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PUBLIC INTEREST COMMENT

Notice of Proposed Rulemaking on Modifications to the Enhanced Supplementary Leverage Ratio (eSLR) Standards

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

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-1867
RIN 7100-AG96

Federal Deposit Insurance Corporation
12 CFR Part 324
RIN 3064-AG11

Comment Period Opens: July 10, 2025
Comment Period Closes: August 26, 2025
Comment Submitted: July 22, 2025

Thank you for the opportunity to submit these comments on the recent interagency rulemaking to modify the enhanced supplementary leverage ratio (eSLR) standards applicable to the holding companies and depository institution subsidiaries of global systemically important bank holding companies (G-SIBs). We write as former regulators with decades of experience in financial system oversight. All of us held key regulatory positions during the 2008 Great Financial Crisis and were heavily involved in post-crisis rulemakings to reform the system to ensure that excessive leverage and risk-taking by large financial institutions would never again endanger the global economy. The adoption of the eSLR for G-SIBs was central to that effort. We wish to express our grave concerns about this proposal, which would significantly weaken the eSLR.

The proposal would slash required capital at the G-SIBs' FDIC-insured bank subsidiaries by $210 billion or 27 percent, with potentially large releases of holding company capital as well. Such steep reductions would significantly diminish the capital capacity of G-SIB bank subsidiaries to lend to households and businesses, particularly in times of economic stress. The proposal will also make bank failure and risk of bailout more likely, increasing risks to the Deposit Insurance Fund as well as the banks and US taxpayers who back it.

A stated purpose of this proposal is to provide more capital capacity to support the G-SIBs' US Treasury (UST) dealer operations, thereby stimulating more demand and lowering rates. As such, the proposal appears to be an indirect attempt to use capital regulation to ease monetary conditions and reduce government funding costs, an approach the Federal Reserve has steadfastly refused through its monetary tools. Even assuming the legitimacy of this purpose, which we do not, the proposal is unlikely to achieve it. The G-SIBs' UST dealer operations are conducted through their broker-dealer affiliates, not their insured banks. Reducing insured bank capital requirements will therefore have no direct impact on broker-deal capacity. At the holding company level, most of the G-SIBs are constrained by risk-based capital requirements, not the eSLR, so weakening the eSLR at the holding company would provide little capital benefit. In theory, G-SIBs could reallocate capital from their insured banks to their broker-dealer affiliates to support UST market-making, but there is no guarantee they would do so. It is just as likely the G-SIBs will invest that capital in higher yielding, riskier assets. In addition, if risk-based rules are loosened—as seems likely—much of it may be distributed to shareholders.

A key assumption of this rulemaking is that the eSLR is limiting UST dealer operations. Yet the fact that most G-SIBs broker-dealers are not constrained by the eSLR suggests otherwise. Studies of the impact of excluding UST from the eSLR denominator during the pandemic are mixed on whether eSLR had any noticeable impact on banks' UST market-making. One study, published by the Federal Reserve in 2023, concluded that it did not.[1] Even some G-SIBs have publicly acknowledged that the proposal is unlikely to increase G-SIBs' UST holdings.[2] At the same time, the proposal will have a number of negative consequences.

Support for Main Street Lending

Lending to households and businesses is primarily conducted by G-SIB's insured banks, while riskier securities and derivatives activities are carried out by nonbank affiliates. This $210 billion in capital supports about $2.625 trillion in lending at G-SIBs banks. Under this proposal, however, this capital could be redirected to the holding company and its nonbank affiliates. Thus, it would no longer be available to support lending at the banks. It would no longer be available to absorb losses on loans during periods of economic distress. If the 2008 financial crisis taught us anything, it is that capital regulation must be sufficient to ensure that banks can continue lending in both good times and bad.

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[1] Paul 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, https://www.federalreserve.gov/econres/notes/feds-notes/dealers-treasury-market-intermediation-and-the-supplementary-leverage-ratio-20230803.html.

[2] Colby Smith and Joe Rennison, "Wall Street's Regulatory Reins Start Loosening as Fed Proposes New Rule," *The New York Times*, June 26, 2025, https://www.nytimes.com/2025/06/26/business/fed-banks-capital-rule-change.html.

This proposal increases the likelihood that G-SIB banks—a major source of credit for our economy—will lack sufficient strength to continue lending during downturns, when Main Street borrowers need it the most.

Increased Risk of Bank Failures

This reduction of loss absorption capacity also increases the likelihood of G-SIB insured bank failures, exposing the FDIC to potentially catastrophic losses. The losses would have to be absorbed by all banks, large and small, that pay premiums to fund the FDIC's reserves, and potentially US taxpayers, who stand behind the FDIC's deposit insurance guarantee.

It has been argued that holding companies would ride to the rescue if their insured banks got into trouble, under a Fed doctrine that requires them to be a "source of strength." History suggests otherwise. We recall how, during the 2008 financial crisis, the FDIC repeatedly accommodated Fed requests to allow insured banks to upstream capital to their holding companies to bail out their troubled broker-dealers and other nonbank affiliates. This is why the 2010 Dodd-Frank financial reform law mandated that the Fed promulgate source-of-strength rules. Yet the Fed has never issued them. Lack of holding company support continues, as demonstrated by the 2023 failure of Silicon Valley Bank (SVB). Indeed, SVB's holding company continues to dispute the FDIC's claim to nearly $2 billion in deposits. In a future crisis, G-SIBs' holding companies will likely—again—confront stress in their nonbank affiliates, which engage in higher risk activities and are more vulnerable to sudden market movements than insured banks. They will need to cling to all their capital. They will be in no position to redirect it back down to their insured banks.

In 2010, Congress gave the FDIC new authority to take control of a failing bank at the holding company level, which in theory could allow the FDIC to downstream capital to keep the insured bank subsidiary open. This strategy has never been tested. Its success depends on the holding company's strength—which may be tenuous in times of stress (particularly if the Fed weakens their risk-based requirements)—and the ability of regulators to agree to execute on it. It is better to maintain strong capital levels at the insured bank to reduce the chances of a failure in the first place.

Of course, holding companies will be in no position to support either their insured banks or their broker-dealers if they distribute freed-up capital to shareholders. The proposing agencies have argued this cannot happen, because the holding companies are constrained by their risk-based requirements. However, we have no confidence that risk-based capital will remain binding given the ease with which the G-SIBs can reduce those requirements by changing their asset mix. This ability to game risk-based rules is a key reason why we need meaningful, overall caps on leverage. Yet under this proposal, G-SIBs would have an additional $200 billion of headroom to game the rules before the eSLR becomes binding. In addition, most observers expect regulators to loosen the risk-based rules. The Fed has already made it easier to pass the stress tests.

Adding to G-SIBs' Competitive Advantage from Their Too-Big-to-Fail Status

G-SIBs have argued that reduced capital requirements will allow them to offer lower interest rates on Main Street loans. It is true, their ability to fund themselves with less equity and more debt could reduce their costs of capital—which they may or may not pass on to borrowers. However, their borrowing costs are lower compared to smaller banks, because of the lower risk premiums demanded of depositors and bond holders who perceive them as "too big to fail." Indeed, G-SIBs are required to hold as much as 30 percent less capital per dollar of assets than smaller banks. The proposed reductions in the eSLR will allow them to undercut “small enough to fail” bank competitors further, tilting the competitive playing field more steeply in favor of the G-SIBs.

Increasing Market Concentration

An added benefit of strong capital requirements is that they limit G-SIB leverage for further expansion. G-SIBs already account for well over half of the banking system’s assets. This proposal will increase industry concentrations in the biggest banks. If regulators want to deregulate, we suggest they focus on reforms that will strengthen smaller bank competitors, not increase financial system fragility by easing leverage constraints on G-SIB growth.

Monetary Impact

The proposal requests comment on whether to exempt UST securities held in the trading account from capital requirements. The purpose of capital regulation is to ensure the safety and soundness of the financial system, not to help government finance its deficits. Exempting USTs would enable large banks to dramatically leverage themselves with US Treasuries at virtually no capital cost. The effect would be to enable banks to engage in a form of quantitative easing and to lower interest rates. This would significantly increase the industry’s exposure to interest-rate volatility. By asking this question, the Fed appears open to achieve through regulatory policy what it has resisted doing through monetary policy.

In addition, we believe exempting UST securities from the leverage ratio denominator, even in a limited way, would create a precedent. As the notice itself suggests, it could end up being a slippery slope, leading to additional requests for more exemptions for supposedly “safe” assets. This would undermine the leverage ratio’s effectiveness as a risk-neutral backstop to risk-based standards. The history of risk-based standards has not always been pretty, as we saw during the 2008 financial crisis. It is essential that the capital framework maintain a strong leverage ratio—one that does not purport to exclude or favor particular assets based on regulatory or bank judgments of risk.

Conclusion

We respectfully urge the agencies to reconsider this ill-advised proposal. If the agencies still proceed, as seems likely, we strongly recommend that any reductions be limited to the holding company level. If the agencies are intent on lowering capital requirements for insured banks, they should, at a minimum, strengthen risk-based requirements by applying both stress testing and the G-SIB surcharge at the insured bank level. The agencies should also wait to propose eSLR changes concurrently with any changes to the risk-based rules. Only then can public commenters be able to understand and provide input on the combined capital impact of both reforms.