INSTITUTE OF INTERNATIONAL BANKERS, BETH ZORC

Proposal and Comment Information

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

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On behalf the Institute of International Bankers (IIB), attached please find a comment letter responding to the Federal Reserve, OCC and FDIC 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. We appreciate the opportunity to comment on the proposal.

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By Electronic Mail

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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, OCC Docket ID OCC-2025-0006, Federal Reserve Board Docket No. R-1867 and RIN 7100-AG96, FDIC RIN 3064-AG11

The Institute of International Bankers ("IIB") appreciates the opportunity to comment on the notice of proposed rulemaking regarding changes to (i) the enhanced supplementary leverage ratio ("eSLR") and (ii) the total loss-absorbing capacity ("TLAC") and long-term debt ("LTD") requirements, applicable to U.S. bank holding companies ("BHCs") identified as global systemically important bank holding companies ("GSIBs") and their depository institution subsidiaries.[1]

The IIB represents internationally headquartered financial institutions from over 35 countries around the world doing business in the United States. The IIB's members consist

[1] Office of the Comptroller of the Currency ("OCC"), Board of Governors of the Federal Reserve System ("Federal Reserve Board") and Federal Deposit Insurance Corporation ("FDIC" and collectively, the "Agencies"), *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 (proposed July 10, 2025) (the "Proposal").

principally of international banks that operate branches, agencies, bank subsidiaries and broker-dealer subsidiaries in the United States ("international banks").

We fully support the Proposal's objectives to appropriately recalibrate regulatory capital requirements to reduce the incentives of large banking organizations to limit their intermediation activities in the U.S. Treasury ("UST") market. As stated in the Proposal, large banking organizations "play important roles in all segments of the U.S. Treasury market," often acting as primary dealers in UST security auctions, market makers in the UST secondary markets, and intermediaries in securities financing transactions with USTs as collateral.[2] We agree that it is important for the capital framework to not create disincentives for banking organizations to engage in low-risk activities or serve in critical market functions.

However, the Agencies should look beyond adjustments to the eSLR, which would only apply to the U.S. GSIBs, to changes that could more broadly and effectively serve the same goals as the Proposal. International banks play a vital role in the UST market—currently 16 of the 25 primary dealers are branches, agencies or subsidiaries of international banks, and those primary dealers supported over 19% of the $22.7 trillion in USTs issued in 2023. The primary dealers of international banks are also the critical access point for non-U.S. buyers, including non-U.S. government investors.[3] Therefore, we recommend adjustments to the leverage capital, risk-based capital and stress testing frameworks applicable to the U.S. intermediate holding companies ("IHCs") of international banks, as well as changes to the calculation of certain risk-based indicators ("RBIs") under the Agencies' tailoring framework—these changes would have a broader positive impact on the ability of all banking organizations, including international banks, to continue these essential activities.

In the Proposal, the Agencies also ask for comment on a possible modification to the total leverage exposure under the supplementary leverage ratio ("SLR") to exclude USTs that are reported as trading assets and held at broker-dealer subsidiaries (or foreign equivalents).[4] This change would have limited utility to the U.S. operations of international banks because they would continue to be subject to home country leverage capital requirements that do not exclude USTs. However, we do believe that, if the Agencies choose to make such a modification to the SLR, the Agencies should also seek to make the same change to the Tier 1 leverage ratio (which may itself be a binding constraint for some banking organizations).

In sum, we recommend several additional enhancements to the relevant regulatory frameworks. The modifications we recommend in this letter would have a broader beneficial effect, would serve the stated goal of facilitating UST market intermediation and liquidity, and would calibrate leverage capital requirements as a backstop rather than a binding constraint.

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2 Proposal at 30784.

3 Treasury International Capital (TIC) data indicates that, at end-May 2025, over $9 trillion of the approximately $29 trillion of outstanding USTs were owned by non-U.S. holders. *See* ticdata.treasury.gov/resource-center/data-chart-center/tic/Documents/slt_table5.html.

4 Proposal at 30787.

In particular, the Agencies should:

1. Make targeted adjustments to RBIs with respect to USTs.

None of the RBIs used in the Agencies' tailoring categorization framework sufficiently or appropriately differentiates for the low risk of USTs. Small modifications to how these metrics capture USTs (or UST financing transactions) could have a large impact on how banking organization balance sheets may be used to facilitate liquidity in the UST market.

We note that our recommendations in this Section 1 focus on right-sizing the calibration of risk-based indicators or thresholds incorporated in the tailoring categorization framework. We have limited the recommendations to those that we believe would have the greatest beneficial effect on UST market liquidity and UST financing. However, in our view, the tailoring and categorization framework should be comprehensively reviewed in order to improve its effectiveness.

a. *Exclude UST financing activities from weighted short-term wholesale funding ("wSTWF").*

The Agencies should modify the calculation of wSTWF to exclude any repo or securities lending on USTs or other Level 1 high-quality liquid assets ("HQLA"). This recommendation could be accomplished by reducing the 25% coefficient and the 10% coefficient each to 0% in Form FR Y-15, Schedules G and N, Line Item 5, Column A and Column B, respectively, for funding secured by Level 1 HQLA. The Federal Reserve Board has not sufficiently substantiated these punitive coefficients in previous rulemakings, focusing to a greater extent on short-term maturities rather than the risk-free nature of the transactions.[5]

USTs are liquid, readily marketable and have been relied upon as a critical source of liquidity in repo or sales markets during periods of market volatility. Accordingly, the financing achieved by highly liquid short-term UST repo or securities lending transactions is not subject to the same risks associated with "fire-sales," given that USTs are likely to hold their value even if a quick sale is required or a short-term maturity is involved. Therefore, the recalibration (down to 0%) of wSTWF RBI coefficients for UST financing transactions would better account for the

[5] When introducing the Form FR Y-15 weights in 2015, the Federal Reserve Board focused on maturity date rather than on the risk-free nature of the financing. *See* Federal Reserve Board, *Regulatory Capital Rules: Implementation of Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies*, 80 Fed. Reg. 49082, 49097 (Aug. 14, 2015) ("Short-term wholesale funding liabilities with shorter residual maturities were assigned higher weights"). In addition, the Federal Reserve Board indicated that it "took into account studies of fire sale risks", but again did not provide a reason why Level 1 HQLA or USTs in particular would exhibit any of such risks. *Id.* Furthermore, the Federal Reserve Board stated that the relative weights "generally aligned with the" liquidity coverage ratio ("LCR"). *Id.* However, throughout the LCR rules there is not a single weighting, outflow rate or inflow rate that approximates the 25% and 10% coefficients for Level 1 HQLA in the Form FR Y-15. *See* 12 C.F.R. §§ 249.20(a)(3) (USTs counted as Level 1 HQLA), 249.21(b)(1) (Level 1 HQLA receive a 0% haircut, while Level 2 are subject to a 15% haircut and Level 3 are subject to a 50% haircut), 249.32(j)(1)(i) (for banking organizations receiving secured funding, the outflow rate is 0% when the funding is secured by Level 1 HQLA), 249.32(j)(3)(i), (v), (viii) and (x) (in asset exchanges where banking organization will deliver any assets at maturity and receive back Level 1 HQLA, the outflow rate is 0%).

unique risk characteristics of USTs and better ensure banking organizations' continued engagement in key UST financing activities.

We encourage such a modification to also specifically acknowledge that matched-book repo (pass-through funding to a third party) is a service to clients, rather than financing of a banking organization's own assets. The wSTWF RBI is broadly intended to measure risks associated with "elevated, ongoing reliance on funding sources that are typically less stable."[6] Matched book repo to facilitate third-party funding in no way relates to such risks and is not evidence of reliance of the banking organization's balance sheet on short-term funding.

b. *Exclude cash and repo UST positions from non-bank assets ("NBA").*

The NBA RBI is fundamentally flawed, in that it assumes that broker-dealer activity is automatically, and without nuance or differentiation, deemed complex or risky. Yet, even if the NBA RBI were aimed at broker-dealers, it captures many entities and assets beyond broker-dealers, including those that may hold USTs (e.g., mortgage lenders may have USTs and UST derivatives as hedges to their portfolios). Furthermore, the Proposal now suggests, as the industry has argued before, that there should be an accommodation to broker-dealers that provide liquidity in the UST market. In that vein, we encourage the Agencies to modify the NBA RBI to exclude low-or-no-risk assets. Cash or repo UST positions do not represent any greater risk when they are in non-bank entities than when they are in bank entities (and, indeed, may indicate greater safety of a non-bank entity's portfolio).

c. *Exclude from off-balance-sheet exposures ("OBE") those exposures arising from a clearing member clearing UST transactions for customers.*

The Securities and Exchange Commission's ("SEC"s") rule requiring parties to clear certain UST cash and repo transactions stated that this requirement should improve UST market liquidity and create smoother market function by providing increased balance sheet capacity and ameliorating counterparty credit risk.[7] However, these benefits would be tempered if increased customer clearing of UST transactions leads to increasingly stringent prudential requirements for a clearing member due to increased levels of OBE. One of the primary ways in which UST cash and repo transactions are cleared is indirectly through a clearing member of a UST clearing agency, and those clearing members are often affiliates of U.S. and international banking organizations. In such arrangement, typically the clearing member provides a guarantee, or is otherwise liable, to the clearing agency with respect to the transactions of its underlying customer. That guarantee/liability is an off-balance sheet exposure of the clearing member. To further the Agencies' stated aims in the Proposal and facilitate the requirement to clear certain UST cash and repo transactions, the Agencies should not include exposures arising from customer UST clearing activity in the OBE RBI.

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6 Agencies, *Changes to Applicability Thresholds for Regulatory Capital and Liquidity Requirements*, 84 Fed. Reg. 59230, 59242 (Nov. 1, 2019) (emphasis added).

7 SEC, *Standards for Covered Clearing Agencies for U.S. Treasury Securities and Application of the Broker-Dealer Customer Protection Rule With Respect to U.S. Treasury Securities*, 89 Fed. Reg. 2714, 2723 (Jan. 16, 2024).

d. *Index the RBIs to account for economic growth and inflation.*

The RBI thresholds have not been changed since originally instituted in 2019. Since that time, economic factors, growth in deposits and significant inflation relative to the prior 20 years have materially affected asset pricing. In addition to these balance sheet effects, the U.S. government has issued increasing amounts of USTs over the last 10 years.[8] To absorb those issuances and maintain liquidity in the market, aggregate balance sheet is needed across all banking and trading organizations.

Therefore, it is important for the Agencies to prevent the RBI thresholds (which are actually constraints, for those that manage their balance sheets to avoid the cliff effects of transitioning to higher tailoring categories) from crowding out beneficial activity. Similar to the effects of the eSLR, SLR and Tier 1 leverage ratio, banking organizations can choose higher yielding activities to make up the limited amount of activity permitted before hitting a threshold under each RBI. Only if the RBI thresholds are increased in accordance with market factors can the Agencies mitigate the pressure on these activity choices. We recommend that there be a one-time increase in the RBI thresholds to account for economic growth and inflation since the establishment of the categorization framework, followed by a commitment by the Agencies to review and increase the RBI thresholds over time based on economic activity, inflation and other factors.

2. Not apply the SLR to Category III BHCs and IHCs that are under $250 billion in total assets.

We urge the Agencies to continue down the path of tailoring leverage requirements, beyond just the eSLR, to the risk characteristics of banking organizations by revisiting whether the current scope of application of the SLR is appropriate.

Sections 165(a) and 165(b)(1)(A)(i) of the Dodd-Frank Wall Street Reform and Consumer Protection Act (the "Dodd-Frank Act") (as these provisions were modified by Section 401(a) of the 2018 Economic Growth, Regulatory Relief, and Consumer Protection Act) require only that more stringent requirements on risk-based capital and leverage be placed on BHCs with total assets equal to or greater than $250 billion.

The SLR is applied to any Category III IHC, even if the IHC has less than $250 billion in assets and is in Category III solely on the basis of crossing an RBI threshold. However, only one of the RBIs is potentially related to the applicability of the SLR—OBE. As discussed above, the

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[8] U.S. government debt held by the public has increased by 121% between end-2015 and June 30, 2025 (from $13.08 trillion to $28.95 trillion). FiscalData, U.S. Treasury Department website, *What is the national debt?* (last visited August 6, 2025), at https://fiscaldata.treasury.gov/americas-finance-guide/national-debt/#:~:text=Notable%20recent%20events%20triggering%20large,its%20ability%20to%20repay%20it.

Marketable treasury securities outstanding have increased 43.27% in the last 5 years, from $19.99 trillion as of July 31, 2020 to $28.64 trillion as of June 30, 2025. FiscalData, U.S. Treasury Department website, *U.S. Treasury Monthly Statement of the Public Debt* (last visited August 6, 2025), at https://fiscaldata.treasury.gov/datasets/monthly-statement-public-debt/summary-of-treasury-securities-outstanding.

OBE RBI is flawed, and should at least be modified to eliminate exposures related to USTs and UST financings that are centrally cleared. Neither wSTWF nor NBA presents a reason for applying the SLR to an organization; indeed, these on-balance-sheet metrics are already captured by the Tier 1 leverage ratio.

In addition, we note that, for IHCs, supplementary leverage requirements already apply at a consolidated level under home country rules that are consistent with international standards.

3. Recalibrate the Tier 1 leverage ratio to 3% for BHCs and IHCs in Category III and below.

To provide for a broader ability for all banking organizations, and not just the U.S. GSIBs, to engage with the UST market, as well as to mitigate the potentially binding nature of the Tier 1 leverage ratio for BHCs and IHCs (and their bank subsidiaries), we recommend that (1) the Tier 1 leverage ratio minimum should be reduced to 3% and (2) the well-capitalized minimum Tier 1 leverage ratio for bank subsidiaries should be set at 4%.

Prior to the Dodd-Frank Act, the minimum Tier 1 leverage ratio for most well-capitalized and well-managed institutions was set at 3%,[9] and therefore should be considered the generally applicable leverage ratio under Section 171(a)(1)(A) of the Dodd-Frank Act. Furthermore, the elements of Tier 1 capital that are eligible to be in the numerator of the Tier 1 leverage ratio have been constrained after the implementation of Basel III capital rules by the agencies,[10] and therefore, by definition, a 3% or 4% minimum ratio today is certainly "not . . . less than the generally applicable leverage capital requirements . . . nor quantitatively lower than the generally applicable leverage capital requirements that were in effect for insured depository institutions as of the date of enactment of" the Dodd-Frank Act.[11]

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[9] 12 C.F.R. Part 225, Appendix D, § II.a. (2010) ("The Board has established a minimum ratio of Tier 1 capital to total assets of 3.0 percent for strong banking holding companies.").

[10] *See* Federal Reserve Board and OCC, *Regulatory Capital Rules: Regulatory Capital, Implementation of Basel III, Capital Adequacy, Transition Provisions, Prompt Corrective Action, Standardized Approach for Risk-weighted Assets, Market Discipline and Disclosure Requirements, Advanced Approaches Risk-Based Capital Rule, and Market Risk Capital Rule*, 78 Fed. Reg. 62018 (Oct. 11, 2013), at 62046-47 ("The proposed criteria were designed to ensure that additional tier 1 capital instruments would be available to absorb losses on a going-concern basis. TruPS and cumulative perpetual preferred securities, which are eligible for limited inclusion in tier 1 capital under the general risk-based capital rules for bank holding companies, generally would not qualify for inclusion in additional tier 1 capital. . . . The agencies noted in the proposal that under Basel III, instruments classified as liabilities for accounting purposes could potentially be included in additional tier 1 capital. However, the agencies and the FDIC proposed that an instrument classified as a liability under GAAP could not qualify as additional tier 1 capital, reflecting the agencies' and the FDIC's view that allowing only instruments classified as equity under GAAP in tier 1 capital helps strengthen the loss-absorption capabilities"), and at 62031 ("The proposed leverage ratio is more conservative than the current leverage ratio because it incorporates a more stringent definition of tier 1 capital").

[11] Dodd-Frank Act § 171(b)(1).

We note that, in 2013, the Agencies adopted the standardized approach as "generally applicable", even though it was new and different from the Basel I standards previously in effect. The Agencies did not require that banking organizations calculate their capital under the new standardized approach and the July

4. Revise the stress capital buffer ("SCB") requirements to better calibrate the tests to the risk profile of banking organizations.

We reiterate the recommendations made in our June 23, 2025 comment letter regarding modifications to the stress testing requirements to better calibrate the tests to the risk profile of banking organizations, particularly IHCs.[12]

In particular, the application and calibration of the global market shock ("GMS") directly impacts trading books, and is currently agnostic as to whether that trading book includes significant amounts of USTs.

We have several recommendations. First, to better tailor the GMS to those institutions the trading activities of which actually merit application of the GMS within the context of systemic risk to the U.S. financial system, the GMS component should, at a minimum, not be applied to Category III and below firms. Second, the triggers for application of the GMS should be dependent solely on absolute size of the trading book and not the ratio of trading assets and liabilities ("TAL") to total assets. Currently, the TAL-to-assets ratio that triggers application of the GMS is capturing firms that do not exhibit the type of systemic risk that warrants participation in the highest level of severity of the stress tests, given that, for Category III banking organizations, it could be triggered as low as $10 billion TAL.[13] Third, the absolute size threshold should be raised to at least a minimum of $100 billion, as was the case prior to the 2017 amendment, and indexed to economic growth on a regular basis. Fourth, we recommend excluding USTs and UST financing transactions from the fixed threshold for aggregate TAL, in addition to more general recommendations in our Stress Testing Letter to recalibrate that threshold.

In sum, several of the firms captured in the GMS exercise are not systematically important, as their size and footprint does not approach that of the U.S. GSIBs. Furthermore, the trading risk posed by Category III and below firms is already appropriately capitalized by the market risk rule and pre-provision net revenue modelling in the stress tests. And, the operational burden of being subject to GMS is significant and should not apply to lower category firms.

5. Recalibrate downward the internal total loss-absorbing capacity ("iTLAC") requirements applicable to certain international banks and remove the requirement for a fixed portion of the iTLAC to be in the form of long-term debt ("LTD").

As the Agencies themselves note in the Proposal, LTD and TLAC requirements in the United States "exceed international standards developed by the Financial Stability Board, which

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21, 2010 requirements; instead, the Agencies simply determined that the standardized approach was indeed "not less" and was the "generally applicable" approach. See 12 C.F.R. § 217.30(a).

12 *See* IIB Comment Letter (June 23, 2025) on Notice of Proposed Rulemaking, Modifications to the Capital Plan Rule and Stress Capital Buffer Requirement, Federal Reserve Docket No. R-1866 and RIN 7100-AG92 (the "Stress Testing Letter").

13 Also, in our market judgment, when banking organizations hold fewer trading assets, the ratio of USTs to their trading book assets is likely higher than larger trading book firms.

do not include a minimum long-term debt amount and have a somewhat lower minimum leverage-based TLAC requirement," and would continue to do so under the Proposal.[14]

This is particularly true in the context of iTLAC. As we have raised in prior comment letters,[15] the iTLAC requirements currently applicable to the IHCs of non-U.S. GSIBs should be recalibrated downward to more accurately reflect the risk profiles, local supervisory frameworks and particular structural considerations relevant to IHCs.

The primary purpose of iTLAC prepositioning is to "facilitate co-operation between home and host authorities and the implementation of effective cross-border resolution strategies."[16] Therefore, the calibration of iTLAC involves a trade-off. If iTLAC requirements are set too high, the effects could include having prepositioned TLAC resources in the wrong jurisdiction when the foreign parent approaches resolution and impairing the types of home-host country supervisory cooperation in a cross-border resolution that TLAC requirements were meant to promote.

In our view, recalibration is necessary for the IHCs of non-U.S. GSIBs. The FSB Term Sheet stipulates that material subgroups should have iTLAC scaled within a range of 75 to 90 percent of the minimum external TLAC requirement that would apply if the material subgroup were a resolution group. The iTLAC requirements currently applicable to IHCs of non-U.S. GSIBs are calibrated at approximately 90% of the iTLAC requirements applicable to domestic GSIBs, which is the highest calibration established by FSB standards.[17] In our view, this requirement should be no higher than 75% of the external TLAC requirements applicable to U.S. GSIBs, taking into consideration the substantially smaller systemic footprints of IHCs, the existing regulatory framework applicable to IHCs, and the availability of international parent bank support.

We also respectfully submit that, for the IHCs of non-U.S. GSIBs, the requirement that a fixed portion of iTLAC be in the form of LTD is unnecessary and should be eliminated or at least significantly reduced. Notably, when the FSB Term Sheet discusses an expectation that a portion of TLAC be in the form of debt, it is only in the context of external TLAC, not iTLAC. In our view, this is the correct approach.

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14 Proposal at 30790.

15 See, e.g., Letter from Beth Zorc, CEO, IIB, to the Agencies (Jan. 16, 2024); Letter from Beth Zorc, CEO, IIB, to the Federal Reserve Board and FDIC (Jan. 23, 2023); Letter from Briget Polichene, CEO, IIB, to the Federal Reserve Board (Nov. 20, 2020); Letter from Briget Polichene, CEO, IIB, to Ann E. Misback, Secretary, Federal Reserve Board (June 25, 2018); Letter from Sarah A. Miller, CEO, IIB, to Robert deV. Frierson, Secretary, Federal Reserve Board (Feb. 19, 2016).

16 FSB, Principles on Loss-absorbing and Recapitalisation Capacity of G-SIBs in Resolution: Total Loss-absorbing Capacity (TLAC) Term Sheet § 16, at 17 (Nov. 9, 2015), https://www.fsb.org/wp-content/uploads/TLAC-Principles-and-Term-Sheet-for-publication-final.pdf (the "FSB Term Sheet").

17 FSB Term Sheet, § 18 at 19.

We appreciate your consideration of our comments on the Proposal. If we can answer any questions or provide any further information, please contact me at 646-213-1147, bzorc@iib.org, or Stephanie Webster, General Counsel at 646-213-1149, swebster@iib.org.

Very truly yours,

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