounts for Category I and Category II/III holding companies (Panel A) and their "major" depository institution subsidiaries (Panel B), averaged over the four quarters of 2024. The data used in this table are described in section VI.B of this **Supplementary Information**.

Panel A: Holding Companies

	Baseline Tier 1 Capital Requirement	**Estimated Change in Tier 1 Capital Requirement**				
		Proposal	**Policy Alternatives**			
			#1	**#2**	**#3**	**#4**
Category I	931	–13	–13	–13	+2	–13
Category II/III	273	0	0	0	0	0
Total	**1,204**	**–13**	**–13**	**–13**	**+2**	**–13**

[83] More precisely, lowering the supplementary leverage ratio requirement reduces the tier 1 capital requirement only up to the point that the risk-based tier 1 capital requirement *or* the tier 1 leverage ratio requirement becomes the binding tier 1 capital requirement. Under the baseline, the risk-based tier 1 capital requirement exceeds the tier 1 leverage ratio requirement for all except one GSIBs.

[84] Specifically, as discussed in relation to Table 7, the baseline level of the supplementary leverage ratio requirement is 54 percent higher than the baseline level of the risk-based tier 1 capital requirement for the major depository institution subsidiaries of GSIBs.

Panel B: Depository Institutions

	Baseline Tier 1 Capital Requirement	Estimated Change in Tier 1 Capital Requirement				
		Proposal	Policy Alternatives			
			#1	#2	#3	#4
Category I	789	–213	–213	–118	–148	–219
Category II/III	220	0	0	0	0	0
Total	**1,008**	**–213**	**–213**	**–118**	**–148**	**–219**

Alternatives 1, 2, and 4 would lead to the same aggregate reduction in the tier 1 capital requirement for GSIBs as the proposal because all of these policy alternatives would reduce the supplementary leverage ratio requirement below the other (risk-based and leverage) tier 1 capital requirements for all GSIBs. By contrast, the agencies estimate that Alternative 3 would lead to a small, less than $2 billion, aggregate increase in the tier 1 capital requirement for GSIBs, as one large GSIB would face an increase in its tier 1 capital requirement.

For major depository institution subsidiaries of GSIBs, the estimated dollar reduction in tier 1 capital requirements is in line with the estimated percentage reduction in the supplementary leverage ratio requirement across policy alternatives, with the exception of Alternative 4. This "combined" alternative would reduce tier 1 capital requirements for the major depository institution subsidiaries of GSIBs by $6 billion more, in aggregate, than the proposal. Notably, even though this policy alternative combines the effects of the proposal and the "broader exclusion" alternative, the estimated reduction under Alternative 4 is only slightly higher than under the proposal. This is because the proposal would set the supplementary leverage ratio requirement for most of these depository institutions below the other (risk-based and leverage) tier 1 capital requirements, and the additional effect of excluding assets from the calculation of total leverage exposures under the "combined" alternative for these depository institutions would not lead to a further reduction in their tier 1 capital requirements.

Similar to the proposal, the policy alternatives considered would not reduce the tier 1 capital requirements for banking organizations subject to Category II and III standards because the supplementary leverage ratio requirement is not the binding tier 1 capital requirement for these banking organizations under the baseline.

Notably, the estimated changes in tier 1 capital requirements discussed above in Table 8 do not reflect short-run transition effects due to risk-based total capital requirements. Thus far, the analysis has only considered the risk-based tier 1 capital requirements, the tier 1 leverage ratio requirement, as well as the supplementary leverage ratio requirement. However, banking organizations must also meet the risk-based total capital requirement, where total capital comprises of tier 1 capital and tier 2 capital, which includes a limited percentage of allowance for credit losses on loans and leases as well as subordinated debt. Therefore, if the baseline tier 2 capital amount ($76 billion, in aggregate) of these depository institutions remains unchanged in the short run, they would utilize tier 1 capital to satisfy the remaining total capital requirement. Incorporating this effect into the calculation, the agencies estimate that the aggregate reduction in tier 1 requirements for these depository institutions would be $191 billion. However, over time, or in anticipation of the policy change, these depository institutions could increase their tier 2 capital, so that the aggregate reduction in tier 1 capital requirements would be closer to the $213 billion estimate presented in Table 8.

Up to this point, the analysis has focused on the major depository institution subsidiaries of holding companies subject to Category I to III standards, as described in section VI.B of this **Supplementary Information**. The rest of the insured depository institution subsidiaries of holding companies subject to Category I to III standards account for 0.7 percent of the consolidated total assets of these holding companies, in aggregate. These smaller subsidiaries

would slightly add to the aggregate reduction in the supplementary leverage ratio and the tier 1 capital requirements estimated above.

Finally, the proposal would increase the supplementary leverage ratio requirement for the uninsured national trust subsidiaries of GSIBs by expanding the scope of application of the eSLR standard to these subsidiaries. As noted in section VI.B of this **Supplementary Information**, there are six such subsidiaries, which account for 0.01 percent of the consolidated total assets of GSIBs, in aggregate. Under the baseline, these small subsidiaries have a supplementary leverage ratio above 90 percent, on average, well in excess of the requirement that they would be subject to under the proposal. Therefore, the agencies expect that the proposal would have little impact on the uninsured national bank subsidiaries of GSIBs.

F. Benefits

The agencies expect that the reduced calibration of the eSLR standards for GSIBs and their depository institution subsidiaries under 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. In the rest of this section, the agencies discuss these benefits in more detail.

The first benefit would be due to the significant reduction in the supplementary leverage ratio requirement for these banking organizations under the proposal, estimated in section VI.E, which would have both a level effect and a marginal effect, discussed in section VI.A of this **Supplementary Information**. The level effect would manifest as the reduced calibration of the eSLR standards would enable these banking organizations to substantially increase low-risk asset

holdings without raising their tier 1 capital requirements. The marginal effect would manifest as the proposal would set the supplementary leverage ratio requirement, in dollar terms, below risk-based tier 1 capital requirements for all GSIBs and most of their depository institution subsidiaries. By doing so, the proposal would make the binding tier 1 capital requirement for these banking organizations more risk sensitive because risk-based requirements are more closely aligned with the underlying risks of different asset classes. In particular, under the proposal, increasing low-risk-weight activities would not lead to a significant increase in tier 1 capital requirements for these banking organizations, because the risk-based tier 1 capital requirement would be their binding tier 1 capital requirement. Moreover, this marginal effect would reduce incentives for these banking organizations to excessively engage in higher-risk activities because such activities are required to be backed by more tier 1 capital under the risk-based capital framework than under the supplementary leverage ratio requirement.[85]

Similar to the proposal, the "additional narrow exclusion" Alternative 1 and the "combined" Alternative 4 would reduce these unintended marginal incentives for GSIBs and their depository institution subsidiaries. By contrast, this economic benefit would not fully manifest under the "broader exclusion" Alternative 2 and the "2018 proposal" Alternative 3, as the supplementary leverage ratio requirement would remain above the risk-based tier 1 capital requirement for one GSIB under "the 2018 proposal" alternative and for most depository institution subsidiaries of GSIBs under both policy alternatives. However, the "broader exclusion" alternative would still reduce unintended marginal incentives for these banking

[85] For example, for each dollar of an asset with 100 percent risk weight, GSIBs are required to maintain 5 cents of tier 1 capital under the baseline supplementary leverage ratio requirement and, on average, 12.3 cents of tier 1 capital under the risk-based capital framework.

organizations to hold reserves and U.S. Treasury securities, as this policy alternative would exclude such assets from the calculation of total leverage exposure.

As mentioned above, in addition to this marginal effect, the proposed reduction in the calibration of the eSLR standards for GSIBs and their depository institution subsidiaries would also have a level effect, which would increase the capacity of these banking organizations to hold low-risk assets. The level effect manifests because banking organizations could add certain low-risk assets to their balance sheets without increasing their tier 1 capital requirements as long as their leverage-based tier 1 capital requirements are below their risk-based tier 1 capital requirements.[86] The agencies do not have the information necessary to precisely estimate what type, and the dollar volume, of low-risk assets banking organizations would add to their balance sheets if the proposal were adopted. However, in order to quantify the magnitude of this effect under the proposal and the policy alternatives considered, the agencies create a simple estimate for the available capacity of GSIBs to increase reserves or U.S. Treasury securities held as investment securities at their depository institution subsidiaries and assess how the proposal would increase this capacity estimate.[87] Specifically, for each GSIB, the agencies define "available capacity" as the dollar amount of such assets that their depository institution subsidiaries could add to their balance sheets without raising their or their consolidated holding

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[86] Especially, banking organizations would be able to increase their asset holdings that do not increase their total risk weighted assets. Such asset holdings include reserves, U.S. Treasury securities, and Ginnie Mae mortgage-backed securities held as investment securities.

[87] Notably, the agencies use this capacity estimate to illustrate the magnitude of the proposal's effect on the ability of banking organizations to hold additional low-risk assets. The capacity estimates are not meant to suggest how or to what extent any additional capacity may be used.

company's tier 1 capital requirements above baseline levels.[88] For a comprehensive assessment of the policy alternatives considered, the agencies also create this available capacity estimate for holding companies subject to Category II and III standards. Additionally, further below in this subsection, the agencies also estimate GSIBs' available capacity to hold U.S. Treasury securities at their broker-dealer subsidiaries, which is more closely tied to U.S. Treasury market intermediation.

Table 9 compares the aggregate estimated amounts of the available capacity of GSIBs and holding companies subject to Category II and III standards for reserves and U.S. Treasury securities held as investment securities at their depository institution subsidiaries under the baseline, the proposal, and the policy alternatives considered. Under the proposal, the agencies estimate that GSIBs' available capacity for such assets would increase from nearly zero to $1.1 trillion, in aggregate, which is about 6 percent of their aggregate total leverage exposures or about the size of their aggregate U.S. Treasury securities held as investment securities under the baseline.[89] Under both the proposal and the different policy alternatives considered, the primary limiting factors to the estimated increase in GSIBs' available capacity are the effect of

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[88] Reserves and U.S. Treasury securities held as investment securities have a zero percent risk weight under the risk-based capital framework. Accordingly, the agencies estimate the capacity of holding companies to increase such asset holdings at their depository institution subsidiaries by calculating how this would increase supplementary leverage ratio and tier 1 leverage ratio requirements for both the depository institutions and their consolidated holdings companies. The calculation also incorporates the effect on the "size" systemic indicator, which could lead to higher method 1 and method 2 surcharges, which in turn would increase risk-based tier 1 capital requirements for GSIBs. Section VI.J.1 of this **Supplementary Information** describes the capacity estimation in detail.

[89] The estimate for GSIBs' available capacity is close to zero under the baseline because the supplementary leverage ratio requirement is the binding tier 1 capital requirement for most GSIBs and their depository institution subsidiaries.

increasing reserves or U.S. Treasury securities holdings on their GSIB surcharge as well as the tier 1 leverage ratio requirements of their depository institution subsidiaries.

Table 9: Estimated Available Capacity of Holding Companies for Additional Reserves and U.S. Treasury Securities Held as Investment Securities at Depository Institution Subsidiaries

This table shows the estimated available capacity of holding companies subject to Category I to III standards for additional reserves and U.S. Treasury securities held as investment securities at their depository institution subsidiaries, expressed both in trillion dollars (Panel A) and as a percentage of baseline total leverage exposures of the consolidated holding companies (Panel B), grouped by size category. Section VI.J.1 of this **Supplementary Information** describes the calculations underlying these capacity estimates in detail.

Panel A: Trillions of Dollars

	Baseline	**Proposal**	**Policy Alternatives**			
			#1	**#2**	**#3**	**#4**
Category I	0.0	1.1	1.2	1.4	0.2	1.4
Category II/III	0.7	0.7	0.7	0.8	0.7	0.8

Panel B: Percentage of Baseline Total Leverage Exposure

	Baseline	**Proposal**	**Policy Alternatives**			
			#1	**#2**	**#3**	**#4**
Category I	0%	6%	6%	8%	1%	8%
Category II/III	14%	14%	14%	15%	14%	15%

Alternative 1 ("additional narrow exclusion") would lead to a similar estimated increase in GSIBs' available capacity for reserves and U.S. Treasury securities held as investment securities at their depository institution subsidiaries as the proposal, consistent with the similar quantitative effect of this alternative on the supplementary leverage ratio requirement.

The agencies estimate that, of the policy alternatives considered, the "broader exclusion" and the "combined" alternatives would lead to the largest estimated increase in GSIBs' available capacity for such assets. The estimated increase would be $1.4 trillion, in aggregate, which is about 8 percent of their aggregate total leverage exposures or about 125 percent of their aggregate U.S. Treasury securities held as investment securities under the baseline. This is

because these alternatives would exclude reserves and all U.S. Treasury securities holdings from the calculation of total leverage exposure.[90]

Of the policy alternatives considered, Alternative 3 ("2018 proposal") would lead to the least estimated increase in GSIBs' available capacity for such assets. The estimated increase would be $0.2 trillion, in aggregate, which is less than 1 percent of their aggregate total leverage exposures under the baseline. This is because this policy alternative would reduce the calibration of the eSLR standards for GSIBs and their depository institution subsidiaries less than the proposal. Finally, under the policy alternatives considered, there would not be a meaningful increase in the available capacity of holding companies subject to Category II and III standards for reserves and U.S. Treasury securities held as investment securities at their depository institution subsidiaries. However, these banking organizations have ample available capacity (14 percent of their total leverage exposures, in aggregate) for such zero-risk-weight assets at their depository institution subsidiaries under the baseline because leverage-based requirements are not the highest tier 1 capital requirements for most of these banking organizations.

Beyond reducing disincentives to holding low-risk assets in general, the proposal would improve GSIBs' ability to perform their role as key intermediaries in the U.S. Treasury market, through the marginal and level effects discussed above. In particular, the marginal effect would reduce the amount of tier 1 capital required per each dollar of U.S. Treasury security held by GSIBs' primary dealer subsidiaries. This is because, under the proposal, the risk-based tier 1 capital requirement would be the binding tier 1 capital requirement for all GSIBs with primary

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[90] Notably, increases in reserves or U.S. Treasury securities holdings would still increase tier 1 leverage ratio requirements, as well as GSIB method 1 and method 2 scores, which limits the available capacity estimate under the "broader exclusion" and the "combined" alternatives.

dealer subsidiaries, and the amount of tier 1 capital that GSIBs are required to have against the U.S. Treasury securities holdings of their broker-dealer subsidiaries can be lower under the risk-based capital framework than under the supplementary leverage ratio requirement.[91] A reduction in GSIBs' marginal tier 1 capital requirement would lower the marginal funding cost of holding U.S. Treasury securities for their primary dealer subsidiaries, which would reduce potential disincentives for these primary dealers to engage in U.S. Treasury market intermediation and improve their competitiveness as intermediaries in this market.

In addition to the marginal effect, the level effect of the proposal would enable GSIBs to increase their market intermediation activities more flexibly in response to short- and long-run changes in market participants' demand for liquidity. The level effect would manifest as the proposal would reduce the calibration of the eSLR standard for GSIBs, thereby increasing the capacity of their broker-dealer subsidiaries to hold additional U.S. Treasury securities without raising the tier 1 capital requirements of GSIBs above baseline levels. In order to quantify the magnitude of this effect under the proposal and the policy alternatives considered, the agencies create a simple estimate for the available capacity of GSIBs to increase U.S. Treasury securities held at their broker-dealer subsidiaries and assess how the proposal would increase this capacity estimate. Specifically, for each GSIB, the agencies define "available capacity" as the dollar amount of U.S. Treasury securities that their broker-dealer institution subsidiaries could add to their balance sheets without raising their consolidated holding company's tier 1 capital

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[91] Under the market risk framework, the risk-based tier 1 capital requirement for holdings of U.S. Treasury securities by GSIBs' broker-dealer subsidiaries can be lower than the tier 1 capital requirement under the supplementary leverage ratio requirement if such securities holdings are sufficiently hedged. As the business of U.S. Treasury market intermediation inherently involves providing liquidity to both buyers and sellers in the market and thus taking opposing (that is, long and short) positions, the net market risk exposures of such positions are likely small.

requirements above baseline levels, assuming that such securities holdings are perfectly hedged.[92] Notably, the capacity estimates would be meaningfully lower if the securities holdings are not fully hedged.[93] For a comprehensive assessment of the policy alternatives considered, the agencies also create this available capacity estimate for holding companies subject to Category II and III standards.

Table 10 compares the aggregate estimated amounts of the available capacity of GSIBs and holding companies subject to Category II and III standards for U.S. Treasury securities held at their broker-dealer subsidiaries under the baseline, the proposal, and the policy alternatives considered. Under the proposal, the agencies estimate that the available capacity of GSIBs' broker-dealers to hold U.S. Treasury securities would increase from nearly zero to $2.1 trillion, in aggregate, which is about 12 percent of GSIBs' aggregate total leverage exposures or about

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[92] Even though U.S. Treasury securities generally have zero risk weight under the risk-based capital framework, increasing U.S. Treasury securities held at broker-dealer subsidiaries can increase the risk-weighted asset amounts of their consolidated holding companies because such securities holdings are classified as trading assets, which are subject to market risk treatment. However, as explained in the previous footnote, if such U.S. Treasury securities are perfectly hedged, then they do not add to risk-weighted asset amounts. With the understanding that much of broker-dealers' securities holdings related to market intermediation are hedged, the agencies create a simple estimate for the capacity of holding companies for such assets by assuming that they would be perfectly hedged. Hence, in the calculation, the agencies consider how increasing U.S. Treasury securities holdings at broker-dealer subsidiaries would increase the supplementary leverage ratio and tier 1 leverage ratio requirements for their consolidated holdings companies. The calculation incorporates the related effect on method 1 and method 2 surcharges, increasing because of the increase in "size" systemic indicators, which in turn would increase risk-based tier 1 capital requirements for GSIBs. Section VI.J.2 of this **Supplementary Information** describes the capacity estimation in detail.

[93] The estimates for available capacity would be meaningfully lower for U.S. Treasury securities that are not fully hedged because increasing such securities holdings on broker-dealers' balance sheets can increase the risk-weighted asset amounts for consolidated holding companies, thereby raising their risk-based capital requirements. This effect would reduce the capacity estimates because risk-based tier 1 capital requirements are either the binding tier 1 capital requirement or lie closely below the binding tier 1 capital requirement for GSIBs under the baseline.

350 percent of GSIBs' aggregate U.S. Treasury securities reported as trading assets under the baseline. Under both the proposal and the different policy alternatives considered, the primary limiting factor to the estimated increase in the available capacity of GSIBs' broker-dealers is the effect of increasing U.S. Treasury securities holdings on the GSIB surcharge and the tier 1 leverage ratio requirement of their consolidated holding companies. Relatedly, the capacity estimates in Table 10 are about twice as much as the estimates for GSIBs' available capacity for reserves and U.S. Treasury securities held at their depository institution subsidiaries, shown in Table 9, which also consider leverage-based capital requirements at the depository institutions.

Table 10: Estimated Available Capacity of Holding Companies for Additional U.S. Treasury Securities Held at Broker-Dealer Subsidiaries

This table shows the estimated available capacity of holding companies subject to Category I to III standards for additional U.S. Treasury securities held as trading securities at their broker-dealer subsidiaries, expressed both in trillion dollars (Panel A) and as a percentage of baseline total leverage exposures of the consolidated holding companies (Panel B), grouped by size category. Section VI.J.2 of this **Supplementary Information** describes the calculations underlying these capacity estimates in detail.

Panel A: Trillions of Dollars

	Baseline	**Proposal**	**Policy Alternatives**			
			#1	**#2**	**#3**	**#4**
Category I	0.0	2.1	2.5	2.5	0.2	2.5
Category II/III	2.4	2.4	2.4	2.4	2.4	2.4

Panel B: Percentage of Baseline Total Leverage Exposure

	Baseline	**Proposal**	**Policy Alternatives**			
			#1	**#2**	**#3**	**#4**
Category I	0%	12%	14%	14%	1%	14%
Category II/III	47%	47%	47%	47%	47%	47%

Alternatives 1, 2, and 4 ("exclusion" alternatives) would lead to a larger estimated increase in the available capacity of GSIBs' broker-dealers for U.S. Treasury securities than the proposal. The estimated increase would be $2.5 trillion, in aggregate, which is about 14 percent of GSIBs' aggregate total leverage exposures or about 420 percent of GSIBs' aggregate

U.S. Treasury securities reported as trading assets under the baseline. The estimated increase in available capacity would be larger because all of these policy alternatives exclude U.S. Treasury securities held at broker-dealer subsidiaries from the calculation of total leverage exposure for both GSIBs and holding companies subject to Category II and III standards. Therefore, beyond meaningfully reducing the likelihood that the supplementary leverage ratio requirement becomes a binding tier 1 capital requirement for these holding companies, these policy alternatives would further mitigate potential constraints to their U.S. Treasury market intermediation activities, in the event that the supplementary leverage ratio requirement does become binding in the future.

Of the policy alternatives considered, Alternative 3 ("2018 proposal") would lead to the least estimated increase in the available capacity of GSIBs' broker-dealers for U.S. Treasury securities. The estimated increase would be $0.2 trillion, in aggregate, which is less than 1 percent of their aggregate total leverage exposures under the baseline. Finally, under the policy alternatives considered, there would not be a meaningful increase in the available capacity of holding companies subject to Category II and III standards for U.S. Treasury securities held at their broker-dealer subsidiaries. However, these banking organizations already have ample available capacity (47 percent of their total leverage exposures, in aggregate) for such asset holdings under the baseline because leverage ratio requirements are not the highest tier 1 capital requirements for most of these banking organizations.

By facilitating U.S. Treasury market intermediation activity by broker-dealer subsidiaries of GSIBs, the proposal and the "exclusion" alternatives could improve the functioning of this market, in both normal and stressed times. This is because, as discussed in section VI.A of this **Supplementary Information**, these large broker-dealers play a central role in the U.S. Treasury market, and constraints to their capacity to act as intermediaries can affect market liquidity.

U.S. Treasury market liquidity is important because it supports the market's critical economic functions. Indeed, as Goldberg (2020) shows, decreases in liquidity supplied by dealers in U.S. Treasury markets are related to declines in the liquidity of corporate bonds and other asset classes, which in turn are associated with declines in debt issuance and investment by non-financial firms, with potential real economic repercussions.[94] More broadly, by reducing regulatory constraints for broker-dealer subsidiaries of GSIBs, the proposal and the "exclusion" alternatives would support these entities in providing liquidity (for example, in the form of securities financing transactions) to other market participants, which in turn could reduce the propagation of liquidity shocks across financial markets and thus prevent or mitigate "liquidity spirals," discussed in Brunnermeier and Pedersen (2009).[95] Notably, this economic benefit would be stronger under the "exclusion" alternatives because these policy alternatives would exclude the U.S. Treasury securities holdings of broker-dealer subsidiaries from the calculation of total leverage exposure for their consolidated holding companies. This exclusion would further enhance the ability of banking organizations subject to Category I to III standards to flexibly adjust their U.S. Treasury market intermediation activities in response to short- and long-run changes in market participants' demand for liquidity.

The agencies present the anticipated benefits of the proposal's changes to TLAC and long-term debt requirements and buffer standards in section VI.H of this **Supplementary Information**.

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[94] J. Goldberg, Liquidity Supply by Broker-Dealers and Real Activity, Journal of Financial Economics, 136(3) (April 14, 2020) ("Goldberg (2020)").

[95] M. K. Brunnermeier and L. H. Pedersen, Market Liquidity and Funding Liquidity, The Review of Financial Studies, 22(6) (June 2009) ("Brunnermeier and Pedersen (2009)").

G. Costs

The economic costs of the proposal and the policy alternatives considered would be attributable to three main factors: (1) a potential increase in the leverage of GSIBs and their depository institution subsidiaries due to the reduction in their tier 1 capital requirements; (2) a potential increase in the costs associated with the failure of insured depository institution subsidiaries of GSIBs; and (3) a potential increase in the risk exposures that are not fully captured by the risk-based capital framework. In the rest of this section, the agencies discuss these potential costs in more detail. The agencies anticipate that the economic costs resulting from the effect of the proposal and the policy alternatives considered on banking organizations subject to Category II and III standards would be negligible because tier 1 capital requirements for these organizations would remain essentially unchanged.

The agencies anticipate that the proposal, through the reduction in the supplementary leverage ratio and tier 1 capital requirements for GSIBs, would enable GSIBs to increase their leverage by increasing the share of debt financing on their balance sheets. Even though the reduction in their tier 1 capital requirement would be small ($13 billion, in aggregate, and less than 2 percent, on average), which would require GSIBs to retain most of their existing tier 1 capital, the reduction in their supplementary leverage ratio requirement would be significant, 23 percent, on average, which would enable GSIBs to increase their leverage in two likely ways. First, under the proposal, their increased capacity for low-risk assets, discussed in section VI.F of this **Supplementary Information**, would enable GSIBs to expand their balance sheets by

increasing such asset holdings, financing them with new debt, such as deposits.[96] Such potential balance sheet growth would reduce the risk-weighted asset densities of GSIBs, which would be consistent with the observed growth of these companies and the gradual decline in their risk-weighted asset densities over the past decade.[97] Second, GSIBs could also distribute some of their equity capital to external shareholders and replace it with new debt, while keeping the size of their balance sheets, as well as their tier 1 capital management buffers, unchanged relative to the baseline.[98] A potential increase in leverage could render GSIBs riskier because the economic value of their equity capital would become more sensitive to asset value shocks and therefore more volatile. However, in the case that GSIBs grow by adding more low-risk assets, the effect of increased leverage on equity volatility would be mitigated by the relative stability in the values of the newly added low-risk assets. Therefore, the agencies expect that the economic costs due to potential changes in GSIBs' balance sheets would be small under the proposal.

The agencies also anticipate that the proposal would reduce the tier 1 capital requirement for depository institution subsidiaries of GSIBs by $213 billion, or 27 percent, in aggregate, which would enable these depository institutions to increase their leverage by relying more on

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[96] More specifically, through reducing the tier 1 capital requirement for GSIBs, the proposal would create room for GSIBs to increase any asset holdings, not only the ones with low risk weights, on their balance sheets. However, because risk-based tier 1 capital requirements would become the binding tier 1 capital requirement for most GSIBs under the proposal, and the reduction in their tier 1 capital requirement would be small, there would be limited additional capacity for GSIBs to increase their asset holdings with higher risk weights.

[97] Risk-weighted asset density, expressed as a percentage, is the ratio of risk-weighted assets to total assets multiplied by 100. From 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.

[98] However, GSIBs' ability to distribute their equity capital to external shareholders would be limited by common equity tier 1 capital requirements.

debt financing. Furthermore, in addition to reducing the tier 1 capital requirements for these depository institutions, the proposal may lead to a reduction in their tier 1 capital management buffers by changing their eSLR standard from a more stringent, "well-capitalized" prompt corrective action standard to a buffer standard.[99] Similar to their holding companies, these depository institutions may use new debt financing to either grow by increasing their holdings of low-risk assets or replace some of their equity capital. However, the potential balance sheet changes at these depository institutions would differ from those at their holding companies in two important ways. First, depository institutions could increase their leverage in a more flexible way than their holding companies because they could use both external debt financing (for example, in the form of deposits or wholesale funding) and internal debt financing. Second, in 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. GSIBs could use such potential capital distributions from their depository institution subsidiaries either for financing activities at other subsidiaries, such as market intermediation activity in their broker-dealer subsidiaries, or for paying down some of their external debt outstanding.

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[99] Depository institutions typically maintain a management buffer above their binding capital requirements. Management buffers offer depository institutions flexibility to allow capital levels to fluctuate without realizing the consequences of dropping below the binding requirement. As the consequences of dropping below a prompt corrective action standard are more severe than the consequences of dropping below a buffer standard, depository institutions may prefer to maintain a larger management buffer above a prompt corrective action standard, and a smaller one under the proposal.

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. 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.

Furthermore, the effect of a potential increase in the leverage of the depository institution subsidiaries of GSIBs would be mitigated by the risk-based capital requirements for GSIBs. In particular, if the depository institution subsidiaries of GSIBs increase their leverage through growth, they would likely do so by mainly increasing their low-risk-weight asset holdings because the tier 1 capital requirements of their parent GSIBs would increase if their depository institution subsidiaries significantly increased their risk-weighted asset amounts. Furthermore, because most of their tier 1 capital would need to remain within GSIBs, as established above, 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. In addition, the capital rule would continue to require depository institution subsidiaries, notwithstanding the minimum requirements under the capital rule, to maintain capital commensurate with the level and nature of all risks to which they are exposed, to have a process for assessing their overall

capital adequacy in relation to their risk profile, and to have a comprehensive strategy for maintaining an appropriate level of capital.[100]

Similar to the proposal, the policy alternatives considered would also create potential for GSIBs and their depository institution subsidiaries to increase their leverage, albeit to varying extents. Consistent with the differences in the estimated reduction in the supplementary leverage ratio requirement as well as the estimated aggregate changes in tier 1 capital requirements, discussed in section VI.E of this **Supplementary Information**, Alternative 1 ("additional narrow exclusion") would create similar, Alternative 2 ("broader exclusion") and Alternative 3 ("2018 proposal") would create smaller, and Alternative 4 ("combined") would create much greater potential for these banking organizations to increase their leverage than the proposal.

Finally, by reducing the supplementary leverage ratio requirement from above to below risk-based tier 1 capital requirements for GSIBs and their depository institution subsidiaries, the proposal would enable these banking organizations to increase risk exposures that are not fully captured by the risk-based capital framework but are somewhat captured by leverage-based capital requirements in their backstop role. For example, under the proposal, GSIBs could increase their interest rate risk exposures by adding zero-risk-weight securities, such as U.S. Treasury securities and Ginnie Mae mortgage-backed securities, to their investment securities holdings.[101] As discussed in relation to Table 9, the proposal would significantly increase GSIBs' capacity for such zero-risk-weight asset holdings. However, zero-risk-weight

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[100] 12 CFR 3.10(e) (OCC); 12 CFR 217.10(e) (Board); 12 CFR 324.10(e) (FDIC).

[101] In 2024, U.S. Treasury securities and Ginnie Mae mortgage-backed securities made up, on average, about 80 percent and 20 percent of GSIBs' investment securities holdings with zero risk weight, respectively. These investment securities holdings accounted for about 11 percent of GSIBs' total leverage exposures.

securities holdings can have substantial interest rate risk, with the average duration of U.S. Treasury securities held as available-for-sale and held-to-maturity assets on GSIBs' balance sheets in Q4 2024 was 2.8 years and 3.6 years, respectively; and with 16 percent of such securities holdings having durations longer than 5 years, on average across GSIBs.[102] Moreover, Greenwald, Krainer, Paul (2024) find that the majority of available-for-sale securities holdings are not fair-value hedged by large banking organizations, leaving such positions prone to yield curve shifts.[103] GSIBs are required to reflect unrealized gains and losses on such positions in their regulatory capital calculations.[104] Although the fair value fluctuations of held-to-maturity securities are not reflected in regulatory capital and book equity calculations, they can still affect the economic value of a company's equity. Hence, such interest rate risk exposures, if not backed by sufficient capital, could render a company less stable and raise public concerns about their solvency. A potential mitigant to these exposures is that GSIBs may reflect them in capital and liquidity management buffer decisions.

Furthermore, the negative consequences of interest rate risk exposures would not manifest if GSIBs increase their U.S. Treasury securities holdings to facilitate the market intermediation activities of their broker-dealer subsidiaries. This is because, as also discussed in section VI.F of this **Supplementary Information**, such U.S. Treasury securities holdings are

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[102] The agencies calculate summary statistics on the duration of GSIBs' U.S. Treasury securities holdings classified as investment securities using confidential data on their individual securities positions reported on Schedule B of FR Y-14Q filings.

[103] D. Greenwald, J. Krainer, and P. Paul, Monetary Transmission Through Bank Securities Portfolios, National Bureau of Economic Research, Working Paper No. 32449 (May 2024) ("Greenwald, Krainer, Paul (2024)").

[104] Specifically, unrealized gains and losses on available-for-sale securities holdings are included in Accumulated Other Comprehensive Income, which in turn is included in book equity as well as regulatory capital calculations for GSIBs under the current capital framework.

classified as trading assets and thus would be subject to the market risk framework, which takes interest rate risk into account in risk-weighted asset calculations.

Relative to the proposal, some of the policy alternatives considered could attenuate or exacerbate the potential increase in the risk exposures of GSIBs and their depository institution subsidiaries that are not fully captured by the risk-based capital framework. Alternative 1 ("additional narrow exclusion") would have a similar effect on GSIBs as the proposal because it would only exclude U.S. Treasury securities held by the broker-dealer subsidiaries of GSIBs from the calculation of total leverage exposure for their parent GSIBs; and the interest rate risk of such securities holdings are captured by the market risk component of the risk-based capital framework. By contrast, Alternative 2 ("broader exclusion") and Alternative 4 ("combined") could lead to a larger increase in interest rate risk exposures than the proposal because these policy alternatives would exclude all U.S. Treasury securities holdings from the calculation of total leverage exposure for GSIBs, which may create additional incentives for GSIBs to increase their holdings of such securities.[105] The potential increase in such risk exposures would be much smaller under Alternative 3 ("2018 proposal") than under the proposal because, as discussed in section VI.F of this **Supplementary Information**, this policy alternative would create only little additional capacity for GSIBs to hold zero-risk-weight assets.

Additionally, the "exclusion" alternatives could have costs related to the lack of consistency with the international leverage ratio standard.

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[105] Notably, as discussed in section VI.B.2 of this **Supplementary Information**, about two thirds of U.S. Treasury securities held by GSIBs are investment securities, whose interest rate risk is not captured in the risk-based framework.

The agencies present the anticipated costs of the proposal's changes to TLAC and long-term debt requirements and buffer standards in section VI.H of this **Supplementary Information**.

H. Analysis of Proposed TLAC and Long-Term Debt Requirement Changes

The Federal Reserve's TLAC and long-term debt requirements for U.S. GSIBs each consist of a risk-based and a leverage-based requirement. Holding companies subject to these requirements must maintain a minimum quantity of eligible equity and long-term debt instruments equal to the greater of the risk-based and leverage-based requirements. In addition, companies must also meet minimum TLAC buffer standards to avoid restrictions on distributions to shareholders. In the description of the Board's TLAC analysis that follows, the term "requirement" is inclusive of buffer standards unless otherwise indicated.

Under the proposal, risk-based requirements would remain unchanged whereas leverage-based requirements would be revised. If a firm currently has leverage-based requirements as its binding TLAC and long-term debt requirements, then these requirements will decline because the proposal reduces leverage requirements as a percentage of total leverage exposure.[106] See section III of this **Supplementary Information** for the details of the calculations under current framework and the proposal.

This subsection consists of three parts. First, a baseline analysis summarizes average TLAC and long-term debt requirements in 2024. This is followed by a discussion of estimated

[106] During 2024, all U.S. GSIBs had the leverage-based requirements as their binding long-term debt requirement. Three U.S. GSIBs had leverage-based requirements as their binding TLAC requirement.

requirements that would apply under the proposed rule. Finally, the Board discusses some of the anticipated economic effects of these changes in requirements.

1. Baseline

The Board estimates that aggregate risk-based and leverage-based TLAC requirements are $1.635 and $1.708 trillion, respectively.[107] In aggregate, baseline leverage-based requirements are $73 billion, or 5 percent, higher than risk-based requirements and, at the firm level, are the most binding requirements for three of the eight U.S. GSIBs, with risk-based requirements binding for the other five. The overall TLAC requirement, the greater of the risk- and leverage-based requirements, is $1.777 trillion in aggregate.

The Board estimates that aggregate risk-based long-term debt requirements are $674 billion and aggregate leverage-based requirements are $809 billion. In aggregate, leverage-based long-term debt requirements are $135 billion, or 20 percent, higher than risk-based requirements and, at the firm level, are in all cases the most binding long-term debt requirement for domestic GSIBs. The overall long-term debt requirement is $809 billion in aggregate.

2. Changes in Requirements

This subsection presents estimates of changes in TLAC and long-term debt requirements stemming from the proposal. The analysis takes holding companies' existing asset mix and mix of off-balance sheet activities as given and does not consider the possibility that firms might adjust their investments in response to the proposal. Therefore, in the analysis, the proposal only

[107] The analysis of the proposed changes to TLAC and long-term debt requirements use consolidated holding company data from FR Y-9C filings, in addition to data sources used by the agencies to estimate method 1 G-SIB surcharges and the effects of proposed changes on holding company total leverage exposure, as described earlier. Nonconfidential FR-YC data are available at *https://www.ffiec.gov/npw/FinancialReport/FinancialDataDownload*.

affects TLAC and long-term debt requirements through the changes to the formulas for the leverage-based requirements.

These changes would reduce leverage-based requirements. Because the method 1 surcharges of U.S. GSIBs range from 1.0 to 2.5 percent, the TLAC and long-term debt leverage requirements would decline by between 0.75 to 1.50 percentage points.

The Board estimates that, under the proposal, leverage-based TLAC requirements would be $1.498 trillion and total TLAC requirements would be $1.687 trillion. In aggregate, overall requirements would decline moderately by $90 billion or 5 percent. The estimated decline under the proposal is concentrated in the three firms that were bound by leverage-based requirements in 2024, which would face declines in TLAC requirements ranging from 8 to 16 percent.

Long-term debt requirements are relatively more leverage bound and therefore would be more affected by the proposal. The Board estimates that, under the proposal, aggregate leverage-based long-term debt requirements would be $599 billion and aggregate long-term debt requirements would be $677 billion. As a result of the proposal, risk-based requirements would become more binding than leverage-based requirements for all but two firms. In aggregate, overall requirements would decline a marked $132 billion, or 16 percent. Firm-level estimated changes range from 9 to 33 percent. The proposal's largest percentage reductions would occur in the two firms where leverage requirements remain higher than risk-based ones.

Table 11 presents the estimated change in aggregate TLAC and long-term debt requirements for the four policy alternatives under consideration. Overall, the estimated changes in requirements under the alternatives mirror the patterns observed with the supplementary leverage ratio requirement, as discussed in section VI.E of this **Supplementary Information**. Alternative 1's changes in requirements would be similar to those of the proposal; Alternative 2

would change requirements less than the proposal, while Alternative 3 would change requirements the least; Alternative 4 would change requirements the most. Under Alternative 4, the changes in long-term debt requirements would not rise further, as the risk-based requirements would become binding for all banks.

Table 11: Estimated Aggregate Change in TLAC and Long-Term Debt Requirements

This table presents the estimated aggregate change in TLAC and long-term debt requirements relative to the current (that is, baseline) requirement under the proposal and the different policy alternatives, described in section VI.D of this **Supplementary Information**. The agencies compute aggregate impact figures based on averages of firm-level requirement estimates calculated over the four quarters of 2024. Aggregate requirement impact estimates are reported in billions of dollars and in percent changes.

	Change	**Proposal**	**Policy Alternatives**			
			#1	**#2**	**#3**	**#4**
TLAC	$ Billion	–90	–116	–103	–6	–139
	Percent	–5%	–7%	–6%	0%	–8%
Long-term debt	$ Billion	–132	–135	–98	–48	–135
	Percent	–16%	–17%	–12%	–6%	–17%

3. Anticipated Economic Effects

As explained above, the proposal would lead to moderate expected reductions in TLAC requirements and marked reductions in long-term debt requirements. The academic and policy literature finds that reducing capital requirements can boost bank lending and economic

activity.[108] This suggests that the proposed changes to TLAC requirements may provide important macroeconomic benefits. That same literature finds that reducing capital requirements can increase risks to safety and soundness and financial stability, with associated expected costs.

These proposed changes would likely result in lower funding costs for U.S. GSIBs, enhancing their overall competitiveness relative to both bank and non-bank entities not subject to TLAC requirements. Increased competition in lending and capital markets could lead to more favorable terms for consumers and businesses, representing a potential benefit of the rule. However, this effect is uncertain, as funding costs are one of many factors affecting competition in these markets. The proposal would maintain alignment of the TLAC leverage buffer requirement with leverage capital requirements and, specifically, with the supplementary leverage ratio requirement, and would be consistent with the international TLAC standard.[109]

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[108] Simon Firestone, Amy Lorenc & Ben Ranish, An Empirical Economic Assessment of the Costs and Benefits of Bank Capital in the United States, 101 FEDERAL RESERVE BANK OF ST. LOUIS REV. 203, 203–30 (2018); Martin Brooke, Oliver Bush, Robert Edwards, Jas Ellis, Bill Francis, Rashmi Harimohan, Katharine Neiss & Caspar Siegert, Measuring the Macroeconomic Costs and Benefits of Higher UK Bank Capital Requirements, Bank of England, Financial Stability Paper No. 35, (December 2015); David Miles, Jing Yand, & Gilberto Marcheggiano, Optimal Bank Capital, 123 ECON. J. 1, 29 & Table 10 (March 2013); Financial Stability Board, Assessing the Economic Costs and Benefits of TLAC Implementation (November 2015) ("FSB (2015)").

[109] The international standard established by the Financial Stability Board in November 2015 specifies that GSIBs should be subject to a minimum TLAC requirement equal to the higher of 18 percent of risk-weighted assets and 6.75 percent of the Basel III leverage ratio denominator, plus any applicable Basel III regulatory capital buffers, which must be met in addition to the TLAC minimum. Although the Financial Stability Board standard expresses an expectation that at least one-third of the TLAC requirement be met with long-term debt, it does not establish a long-term debt minimum. See Financial Stability Board, "Principles on Loss-absorbing and Recapitalisation Capacity of G-SIBs in Resolution: Total Loss-absorbing Capacity (TLAC) Term Sheet," (November 2015), available at *https://www.fsb.org/uploads/TLAC-Principles-and-Term-Sheet-for-publication-final.pdf*.

TLAC and long-term debt requirements mandate the use of more expensive capital and long-term debt instead of less expensive short-term debt financing, including deposits. The reduction of these requirements may allow for substantial cost savings to holding companies subject to the rule. However, if the reduction in funding costs occurs because firms deduct more interest expenses, or shift greater risks to taxpayers, insurers, or other creditors, these are private economic transfers from those parties to bank shareholders, not economic benefits. On the other hand, if the relaxation of these funding constraints allows for a lower risk-adjusted cost of funds without shifting the costs to others, then those savings are benefits of the rule. In practice, these savings are likely to be a mix of transfers and economic benefits.

The proposed reduction in long-term debt requirements would provide firms with more flexibility over the composition of their TLAC. Keeping TLAC requirements fixed, any reduction in long-term debt used to meet TLAC requirements[110] must be replaced with tier 1 capital.[111] On a going-concern basis, as tier 1 capital provides greater loss absorbency and resilience than long-term debt, giving firms flexibility to use more tier 1 capital instead of long-

[110] The amount of eligible long-term debt that can be counted for purposes of the long-term debt and TLAC requirements is different. The long-term debt requirement imposes a 50 percent haircut on debt maturing between one and two years whereas the TLAC requirement incorporates no such haircut. Therefore, the proposed changes to long-term debt requirements could result in covered firms reducing the average maturity of their eligible long-term debt.

[111] The minimum long-term debt requirement seeks to balance the costs and benefits of the net equity position for the going-concern capital with the costs and benefits of dischargeable debt under the capital refill framework described in section III of this **Supplementary Information**.

term debt can be beneficial.[112] As such, the proposed reduction in long-term debt requirements is unlikely to increase financial stability risks. However, the proposed reduction in long-term debt requirements could reduce the potential benefits of long-term debt to an orderly resolution procedure for a firm once it has failed, as described in the TLAC rulemaking.[113]

Supervisory experience with the funding decisions of the GSIBs indicates that firms likely would reduce their actual levels of long-term debt outstanding by less than the reduction in their long-term debt requirement. That experience shows that some GSIBs use long-term debt funding for a range of business purposes beyond meeting long-term debt regulatory requirements. Additionally, the expected funding cost advantages would incentivize firms to continue to use long-term debt to meet TLAC requirements, even under a reduced requirement. Finally, because the changes to long-term debt requirements are conforming to changes in the eSLR standard, the ability to recapitalize a firm whose capital is depleted to a level consistent with regulatory minimums and buffers in a resolution would be unchanged by the proposal.

I. Conclusion

The proposed changes to the eSLR standards would adjust the supplementary leverage ratio requirement such that it would be below risk-based capital requirements for all GSIBs and most of their depository institution subsidiaries. Hence, the proposal would reduce disincentives

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[112] See, e.g., Anat Admati, Peter M. DeMarzo, Martin Hellwig, and Paul Pfleiderer, Fallacies, Irrelevant Facts, and Myths in the Discussion of Capital Regulation: Why Bank Equity is Not Socially Expensive, Preprints of the Max Planck Institute for Research on Collective Goods, No. 2013/23, (2013); Anat Admati & Martin Hellwig. The Bankers' New Clothes: What's Wrong with Banking and What to Do about It (2023 Ed.); Luca Leanza, Alessandro Sbuelz, and Andrea Tarelli, Bail-in vs. Bail-out: Bank Resolution and Liability Structure, 73 International Review of Financial Analysis 1 (January 2021); Federal Reserve Bank of Minneapolis, The Minneapolis Plan to End Too Big to Fail (December 2017).

[113] See 80 FR 74926, 74932 (November 30, 2015); 82 FR 8266, 8270 (January 24, 2017).

for these banking organizations to engage in low-risk activities, such as U.S. Treasury market intermediation, and reduce unintended incentives for these banking organizations to engage in higher-risk activities. The changes to the TLAC standards in the proposal would maintain alignment with capital requirements, lower the funding costs of GSIBs, and support economic activity.

The costs of the proposal include enabling GSIBs and their depository institution subsidiaries to increase their leverage, as well as to increase risk exposures that are not fully captured by the risk-based capital framework. For example, the standardized risk-weighted assets framework does not include an explicit consideration of interest rate risk. The proposed reduction in TLAC requirements could lower the overall loss-absorbency of GSIBs somewhat.

Taken together, the agencies assess that the benefits of the proposal justify its costs.

Turning to reasonable alternatives, Alternative 1 ("additional narrow exclusion") would modify the proposal by excluding U.S. Treasury securities held by broker-dealer subsidiaries from the calculation of total leverage exposure for their consolidated holding companies. As shown in section VI.E of this **Supplementary Information**, the incremental effects of this exclusion are not expected to be large, and thus the benefits and costs of this alternative would likely be similar to those of the proposal. This alternative could further reduce costs for banking organizations subject to Category I to III standards to intermediate U.S. Treasury markets, especially when markets are stressed. However, unlike the proposal, this alternative would differ from the international leverage ratio standard published by the Basel Committee and could raise the risk of other jurisdictions stepping back from the standard.

Alternative 2 ("broader exclusion") would not change the calibration of the eSLR standards; instead, it would exclude reserves and U.S. Treasury securities holdings from the

calculation of total leverage exposure for all banking organizations subject to Category I to III standards. For GSIBs and their depository institution subsidiaries, this alternative would reduce the supplementary leverage ratio requirement much less than the proposal. In addition, this approach would deviate from the principle that the supplementary leverage ratio requirement broadly accounts for exposures in order to serve as a risk-insensitive backstop, and it would differ from the international standard.

Alternative 3 ("2018 proposal") would set the eSLR standards for GSIBs and their depository institution subsidiaries to half of the higher of method 1 and method 2 surcharges. Because the method 2 surcharges are currently greater than or equal to method 1 surcharges for all GSIBs, this alternative would reduce the calibration of the eSLR standard for GSIBs by much less than the proposal. As such, this alternative would not fully achieve the objectives of the proposal.

Alternative 4 ("combined") would be a combination of the proposal and Alternative 2. As such, it would reduce leverage-based requirements more than the proposal and generate similar benefits from the supplementary leverage ratio requirement serving as a backstop to risk-based capital requirements. However, the exclusion of all U.S. Treasury securities from the calculation of total leverage exposure for banking organizations subject to Category I to III standards could incentivize these banking organizations to overinvest in such securities. In addition, this approach would deviate from the principle that the supplementary leverage ratio requirement broadly accounts for exposures in order to serve as a risk-insensitive backstop, and it would differ from the international standard.

The proposal is expected to generate higher net benefits (benefits in excess of costs) than the alternatives considered, with Alternative 1 having the closest net benefits to the proposal.

Question 16: How would the proposal affect banking organizations' intermediation activities in U.S. Treasury markets or other financial markets? Please provide any rationale or data that may be helpful for the agencies to consider.

Question 17: How might the proposal's distinct effects on capital requirements at holding companies and their depository institution subsidiaries affect banking organizations' balance sheets and activities? Please describe potential shifts in the allocation of assets and liabilities among the depository institution and non-depository institution subsidiaries of holding companies.

Question 18: What effects, if any, would the proposed rule have on banking organizations' funding costs? How might banking organizations adjust their use of common equity tier 1 capital, additional tier 1 capital, long-term debt, and other funding sources? What are the potential benefits and costs of such adjustments? Please discuss any expected changes in the costs of these funding sources, substitution among funding sources, as well as potential changes to yields on these instruments, and please provide any rationale or data that may be helpful for the agencies to consider.

Question 19: In the long term and during periods of stress, how might the proposed rule affect banking organizations' willingness to extend loans and to intermediate securities? To what extent could the proposal encourage banking organizations to invest in low-risk assets? Please provide any rationale or data that may be helpful for the agencies to consider.

Question 20: What are the advantages and disadvantages of the reasonable alternatives considered, beyond those already discussed in the economic analysis? What alternatives that achieve the objectives of the proposal, beyond those already under consideration, should the agencies evaluate? Please provide specific suggestions and rationales for any proposed

alternatives, including how they might address potential unintended consequences or better achieve the proposal's goals.

J. Appendix

In this appendix to the economic analysis, the agencies describe their methodology for estimating the available capacity of holding companies for additional reserves and U.S. Treasury securities held as investment securities at their depository institution subsidiaries, as well as the available capacity of holding companies for additional U.S. Treasury securities held at their broker-dealer subsidiaries, respectively shown in Tables 9 and 10 of section VI.F of this **Supplementary Information**.

1. Estimating the Available Capacity of Holding Companies for Additional Reserves and U.S. Treasury Securities Held as Investment Securities at Depository Institution Subsidiaries

For each holding company subject to Category I to III standards, the agencies define "available capacity" as the dollar amount of reserves and U.S. Treasury securities classified as investment securities that their depository institution subsidiaries could add to their balance sheets without raising their or their consolidated holding company's tier 1 capital requirements above baseline levels. The agencies estimate this capacity as follows.

First, the agencies calculate the highest tier 1 capital requirement for each holding company and its major depository institution subsidiaries under the baseline.[114] Specifically, the four tier 1 capital requirements considered are the standardized approach risk-based tier 1 requirement, the advanced approaches risk-based tier 1 requirement, the tier 1 leverage ratio requirement, and the supplementary leverage ratio requirement.

[114] If a holding company has multiple major depository institution subsidiaries, the agencies use the aggregate of such major depository institution subsidiaries in the calculations.

Second, for each holding company and its major depository institution subsidiaries, and for each of the tier 1 capital requirements mentioned above, the agencies calculate the dollar amount of reserves and U.S. Treasury securities classified as investment securities that the major depository institution subsidiaries could add to their balance sheets (and therefore to the balance sheet of their consolidated holding companies) under the baseline, the proposal, and the policy alternatives considered so that the given tier 1 capital requirement becomes equal to the banking organization's highest tier 1 capital requirement, as calculated under the baseline in the first step. In the following, the agencies describe these eight capacity calculations (four tier 1 capital requirements for the holding companies and four tier 1 capital requirements for their major depository institution subsidiaries) in more detail.

Finally, the agencies estimate "available capacity" by taking the smallest of these eight capacity calculations.

Tier 1 leverage ratio requirement

For each holding company and its major depository institution subsidiaries, the agencies calculate the average total consolidated asset amount that would make the tier 1 leverage ratio requirement for these banking organizations equal to their highest tier 1 capital requirement, as calculated under the baseline. The agencies then subtract this average total consolidated asset amount from the baseline average total consolidated asset amount to calculate the capacity with respect to this capital requirement. This calculation is the same under the baseline, the proposal, and the policy alternatives considered because the proposal and the alternatives would not modify the tier 1 leverage ratio requirement.

Supplementary leverage ratio requirement

For each holding company and its major depository institution subsidiaries, the agencies calculate the total leverage exposure amount that would make the supplementary leverage ratio requirement for these banking organizations equal to their highest tier 1 capital requirement, as calculated under the baseline. The agencies then subtract this total leverage exposure amount from the baseline total leverage exposure amount. This calculation varies under the baseline, the proposal, and the policy alternatives considered because the proposal and the alternatives would modify the supplementary leverage ratio requirement.

Under the proposal, as well as Alternatives 1, 3, and 4, which would make the eSLR standards a function of the method 1 or method 2 surcharge, the calculations incorporate the effect of increasing total leverage exposures on these surcharges. The agencies describe how they calculate expected changes in method 1 and method 2 surcharges further below.

Under Alternatives 2 and 4, this capacity calculation is not applicable because these policy alternatives would exclude reserves and all U.S. Treasury securities holdings from the calculation of total leverage exposure.

Standardized approach and advanced approaches risk-based requirements

Reserves and U.S. Treasury securities held as investment securities have zero risk weight under the risk-based capital framework, and therefore, do not contribute to risk-weighted assets. However, increasing such asset holdings can result in an increase in the GSIB surcharge, which is a component of risk-based capital requirements. Specifically, such asset holdings are reflected in the "size" systemic risk indicator used in the calculation of a GSIB's method 1 and method 2 scores, which in turn determine method 1 and method 2 surcharges, respectively. The higher of these surcharges is the GSIB surcharge. Hence, for each GSIB, the agencies calculate the "size"

systemic risk indicator amount that would result in a GSIB surcharge that would make the risk-based tier 1 capital requirement for the GSIB equal to its highest tier 1 capital requirement, as measured under the baseline. The agencies then subtract this "size" systemic risk indicator amount from the baseline "size" systemic risk indicator amount. This calculation is the same under the baseline, the proposal, and the policy alternatives considered because the proposal and the alternatives would not modify the method 1 and method 2 surcharge calculation.

In the calculations above, the agencies estimate the *expected* impact of increasing the "size" systemic indicator on method 1 and method 2 surcharges by first calculating the changes in method 1 and method 2 scores and then dividing these score changes by two, respectively. The divisor corresponds to the slope of the continuous function underlying the method 1 and method 2 surcharge schedules used in the GSIB surcharge framework.[115]

Finally, this capacity calculation is not applicable to depository institution subsidiaries because the GSIB surcharge only applies to holding companies.

2. Estimating the Available Capacity of Holding Companies for Additional U.S. Treasury Securities Held at Broker-Dealer Subsidiaries, Assuming Perfect Hedging

For each holding company subject to Category I to III standards, the agencies define "available capacity" as the dollar amount of U.S. Treasury securities that their broker-dealer institution subsidiaries could add to their balance sheets without raising their consolidated holding company's tier 1 capital requirements above baseline levels, assuming that such securities holdings would be perfectly hedged.

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[115] See 12 CFR 217.403.

This capacity estimation methodology is the same as described in section VI.J.1 of this **Supplementary Information**, with two modifications. First, only the capacity calculations related to the tier 1 capital requirements of holding companies are applicable. Second, the capacity calculations related to the supplementary leverage ratio requirement are not applicable under Alternatives 1, 2, and 4 because these policy alternatives would exclude U.S. Treasury securities held by at broker-dealer subsidiaries from the calculation of total leverage exposure.

Under the assumption that additional U.S. Treasury securities held at broker-dealers would be fully hedged, there would be no increase in risk-weighted assets under the market risk capital framework. Therefore, in addition to the effect on GSIB surcharges described earlier, there would be no incremental increase in risk-based capital requirements.

VII. Administrative Law Matters

A. Paperwork Reduction Act

Certain provisions of the proposed rule contain "collections of information" within the meaning of the Paperwork Reduction Act of 1995 (PRA).[116] In accordance with the requirements of the PRA, the agencies may not conduct or sponsor, and a respondent is not required to respond to, an information collection unless it displays a currently valid Office of Management and Budget (OMB) control number. The information collection requirements contained in this joint notice of proposed rulemaking have been submitted to OMB for review and approval by the OCC and FDIC under section 3507(d) of the PRA[117] and section 1320.11 of

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[116] 44 U.S.C. 3501 et seq.

[117] 44 U.S.C. 3507(d).

OMB's implementing regulations.[118] The Board reviewed the proposed rule under the authority delegated to the Board by OMB.

The proposed rule contains revisions to current information collections subject to the PRA. To implement these requirements, the Board would also revise and extend for three years the Financial Statements for Holding Companies (FR Y-9; OMB No. 7100-0128).

Additionally, the agencies, under the auspices of the FFIEC, may propose, in a separate notice, related revisions to the Consolidated Reports of Condition and Income (Call Report) (FFIEC 031, FFIEC 041, and FFIEC 051; OMB Nos. 1557-0081; 3064-0052, and 7100-0036).

Comments are invited on the following:

(a) Whether the collections of information are necessary for the proper performance of the agencies' functions, including whether the information has practical utility;

(b) the accuracy of the agencies' estimates of the burden of the information collections, including the validity of the methodology and assumptions used;

(c) ways to enhance the quality, utility, and clarity of the information to be collected;

(d) ways to minimize the burden of the information collections on respondents, including through the use of automated collection techniques or other forms of information technology; and

(e) estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services to provide information.

Comments on aspects of this document that may affect reporting, recordkeeping, or disclosure requirements and burden estimates should be sent to the addresses listed in the

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[118] 5 CFR Part 1320.

ADDRESSES section of this Notice. All comments will become a matter of public record. A copy of the comments may also be submitted to the OMB desk officer for the agencies: By mail to U.S. Office of Management and Budget, 725 17th Street NW, #10235, Washington, DC 20503 or by facsimile to (202) 395-5806; or by email to: oira_submission@omb.eop.gov, Attention, Federal Banking Agency Desk Officer.

Proposed Revisions, With Extension, of the Following Information Collection (Board only)

Collection title: Financial Statements for Holding Companies.

Collection identifier: FR Y-9C, FR Y-9LP, FR Y-9SP, FR Y-9ES, and FR Y-9CS.

OMB control number: 7100-0128.

General description of report: The FR Y-9 family of reporting forms continues to be the primary source of financial data on holding companies on which examiners rely between on-site inspections. Financial data from these reporting forms is used to detect emerging financial problems, review performance, conduct pre-inspection analysis, monitor and evaluate capital adequacy, evaluate holding company mergers and acquisitions, and analyze a holding company's overall financial condition to ensure the safety and soundness of its operations. The FR Y-9C, FR Y-9LP, and FR Y-9SP serve as standardized financial statements for the consolidated holding company. The Board requires holding companies to provide standardized financial statements to fulfill the Board's statutory obligation to supervise these organizations. The FR Y-9ES is a financial statement for holding companies that are Employee Stock Ownership Plans. The Board uses the FR Y-9CS (a free-form supplement) to collect additional information deemed to be critical and needed in an expedited manner. Holding companies file the FR Y-9C and FR Y-9LP

on a quarterly basis, the FR Y-9SP semiannually, the FR Y-9ES annually, and the FR Y-9CS on a schedule that is determined when this supplement is used.

Frequency: Quarterly, semiannually, and annually.

Affected Public: Businesses or other for-profit.

Respondents: Bank holding companies, savings and loan holding companies, securities holding companies, and U.S. intermediate holding companies (collectively, holding companies).

Total estimated number of respondents:

Reporting:

FR Y-9C (non-advanced approaches holding companies with less than $5 billion in total assets): 107; FR Y-9C (non-advanced approaches with $5 billion or more in total assets) 236; FR Y-9C (advanced approaches holding companies): 9; FR Y-9LP: 411; FR Y-9SP: 3,596; FR Y-9ES: 73; FR Y-9CS: 236.

Recordkeeping:

FR Y-9C: 352; FR Y-9LP: 411; FR Y-9SP: 3,596; FR Y-9ES: 73; FR Y-9CS: 236.

Total estimated average hours per response:

Reporting:

FR Y-9C (non-advanced approaches holding companies with less than $5 billion in total assets): 35.59; FR Y-9C (non-advanced approaches holding companies with $5 billion or more in total assets): 44.23, FR Y-9C (advanced approaches holding companies): 50.76; FR Y-9LP: 5.27; FR Y-9SP: 5.45; FR Y-9ES: 0.50; FR Y-9CS: 0.50.

Recordkeeping:

FR Y-9C: 1; FR Y-9LP: 1; FR Y-9SP: 0.50; FR Y-9ES: 0.50; FR Y-9CS: 0.50.

Total estimated annual burden hours: 115,283.

Current Actions: The proposal would make certain revisions to the FR Y-9C, Schedule HC-R, Part I, Regulatory Capital Components and Ratios, to calibrate supplementary leverage ratio requirements. Specifically, the instructions for Schedule HC-R, Part I, line item 64, "Leverage buffer requirement (if applicable)," would be updated to reflect the proposed change to the leverage buffer requirement to an amount equal to 50 percent of a holding company's most recent method 1 surcharge, calculated in accordance with the capital rule. Additionally, the instructions for Schedule HC-R, Part I, line item 62(b), "TLAC leverage buffer," would be amended in accordance with proposed revisions to the Board's TLAC framework to replace the two percent TLAC leverage buffer with a buffer equal to the enhanced supplementary leverage ratio buffer under the capital rule as well as an additional revision to update the instructions to be consistent with the TLAC framework. The revisions to the FR Y-9C instructions are proposed to become effective with the first report date following the effective date of the final rule.

The Board anticipates that there would be no increase in burden associated with these proposed revisions to the FR Y-9C. The draft reporting forms and instructions are available on the Board's public website at https://www.federalreserve.gov/apps/reportingforms.

B. Regulatory Flexibility Act Analysis

OCC

The Regulatory Flexibility Act (RFA), 5 U.S.C. 601 et seq., requires an agency, in connection with a proposed rule, to prepare an Initial Regulatory Flexibility Analysis describing the impact of the rule on small entities (defined by the Small Business Administration (SBA) for purposes of the RFA to include commercial banks and savings institutions with total assets of $850 million or less and trust companies with total assets of $47 million or less) or to certify that

the proposed rule would not have a significant economic impact on a substantial number of small entities. The OCC currently supervises approximately 609 small entities.[119]

The OCC estimates that the proposed rule would impact none of these small entities, as the scope of the rule would only apply to depository institution subsidiaries of top-tier U.S. bank holding companies identified as GSIB holding companies. Therefore, the OCC certifies that the proposed rule would not have a significant economic impact on a substantial number of small entities.

Board

The Board is providing an initial regulatory flexibility analysis with respect to this proposal. The Regulatory Flexibility Act[120] (RFA), requires an agency to consider whether the rule it proposes will have a significant economic impact on a substantial number of small entities.[121] In connection with a proposed rule, the RFA requires an agency to prepare and invite

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[119] The OCC bases the estimate of the number of small entities on the Small Business Administration's size thresholds for commercial banks and savings institutions (NAICS Code: 522110), and trust companies (NAICS Code: 523991), which are $850 million and $47 million, respectively. Consistent with the General Principles of Affiliation 13 CFR 121.103(a), the OCC counts the assets of affiliated financial institutions when determining whether to classify an OCC-supervised institution as a small entity. The OCC uses December 31, 2024, to determine size because a "financial institution's assets are determined by averaging the assets reported on its four quarterly financial statements for the preceding year." See footnote 8 of the U.S. Small Business Administration's *Table of Size Standards*.

[120] 5 U.S.C. 601 et seq.

[121] Under regulations issued by the U.S. Small Business Administration (SBA), a small entity includes a depository institution, bank holding company, or savings and loan holding company with total assets of $850 million or less. See 13 CFR 121.201. Consistent with the SBA's General Principles of Affiliation, the Board includes the assets of all domestic and foreign affiliates toward the applicable size threshold when determining whether to classify a particular entity as a small entity. See 13 CFR 121.103. As of December 31, 2024, there were approximately 2,364 small bank holding companies and approximately 85 small savings and loan holding companies, and approximately 451 small state member banks.

public comment on an initial regulatory flexibility analysis describing the impact of the rule on small entities, unless the agency certifies that the proposed rule, if promulgated, would not have a significant economic impact on a substantial number of small entities. An initial regulatory flexibility analysis must contain (1) a description of the reasons why action by the agency is being considered; (2) a succinct statement of the objectives of, and legal basis for, the proposed rule; (3) a description of, and, where feasible, an estimate of the number of small entities to which the proposed rule will apply; (4) a description of the projected reporting, recordkeeping, and other compliance requirements of the proposed rule, including an estimate of the classes of small entities that will be subject to the requirement and the type of professional skills necessary for preparation of the report or record; (5) an identification, to the extent practicable, of all relevant Federal rules which may duplicate, overlap with, or conflict with the proposed rule; and (6) a description of any significant alternatives to the proposed rule which accomplish the stated objectives of applicable statutes and minimize any significant economic impact of the proposed rule on small entities.[122]

The Board has considered the potential impact of the proposal on small entities in accordance with the RFA. Based on its analysis and for the reasons stated below, the Board believes that this proposal will not have a significant economic impact on a substantial number of small entities. Nevertheless, the Board is publishing and inviting comment on this initial regulatory flexibility analysis.

As discussed in detail above, the proposal would amend the eSLR standards in the Board's capital rule and prompt corrective action framework and make corresponding revisions

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[122] 5 U.S.C. 603(b)-(c).

to the Board's TLAC framework. The proposal would help to ensure that leverage requirements applicable to GSIBs generally serve as a backstop to risk-based requirements. The proposal would also make corresponding changes to the Board's reporting forms. The Board has broad authority to establish regulatory capital standards for bank holding companies under the Bank Holding Company Act and the Dodd-Frank Act.[123] Sections 163 and 165 of the Dodd-Frank Act, as amended by the Economic Growth, Regulatory Relief, and Consumer Protection Act, authorize the Board to consider risk to U.S. financial stability in regulating and examining bank holding companies with $100 billion or more in consolidated assets and nonbank financial companies under the Board's supervision.[124] The Board is further authorized to impose prudential standards for such entities and to differentiate among companies on an individual basis or by category, taking into consideration their capital structure, riskiness, complexity, financial activities, size, and any other risk-related factors that the Board deems appropriate.[125] This authorization also covers certain foreign banks with U.S. operations under the International Banking Act.[126] The Board also has broad authority under the International Lending Supervision Act (ILSA)[127] to establish regulatory capital requirements for the institutions it regulates. For example, ILSA directs each Federal banking agency to cause banking institutions to achieve and maintain adequate capital by establishing minimum capital requirements as well as by other means that the agency deems appropriate.[128]

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[123] See e.g., 12 U.S.C. 1844, 3901 et seq., 5365, and 5371.

[124] 12 U.S.C. 5363 and 5365.

[125] 12 U.S.C. 5365(a).

[126] 12 U.S.C. 3106(a).

[127] 12 U.S.C. 3901-3911.

[128] 12 U.S.C. 3907(a)(1).

As discussed in the **Supplementary Information**, the Board is proposing amendments to the eSLR standards applicable to GSIBs and their depository institution subsidiaries. The only companies subject to these rules, and thus potentially impacted by the proposal, are GSIBs or subsidiaries within consolidated GSIB organizations. Companies that would be impacted by the proposal therefore substantially exceed the $850 million asset threshold at which a banking entity is considered a "small entity" under SBA regulations.[129] The proposal therefore would not impose requirements on any small entities.

As discussed in more detail in VII.A., the Board is proposing to make certain corresponding changes to the FR Y-9C, Schedule HC-R, Part I, Regulatory Capital Components and Ratios, to calibrate supplementary leverage ratio requirements. Specifically, the instructions for Schedule HC-R, Part I, line item 64, "Leverage buffer requirement (if applicable)," would be updated to reflect the proposed change to the leverage buffer requirement to an amount equal to 50 percent of a holding company's most recent method 1 surcharge, calculated in accordance with the capital rule. Additionally, the instructions for Schedule HC-R, Part I, line item 62(b), "TLAC leverage buffer," would be amended in accordance with proposed revisions to the Board's TLAC framework to replace the two percent TLAC leverage buffer with a buffer equal to the enhanced supplementary leverage ratio buffer under the capital rule as well as an additional revision to update the instructions to be consistent with the TLAC framework. The Board anticipates that there would be no increase in burden associated with these proposed revisions to the FR Y-9C. The Board is aware of no other federal rules that duplicate, overlap, or conflict with the proposal. Because the proposal would not apply to any small entities

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[129] 13 CFR 121.201.

supervised by the Board, the Board believes that there are no significant alternatives to the proposal that would accomplish the stated objectives and minimize the economic impact of the proposal on small entities.

Therefore, the Board believes that the proposal would not have a significant economic impact on a substantial number of small entities supervised by the Board.

The Board welcomes comment on all aspects of its analysis. In particular, the Board requests that commenters describe the nature of any impact on small entities and provide empirical data to illustrate and support the extent of the impact.

FDIC

The Regulatory Flexibility Act (RFA) generally requires an agency, in connection with a proposed rule, to prepare and make available for public comment an initial regulatory flexibility analysis that describes the impact of the proposed rule on small entities.[130] However, an initial regulatory flexibility analysis is not required if the agency certifies that the proposed rule will not, if promulgated, have a significant economic impact on a substantial number of small entities. The Small Business Administration (SBA) has defined "small entities" to include banking organizations with total assets of less than or equal to $850 million.[131] Generally, the FDIC considers a significant economic impact to be a quantified effect in excess of 5 percent of

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[130] 5 U.S.C. 601 et seq.

[131] The SBA defines a small banking organization as having $850 million or less in assets, where an organization's "assets are determined by averaging the assets reported on its four quarterly financial statements for the preceding year." See 13 CFR 121.201 (as amended by 87 FR 69118, effective December 19, 2022). In its determination, the "SBA counts the receipts, employees, or other measure of size of the concern whose size is at issue and all of its domestic and foreign affiliates." See 13 CFR 121.103. Following these regulations, the FDIC uses an insured depository institution's affiliated and acquired assets, averaged over the preceding four quarters, to determine whether the insured depository institution is "small" for the purposes of RFA.

total annual salaries and benefits or 2.5 percent of total noninterest expenses. The FDIC believes that effects in excess of one or more of these thresholds typically represent significant economic impacts for FDIC-supervised institutions.

The proposed rule would only apply to FDIC-supervised depository institution subsidiaries of a GSIB. As of the quarter ending December 31, 2024, the FDIC supervised 2,854 insured depository institutions, of which 2,122 are considered "small" for the purposes of RFA.[132] As of the same time period, each of the eight US GSIBs reported holding total consolidated assets in excess of $350 billion.[133] As of the quarter ending December 31, 2024, the FDIC-supervised one depository institution that is a subsidiary of a GSIB.[134] Given that this IDI is affiliated with a GSIB, a banking organization with assets far in excess of $850 million, it is not considered to be "small" in accordance with RFA. In light of the foregoing, the FDIC certifies that the proposed rule would not have a significant economic impact on a substantial number of small entities. Accordingly, an initial regulatory flexibility analysis is not required. The FDIC invites comments on all aspects of the supporting information provided in this RFA section. The FDIC is particularly interested in comments on any significant effects on small entities that the agency has not identified.

C. Plain Language

Section 722 of the Gramm-Leach Bliley Act[135] requires the Federal banking agencies to use plain language in all proposed and final rules published after January 1, 2000. The agencies

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[132] FDIC Call Report data, December 31, 2024.

[133] Federal Reserve Y-9C data as of December 31, 2024.

[134] FDIC Call Report data, December 31, 2024.

[135] Pub. L. 106-102, section 722, 113 Stat. 1338, 1471 (1999), 12 U.S.C.4809.

have sought to present the proposed rule in a simple and straightforward manner and invite comment on the use of plain language and whether any part of the proposed rule could be more clearly stated. For example:

- Have the agencies presented the material in an organized manner that meets your needs? If not, how could this material be better organized?
- Are the requirements in the notice of proposed rulemaking clearly stated? If not, how could the proposed rule be more clearly stated?
- Does the proposed rule contain language that is not clear? If so, which language requires clarification?
- Would a different format (grouping and order of sections, use of headings, paragraphing) make the proposed rule easier to understand? If so, what changes to the format would make the proposed rule easier to understand?
- What else could the agencies do to make the proposed rule easier to understand?

D. Riegle Community Development and Regulatory Improvement Act of 1994

Pursuant to section 302(a) of the Riegle Community Development and Regulatory Improvement Act[136] (RCDRIA), in determining the effective date and administrative compliance requirements for new regulations that impose additional reporting, disclosure, or other requirements on insured depository institutions, each Federal banking agency must consider, consistent with the principle of safety and soundness and the public interest, any administrative burdens that such regulations would place on depository institutions, including small depository institutions, and customers of depository institutions, as well as the benefits of such regulations.

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[136] 12 U.S.C. 4802(a).

In addition, section 302(b) of RCDRIA, requires new regulations and amendments to regulations that impose additional reporting, disclosures, or other new requirements on insured depository institutions generally to take effect on the first day of a calendar quarter that begins on or after the date on which the regulations are published in final form, with certain exceptions, including for good cause.[137]

The agencies note that comment on these matters has been solicited in other sections of this **Supplementary Information**, and that the requirements of RCDRIA will be considered as part of the overall rulemaking process. In addition, the agencies also invite comment on any administrative burdens that the proposal would place on depository institutions, including small depository institutions, and their customers, and the benefits of the proposal that the agencies should consider in determining the effective date and administrative compliance requirements for a final rule.

E. Executive Orders 12866, 13563, and 14192

Executive Order 12866 (Regulatory Planning and Review)[138] and Executive Order 13563 (Improving Regulation and Regulatory Review)[139] direct agencies to assess the costs and benefits of available regulatory alternatives and, if regulation is necessary, to select regulatory approaches that maximize net benefits. This proposed rule was drafted and reviewed in accordance with Executive Order 12866 and Executive Order 13563. Within OMB, the Office of Information and Regulatory Affairs (OIRA) has determined that this rulemaking is a "significant regulatory action" under Executive Order 12866. Accordingly, an assessment was

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[137] 12 U.S.C. 4802(b).

[138] E.O. 12866, 58 FR 51735.

[139] E.O. 13563, 76 FR 3821.

submitted to OIRA. As noted in other sections of the **Supplementary Information**, the agencies have assessed the costs and benefits of this rulemaking and have made a reasoned determination that the benefits of this rulemaking justify its costs. This proposed rule, if finalized as proposed, is not expected to be an Executive Order 14192 regulatory action.

F. OCC Unfunded Mandates Reform Act of 1995

The OCC has analyzed the proposed rule under the factors in the Unfunded Mandates Reform Act of 1995 (UMRA) (2 U.S.C. 1532). Under this analysis, the OCC considered whether the proposed rule includes a Federal mandate that may result in the expenditure by State, local, and tribal governments, in the aggregate, or by the private sector, of $100 million or more in any one year (adjusted annually for inflation). The OCC has determined this proposed rule would not result in the expenditure by state, local and tribal governments, or the private sector, of $100 million or more in any one year (adjusted annually for inflation).

G. Providing Accountability Through Transparency Act of 2023

The Providing Accountability Through Transparency Act of 2023[140] requires that a notice of proposed rulemaking include the internet address of a summary of not more than 100 words in length of the proposed rule, in plain language, that shall be posted on the internet website under section 206(d) of the E-Government Act of 2002.[141]

In summary, the agencies request comment on a proposal to recalibrate the enhanced supplementary leverage ratio standard applicable to global systemically important bank holding

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[140] Codified at 5 U.S.C. 553(b)(4).

[141] 44 U.S.C. 3501 note.

companies and their depository institution subsidiaries, as well as to make corresponding changes to the Board's total loss absorbing capacity rule.

The proposal and such a summary can be found at https://www.regulations.gov, https://www.federalreserve.gov/supervisionreg/reglisting.htm, and https://www.fdic.gov/federal-register-publications.

List of Subjects

12 CFR Part 3

Administrative practice and procedure, Banks, banking, Federal Reserve System, Federal savings associations, Investments, National banks, Reporting and recordkeeping requirements.

12 CFR Part 6

Federal Reserve System, Federal savings associations, National banks, Penalties.

12 CFR Part 208

Confidential business information, Crime, Currency, Federal Reserve System, Mortgages, Reporting and recordkeeping requirements, Securities.

12 CFR Part 217

Administrative practice and procedure, Banks, Banking, Capital, Federal Reserve System, Holding companies, Reporting and recordkeeping requirements, Risk, Securities.

12 CFR Part 252

Administrative practice and procedure, Banks, banking, Federal Reserve System, Holding companies, Investments, Qualified financial contracts, Reporting and recordkeeping requirements, Securities.

12 CFR Part 324

Administrative practice and procedure, Banks, Banking, Capital adequacy, Reporting and recordkeeping requirements, Savings associations, State non-member banks.

DEPARTMENT OF THE TREASURY

Office of the Comptroller of the Currency

12 CFR Chapter I

Authority and Issuance

For the reasons set forth in the joint preamble, the OCC proposes to amend parts 3 and 6 of chapter I of title 12 of the Code of Federal Regulations as follows:

PART 3—CAPITAL ADEQUACY STANDARDS

1. The authority citation for part 3 continues to read as follows:

Authority: 12 U.S.C. 93a; 161, 1462, 1462a, 1463, 1464, 1818, 1828(n), 1828note, 1831n note, 1835, 3907, 3909, 5412(b)(2)(B), and Pub. L. 116-136, 134 Stat. 281.

2. In section 3.11:

a. revise paragraphs (a)(2)(ii), (a)(2)(iii), and (a)(3)(i);

b. add a paragraph (a)(2)(v);

c. revise paragraphs (a)(4)(ii) and (a)(4)(iii); and

d. add a paragraph (c) and Table 2.

The revisions and addition read as follows:

§ 3.11 Capital conservation buffer and countercyclical capital buffer amount.

(a) * * *

(2) * * *

(ii) *Maximum payout ratio*. The maximum payout ratio is the percentage of eligible retained income that a national bank or Federal savings association can pay out in the form of distributions and discretionary bonus payments during the current calendar quarter. For a national bank or Federal savings association that is not a subsidiary of a bank holding company designated as a global systemically important BHC pursuant to § 217.402 of this

title, the maximum payout ratio is based on the national bank's or Federal savings association's capital conservation buffer, calculated as of the last day of the previous calendar quarter, as set forth in Table 1 to § 3.11. For a national bank or Federal savings association that is a subsidiary of a global systemically important bank holding company, as identified pursuant to § 217.402 of this title, the maximum payout ratio is determined under paragraph (c)(1) of this section.

(iii) *Maximum payout amount*. A national bank's or Federal savings association's maximum payout amount for the current calendar quarter is equal to the national bank's or Federal savings association's eligible retained income, multiplied by the applicable maximum payout ratio.

* * * * *

(v) *Leverage buffer standard*. For a national bank or Federal savings association that is a subsidiary of a bank holding company designated as a global systemically important BHC pursuant to 12 CFR 217.402 of this title, the leverage buffer standard is equal to 50 percent of the most recent method 1 surcharge (expressed a percentage) that the global systemically important BHC that controls the national bank or Federal savings association was required to calculate pursuant to 12 CFR 217.403(b), subject to the effective date provisions of 12 CFR 217.403(d).

* * * * *

(3) * * *

(i) The capital conservation buffer for a national bank or Federal savings association is equal to the lowest of the following ratios, calculated as of the last day of the previous calendar quarter:

* * * * *

(4) * * *

(ii) A national bank or Federal savings association, with a capital conservation buffer that is greater than 2.5 percent plus 100 percent of its applicable countercyclical capital buffer, in accordance with paragraph (b) of this section and, if applicable, a leverage buffer greater than its leverage buffer standard is not subject to a maximum payout amount under this section.

(iii) * * *

(A) Eligible retained income is negative;

(B) Capital conservation buffer was less than 2.5 percent as of the end of the previous calendar quarter; and

(C) If applicable, leverage buffer, calculated as of the last day of the previous calendar quarter, was less than its leverage buffer standard.

* * * * *

(c) *Calculation of maximum payout ratio for a national bank or Federal savings association that is a subsidiary of a bank holding company designated as a global systemically important bank holding company pursuant to § 217.402 of this title —*

(1) *Maximum Payout Ratio.* The maximum payout ratio of a national bank or Federal savings association that is a subsidiary of a bank holding company designated as a global systemically important bank holding company pursuant to § 217.402 of this title is the lowest of the payout ratios determined by its capital conservation buffer, calculated as of the last day of the previous calendar quarter, as set forth in Table 1 to § 3.11 and leverage buffer as set forth in Table 2 to this section.

(2) *Leverage buffer*.

(i) The leverage buffer is composed solely of tier 1 capital.

(ii) A national bank or Federal savings association that is a subsidiary of a bank holding company designated as a global systemically important bank holding company pursuant to § 217.402 of this title has a leverage buffer that is equal to the national bank's or Federal savings association's supplementary leverage ratio minus 3 percent, calculated as of the last day of the previous calendar quarter.

(iii) Notwithstanding paragraph (c)(2)(ii) of this section, if the supplementary leverage ratio of the national bank or Federal savings association that is a subsidiary of a bank holding company designated as a global systemically important bank holding company pursuant to § 217.402 of this title is less than or equal to 3 percent, the national bank's or Federal savings association's leverage buffer is zero.

Table 2 to § 3.11—Calculation of Maximum Payout

Leverage buffer	**Maximum payout**
Greater than the national bank's or Federal savings association's leverage buffer standard	No payout ratio limitation applies.
Less than or equal to 100 percent of the national bank's or Federal savings association's leverage buffer standard, *and* greater than 75 percent of the national bank's or Federal savings association's leverage buffer standard	60 percent.
Less than or equal to 75 percent of the national bank's or Federal savings association's leverage buffer standard, *and* greater than 50 percent of the national bank's or Federal savings association's leverage buffer standard	40 percent.

Less than or equal to 50 percent of national bank's or Federal savings association's leverage buffer standard, *and* greater than 25 percent of the national bank's or Federal savings association's leverage buffer standard	20 percent.
Less than or equal to 25 percent of the national bank's or Federal savings association's leverage buffer standard	0 percent.

* * * * *

PART 6—PROMPT CORRECTIVE ACTION

3. The authority citation for part 6 continues to read as follows:

Authority: 12 U.S.C. 93a, 1831o, 5412(b)(2)(B).

4. In section 6.4 revise paragraphs (a)(1)(iv)(B) and (b)(1)(i)(D) to read as follows:

§ 6.4 Capital measures and capital categories.

(a) * * *

(1) * * *

(iv) * * *

(B) With respect to an advanced approaches national bank or Federal Savings association, or a Category III OCC-regulated institution, the supplementary leverage ratio; and

* * * * *

(b) * * *

(1)(i) * * *

(D) Leverage Measure: The national bank or Federal savings association has a leverage ratio of 5.0 percent or greater; and

* * * * *

FEDERAL RESERVE SYSTEM

12 CFR Chapter II

Authority and Issuance

For the reasons set forth in the joint preamble, the Board of Governors of the Federal Reserve System proposes to amend chapter II of title 12 of the Code of Federal Regulations as follows:

PART 208 – MEMBERSHIP OF STATE BANKING INSTITUTIONS IN THE FEDERAL RESERVE SYSTEM (REGULATION H)

5. The authority citation for part 208 continues to read as follows:

Authority: 12 U.S.C. 24, 36, 92a, 93a, 248(a), 248(c), 321-338a, 371d, 461, 481-486, 601, 611, 1814, 1816, 1817(a)(3), 1817(a)(12), 1818, 1820(d)(9), 1833(j), 1828(o), 1831, 1831o, 1831p-1, 1831r-1, 1831w, 1831x, 1835a, 1882, 2901-2907, 3105, 3310, 3331-3351, 3905-3909, 5371, and 5371 note; 15 U.S.C. 78b, 78I(b), 78l(i), 780-4(c)(5), 78q, 78q-1, 78w, 1681s, 1681w, 6801, and 6805; 31 U.S.C. 5318; 42 U.S.C. 4012a, 4104a, 4104b, 4106, and 4128.

6. In section 208.43, revise paragraphs (a)(1)(iv)(B), (a)(1)(iv)(C), and (b)(1)(i)(D) to read as follows:

§ 208.43 Capital measures and capital category definitions.

(a) * * *

(1) * * *

(iv) * * *

(B) With respect to an advanced approaches bank or, if applicable, a bank that is a Category III Board-regulated institution (as defined in § 217.2 of this chapter), the supplementary leverage ratio.

* * * * *

(b) * * *

(1) * * *

(i) * * *

(D) Leverage Measure: The bank has a leverage ratio of 5.0 percent or greater; and

* * * * *

PART 217 – CAPITAL ADEQUACY OF BANK HOLDING COMPANIES, SAVINGS AND LOAN HOLDING COMPANIES, AND STATE MEMBER BANKS (REGULATION Q)

7. The authority citation for part 217 continues to read as follows:

Authority: 12 U.S.C. 248(a), 321–338a, 481–486, 1462a, 1467a, 1818, 1828, 1831n, 1831o, 1831p-1, 1831w, 1835, 1844(b), 1851, 3904, 3906–3909, 4808, 5365, 5368, 5371, 5371 note, and sec. 4012, Pub. L. 116–136, 134 Stat. 281.

8. In § 217.11:

a. revise paragraphs (a)(2)(iii), (a)(2)(v), and (b)(1) introductory text;

b. add paragraph (f) and Table 3 to section 217.11(f).

The revisions and addition read as follows:

§ 217.11 Capital conservation buffer, countercyclical capital buffer amount, and GSIB surcharge.

(a) * * *

(2) * * *

(iii) *Maximum payout ratio.* The maximum payout ratio is the percentage of eligible retained income that a Board-regulated institution can pay out in the form of distributions and discretionary bonus payments during the current calendar quarter. For a Board-regulated institution that is not subject to 12 CFR 225.8 or 238.170 and that is not a state member bank subsidiary of a global systemically important BHC, the maximum payout ratio is determined by the Board-regulated institution's capital conservation buffer, calculated as of the last day of the previous calendar quarter, as set forth in Table 1 to paragraph (a)(4)(iv) of this section. For a Board-regulated institution that is subject to 12 CFR 225.8 or 238.170, the maximum payout ratio is determined under paragraph (c)(1)(ii) of this section. For a state member bank that is a subsidiary of a global systemically important BHC, the maximum payout ratio is determined under paragraph (f) of this section.

(iv) * * *

(v) *Leverage buffer requirement*. The leverage buffer requirement of a Board-regulated institution is 50 percent of the most recent method 1 surcharge (expressed as a percentage) that the Board-regulated institution or, for a state member bank, the global systemically important BHC that controls the state member bank, was required to calculate pursuant to § 217.403(b), subject to the effective date provisions of § 217.403(d).

* * * * *

(b) * * *

(1) *General*. An advanced approaches Board-regulated institution or a Category III Board-regulated institution must calculate a countercyclical capital buffer amount in accordance with this paragraph (b) for purposes of determining its maximum payout ratio under Table 1 to § 217.11(a)(4)(iv) and, if applicable, Table 2 to § 217.11(c)(4)(iii) or Table 3 to § 217.11(f).

* * * * *

(c) * * *

(1) * * *

(ii) *Maximum payout ratio*. The maximum payout ratio of a Board-regulated institution that is subject to 12 CFR 225.8 or 238.170 is the lowest of the payout ratios determined by its standardized approach capital conservation buffer, calculated as of the last day of the previous calendar quarter; if applicable, advanced approaches capital conservation buffer, calculated as of the last day of the previous calendar quarter; and, if applicable, leverage buffer, as set forth in table 2 to § 217.11(c)(4)(iii), calculated as of the last day of the previous calendar quarter.

(2) * * *

(ii) * * *

(A) The ratio calculated by the Board-regulated institution under § 217.10(b)(1) or (d)(1)(i), as applicable, minus the Board-regulated institution's minimum common equity tier 1 capital ratio requirement under § 217.10(a);

(B) The ratio calculated by the Board-regulated institution under § 217.10(d)(2)(ii) minus the Board-regulated institution's minimum tier 1 capital ratio requirement under § 217.10(a); and

(C) The ratio calculated by the Board-regulated institution under § 217.10(d)(3)(ii) minus the Board-regulated institution's minimum total capital ratio requirement under § 217.10(a).

* * * * *

(f) *Leverage buffer for a state member bank that is a subsidiary of a global systemically important BHC.*

(1) *Maximum payout ratio.* The maximum payout ratio of a state member bank that is a subsidiary of a global systemically important BHC is the lowest of the payout ratios determined by its capital conservation buffer, calculated as of the last day of the previous calendar quarter, as set forth in table 1 to § 217.11(a)(4)(iv), and leverage buffer, calculated as of the last day of the previous calendar quarter, as set forth in table 3 to § 217.11(f).

(2) *Limits on distributions and discretionary bonus payments.* Except as provided in paragraph (a)(4)(iv) of this section, a state member bank that is a subsidiary of a global systemically important BHC may not make distributions or discretionary bonus payments during the current calendar quarter if the Board regulated institution’s leverage buffer, calculated as of the last day of the previous calendar quarter, is less than its leverage buffer requirement as calculated under paragraph (a)(2)(v) of this section.

(3) *Leverage buffer*.

(i) The leverage buffer is composed solely of tier 1 capital.

(ii) A state member bank that is a subsidiary of a global systemically important BHC has a leverage buffer that is equal to the state member bank's supplementary leverage ratio minus 3 percent, calculated as of the last day of the previous calendar quarter.

(iii) Notwithstanding paragraph (f)(3)(ii) of this section, if the state member bank's supplementary leverage ratio is less than or equal to 3 percent, the state member bank's leverage buffer is zero.

Table 3 to § 217.11(f)—Calculation of Maximum Payout Amount

Leverage Buffer	**Maximum payout ratio**
Greater than the state member bank's leverage buffer requirement	No payout ratio limitation applies.
Less than or equal to 100 percent of the state member bank's leverage buffer requirement, *and* greater than 75 percent of the state member bank's leverage buffer requirement	60 percent.
Less than or equal to 75 percent of the state member bank's leverage buffer requirement, *and* greater than 50 percent of the state member bank's leverage buffer requirement	40 percent.
Less than or equal to 50 percent of the state member bank's leverage buffer requirement, *and* greater than 25 percent of the state member bank's leverage buffer requirement	20 percent.
Less than or equal to 25 percent of the state member bank's leverage buffer requirement	0 percent.

* * * * *

PART 252 – ENHANCED PRUDENTIAL STANDARDS (REGULATION YY)

9. The authority citation for part 252 continues to read as follows:

Authority: 12 U.S.C. 321-338a, 481-486, 1467a, 1818, 1828, 1831n, 1831o, 1831p-l, 1831w, 1835, 1844(b), 1844(c), 3101 *et seq.,* 3101 note, 3904, 3906-3909, 4808, 5361, 5362, 5365, 5366, 5367, 5368, 5371.

10. In § 252.62, revise paragraph (a)(2) to read as follows:

§ 252.62 External long-term debt requirement.

(a) * * *

(2) The global systemically important BHC's total leverage exposure multiplied by the sum of 2.5 percent plus the global systemically important BHC's leverage buffer requirement under 12 CFR 217.11 (expressed as a percentage).

* * * * *

11. In § 252.63, revise paragraphs (c)(4)(ii) and (c)(4)(iii)(B), and Table 2 to § 252.63 to read as follows:

§ 252.63 External total loss-absorbing capacity requirement and buffer.

* * * * *

(c) * * *

(4) * * *

(ii) A global systemically important BHC with an external TLAC risk-weighted buffer level that is greater than the external TLAC risk-weighted buffer and an external TLAC leverage buffer level that is greater than the global systemically important BHC's leverage buffer requirement under 12 CFR 217.11, in accordance with paragraph (c)(5) of

this section, is not subject to a maximum external TLAC risk-weighted payout amount or a maximum external TLAC leverage payout amount.

(iii) * * *

(B) External TLAC risk-weighted buffer level was less than the external TLAC risk-weighted buffer as of the end of the previous calendar quarter or external TLAC leverage buffer level was less than the global systemically important BHC's leverage buffer requirement under 12 CFR 217.11 as of the end of the previous calendar quarter.

* * * * *

Table 2 to §252.63—Calculation of Maximum External TLAC Leverage Payout Amount

External TLAC leverage buffer level	**Maximum External TLAC leverage payout ratio (as a percentage of eligible retained income)**
Greater than 100 percent of the global systemically important BHC's leverage buffer requirement under 12 CFR 217.11	No payout ratio limitation applies.
Less than or equal to 100 percent of the global systemically important BHC's leverage buffer requirement under 12 CFR 217.11, and greater than 75 percent of the global systemically important BHC's leverage buffer requirement under 12 CFR 217.11	60 percent.
Less than or equal to 75 percent of the global systemically important BHC's leverage buffer requirement under 12 CFR 217.11, and greater than	40 percent.

50 percent of the global systemically important BHC's leverage buffer requirement under 12 CFR 217.11	
Less than or equal to 50 percent of the global systemically important BHC's leverage buffer requirement under 12 CFR 217.11, and greater than 25 percent of the global systemically important BHC's leverage buffer requirement under 12 CFR 217.11	20 percent.
Less than or equal to 25 percent of global systemically important BHC's leverage buffer requirement under 12 CFR 217.11	0 percent.

* * * * *

Federal Deposit Insurance Corporation

12 CFR CHAPTER III

SUBCHAPTER B

For the reasons stated in the common preamble, the Federal Deposit Insurance Corporation proposes to amend 12 CFR part 324 as follows:

PART 324 – CAPITAL ADEQUACY OF FDIC-SUPERVISED INSTITUTIONS

1. The authority citation for part 324 continues to read as follows:

Authority: 12 U.S.C. 1815(a), 1815(b), 1816, 1818(a), 1818(b), 1818(c), 1818(t), 1819(Tenth), 1828(c), 1828(d), 1828(i), 1828(n), 1828(o), 1831o, 1835, 3907, 3909, 4808; 5371; 5412; Pub. L. 102–233, 105 Stat. 1761, 1789, 1790 (12 U.S.C. 1831n note); Pub. L. 102–242, 105 Stat. 2236, 2355, as amended by Pub. L. 103–325, 108 Stat. 2160, 2233 (12 U.S.C. 1828 note); Pub. L. 102–242, 105 Stat. 2236, 2386, as amended by Pub. L. 102–550, 106 Stat. 3672, 4089 (12 U.S.C. 1828 note); Pub. L. 111–203, 124 Stat.

1376, 1887 (15 U.S.C. 78o–7 note), Pub. L. 115–174; section 4014 § 201, Pub. L. 116–136, 134 Stat. 281 (15 U.S.C. 9052).

2. Amend § 324.11 by:

a. Revising paragraphs (a)(2)(ii) and (iii);

b. Adding paragraph (a)(2)(v);

c. Revising paragraph (a)(4)(ii);

d. Removing the word “and” at the end of paragraph (a)(4)(iii)(A);

e. Revising paragraph (a)(4)(iii)(B);

f. Adding paragraph (a)(4)(iii)(C);

g. Removing Table 1 to § 324.11 from paragraph (a)(4)(iv);

h. Redesignating footnote 11 as footnote 1;

i. Adding paragraph (c); and

j. Adding Tables 1 and 2 to § 324.11.

The revisions and additions read as follows:

Subpart B – Capital Ratio Requirements and Buffers

§ 324.11 Capital conservation buffer and countercyclical capital buffer amount.

(a) * * *

(2) * * *

(ii) *Maximum payout ratio.* The maximum payout ratio is the percentage of eligible retained income that an FDIC-supervised institution can pay out in the form of distributions and discretionary bonus payments during the current calendar quarter. For

an FDIC-supervised institution that is not a subsidiary of a bank holding company designated as a global systemically important BHC pursuant to 12 CFR 217.402, the maximum payout ratio is based on the FDIC-supervised institution's capital conservation buffer, calculated as of the last day of the previous calendar quarter, as set forth in Table 1 to § 324.11. For an FDIC-supervised institution that is a subsidiary of a global systemically important BHC, as identified pursuant to 12 CFR 217.402, the maximum payout ratio is determined under paragraph (c)(1) of this section.

(iii) *Maximum payout amount.* An FDIC-supervised institution's maximum payout amount for the current calendar quarter is equal to the FDIC-supervised institution's eligible retained income, multiplied by the applicable maximum payout ratio.

* * * * *

(v) *Leverage buffer standard*. For an FDIC-supervised institution that is a subsidiary of a bank holding company designated as a global systemically important BHC pursuant to 12 CFR 217.402, the leverage buffer standard is equal to 50 percent of the most recent method 1 surcharge (expressed as a percentage) that the global systemically important BHC that controls the FDIC-supervised institution was required to calculate pursuant to 12 CFR 217.403(b), subject to the effective date provisions of 12 CFR 217.403(d).

* * * * *

(4) * * *

(ii) An FDIC-supervised institution, with a capital conservation buffer that is greater than 2.5 percent plus 100 percent of its applicable countercyclical capital buffer, in accordance with paragraph (b) of this section and, if applicable, a leverage buffer

greater than its leverage buffer standard is not subject to a maximum payout amount under this section.

(iii) * * *

(B) Capital conservation buffer was less than 2.5 percent as of the end of the previous calendar quarter; and

(C) If applicable, leverage buffer was less than its leverage buffer standard as of the end of the previous calendar quarter.

* * * * *

(c) *Calculation of maximum payout ratio for an FDIC-supervised institution that is a subsidiary of a bank holding company designated as a global systemically important BHC pursuant to 12 CFR 217.402 —*

(1) *Maximum payout ratio*. The maximum payout ratio of an FDIC-supervised institution that is a subsidiary of a bank holding company designated as a global systemically important BHC pursuant to 12 CFR 217.402 is the lowest of the payout ratios determined by its capital conservation buffer as set forth in Table 1 to § 324.11 and leverage buffer as set forth in Table 2 to § 324.11.

(2) *Leverage buffer*.

(i) The leverage buffer is composed solely of tier 1 capital.

(ii) An FDIC-supervised institution that is a subsidiary of a global systemically important BHC designated pursuant to 12 CFR 217.402 has a leverage buffer that is equal to its supplementary leverage ratio minus 3.0 percent, calculated as of the last day of the previous calendar quarter.

(iii) Notwithstanding paragraph (c)(2)(ii) of this section, if the supplementary leverage ratio of the FDIC-supervised institution that is a subsidiary of a global systemically important BHC designated pursuant to 12 CFR 217.402 is less than or equal to 3.0 percent, the FDIC-supervised institution's leverage buffer is zero.

Table 1 to § 324.11 – Calculation of Maximum Payout Ratio (Capital Conservation Buffer)	
Capital Conservation Buffer	**Maximum payout ratio**
Greater than 2.5 percent plus 100 percent of the FDIC-supervised institution's applicable countercyclical capital buffer amount	No payout ratio limitation applies.
Less than or equal to 2.5 percent plus 100 percent of the FDIC-supervised institution's applicable countercyclical capital buffer amount, and greater than 1.875 percent plus 75 percent of the FDIC-supervised institution's applicable countercyclical capital buffer amount	60 percent.
Less than or equal to 1.875 percent plus 75 percent of the FDIC-supervised institution's applicable countercyclical capital buffer amount, and greater than 1.25 percent plus 50 percent of the FDIC-supervised institution's applicable countercyclical capital buffer amount	40 percent.

Less than or equal to 1.25 percent plus 50 percent of the FDIC-supervised institution's applicable countercyclical capital buffer amount, and greater than 0.625 percent plus 25 percent of the FDIC-supervised institution's applicable countercyclical capital buffer amount	20 percent.
Less than or equal to 0.625 percent plus 25 percent of the FDIC-supervised institution's applicable countercyclical capital buffer amount	0 percent.

Table 2 to § 324.11 – Calculation of Maximum Payout Ratio (Leverage Buffer)	
Leverage Buffer	**Maximum payout ratio**
Greater than the FDIC-supervised institution's leverage buffer standard	No payout ratio limitation applies.
Less than or equal to 100 percent of the FDIC-supervised institution's leverage buffer standard, *and* greater than 75 percent of the FDI-supervised institution's leverage buffer standard	60 percent.
Less than or equal to 75 percent of the FDIC-supervised institution's leverage buffer standard, *and*	40 percent.

greater than 50 percent of the FDI-supervised institution's leverage buffer standard	
Less than or equal to 50 percent of the FDIC-supervised institution's leverage buffer standard, *and* greater than 25 percent of the FDI-supervised institution's leverage buffer standard	20 percent.
Less than or equal to 25 percent of the FDIC-supervised institution's leverage buffer standard	0 percent.

3. Amend § 324.403 by:

a. Revising paragraphs (a)(1)(iv)(B) and (b)(1)(ii);

b. Removing paragraph (b)(1)(iii); and

c. Revising paragraphs (b)(2)(vi) and (b)(3)(v).

The revisions read as follows:

§ 324.403 Capital measures and capital category definitions

(a) * * *

(1) * * *

(iv) * * *

(B) With respect to an advanced approaches FDIC-supervised institutions or Category III FDIC-supervised institution, the supplementary leverage ratio.

(b) * * *

(1) * * *

(i) * * *

* * * * *

(ii) A qualifying community banking organization, as defined under § 324.12, that has elected to use the community bank leverage ratio framework under § 324.12 shall be considered to have met the capital ratio requirements for the well capitalized capital category in paragraphs (b)(1)(i)(A) through (D) of this section.

(2) * * *

(vi) An advanced approaches or Category III FDIC-supervised institution will be deemed to be "adequately capitalized" if it satisfies paragraphs (b)(2)(i) through (v) of this section and has a supplementary leverage ratio of 3.0 percent or greater, as calculated in accordance with § 324.10.

(3) * * *

(v) An advanced approaches or Category III FDIC-supervised institution will be deemed to be "undercapitalized" if it has a supplementary leverage ratio of less than 3.0 percent, as calculated in accordance with § 324.10.

* * * * *

The Honorable Rodney E. Hood,
Acting Comptroller of the Currency.

By order of the Board of Governors of the Federal Reserve System.
Ann E. Misback,
Secretary of the Board.

Federal Deposit Insurance Corporation.
By order of the Board of Directors.
Dated at Washington, DC, on [ ].

Jennifer M. Jones,
Deputy Executive Secretary.

BILLING CODES: 4810–33–P; 6210–01–P; 6714-01-P