BETTER MARKETS, SHAYNA OLESIUK

Proposal and Comment Information

Title: SLR-Enhanced Supplementary Leverage Ratio, R-1867

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Submitter Information

Organization Name: Better Markets

Organization Type: Organization

Name: Shayna Olesiuk

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Comment attached.

BETTER MARKETS

August 26, 2025

Chief Counsel's Office
Attention: Comment Processing
(Docket ID OCC-2025-0006)
Office of the Comptroller of the Currency
400 7th Street SW
Suite 3E-218
Washington, DC 20219

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

Ann E. Misback, Secretary
Attn: Docket No. R-1867; RIN 7100-AG96
Board of Governors of the Federal Reserve System
20th Street and Constitution Avenue NW
Washington, DC 20551

Re: Regulatory Capital Rule: Modifications to the Enhanced Supplementary Leverage Ratio Standards for U.S. Global Systemically Important Bank Holding Companies and Their Subsidiary Depository Institutions; Total Loss-Absorbing Capacity and Long-Term Debt Requirements for U.S. Global Systemically Important Bank Holding Companies; Docket ID OCC-2025-0006; RIN 1557-AF31; Docket No. R-1867; RIN 7100-AG96; RIN 3064-AG11; 90 Fed. Reg. 30780 (July 10, 2025)

Dear Ladies and Gentlemen:

Better Markets[1] appreciates the opportunity to comment on proposed changes ("Proposal") to the enhanced supplementary leverage ratio ("eSLR")[2] issued jointly by the Office of the Comptroller of the Currency ("OCC"), the Board of Governors of the Federal Reserve System ("Fed"), and the Federal Deposit Insurance Corporation ("FDIC") (collectively, "the Agencies"). This Proposal only applies to the U.S. Global Systemically Important Bank ("GSIB") holding

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1 Better Markets is a non-profit, non-partisan, and independent organization founded in the wake of the 2008 financial crisis to promote the public interest in the financial markets, support the financial reform of Wall Street, and make our financial system work for all Americans again. Better Markets works with allies—including many in finance—to promote pro-market, pro-business, and pro-growth policies that help build a stronger, safer financial system that protects and promotes Americans' jobs, savings, retirements, and more.

2 Regulatory Capital Rule: Modifications to the Enhanced Supplementary Leverage Ratio Standards for U.S. Global Systemically Important Bank Holding Companies and Their Subsidiary Depository Institutions; Total Loss-Absorbing Capacity and Long-Term Debt Requirements for U.S. Global Systemically Important Bank Holding Companies, 90 Fed. Reg. 30780 (July 10, 2025); https://www.federalregister.gov/documents/2025/07/10/2025-12787/regulatory-capital-rule-modifications-to-the-enhanced-supplementary-leverage-ratio-standards-for-us [hereinafter "2025 eSLR Proposal"].

companies—the largest and most complex banking organizations—and their subsidiaries ("banks"). It does not apply to other bank holding companies or to banks that are not GSIB subsidiaries.

Simply put, the Proposal is dangerous, wrong, and should be withdrawn. The eSLR was among the key regulations that were put in place after the 2008 Financial Crisis ("2008 Crash") to protect the economy and financial system from financial instability and crisis. However, the Proposal ***directly undermines and erodes this protection*** by reducing capital requirements for both the GSIB holding companies and their subsidiaries. The Agencies' analysis in the Proposal estimates that it would reduce capital by:

- **$213 billion** for banks that are GSIB subsidiaries (a **36% decline** in the leverage capital requirement) and

- **$13 billion** for GSIB holding companies (a **23% decline** in the leverage capital requirement).[3]

These are not small or insignificant reductions. To make matters worse, the calculations that led to these estimates were not provided in the Proposal. This lack of transparency contradicts Vice Chair Bowman's stated commitments at her nomination hearing, where she pledged to conduct rigorous analysis when the Fed promulgates rulemakings, to ensure they are "efficient and effective" and to fully understand "incentive effects, impacts on markets, and potential unintended consequences."[4] Such analysis is impossible if the data undergirding the Agencies' calculations are opaque. The absence of public, reliable data to inform stakeholders' evaluation of this proposal itself is a substantial weakness. The Agencies should not proceed with any revisions to the eSLR without providing such data and gathering public input that is informed by realistic and transparent calculations.

In the absence of such calculations from the Agencies, Better Markets has attempted to recalculate the point estimates provided in the Proposal. We were unable to replicate the capital reductions cited in the Proposal. Instead, using what we believe are reasonable assumptions, we found that ***the capital reduction at the GSIB subsidiary banks would be about $315 billion***, not $213 billion as stated in the Proposal. This represents a far greater reduction in loss-absorbing capital than what the Agencies stated, with nearly 50% more capital being drained from the GSIBs. Our step-by-step calculations are detailed later in Appendix A.

To make matters worse, the changes to the eSLR are being proposed at the same time that the Agencies are proposing several other deregulatory changes that would also significantly cut into capital requirements that protect the economy, financial system, and Main Street Americans

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3 *Id*. at 30797.

4 *Statement by Michelle W. Bowman Member Board of Governors of the Federal Reserve System before the Committee on Banking, Housing, and Urban Affairs U.S. Senate*, at 2 (Apr. 10, 2025), https://www.banking.senate.gov/imo/media/doc/bowman_testimony_4-10-25.pdf.

against financial crashes, bank failures, and bailouts. Proposed changes to the stress test program and resulting stress capital buffer for the largest banks,[5] proposed changes to the risk-based capital requirements through the Basel endgame proposals,[6] reductions to the GSIB surcharge,[7] and lower standards for the large bank supervision program[8] at the Fed would combine to significantly increase the risk to the economy, financial system, and all Americans that a GSIB or one of its subsidiaries will fail. In combination, not only will banks have far lower supervisory incentives to fix serious risk management issues, but these changes will also result in drastically reduced capital requirements that are designed to protect the bank from failure when those issues translate into significant losses. ***These proposed changes shift the accountability and cost of such a failure from the banks to taxpayers and the rest of society. Not only is this irresponsible policymaking and risk management, but it is also profoundly unfair to the American people.***

Moreover, the Proposal makes the baseless claim that reducing capital requirements will help to shore up the Treasury market by increasing Treasury market intermediation by GSIBs. In fact, Fed research and recent evidence show that this is nothing more than false hope. GSIBs did not increase Treasury market intermediation when regulatory requirements were reduced in the wake of the COVID-19 pandemic.[9] Similarly, banks recently chose to enrich their shareholders rather than invest in Treasuries after the 2025 stress test results were released.[10] Furthermore, the Fed's Division of Supervision and Regulation—according to its explicit mandate—should be

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5 *See, e.g.*, Better Markets, Comment Letter, *Modifications to the Capital Plan Rule and Stress Capital Buffer Requirement* (June 23, 2025), https://bettermarkets.org/wp-content/uploads/2025/06/Better-Markets-Comment-Letter-FRS.pdf.

6 *See, e.g.*, Better Markets, Comment Letter, *Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity* (Jan. 16, 2024), https://bettermarkets.org/wp-content/uploads/2024/01/Better-Markets-Comment-Letter-Regulatory-Capital-Rule-1-16-24.pdf.

7 *See, e.g.*, Better Markets, Comment Letter, *Regulatory Capital Rule: Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies* (Jan. 16, 2024), https://bettermarkets.org/wp-content/uploads/2024/01/Better-Markets-Comment-Letter-Risk-Based-Capital-Surcharges-for-GSIBS-1-16-24.pdf.

8 *See, e.g.*, Better Markets, Comment Letter, *Revisions to the Large Financial Institution Rating System and Framework for the Supervision of Insurance Organizations* (Aug. 14, 2025), https://bettermarkets.org/wp-content/uploads/2025/08/Better-Markets-Comment-Letter-Large-Bank-Ratings.pdf.

9 *See, e.g.*, Paul Cochran, Sebastian Infante, Lubomir Petrasek, Zack Saravay, & Mary Tian, Dealers' *Treasury Market Intermediation and the Supplementary Leverage Ratio*, Board of Governors of the Federal Reserve System, FEDS NOTES (Aug. 3, 2023), https://www.federalreserve.gov/econres/notes/feds-notes/dealers-treasury-market-intermediation-and-the-supplementary-leverage-ratio-20230803.html.

10 *See, e.g.*, Katherine Doherty, *Biggest US Banks Boost Payouts After Lighter Fed Stress Test*, BLOOMBERG (July 1, 2025), https://www.bloomberg.com/news/articles/2025-07-01/biggest-us-banks-boost-payouts-after-lighter-fed-stress-test; Akila Quinio & Joshua Franklin, *US Banks Announce Big Shareholder Payouts As Fed Eases Stress Tests*, FIN. TIMES (July 1, 2025), https://www.ft.com/content/081f8752-8022-4c02-9d85-cea6a133ac8f.

focused on maintaining the safety and soundness of GSIBs, not the health of the Treasury markets.[11]

In summary, we agree that capital requirements need to be recalibrated and that the Treasury market needs to be supported. But ***capital requirements need to be strengthened, not weakened***, and ***Treasury market vulnerability needs to be addressed at the root problem of unsustainable debt levels***, rather than blindly and wrongly relying on a rescue from the GSIBs and their subsidiaries. ***This Proposal should be rescinded because it is the wrong answer for addressing both challenges***.

BACKGROUND

Bank capital is essential because it protects American families, small businesses, the financial system, and the economy from bank failures, losses, and taxpayer bailouts. Well-capitalized banks are those that are strong enough to continue providing credit through the economic cycle, in good times and bad, which keeps the economy growing, creates jobs, and reduces the depth, length, and cost of recessions.[12] The 2008 Financial Crisis ("2008 Crash") is estimated to have cost the American people more than $20 trillion in lost production and other costly and adverse consequences, such as unemployment, lost savings, homelessness, and foreclosures.[13] Capital levels at the large Wall Street banks proved to be grossly insufficient to absorb losses when banks' loans and other investments decreased in value in 2008, and the result was bank failures and costly bailouts, and the worst global financial and economic crisis since the Great Depression.[14]

The experience of the 2008 Crash led to the development of the current regulatory capital framework, made up of both ***risk-based capital requirements***—which depend on estimates of relative risk levels for each type of asset—and ***leverage capital requirements***—which, by design, are not adjusted for relative asset risk. As the Proposal states, these two types of capital requirements serve different but ***complementary*** functions:

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11 BOARD OF GOVERNORS OF THE FEDERAL RESERVE SYSTEM, SUPERVISION AND REGULATION REPORT, at iii (Nov. 2024), https://www.federalreserve.gov/publications/files/202411-supervision-and-regulation-report.pdf.

12 *See, e.g.*, Dennis Kelleher, Tim P. Clark, & Phillip Basil, *Protecting Our Economy by Strengthening the U.S. Banking System Through Higher Capital Requirements*, BETTER MARKETS (Dec. 22, 2022), https://bettermarkets.org/wp-content/uploads/2022/12/BetterMarkets_Strengthening_US_Banking_System_12-22-2022.pdf.

13 *See, e.g.*, BETTER MARKETS, COST OF THE CRISIS (July 2015), https://bettermarkets.org/wp-content/uploads/2021/07/Better-Markets-Cost-of-the-Crisis-2_0.pdf; Tyler Atkinson, David Luttrell, & Harvey Rosenblum, *How Bad Was It? The Costs and Consequences of the 2007–09 Financial Crisis*, Federal Reserve Bank of Dallas (July 2013), https://www.dallasfed.org/pubs/historical/~/media/documents/research/staff/staff1301.pdf.

14 *See* BETTER MARKETS, *supra* note 13 at 74.

> Within the regulatory capital framework, ***leverage and risk-based capital requirements play complementary roles, with each addressing potential risks not addressed by the other.*** 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.***[15]

One of the key benefits of the leverage ratio is the fact that it is straightforward, easy to calculate, and easy to understand. Capital ratios are also good measures of minimum levels of capital or "skin in the game" that a bank must use, and the maximum amount of "other people's money," such as deposits or borrowed funds, that a bank may use, to fund its assets, such as loans. By definition, a leverage requirement limits the amount of leverage a bank can have. The focus must be on how much leverage is appropriate for the largest, most complex banks in the country (and the world) to have.

Under current rules, GSIB holding companies' eSLR requirement is 5%, equivalent to 20-to-1 leverage, approximately as much leverage as the largest Wall Street hedge funds.[16] Currently, GSIB subsidiaries have an eSLR of 6% in recognition of the need to protect the depository institutions. These are sensible requirements that still allow for high levels of leverage by any standard. To the extent these requirements are becoming "binding" for banks and holding companies, that is an indication that risk-based requirements must be adjusted upward, not that the leverage requirements must be lowered.

Contrary to the industry's claims, higher capital levels are good for the economy, the banking system, and the American people. Senior officials at the Agencies have long emphasized the direct relationship between strong capital levels and a strong, resilient economy. For example, Fed Governor Michael Barr stated:

> Everyone in America depends on a safe and stable financial system. By strengthening capital standards, we are ensuring that businesses have credit to grow and hire workers, and deal with the ups and downs in the economy. Stronger capital standards mean workers can depend on getting their paychecks and families can

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15 2025 eSLR Proposal, *supra* note 2 at 30783 (emphasis added).

16 Office of Financial Research, *Hedge Fund Monitor, Leverage By Size Cohort*, https://www.financialresearch.gov/hedge-fund-monitor/categories/leverage/chart-29/ (last visited Aug. 20, 2025).

> save and borrow to plan for the future. ***Our goal is a financial system that works for everyone, and having strong capital rules is essential for that.***[17]

Former FDIC Chairman Martin Gruenberg also emphasized several benefits of higher capital:

> ***[S]tronger capital improves the resilience of our largest banks and enhances their ability to lend through the economic cycle.*** History has proven that insufficient capital can lead to harmful economic results when banks are unable to provide financial services to households and businesses, as occurred during the 2008 financial crisis. Ensuring adequate amounts of bank capital provides a long-term benefit to the economy by enabling banks to play a counter-cyclical role during an economic downturn rather than a pro-cyclical one.[18]

Former FDIC Chairman Sheila Bair also recognized the dangers of reducing capital:

> Ironically, big bank lobbyists are . . . cynically claiming deregulation will help banks support the real economy. Their primary target ***is the leverage ratio, a key measure of financial stability*** which big banks have long despised because it places hard and fast constraints on their ability to use unstable leverage to generate high returns. ***Weakening the leverage ratio will reduce the capital resiliency of the banking system . . .*** [19]

Finally, Former Federal Reserve Bank President, Federal Open Market Committee member, and FDIC Vice Chairman Tom Hoenig advocates for simple and strong leverage ratios to support financial stability:

> In 2008 . . . Lehman Brothers . . . operated with an unweighted, extreme leverage ratio exceeding 30:1, almost guaranteeing failure under stress. ***Post-crisis reforms led to more rules and complexity without addressing the core issue: Banks still manipulate the rules to increase leverage and maximize returns, not resilience.***

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17 Board of Governors of the Federal Reserve System, *Holistic Capital Review* (July 10, 2023), https://www.federalreserve.gov/newsevents/speech/barr20230710a.htm (emphasis added).

18 Federal Deposit Insurance Corporation, *Remarks by Chairman Martin J. Gruenberg on the Basel III Endgame at the Peterson Institute for International Economics* (June 22, 2023), https://www.fdic.gov/news/speeches/2023/spjun2223.html (emphasis added).

19 Sheila Bair, *Sheila Bair: The Danger of Allowing Banks to Artificially Boost Capital Ratios*, YAHOO FINANCE (Aug. 7, 2020), https://finance.yahoo.com/news/bair-the-danger-of-allowing-banks-to-artificially-boost-capital-ratios-160415696.html (emphasis added).

> The lesson is clear: ***Unnecessary complexity breeds fragility***. A straightforward leverage ratio—equity against total assets—would offer a more reliable gauge of health than risk-weighted calculus.[20]

In summary, the Proposal will weaken our financial system and increase the risk and severity of another financial crisis, without conferring meaningful benefits on the public, the financial markets, or the economy at large.

SUMMARY OF THE PROPOSAL

The Proposal would reduce and weaken capital requirements for both GSIB holding companies and their subsidiaries. It would also complicate the capital requirement calculations and tie them to the GSIB surcharge framework, which the Fed is also attempting to weaken.[21]

As shown in Table 1, the eSLR for both GSIB holding companies and their subsidiaries would decline significantly if the Proposal is implemented.[22] For banks that are GSIB subsidiaries, the proposal claims that the eSLR would decline by 36%, resulting in a decline in capital of $213 billion, and for GSIB holding companies, the eSLR would decline by 23%, resulting in a decline in capital of $13 billion.

Table 1: Current and Proposed eSLR Calculations

	Current Calculation	**Proposed Calculation**
U.S. GSIBs	3% SLR + 2% GSIB buffer = **5%**	3% + ½ (GSIB surcharge) Between **3.5%** and **4.25%** using current GSIB surcharges
Banks owned by a U.S. GSIB	3% SLR + 3% GSIB buffer = **6%**	3% + ½ (GSIB surcharge) = Between **3.5%** and **4.25%** using current GSIB surcharges

Importantly, as noted earlier, the Proposal only provides these estimates; it does not provide detailed calculations that support these estimates. In an attempt to validate the already alarming capital reductions, we did our own calculations. As shown in Appendix A, using the reasonable assumptions that are detailed in the Appendix, aggregate capital for the eight GSIBs would decline

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20 Thomas Hoenig, *Five Decades of Banking Crises: What Have We Learned?*, FinRegRag (May 28, 2025), https://substack.com/home/post/p-164593333 (emphasis added).

21 *See, e.g.*, Better Markets, Comment Letter, *supra* note 7.

22 2025 eSLR Proposal, *supra* note 2 at 30784, 30796.

more than $315 billion from current levels, far more than the $213 billion decline cited in the Proposal (see Appendix A, Table A5, column E).

COMMENTS

As Better Markets has detailed in the past, weakening the eSLR is a dangerous mistake.[23] It will weaken, in at least two respects, the capital buffers that are essential for maintaining the stability of our financial system.

- First, and according to the Agencies' analysis, the Proposal will significantly reduce capital at the eight largest, most complex bank holding companies and their bank subsidiaries.

- Second, it will alter the formula for calculating the eSLR in a way that makes the capital buffer requirement less reliable and more vulnerable to evasion and gaming by the GSIBs.

We strongly urge the Agencies to remember the hard lessons learned during the 2008 Crash, as well as those learned more recently during the 2023 banking crisis. Those experiences demonstrated without a shadow of a doubt that insufficient capital, especially at large banks, leads to bank failures, bailouts, and catastrophes that leave lasting scars on Main Street, often for generations. This Proposal will directly lead to higher profits for Wall Street, less resilience in the economy and banking system, and more bailouts in the future. ***The Agencies should withdraw the Proposal, or at least pause it until it can be considered holistically alongside all the other deregulatory proposals detailed earlier in this letter, that are being considered or already underway. Moreover, the Agencies should clearly show the calculations behind the claims made on the potential impact of the Proposal.***

Beyond this overarching request, we also offer the following comments:

1. <u>Capital requirements should be strengthened, not weakened.</u> This Proposal will undoubtedly lead to a more fragile, less resilient economy, banking industry, and financial system; more bank failures, bank bailouts, and financial crashes; and less lending to American families and businesses. As the Proposal states,

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23 *See, e.g.*, Better Markets, Comment Letter, *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; Joint Notice of Proposed Rulemaking* (June 25, 2018), https://bettermarkets.org/wp-content/uploads/2025/07/OCC-2018-0002-0023_attachment_1.pdf.

> 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.[24]

As further evidence of the crucial role played by capital buffers in safeguarding our financial system, the Proposal details the successive layers of protection that the prudential regulators have implemented, including the 2013 capital rule (including the SLR for advanced approaches banking organizations) and the 2014 eSLR rule for the largest and most interconnected and complex bank holding companies and their subsidiaries.[25]

Leverage requirements are a critical component of the framework of capital requirements. Simply put, they sensibly limit the amount of leverage banks can have. That is because depositors, taxpayers, and the entire economy suffer the consequences when banks have too much leverage and are unable to absorb losses, regardless of the source. Lowering the leverage requirements to ensure they are less "binding" implicitly assumes that risk-based requirements are necessarily accurate estimates of potential losses, something which has never proved to be the case, especially in times of banking system deterioration. If anything, it means that risk-based requirements should be strengthened and are missing or underweighting certain risks. That is, if risk-based requirements result in more than 20-to-1 leverage (the current requirement, and as stated earlier, as much leverage as the largest hedge funds), then it is much more likely that they are not sufficiently capturing the riskiness of assets. For example, 10-year Treasury securities lost 5 percent of their value in five days in April 2025,[26] the equivalent of the capital required by the current eSLR for holding companies.

It is important to recognize that in the 2018 effort to make similar changes to the eSLR that are being proposed now, then FDIC Chairman Gruenberg took the extraordinary step of declining to join the Fed and OCC in the rulemaking because he rightly recognized how dangerous and wrong it was. That Proposal would have cut $121 billion in capital from the largest banks in the country, and as detailed earlier in this letter, the cuts for this Proposal are even larger. Gruenberg stated:

> Given these reductions in capital requirements, the FDIC did not join the Federal Reserve and OCC in issuing the proposed rule.
>
> Strengthening leverage capital requirements for the largest, most systemically important banks in the United States was among the most important post-crisis reforms. In April 2014, the Federal Deposit Insurance Corporation, OCC, and the Federal Reserve jointly finalized a rule that

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24 2025 eSLR Proposal, *supra* note 2 at 30783.

25 *Id*. at 30782-83.

26 *See, e.g.*, *What Just Happened In the US Treasury Market?*, REUTERS (Apr. 10, 2025), https://www.reuters.com/markets/us/what-just-happened-us-treasury-market-2025-04-10/.

> required the eight U.S. GSIBs to satisfy a supplementary leverage ratio capital requirement of 5 percent at the holding company and 6 percent at their insured depository institutions. ***This simple approach has served well in addressing the excessive leverage that helped deepen the financial crisis***.[27]

Gruenberg offered further explanation and insight on the reasons that slashing the eSLR is such a mistake in a speech in September 2018. He provided data showing that the GSIBs have not been constrained to make loans or earn hundreds of billions of dollars in profit, with the current eSLR in place; he explained that more capital—not less—reduces the risk of bank failures; and he concluded that:

> Significantly reducing G-SIB bank capital requirements will increase the risk of financial counterparty runs, reduce their ability to absorb losses, make them less able to lend in an economic downturn, increase their likelihood of failure, and increase risk to the Deposit Insurance Fund.[28]

These concerns are consistent with those raised by Fed Governor Barr in his dissent on the current proposal,[29] and by former Fed Governor Adrianna Kugler in her dissent on the current proposal.[30] The Agencies should not proceed with the Proposal, given the evidence and opposition from senior officials at both the Fed and the FDIC.

2. Treasury securities should not be excluded from the eSLR calculation. In the Proposal, the Agencies present several alternatives that involve excluding U.S. Treasury securities from calculations of leverage exposure.[31] All of these alternatives are misguided because they stray from the fundamental benefit of a leverage ratio being all-inclusive regardless of the riskiness of any specific asset type, and the Agencies should ***reject them***.

   As Better Markets has detailed, banks argue that future financial market turmoil could be mitigated or prevented if Treasury securities were excluded from the leverage ratio

[27] Martin J. Gruenberg, *Notice of Proposed Rulemaking on Supplementary Leverage Ratio by the Federal Reserve and OCC* (Apr. 11, 2018), https://archive.fdic.gov/view/fdic/11616 (emphasis added).

[28] Martin J. Gruenberg, *An Essential Post-Crisis Reform Should Not Be Weakened: The Enhanced Supplementary Leverage Capital Ratio* (Sept. 6, 2018), https://archive.fdic.gov/view/fdic/11609.

[29] Press Release, Board of Governors of the Federal Reserve System, *Statement on Enhanced Supplementary Leverage Ratio Proposal by Governor Michael S. Barr* (June 25, 2025), https://www.federalreserve.gov/newsevents/pressreleases/barr-statement-20250625.htm.

[30] Press Release, Board of Governors of the Federal Reserve System, *Statement on Enhanced Supplementary Leverage Ratio Proposal by Governor Adriana D. Kugler* (June 25, 2025), https://www.federalreserve.gov/newsevents/pressreleases/kugler-statement-20250625.htm.

[31] 2025 eSLR Proposal, *supra* note 2 at 30796.

calculation or if banks were allowed more leverage.[32] The truth is that the eSLR would be weakened even more by any of the Agencies' alternatives that include excluding certain types of assets. Excluding Treasuries would boost banks' return on equity by allowing them to earn additional interest income without having to add to their equity capital.

Moreover, banks claim that Treasury activities have minimal risk, and so an exemption would not be materially detrimental to their safety and soundness. The truth is that Treasury activities generally have low risk, but not zero risk. This was made clear in 2023 when the Fed's rapid and large-scale interest rate increases resulted in heavy market losses on banks' holdings of securities, including Treasuries. These losses pushed multiple banks towards insolvency, scaring depositors and resulting in bank runs and failures, most notably at Silicon Valley Bank. The market risks were clearly shown again in the Treasury market turmoil in April 2025 and could easily be provoked again by such things as investors losing faith in the U.S. or larger-than-expected increases in outstanding U.S. government debt. Given these facts, as well as concerns about the stability of the dollar going forward, now is possibly the worst time in U.S. history to exclude Treasury securities from capital requirements.

The bottom line is that if banks are not held accountable for protecting themselves against the risk of their activities with appropriate capital, then, as we have witnessed in past crisis periods, such as the 2008 Crash, the cost of failure at massive Wall Street banks is shifted to taxpayers. This outcome is simply unacceptable.

3. <u>Weakening the eSLR to support Treasury markets is a mistake.</u> The Proposal claims that loosening capital requirements for the largest banks "could" benefit the broader economy and financial markets with more financial intermediation in the Treasury markets.[33] In other words, the Agencies are only speculating about potential policy outcomes and are not sure that weakening the eSLR will lead to increased Treasury market intermediation by banks. We have at least three pieces of evidence and data to disprove the Agencies' assumed outcome, as detailed below.

   First, and most objectively, banking organizations' Treasury securities holdings are a very small piece of the aggregate Treasury market. The Proposal shows that banking organizations' U.S. Treasury securities holdings in 2024 accounted for a mere 5.5% of the $28.1 trillion in total U.S. Treasury securities outstanding.[34] In short, the known dangers of lowering capital at the largest, most complex banks would have very limited potential power to materially affect the broader U.S. Treasury market.

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32 *See, e.g.*, Phillip Basil & Shayna Olesiuk, *Weakening Bank Capital Will Not Help the Treasury Market but Will Increase Financial Stability Risks,* BETTER MARKETS (May 14, 2025), https://bettermarkets.org/wp-content/uploads/2025/05/Better-Markets-Treasury-Markets-Fact-Sheet-Banking-5.14.25.pdf.

33 2025 eSLR Proposal, *supra* note 2 at 30793.

34 *Id*. at 30794, Table 4.

Second, we consider the historical record from 2020, when the Fed did temporarily exclude Treasury securities from the supplementary leverage ratio, with the stated goal of easing strains in the Treasury markets.[35] Research and analysis, conducted by the Fed itself, after this temporary exclusion, concluded that this strategy ***was not successful*** in meeting the stated goal, with no "noticeable effect on the big six dealers' Treasury intermediation."[36]

Third, recent evidence from the time after the 2025 Fed stress test results were released showed that the largest banks in the country will not choose to deploy "excess" capital by investing in Treasury securities. Instead, these banks chose to enrich their shareholders with enormous share repurchases and dividends. For example, JP Morgan repurchased $50 billion, and Morgan Stanley repurchased $20 billion.[37]

In summary, lowering a leverage requirement that applies to the entirety of a bank's activities to benefit one asset class that is a very small portion of total leverage exposure is a meaningless justification. The materiality of Treasuries on GSIB balance sheets is much too low to warrant such a large reduction in the leverage requirement that applies to all activities. The very real costs of a lower leverage requirement clearly outweigh the negligible benefit, if any.

4. <u>The costs of destabilizing the largest banks in the country, the economy, and financial markets and increasing the risk of bank failures and bailouts that would drain the FDIC's Deposit Insurance Fund ("DIF") are unambiguously not worth the narrow benefit of higher profits for a few Wall Street banks.</u> Importantly, this proposal only applies to the eight GSIBs and their subsidiary banks. Giving yet another benefit to these banks with no support for other banks, including community banks, is not in the best interest of the banking system or the American people.

   Moreover, it is dangerous and wrong to seriously consider a proposal like this one that results in a massive decline in capital at the bank level. As Governor Barr correctly identified,[38] the loss of hundreds of billions of dollars in capital protection at the bank level would put significant added pressure on the DIF and increase the likelihood that additional extraordinary government programs, like those that were created during the 2008 Crash, will be needed to bail out GSIBs in the future. Moreover, there are serious economic consequences to such a crash, including financial and social scarring that especially harms the most vulnerable Americans—consumers and families with lower incomes.[39]

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35 Press Release, Board of Governors of the Federal Reserve System, *Federal Reserve Board Announces Temporary Change to Its Supplementary Leverage Ratio to Ease Strains in the Treasury Market Resulting from the Coronavirus and Increase Banking Organizations' Ability to Provide Credit to Households and Businesses* (Apr. 1, 2020), https://www.federalreserve.gov/newsevents/pressreleases/bcreg20200401a.htm.

36 Cochran, Infante, Petrasek, Saravay, & Tian, *supra* note 9 at Figure 10.

37 *See, e.g.*, Quinio & Franklin, *supra* note 10.

38 Press Release, Board of Governors of the Federal Reserve System, *supra* note 29.

39 *See, e.g.*, BETTER MARKETS, *supra* note 13.

> ***The truth is that we do not know the full expected impact of this Proposal together with the array of other deregulatory changes that are in progress*** at the Agencies, because the Agencies have not shared this information with the public. Therefore, we urge the Agencies to stop working on this Proposal and provide all the information that is necessary to fully and appropriately consider the implications of this Proposal in the broader context of the full suite of deregulatory proposals that are underway.

CONCLUSION

We hope these comments are helpful to the Agencies in developing strong and appropriate capital requirements.

Sincerely,

Shayna M. Olesiuk
Director of Banking Policy
solesiuk@bettermarkets.org

Better Markets, Inc.
2000 Pennsylvania Avenue, NW
Suite 4008
Washington, DC 20006
(202) 618-6464
https://www.bettermarkets.org

Appendix A:

Calculation of capital reduction as a result of proposed reduction to the enhanced supplementary leverage ratio for depository institution subsidiaries of Global Systemically Important Banks

First, obtain the levels of capital and risk-weighted assets/total leverage exposure for the depository institution (DI) subsidiaries of the eight U.S. global systemically important banks (GSIBs). They are shown below in thousands based on data from December 31, 2024.

Table A1. Levels of select capital-related financial metrics as of December 31, 2024

	Depository Institution					
		Current eSLR	*6%*		*Risk based req't*	*7%*
	Actual Tier 1	Total Leverage Ex	Leverage Req't	CET1	RWA	Risk based Req't
JP Morgan	275,737,000	4,246,516,000	254,790,960	275,732,000	1,718,776,545	120,314,358
Bank of America	194,341,000	3,014,693,000	180,881,580	194,341,000	1,443,806,000	101,066,420
Citigroup	155,613,000	2,195,386,000	131,723,160	153,483,000	998,817,000	69,917,190
Wells	145,651,000	2,033,458,000	122,007,480	145,651,000	1,113,189,520	77,923,266
Goldman	62,022,000	775,170,000	46,510,200	62,022,000	386,921,950	27,084,537
Morgan Stanley	22,165,000	301,467,000	18,088,020	22,165,000	110,191,900	7,713,433
Bank of New York	22,971,000	301,834,000	18,110,040	22,971,000	145,767,000	10,203,690
State Street	19,173,000	267,557,000	16,053,420	19,173,000	123,784,200	8,664,894

Source: Call reports

Next, determine how much capital "headroom" is being maintained by each DI based on those levels. As shown, for each DI, the enhanced supplementary leverage ratio (Leverage) is the "binding" requirement because it is lower than the risk-based common equity tier 1 requirement.

Table A2. Ratios of relevant actual capital levels to required levels as of December 31, 2024

	DI: Capital held/Required capital	
	Leverage	Risk-based
JP Morgan	1.08	2.29
Bank of America	1.07	1.92
Citigroup	1.18	2.20
Wells	1.19	1.87
Goldman	1.33	2.29
Morgan Stanley	1.23	2.87
Bank of New York	1.27	2.25
State Street	1.19	2.21

Source: Call reports

Next, calculate what the eSLR requirements would be for each bank based on the current GSIB surcharge requirements from "method 1." This is done by adding half the amount of the GSIB surcharge method 1 percentage to the 3% SLR requirement.

Table A3. eSLR requirements based on the Proposal

	GSIB surcharge method 1	*New eSLR*
JP Morgan	*2.5%*	*4.25%*
Bank of America	*1.5%*	*3.75%*
Citigroup	*2.0%*	*4.00%*
Wells	*1.0%*	*3.50%*
Goldman	*1.5%*	*3.75%*
Morgan Stanley	*1.0%*	*3.50%*
Bank of New York Me	*1.0%*	*3.50%*
State Street	*1.0%*	*3.50%*

Source: BCBS and calculations

Next, compute the updated required levels of tier 1 capital based on what would be the updated eSLR percentage requirements.

Table A4. Tier 1 capital requirements based on the Proposal

	A	B	A*B = C
	Total Leverage Exposure	*New eSLR Requirement*	*Required Tier 1 from Proposal*
JP Morgan	4,246,516,000	4.25%	180,476,930
Bank of America	3,014,693,000	3.75%	113,050,988
Citigroup	2,195,386,000	4.00%	87,815,440
Wells	2,033,458,000	3.50%	71,171,030
Goldman	775,170,000	3.75%	29,068,875
Morgan Stanley	301,467,000	3.50%	10,551,345
Bank of New York Me	301,834,000	3.50%	10,564,190
State Street	267,557,000	3.50%	9,364,495

Source: Call reports, BCBS, calculations

Since the eSLR is currently the binding requirement, reductions in required capital levels based on the eSLR would directly translate to total capital reductions at the DIs. ***We assume that each DI maintains its current "headroom" ratio from Table A2.***

Finally, we multiply the Tier 1 levels calculated in Table A4 by the ratios from Table A2. This results in an implied total capital relief across the GSIB DIs of $316 billion, far greater than estimated in the Proposal.

Table A5. Tier 1 capital relief based on the Proposal

	A	B	C	B*C = D	A-D = E
	Current Tier 1	*Current "Headroom" Ratio*	*Required Tier 1 from Proposal*	*New Tier 1 Levels w Headroom*	*Capital Relief*
JP Morgan	275,737,000	1.08	180,476,930	195,313,708	80,423,292
Bank of America	194,341,000	1.07	113,050,988	121,463,125	72,877,875
Citigroup	155,613,000	1.18	87,815,440	103,742,000	51,871,000
Wells	145,651,000	1.19	71,171,030	84,963,083	60,687,917
Goldman	62,022,000	1.33	29,068,875	38,763,750	23,258,250
Morgan Stanley	22,165,000	1.23	10,551,345	12,929,583	9,235,417
Bank of New York Me	22,971,000	1.27	10,564,190	13,399,750	9,571,250
State Street	19,173,000	1.19	9,364,495	11,184,250	7,988,750
				Total	**315,913,750**

Source: Call reports, BCBS, calculations