Date: June 17, 2025

To: Board of Governors

From: Staff[1]

Subject: Draft notice of proposed rulemaking to modify the enhanced supplementary leverage ratio standards

ACTIONS REQUESTED: Approval of (1) the attached draft notice of proposed rulemaking to modify the enhanced supplementary leverage ratio (eSLR) standards applicable to U.S. global systemically important bank holding companies (GSIBs) and their depository institution subsidiaries and to make corresponding revisions to total loss-absorbing capacity (TLAC) and long-term debt requirements; and (2) proposed changes to related reporting requirements. Staff also seek authority to make technical or minor changes to the attached materials prior to publication in the Federal Register. The proposal would be issued jointly by the Board, the Federal Deposit Insurance Corporation, and the Office of the Comptroller of the Currency upon completion of their respective approval processes.

EXECUTIVE SUMMARY:

- The proposal would modify the eSLR standards applicable to U.S. GSIBs and their depository institution subsidiaries to help ensure that supplementary leverage ratio requirements generally serve as a backstop to risk-based capital requirements, rather than as a regularly binding constraint.
- By reducing the likelihood that supplementary leverage ratio requirements would be a regularly binding or near-binding constraint, the proposed changes would reduce regulatory disincentives for GSIBs to engage in lower-risk, lower-return activities, such as U.S. Treasury market intermediation, which would in turn support functioning of the U.S. Treasury market.

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- GSIBs play an important role in U.S. Treasury market intermediation and own the six largest primary dealers in U.S. Treasury securities.

- The proposal would modify the eSLR standards by applying an eSLR buffer at the GSIB parent and each depository institution subsidiary equal to half of the GSIB's method 1 surcharge under the Board's risk-based GSIB surcharge framework and make conforming changes to the Board's TLAC and long-term debt requirements for GSIBs.
- The proposed modification to the eSLR standards would reduce the supplementary leverage ratio requirement below the level of the risk-based tier 1 capital requirement for all GSIBs and most of their depository institution subsidiaries.
- The proposal would reduce aggregate tier 1 capital requirements for GSIBs by 1.4 percent.
  - Although tier 1 capital requirements at depository institution subsidiaries would decline by more, almost all of this capital would not become available for distribution to shareholders because of holding company capital requirements.
- The draft notice of proposed rulemaking would provide 60 days for public comment.

DISCUSSION:

I. Background

Under the agencies' capital rule, banking organizations are subject to complementary risk-based and leverage capital requirements, with each addressing potential risks not addressed by the other. Risk-based capital requirements establish a minimum amount of regulatory capital a banking organization must maintain based on the risk profile of its exposures, whereas leverage capital requirements establish minimum capital requirements based on exposures without regard to risk.

For leverage requirements, the minimum tier 1 leverage ratio of 4 percent, 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. The minimum supplementary leverage ratio of 3 percent, measured as the ratio of a banking organization's tier 1 capital to its total leverage exposure, applies only to banking organizations subject to Category I-III capital standards.[2] Total leverage exposure includes certain off-balance sheet exposures in addition to on-balance sheet assets.[3] In addition, GSIBs and their insured depository institution subsidiaries are required to meet enhanced supplementary leverage ratio standards. Specifically, each GSIB must maintain a supplementary leverage ratio of at least 3 percent plus a leverage buffer of 2 percent to avoid limitations on the firm's capital distributions and certain discretionary bonus payments.[4] Furthermore, any insured depository institution subsidiary of a GSIB must maintain a supplementary leverage ratio of at least 6 percent to be "well capitalized" under the agencies' prompt corrective action framework.[5]

A leverage capital requirement functions best when it is generally a backstop to risk-based capital requirements. When a leverage capital requirement is binding, it can create incentives for firms to reduce participation in lower-risk, lower-return activities and instead to engage in higher-risk activities in search of higher returns without a corresponding increase in capital requirements. More broadly, regularly binding leverage requirements imply that capital requirements are not reflective of a banking organization's underlying risks, which can

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[2] Category I standards apply to GSIBs and their depository institution subsidiaries. Category II standards apply to banking organizations with at least $700 billion in assets or at least $75 billion in cross-jurisdictional activity and their depository institution subsidiaries. Category III standards apply to banking organizations with 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 assets of at least $100 billion that do not meet the thresholds for a higher category and their depository institution subsidiaries. See 12 CFR 217.2.

[3] See 12 CFR 217.10(c).

[4] See 12 CFR 217.11(a)(2)(v).

[5] See 12 CFR 208(b)(1)(i)(D)(*2*).

incentivize inefficient allocation of capital. For example, a binding or near-binding leverage capital requirement can disincentivize bank-affiliated broker-dealers from intermediating in the U.S. Treasury market, which may create problems for the smooth functioning of U.S. Treasury markets and of U.S. financial markets more broadly.

Since the adoption of the eSLR standards, the agencies have observed that, in many cases, supplementary leverage ratio requirements have become a generally binding constraint rather than a backstop to risk-based capital requirements, giving rise to the incentive concerns described above. Accordingly, the proposal would modify the calibration of the eSLR standards to help ensure that supplementary leverage ratio requirements serve as a backstop to risk-based capital requirements, which would in turn support smooth functioning of the U.S. Treasury market.

II. Draft Notice of Proposed Rulemaking

The proposal would make changes to the eSLR standards to reduce the likelihood of supplementary leverage ratio requirements being the binding capital constraint for GSIBs and their depository institution subsidiaries. Specifically, the proposal would recalibrate the eSLR buffer standard to equal 50 percent of a GSIB's method 1 surcharge calculated under the Board's risk-based GSIB surcharge framework, rather than the current leverage buffer standard of 2 percent.[6] Similarly, the proposal would modify the eSLR standard for depository institution

[6] Under the Board's capital 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. See 12 CFR 217.402.

subsidiaries of GSIBs from the current 6 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 (which would be added to the 3 percent minimum supplementary leverage requirement). 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. Using a requirement based on the GSIB surcharge framework would tailor the eSLR to each GSIB's systemic footprint and produce a calibration that is consistent with the objective for supplementary leverage ratio requirements to act as a backstop to risk-based capital requirements. In addition, this approach would 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).[7]

The proposal would differ from the approach the agencies took in 2020 to address concerns regarding bindingness of the supplementary leverage ratio requirement, which was to temporarily exclude holdings of Treasury securities and deposits at Federal Reserve Banks (referred to as reserves) from the calculation of the supplementary leverage ratio requirement.[8] Relative to the 2020 temporary exclusions, the proposed recalibration of the eSLR standards would better achieve the objectives of restoring the role of the eSLR standards as a backstop to

[7] See Basel Committee, "Basel III leverage ratio framework and disclosure requirements" (January 2014) available at *http://www.bis.org/publ/bcbs270.htm*.

[8] 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).

risk-based capital requirements. It would more comprehensively address the undesired incentive effects of binding leverage ratio requirements and 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 market intermediation. This flexibility would be beneficial throughout economic and credit cycles. Furthermore, relative to the 2020 temporary exclusions, the proposal 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. In addition, unlike the 2020 temporary exclusions, the proposal would be consistent with the leverage ratio framework published by the Basel Committee.

In addition to the proposed changes, the proposal would invite comment on a potential additional modification that would exclude from the denominator of the supplementary leverage ratio held-for-trading Treasury securities of certain broker-dealer subsidiaries of GSIBs, in order to further address concerns around U.S. Treasury market intermediation.

The proposal would also make conforming modifications to the leverage-based components of the Board's TLAC and long-term debt requirements, which currently incorporate the eSLR standard's fixed two percent buffer construct. The proposed modifications would be consistent with the international TLAC standard.

In addition, the proposal includes certain technical corrections to each agency's capital rule. The proposal also includes conforming revisions to the Board's FR Y-9C reporting form instructions, which would not result in increased reporting burden.

III. Economic Analysis

As detailed in Section VI of the draft proposal, the change in the eSLR standards would reduce aggregate tier 1 capital requirements for U.S. GSIBs by $13 billion, a 1.4 percent reduction of their tier 1 capital requirements. Although tier 1 capital requirements at depository institution subsidiaries would decline in aggregate by $210 billion, almost all of this capital would need to be retained within the consolidated holding company, due to holding company capital requirements, and would not become available for distribution to shareholders. As a result, the proposal would enable holding companies to more flexibly allocate capital across their subsidiaries. In addition, the proposed change to the TLAC requirements, which would maintain alignment with the eSLR standard, would reduce aggregate TLAC requirements for U.S. GSIBs by 5 percent.

The proposed changes to the eSLR standards would reduce the supplementary leverage ratio requirement below the level of the risk-based tier 1 capital requirement for all GSIBs and most of their depository institution subsidiaries. A key benefit of the proposal is that it would remove disincentives 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. Moreover, the capital requirements of depository institution subsidiaries of GSIBs would become more closely aligned with their underlying risks. The changes to the TLAC standards in the proposal would maintain alignment with the revised eSLR standard, and would likely lower the funding costs of GSIBs, which could have further economic benefits.

The costs of the proposal include enabling GSIBs and their depository institution subsidiaries to increase their leverage, in part via risk exposures that are not fully captured by the risk-based capital framework. For example, the standardized risk-weighted assets framework applies zero risk weights to certain non-trading fixed income securities holdings, although these may not be entirely risk-free. Additionally, the proposed changes to the TLAC standards could modestly reduce the overall loss-absorbency of GSIBs.

Taken together, the analysis indicates that the benefits of the proposal justify its costs.

RECOMMENDATIONS:

For the reasons discussed above, staff recommend that the Board (1) approve the draft notice of proposed rulemaking; (2) approve the proposed changes to related reporting requirements; and (3) authorize staff to make technical or minor changes to the attached materials prior to publication in the Federal Register.

Attachment