FINANCIAL SERVICES FORUM

Proposal and Comment Information

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Docket ID OCC-2025-0006

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Ann Misback, Secretary
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Docket No. R-1867 and RIN 7100-AG96

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

Ladies and Gentlemen:

The Financial Services Forum (the "Forum")[1] appreciates this opportunity to submit this letter to the Office of the Comptroller of the Currency ("OCC"), the Federal Reserve Board (the "FRB") and the Federal Deposit Insurance Corporation ("FDIC," and together with the OCC and FRB, the "Agencies") on their proposed rule (the "Proposal") to revise the calibration of the enhanced supplementary leverage ratio ("eSLR") buffer and make conforming changes to the FRB's total loss absorbing capacity ("TLAC") and long-term debt ("LTD") rules.[2]

1 The Financial Services Forum is an economic policy and advocacy organization whose members are the eight largest and most diversified financial institutions headquartered in the United States. Forum member institutions are a leading source of lending and investment in the United States and serve millions of consumers, businesses, investors and communities throughout the country. The Forum promotes policies that support savings and investment, deep and liquid capital markets, a competitive global marketplace and a sound financial system.

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).

The Proposal is of significant importance to our member institutions, the eight U.S. global systemically important bank holding companies ("GSIBs"), who are exclusively subject to eSLR requirements, and for some of whom the eSLR frequently serves as a binding capital constraint.

We appreciate the Agencies' efforts to enhance the U.S. capital framework through the Proposal and welcome it as a useful step in the Agencies' previewed amendments to the broader regulatory capital framework. As discussed in Sections III and the Appendix to this letter, many aspects of the capital and bank regulatory framework broadly are in need of substantial improvement, and the Proposal is but one component of the comprehensive effort that will be required to adequately reform the framework. That said, efforts on other capital and regulatory priorities should not delay finalization of a rule based on the Proposal. In this respect, we believe the Agencies should adopt a final rule based on the Proposal that is effective January 1, 2026.

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In this letter, we wish to highlight the following key observations and recommendations:

- **We support the Proposal's recalibration of the eSLR buffer**. The recalibration would make it more likely that the eSLR would serve as a backstop as originally intended, rather than as a frequently binding constraint, and increase the capacity of U.S. GSIBs to serve their clients and the broader economy across a range of low-risk activities.

- **The FRB should consider additional changes to the TLAC and LTD framework**. We support the proposed conforming changes to the TLAC and LTD framework, but also suggest the FRB further revise and ultimately eliminate the LTD requirement through future rulemaking.

- **The Agencies should, in future rulemakings, consider a broader range of reforms to the bank regulatory and capital framework to improve Treasury market intermediation and make the capital rule more durable**.

I. We support the Proposal's recalibration of the eSLR buffer.

A. Overview.

We support the Proposal's approach of replacing the current eSLR buffer with a buffer that is equal to 50% of a U.S. GSIB's method 1 surcharge. As the Proposal recognizes, the frequently binding nature of the current eSLR buffer, which is equal to 2% of a GSIB's total leverage exposure, disincentivizes GSIBs from participating in low-risk activities, including U.S. Treasury market intermediation and holding customer deposits, and more broadly decreases the capacity of U.S. GSIBs to serve their clients and the American economy across a range of low-risk activities. In this regard, we appreciate that the proposed recalibration does not establish regulatory preferences for specific low-risk assets or activities, but rather seeks to make the eSLR less binding overall, consistent with the purpose of leverage-based requirements.

The Proposal would better align the U.S. implementation of the eSLR with the Basel Committee on Banking Supervision framework (the "Basel Framework") as adopted by other key jurisdictions.[3] Further, as the Proposal recognizes, because the FRB's method 1 score is generally lower than the method 2 score, using the method 1 surcharge is more appropriate in the context of the eSLR serving as a backstop for capital requirements, instead of a frequently binding constraint.

We also support the proposed revisions to the form of the eSLR standard for the depository institution subsidiaries of GSIBs, which would replace the current requirement that subjects insured depository institution subsidiaries of GSIBs to a 6% eSLR standard to be considered well-capitalized under the prompt corrective action framework. Conforming the depository institution eSLR form with that of the holding company will allow U.S. GSIBs to more effectively manage capital across their organizations. We appreciate that in proposing this approach, the Agencies have incorporated feedback that we provided on the FRB and OCC's 2018 proposal to reform eSLR requirements.[4]

With all that said, we believe the final rule should acknowledge that the Agencies may exclude specific assets and activities from the supplementary leverage ratio ("SLR") denominator during exceptional macroeconomic circumstances, *e.g.*, U.S. Treasury securities held by broker-dealer subsidiaries of bank holding companies ("BHCs") similar to Alternative 1 in the Proposal. Similarly, the Agencies should reaffirm that the Basel Framework provides them with the flexibility to temporarily exempt central bank reserves from the denominator of the SLR, in line with the Agencies' actions during Covid. The final rule should provide that the Agencies would be able to take such actions as would be appropriate based on the nature of the macroeconomic condition.

Finally, to assure that, notwithstanding unintended consequences stemming from future increases in the method 1 surcharge, the revised eSLR buffer remains a backstop and not a frequently binding constraint, the final rule should provide that the eSLR buffer for U.S. GSIBs and their depository institution subsidiaries will equal the lower of 50% of a U.S. GSIB's method 1 surcharge and 2% (equal to the current eSLR buffer for U.S. GSIBs).

B. Impact on Treasury Market Intermediation.

As mentioned above, we appreciate that the Proposal does not give preference to specific low-risk activities, including Treasury market intermediation. However, given Treasury market intermediation is a motivating concern informing the Proposal, we think it is valuable to note that

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[3] Although the Proposal's form of eSLR buffer is consistent with that of the Basel Committee, the FRB's method 1 calculation differs from that of the Basel Framework. If the FRB undertakes to revise the GSIB surcharge, it should align its method 1 calculation with the international standard.

[4] Letter of the Forum re: 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 at 8 (June 25, 2018), available *here* ("[t]he eSLR requirement for [insured depository institutions] should be a buffer, not part of the [prompt corrective action] framework.").

a number of data-based research papers have documented that a binding SLR negatively impacts intermediation in the U.S. Treasury market by constraining the activities of bank dealers.

For example, a 2024 research paper by Federal Reserve Bank of Boston economists found that the SLR had significant negative impacts on the ability of large dealer banks to intermediate the U.S. Treasury market.[5] Specifically, the paper found that in response to a more restrictive SLR, dealers reduced their Treasury holdings, leading to a reduction in trading, an increase in the cost of buying and selling U.S. Treasuries, and a weaker response to Treasury auctions. In particular, the authors state that "[f]rom a regulatory perspective, it is important to understand that regulatory constraints that target broad bank-level exposure can impair bank-affiliated dealers' intermediation capacity, which is crucial for Treasury market liquidity."[6] Moreover, a paper by economists, including at the Federal Reserve Bank of New York, found that when U.S. Treasury dealers face capacity constraints, such as those occurring from an increasingly binding SLR, the liquidity of the U.S. Treasury market deteriorates, Treasury markets become more volatile and trading in the U.S. Treasury market becomes more costly.[7] Finally, a paper by FRB economists found that banks respond to balance sheet shocks by reducing their exposure to U.S. Treasuries, with the SLR uniquely constraining a bank's ability to intermediate the Treasury market.[8]

It is important to recognize that the costs imposed by the SLR are proportional to the extent to which the SLR serves as a binding constraint on capital allocation. Accordingly, during less stressful and calmer periods, the SLR may not play an outsized role in influencing Treasury market intermediation. In the event of economic shocks and a period of stress, however, the SLR can quickly become binding for several banking organizations and negatively impact Treasury market functioning. As a result, reform of the SLR is important precisely because it will reduce the risk that regulatory constraints bind during stress and actively contribute to turbulence in Treasury markets when Treasury market liquidity is most valuable.

C. Impact on Banking System Capital.

Finally, as the Proposal recognizes, recalibrating eSLR requirements would result in an insignificant reduction in holding company capital requirements. More recent data shows that the impact on holding company capital requirements would be even smaller than that suggested by the Proposal's analysis.

The Proposal also asserts that it would lead to reductions in capital held at the bank subsidiaries of U.S. GSIBs, which some have suggested would represent a material weakening of capital requirements. This view conflates BHC institution-level capital requirements with narrower, bank-subsidiary capital requirements. Capital maintained at the BHC level serves to support all

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5 Falk Bräuning & Hillary Stein, The Effect of Primary Dealer Constraints on Intermediation in the Treasury Market, Federal Reserve Bank of Boston (2024), available *here*.

6 Bräuning & Stein at 35.

7 Darell Duffie et al., Dealer Capacity and U.S. Treasury Market Functionality, Federal Reserve Bank of New York (Aug. 2023), available *here*.

8 Giovanni Favara et al., Leverage Regulations and Treasury Market Participation: Evidence from Credit Line Drawdowns (Aug 4, 2022), available

the assets maintained on the holding company's balance sheet. Moreover, the holding company is required to act as a "source of strength" to its bank subsidiaries.[9] In the event that a bank subsidiary within a BHC sustains losses, capital maintained at the holding company level can be deployed to absorb unanticipated losses. In this way, capital maintained by the holding company is inherently flexible and can be used to address losses throughout the entire banking organization.

A narrow focus on bank subsidiary-level requirements also ignores the fact that holding company capital requirements are generally much more stringent than bank subsidiary level requirements. The increased stringency of BHC requirements is a direct result of additional capital buffers that are applied at the holding company level, but not the bank subsidiary level. In the case of Forum members, BHC risk-based capital requirements average 12.6 percent of risk-weighted assets. At the bank-subsidiary level, the corresponding capital requirement is 8.5 percent. Accordingly, Forum BHCs are required to maintain more than four percentage points in additional capital relative to the bank subsidiary-level requirements. In dollar terms, this amounts to roughly an additional $400 billion in capital maintained at the holding company that can be used to support the bank subsidiary.[10]

Finally, it is worth considering how banking organizations manage their capital levels when considering holding company and bank-subsidiary capital requirements. Forum members maintain excess capital over and above required capital at both the bank level and the holding company level, serving as a buffer that institutions can use to adjust to unanticipated economic shocks. However, Forum members hold multiples of excess capital at the bank-subsidiary level as compared to the BHC-level. In the event that bank subsidiary requirements decline as a result of the Proposal, bank subsidiary excess capital may be re-allocated elsewhere in the banking organization, but will largely remain within the banking organization to comply with more stringent holding company requirements. The FRB staff memo outlining the impact of the Proposal made this point clearly by stating that "[a]lthough 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."[11] Accordingly, when assessing banking organization capital adequacy, it is necessary to consider the entire range of capital requirements to which a banking organization is subject rather than narrowly defined, legal entity-level requirements.

As this discussion demonstrates, GSIBs will remain robustly capitalized while being able to more effectively allocate capital within their organizations. In turn, this flexibility will bolster U.S. GSIBs' ability to intermediate financial markets and lend through the business cycle.

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[9] 12 U.S.C. 1831o–1.

[10] These data represent a four-quarter average ending December 31, 2024.

[11] FRB, Draft notice of proposed rulemaking to modify the enhanced supplementary leverage ratio standards (June 17, 2025), available *here*.

II. In future rulemakings, the FRB should consider additional changes to the TLAC and LTD framework.

We support the Proposal's conforming amendments to the TLAC and LTD framework to replace the TLAC rule's current leverage-based buffer with the Proposal's revised eSLR buffer and modify the LTD rule's minimum leverage-based external LTD requirement to total leverage exposure multiplied by the sum of the proposed eSLR buffer and 2.5%. Adopting these changes would promote internal consistency of the U.S. capital framework and avoid outdated standards from affecting U.S. GSIBs' capital and other prudential requirements.

However, in future rulemakings, the FRB should consider additional changes to further enhance the TLAC and LTD frameworks. In response to Question 14, the FRB should not extend the requirement that LTD principal that is due to be paid in more than one year, but less than two years, be subject to a 50% "haircut" to TLAC ratio requirements. If the Agencies introduce a new haircut for purposes of the TLAC calculation, firms may consider having an additional call option two years prior to the maturity of the instrument. This additional optionality might be difficult to price due to uncertainty as to whether the issuer would exercise the call with two years until maturity, one year until maturity, or not at all. This uncertainty could lead to materially higher costs for issuers without any apparent benefits. In fact, the FRB should remove the 50% haircut in the LTD requirement. As we have previously explained, the FRB has not provided any evidence that U.S. GSIBs are, or would be, overly reliant on such debt.[12] Further, because there is already a 100% haircut on debt due within one year, no eligible LTD has a maturity of less than one year and all eligible LTD would be available to absorb losses in the first year of a BHC's financial distress, providing sufficient time for the BHC to recover or to be placed in resolution proceedings.[13] The absence of such evidence and the availability of debt due in more than one year, but less than two years in a resolution scenario supports eliminating the 50% haircut.

More fundamentally, the FRB should consider eliminating the standalone LTD requirement altogether as there is no evidence that implies a causal relationship between the amount of LTD and the resolvability of large financial organizations, or that suggests that LTD otherwise functions differently than TLAC more generally in an insolvency. Instead, firms should be permitted to determine the composition of their TLAC requirement based on their ongoing funding needs and specific resolution strategies. To our view, it is counterintuitive to *require* banking organizations to hold minimum required levels of LTD, which can only absorb losses in a resolution proceeding and so only function as gone-concern capital. By contrast, equity may

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[12] Letter of the Forum re: Long-Term Debt Requirements for Large Bank Holding Companies, Certain Intermediate Holding Companies of Foreign Banking Organizations, and Large Insured Depository Institutions at 6 (Jan. 16, 2024), available *here*.

[13] Letter of the Forum, et al. re: Notice of Proposed Rulemaking on External TLAC, Long-Term Debt, Clean Holding Company and Other Requirements Applicable to U.S. G-SIBs at Annex 1 – 21 (Feb. 19, 2016) ("TLAC Letter"), available *here*.

function as both going-concern and gone-concern capital.[14] Finally, a standalone LTD requirement is inconsistent with international standards.

For the avoidance of doubt, we are not suggesting that the FRB require banking organizations to satisfy the entirety of their TLAC requirement with equity. Rather, we are suggesting that banking organizations be able to freely exchange between debt and equity instruments to meet their TLAC requirements based on the characteristics of their firms. Banking organizations, and the market, are better placed to perform the cost-benefit analysis required to determine the appropriate amounts of debt and equity that would support the organization in stress conditions.

III. The Agencies should consider specific additional reforms, in future rulemakings, to improve Treasury market intermediation.

The Proposal is a welcome measure in reducing frictional costs of Treasury market intermediation, but we believe that the Agencies can take additional steps in future proposed rulemakings to promote well-functioning Treasury markets as noted in the discussion below. This discussion is not intended to comprehensively identify all aspects of the bank regulatory framework in need of improvement to enhance Treasury market intermediation and we emphasize that consideration of these suggestions should not delay the Agencies in adopting a rule consistent with the Proposal.

The Agencies should consider reforms to the Tier 1 leverage ratio. A regularly binding leverage capital requirement can disincentivize banks from engaging in Treasury market intermediation and other low-risk, low return activities. This extends to the Tier 1 leverage ratio, which is the binding leverage requirement for certain firms, particularly those with liability driven balance sheets or those that hold large amounts of highly liquid assets, such as central bank reserves and U.S. Treasuries. Addressing the bindingness of Tier 1 leverage ratio requirements would therefore complement the Agencies' efforts to address the bindingness of the eSLR buffer. Accordingly, the Agencies may wish to consider, in future rulemakings, the effects of the Tier 1 leverage ratio on the ability of banks to engage in Treasury market intermediation and other low-risk, low-return activities, and work to address this issue.

The FRB should consider the impact of the GSIB surcharge on the Treasury market. As the Proposal recognizes, holdings of U.S. Treasuries enter into the method 1 and method 2 GSIB surcharge calculations. Indeed, holding, financing and intermediating U.S. Treasuries affects several components of a firm's GSIB score and surcharge in ways that may disincentivize GSIB participation in the U.S. Treasury market. Accordingly, the FRB may wish to consider the impact of the GSIB surcharge on Treasury market functioning. If the FRB wishes to encourage Treasury market intermediation, it should consider proposing, in future rulemakings, improvements to the GSIB surcharge that promote Treasury market participation and functioning, along with other enhancements necessary to the GSIB surcharge framework.

The Agencies' capital rules should recognize the risk-mitigation effects of cross-product netting arrangements. The standardized approach results in an over-calibration of risk-

[14] TLAC Letter at 9–10.

weighted assets because it does not allow banking organizations to recognize the risk-mitigation effects of qualifying cross-product master netting agreements. On this issue, we echo the recommendations made in the letter of the International Swaps and Derivatives Association, Inc., the Securities Industry and Financial Markets Association and the Futures Industry Association on the Proposal.

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We would appreciate the opportunity to provide additional input for the Agencies' consideration and would welcome the opportunity to meet to discuss our recommendations further. If you have any questions, please contact Sean Campbell of the Financial Services Forum by phone at (202) 821-2574 or by email at scampbell@fsforum.com.

Respectfully submitted,

Financial Services Forum

Appendix
Broader Reforms to the Capital Framework

In future rulemakings, the Agencies should more broadly pursue revisions to the capital framework that make it more durable across the business cycle, including in times of stress. In this respect, we also reiterate the recommendations made in our letter on the Agencies' Basel III proposal and the recommendations made by the International Swaps and Derivatives Association, Inc. and the Securities Industry and Financial Markets Association to the Agencies in their letter.[15] The suggestions listed below are not intended to represent the industry's top priorities for reforming the capital rules, nor are they intended to be comprehensive. Moreover, consideration of these suggestions should not impede the Agencies' efforts to finalize a rule based on the Proposal.

The Agencies should exempt Value at Risk ("VaR") backtesting exceptions during stress periods. During the Covid pandemic, the Agencies provided relief to avoid outsize impacts to a banking organization's capital requirements arising from a pandemic-related "sudden and significant repricing of global financial markets" resulting in an increased number of VaR model backtesting exceptions.[16] Based on this experience, the Agencies should consider developing a mechanism to review and exempt backtesting exceptions in periods of stress if the breach was not a result of a model shortcoming. These breaches tend to be procyclical, thus exacerbating stressed conditions.[17]

The Agencies should provide a grace period for financial collateral ratings downgrades. The Agencies should consider providing a grace period for financial collateral that is downgraded to non-investment grade to allow for the collateral to continue to be recognized as collateral. Similar to backtesting breaches, such downgrades tend to be procyclical. Alternatively, the Agencies should consider allowing banking organizations to use the collateral with a higher haircut to avoid cliff effects associated with downgrades.

The Agencies should consider allowing banking organizations to recognize credit-linked notes ("CLN") as credit risk mitigation tools. CLN hedges proved invaluable during Covid era uncertainty and the FRB continues to recognize the value of CLNs and credit risk mitigation tools, although it requires banking organizations to submit ad hoc requests to recognize them accordingly.[18] The Agencies should adopt a transparent approach to allow banking organizations to more broadly recognize the risk mitigation benefits for CLNs. More broadly, a

15 Letter of the Forum re: Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity (Jan. 16, 2024), available *here* ("Forum Basel III Letter"); Letter of ISDA and SIFMA re: Regulatory Capital Rule: Large Banking Organizations and Banking Organizations With Significant Trading Activity (Jan. 16, 2024) ("ISDA / SIFMA Letter"), available *here*.

16 FRB, Coronavirus Disease 2019 (COVID-19), available *here*.

17 *See* ISDA / SIFMA Letter at 60–61.

18 FRB, Frequently Asked Questions about Regulation Q, available *here*.

thoughtful approach to recognizing credit risk mitigation would help banking organizations manage their activity and support the economy during stress conditions.[19]

Security lending activity under a pledge model should be excluded from risk-weighted assets. The Agencies should consider excluding from a banking organization's risk-weighted assets, securities pledged without title transfer in a securities lending transaction, where the bank does not have the ability to rehypothecate the securities. Such securities loans do not result in any counterparty credit risk for the lending bank, and should not result in risk-based capital requirements. Excluding such transactions would improve market liquidity during stress periods.[20]

Trading book holdings of financial institutions should be excluded from the threshold deduction. Excluding holdings of financial institutions in the trading book from the threshold deduction would be consistent with international implementations of the Basel Framework. At the very least, the Agencies should consider excluding indirect holdings of financial institutions through indexes as the current approach can significantly reduce equity market liquidity in times of stress.[21]

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[19] *See* Forum Basel III Letter at 82–83.

[20] *See* ISDA / SIFMA Letter at 100–101.

[21] *See* ISDA / SIFMA Letter at 135.