

ROHAN SHARMA

Proposal and Comment Information

Title: CBLR - Regulatory Capital Rule: Revisions to the Community Bank Leverage Ratio Framework, R-1876

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Submitter Information

Name: Rohan Sharma

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Subject: Comment on Revisions to the Community Bank Leverage Ratio Framework (Docket No. R-1876)

From: Rohan Sharma
Aspen Institute Civic AI Leader
Author, AI & The Boardroom (Springer Nature)

Submitted in an individual capacity

To the Board of Governors of the Federal Reserve System, the OCC, and the FDIC:

I write to provide a governance-focused perspective on the proposal to lower the Community Bank Leverage Ratio (CBLR) to 8 percent and extend the grace period to four quarters.

As a researcher in corporate governance and risk oversight, I strongly support the recalibration of the CBLR to 8 percent. However, I submit that the proposed extension of the grace period while operationally beneficial introduces a subtle "governance hazard" that the Agencies should address in their final supervisory guidance.

My support is qualified by the need for "Strategic Vigilance" during the extended grace period.

1. The Strategic Value of the 8% Calibration

Lowering the CBLR requirement to 8 percent is not merely a compliance relief measure; it is a capital velocity measure. By aligning the CBLR with the statutory floor, the Agencies are effectively unlocking "trapped capital" that community banks have been forced to hold as a buffer-on-top-of-a-buffer. From a corporate strategy perspective, this released capital is vital "dry powder" that allows community institutions to:

Invest in necessary digital transformation (to compete with FinTechs).

Pursue accretive M&A (consolidation is necessary for scale).

Absorb the volatility of local economic cycles without triggering premature regulatory alarms.

This recalibration correctly recognizes that for a simple community bank, a leverage ratio is a sufficient proxy for safety, and the "risk-weighted" parallel calculation was often a vendor expense with low risk-management ROI.

2. The Governance Risk of the 4-Quarter Grace Period

While I support the 8 percent floor, the proposal to extend the "grace period" (for banks that fall below the ratio) from two quarters to four quarters requires careful board-level scrutiny.

In my view, a full year (4 quarters) of non-compliance creates a "Zombie Zone" risk. Without strict governance, a Board might treat this grace period as a passive "wait-and-see" window rather than an active "remediation" window.

Recommendation:

I urge the Agencies to clarify that while the regulatory consequence (reversion to risk-based capital rules) is delayed for four quarters, the fiduciary expectation should heighten immediately. Specifically, the Final

Rule should encourage (or supervisory guidance should state) that any bank entering the grace period must present a "CBLR Restoration Plan" to its Board of Directors within the first quarter of the breach.

This distinction is critical. We must ensure that the "grace period" is used to execute a capital strategy (e.g., raising equity, shrinking assets, or pausing dividends), not simply to hide deterioration for 12 months.

3. Conclusion

This proposal is a win for market efficiency. It removes the "penalty for simplicity" that the 9 percent threshold inadvertently created. By lowering the hurdle, you are encouraging more banks to opt into a transparent, easy-to-understand capital regime.

I commend the Agencies for reducing the friction of capital compliance, provided that Boards remain the first line of defense against capital erosion.

Sincerely,

Rohan Sharma
Aspen Institute Civic AI Leader
Author, AI & The Boardroom (Springer Nature)

Biographical Note:

Rohan Sharma's work focuses on modernizing corporate governance frameworks to align with digital speed and regulatory efficiency. His research has been cited by international bodies including NATO , Google Deepmind and in publications such as Nature Humanities & Social Sciences.