Transcript of Open Board Meeting
June 25, 2025

CHAIR POWELL. I'd like to welcome everyone, both here in person and online, to open our meeting. All seven Board members are participating in the meeting. Vice Chair for Supervision Bowman, Governors Cook and Kugler, and I are here in person. Vice Chair Jefferson and Governors Waller and Barr are participating virtually, as are several members of senior Board staff, including Director of the Division of Supervision and Regulation, Mike Gibson, are also virtual. And I want to thank those of you who managed to be available from all over the map. I know it wasn't easy for some of you. Before we begin, I'd like to take a minute to explain how the meeting will proceed. I will make a short opening statement and then turn to Vice Chair for Supervision Bowman. Vice Chair for Supervision Bowman will also make a statement and then introduce staff. The staff presentation will be on proposed revisions to the Board's enhanced supplementary leverage ratio standards. After the presentation, staff will respond to any questions Board members may have on the proposal. After all questions have been answered, I will ask Board members to state their positions and then we will proceed to a vote. So I'd like to thank the staff for their presentations today and all of the agencies for their work to get us here. This proposal in various forms has been in the making for several years, and I'm pleased that we are here today to consider it. Over a decade ago, in the aftermath of the global financial crisis, the agencies adopted the Supplemental Leverage Ratio, or SLR, as a capital requirement that would be a backstop to risk-based requirements. This was an important step in ensuring the resilience of the banking system. However, since that time, conditions have changed. When the Board originally approved the SLR and the enhanced SLR, or eSLR, for our largest banks, we expected reserves in the banking system to substantially decline in the following years. Instead, we've seen bank reserves increase substantially. We also have seen

Treasury holdings in the banking system climb precipitously. This stark increase in the amount of relatively safe and low-risk assets on balance sheets of banks over the past decade or so has resulted in the leverage ratio becoming more binding. Based on this experience, it is prudent for us to reconsider our original approach. Because banks play an essential intermediation role in the Treasury market, we want to ensure that the leverage ratio does not become regularly binding and discourage banks from participating in low-risk activities, such as Treasury market intermediation. To that end, the agencies have worked together to propose a method for adjusting the leverage ratio's calibration, while still ensuring the resiliency of the system and not disincentivizing low-risk activities. And this proposal is consistent with the leverage ratio framework from the Basel Committee. I look forward to hearing the staff presentation and will now turn to my colleague, Vice Chair for Supervision Bowman.

VICE CHAIR FOR SUPERVISION BOWMAN. Thank you, Chair Powell. I'd like to begin by also thanking our staff and the staff of the other federal agencies, the OCC and the FDIC, for all of their work on this proposal that we're considering today. The proposal was designed to address a long-identified problem with the calibration of the supplemental leverage ratio requirement. Since the enhanced supplemental leverage ratio requirement, or the eSLR, was adopted in 2014, this requirement has often become a binding constraint rather than a backstop to risk-based capital requirements, as it was originally intended. When leverage ratio requirements become binding, banks are incentivized to reduce engagement in lower-risk, lower-return activities, including intermediating the U.S. Treasury market. For U.S. G-SIBs, the proposal replaces the 2 percent eSLR buffer with half of the G-SIBs' Method 1 surcharge to restore the leverage requirement. This approach would significantly reduce the likelihood of the eSLR becoming binding under stress conditions for the largest banks and would more closely align it with the Basel leverage ratio standard. This change will enable these institutions to promote Treasury market functioning and engage in other low-risk activities during periods of financial stress. Importantly, this change would not lead to a material reduction of the tier 1 capital requirements of the largest banks. For G-SIB bank subsidiaries, the proposal also replaces the 3 percent eSLR buffer with half of the G-SIB's Method 1 surcharge. This change would enable the largest banks to allocate capital more efficiently within their organizations, including their affiliated broker-dealers, which play a critical role in U.S. capital markets and in Treasury market intermediation. These changes at the bank level do not enable them to increase capital distributions to shareholders, as their holding companies would generally remain constrained by risk-based capital requirements. In fact, G-SIB holding companies are required to contribute assets to their bank subsidiaries to cover capital shortfalls, if needed, pursuant to secured support agreements, and they're subject to source-of-strength obligations. The proposal will help to build resilience in U.S. Treasury markets, reducing the likelihood of market dysfunction and the need for the Federal Reserve to intervene in a future stress event. We should be proactive in addressing the unintended consequences of bank regulation, including the bindingness of the eSLR, while ensuring the framework continues to promote safety, soundness, and financial stability. Finally, today's proposal is an important first step in balancing the stability of the financial system and Treasury market resilience, while preserving safety and soundness and restoring the eSLR as a backstop. The proposal also seeks comment on a number of alternatives, including modifications to the calculation of the SLR's denominator. The alternatives include combining the buffer changes with excluding from the denominator U.S. Treasuries held for trading at broker-dealers, or excluding all U.S. Treasuries and reserves from the SLR denominator. I welcome feedback on the proposal, especially on the consideration of any additional alternatives, trade-offs, and any second-order effects. Thank you again to the staff who prepared this sensible and timely proposal. You have done excellent work, and I look forward to receiving public feedback on the details as we move forward with the work of revisiting the capital framework. So I'll now turn to our staff to review the details of the proposal and to answer any questions from the Board members. Nadya?

NADYA ZELTSER. Thank you, Vice Chair Bowman. The proposal before the Board today would modify the enhanced supplementary leverage ratio standards to better serve as a backstop to risk-based capital requirements. In doing so, the proposal would promote smooth functioning of the U.S. Treasury market by reducing disincentives for banks to engage in low-risk activities like Treasury market intermediation. Following the global financial crisis, the federal banking agencies put in place a range of measures to raise capital standards for individual banks as well as the whole financial system. Within the capital framework, banks are subject to both risk-based and leverage capital requirements. Leverage and risk-based requirements play complementary roles, with each addressing potential risks not addressed by the other. Risk-based requirements vary based on the risks of individual exposures, whereas leverage requirements, by design, treat a bank's exposures equally. A leverage ratio requirement works best as a backstop to risk-based requirements. When a leverage requirement is binding or near-binding, it can discourage banks from participating in lower-risk, low-return activities. In this situation, a bank could engage in higher-risk activities in search of higher returns without being required to maintain more capital. For example, a regularly binding leverage requirement could discourage a holding company's broker-dealer subsidiary from intermediating in the U.S. Treasury market. If widespread, these effects could lead to diminished liquidity in U.S. Treasury markets. Since the introduction of enhanced supplementary leverage ratio standards in 2014, much has changed in the financial system that affects these standards. For example, there has been a significant growth in the safe assets in the banking system, including an increase in reserves and Treasury securities. As observed in the Board's most recent semi-annual financial stability report, we have also seen persistently low levels of Treasury market liquidity. Earlier this spring, some dealers experienced balance sheet pressures in intermediating record volumes of Treasury market transactions. Market participants increasingly cite Treasury market functioning as a growing financial stability risk. At the same time, the federal banking agencies, at various times, have proposed changes to supplementary leverage ratio requirements and intervened to address Treasury market disruptions. In 2018, the Federal Reserve and OCC proposed significant changes to the enhanced supplementary leverage ratio standards, intended to return such standards to their traditional role as a backstop capital requirement. Similarly, during the COVID-19 pandemic, the Board intervened on an emergency basis to address Treasury market disruptions. At that time, the Board, along with the OCC and FDIC, approved a temporary exclusion of U.S. Treasury securities and deposits at Federal Reserve Banks from the calculation of the supplementary leverage ratio to allow banks to serve as financial intermediaries and to serve their customers. And in 2021, in connection with the expiration of this temporary emergency change, the Federal Reserve committed to soon inviting public comment on potential modifications. Under the current framework, leverage requirements, rather than risk-based requirements, are frequently binding for banks that play the biggest roles in U.S. Treasury market intermediation. The largest and most systemic banks, known as global systemically important bank holding companies, or G-SIBs, are currently subject to a minimum supplementary leverage ratio of 3 percent and a leverage buffer of 2 percent for a total of 5 percent to avoid limitations on capital distributions and certain discretionary bonus payments. In addition, G-SIBs' depository institution subsidiaries are subject to a 6 percent supplementary leverage ratio requirement to be considered well capitalized. The proposal would recalibrate the enhanced supplementary leverage ratio to reduce the likelihood and frequency of it becoming a binding capital requirement for the largest and most systemic banks. Specifically, these banks would be subject to the minimum supplementary leverage ratio of 3 percent plus a leverage buffer equal to 50 percent of a G-SIB's Method 1 surcharge, which is a measure of the bank's systemic importance. This calibration would help ensure the supplementary leverage ratio requirement acts as a backstop as intended. The proposal would also help promote consistency across jurisdictions as it would be aligned with the leverage ratio framework published by the Basel Committee on Banking Supervision. The proposal would make conforming changes to the leverage-based components of the Board's total loss absorbing capacity and long-term debt requirements. The proposal also invites comment broadly on additional areas of the bank regulatory framework that could impact U.S. Treasury market intermediation. For example, the proposal invites comment on the benefits and costs of a potential exclusion from the supplementary leverage ratio's denominator of Treasury securities held for trading by broker-dealer subsidiaries of a holding company. The proposed change to the enhanced supplementary leverage ratio would not materially reduce aggregate tier 1 capital requirements for the largest and most systemic banks. The current estimate of the aggregate tier 1 capital requirement reduction is less than 2 percent or roughly $13 billion. Tier 1 capital requirements at depository institution subsidiaries will decline more substantially. However, due to holding company capital requirements, almost all of this capital would need to be retained within the consolidated holding company and would not become available for distribution to shareholders. Instead, the holding company would have flexibility to reallocate that capital to its different subsidiaries. As a result of these changes, the supplementary leverage ratio requirement would be below the level of the risk-based tier 1 capital requirements for all banks subject to the requirement and most of the depository institution subsidiaries. Staff provide a comprehensive analysis of the benefits and costs within the proposal. Today's proposal would help address the undesired effects of a binding supplementary leverage ratio requirement and also provide large banks additional flexibility and capacity to maintain or increase low-risk, low-return activities, including U.S. Treasury market intermediation. For these reasons, staff recommend that the Board approve issuance of the proposal. Thank you for the opportunity to present to you today. We would be happy to answer any questions you may have.

CHAIR POWELL. Thank you. We now have an opportunity for Board members to ask questions of staff and we will begin -- if there are questions, we'll begin with Vice Chair Jefferson, please.

VICE CHAIR JEFFERSON. Good afternoon and thank you, Chair Powell. I'm hoping that you can hear me loud and clear. Would you please confirm that that is the case?

CHAIR POWELL. That is indeed the case.

VICE CHAIR JEFFERSON. Thank you so much. I want to thank the staff for the excellent work that they've done in terms of preparing this proposal. I do have a question and a closely related follow up regarding the exclusion restriction, the exclusion provision that's in the proposal for Treasury securities broker-dealer subsidies might hold. And my question is this. If firms subject to the supplementary leverage ratio requirements would have substantial capacity for such assets under the proposal, what would be the benefits and costs of that additional exclusion? And my follow up is that I've heard Vice Chair for Supervision Bowman and the staff presentation just now mention the virtue of the current proposal being that it is Basel-compliant.

And my follow up question is, would this additional exclusion be Basel-compliant? And if not, what would be the advantages of this additional exclusion that moves us away from Basel-compliance? So I'm a little bit confused about the expression of virtue of the current proposal and then inclusion of an additional exclusion that would not be Basel-compliant. I'll stop there. Thank you very much.

MARK BURESH. Thank you for the question. So yes, the specific proposed approach and the accompanying rule text in the proposal is to recalibrate the enhanced supplementary leverage ratio standards for the G-SIBs and their subsidiary depository institutions. It is not to exclude any particular assets from the denominator. That said, the proposal seeks comment on a variety of alternatives and adjustments that the Board can consider in connection with any final rule. One of the ideas discussed, as has been mentioned, is a narrow exclusion approach that would allow holding companies to exclude from the denominator of the supplementary leverage ratio certain Treasury exposures held at broker-dealer subsidiaries. This narrow exclusion has the advantage of having a narrow focus that is sort of tailored closely to the entities and exposures directly involved in Treasury market intermediation. It has a broader scope than the proposal because it would apply to all large banking organizations subject to the supplementary leverage ratio as opposed to just the subset of the G-SIBs, the very largest banking organizations. And it could function as a sort of automatic safety valve in the event of a sudden stress event. On the other hand, it is different from the international standards, and it provides a different treatment for certain exposures while sort of a core design principle of a leverage capital requirement is to treat all exposures the same. Thank you.

VICE CHAIR JEFFERSON. Is that a complete articulation of the cost associated with that additional exclusion?

MARK BURESH. I mean, in terms of the -- I guess I would mention, I would add to that, I suppose, I think the quantitative estimate of the cost of the exclusion is minimal based on current data. Of course, if it's functioning as a safety valve, under certain circumstances, the effect of that is difficult to predict.

VICE CHAIR JEFFERSON. Thank you, Chair Powell.

CHAIR POWELL. Thank you. Vice Chair for Supervision, Bowman, please.

VICE CHAIR FOR SUPERVISION BOWMAN. Thank you, Mr. Chair. I do have one question. I thought it might be helpful to help our Board members get more comfortable with what could be perceived as a release of capital. So my question is, while the proposal would not materially reduce capital requirements for the largest banks, it would generally lower capital requirements for their bank subsidiaries. How should we as Board members get comfortable with that outcome?

JUAN CLIMENT. Thank you, Vice Chair Bowman. The proposal does not materially change the G-SIBs' overall capital requirements. And overall resilience in the system would not change. G-SIB's would continue holding tier 1 capital requirements, for example, at their current level. So a 6 percent minimum tier 1 capital requirement plus a stress capital buffer that is at least 2.5 percent in addition to a G-SIB surcharge that is significantly higher than the enhanced supplementary leverage ratio standard that we're discussing today. As a result, and due to the holding company requirements, there are no material amounts of capital that can be distributed to shareholders as a result of this proposal. Under the proposal, the depository institution requirements do change. They do go down. And what this doesn't mean is that this is going to allow more capital distributions. But what this means is that the G-SIB would have more flexibility to allocate capital efficiently across subsidiaries, which, as a result of this proposal, would have now less disincentives, less regulatory disincentives to engage in low-risk, low-return activities, such as U.S. Treasuries, which can support the U.S. economy. And I would also note that the depository institution requirements remain robust. Since the great financial crisis, the capital requirements and the quality of these requirements has been strengthened. Today, what we are basically doing is returning the enhanced supplementary leverage ratio to its intended role of being a backstop and not a binding constraint. And we believe that this achieves our goal of reducing regulatory disincentives for G-SIBs to engage in low-risk and low-return activities like U.S. Treasury intermediation.

VICE CHAIR FOR SUPERVISION BOWMAN. Thank you, Juan. I appreciate that.

CHAIR POWELL. Thank you. Governor Waller, please.

GOVERNOR WALLER. Thank you, Chair Powell. I have no questions. Thank you.

CHAIR POWELL. Thank you. Governor Cook, please.

GOVERNOR COOK. Thank you, Chair Powell. Staff have said that reducing the SLR requirements will reduce the extent to which they are a binding constraint and support U.S. Treasury market functioning. What is the empirical evidence that shows that a binding leverage ratio capital requirement affects Treasury market functioning? In particular, could you explain how staff believe the recalibrated leverage ratio would function during periods of increased stress?

AKOS HORVATH. Thank you for this question, Governor. There are two pieces, two strands of empirical evidence that I would like to cite. The first strand shows that firms' broker-dealers whose holding companies have lower SLR, supplementary leverage ratios, they are more reluctant to engage in U.S. Treasury market intermediation and participate in the U.S. Treasury market in general. The second strand shows -- those empirical studies in the second strand of the empirical literature indicate that broker-dealers that face balance sheet constraints -- balance sheet constraints for broker-dealers -- I apologize. Broker-dealer balance sheet constraints have a negative impact on market liquidity of the U.S. Treasury market. The proposal would alleviate such potential constraints by creating capacity for lower-risk activities as well as removing the unintended disincentives for broker-dealers to engage in market intermediation, including U.S. Treasury market intermediation. This would apply also under stressed circumstances.

CHAIR POWELL. Thank you. Governor Barr?

GOVERNOR BARR. Thank you, Mr. Chair, and greetings to everybody from the Omaha branch of the 10th District. Thanks to the staff for their excellent work and presentation. I have three short questions. The first question is just I want to make sure I understand the facts of the proposal, particularly as it relates to capital reductions. Is it correct that you estimate the proposal would reduce G-SIB depository institution tier 1 capital requirements by 27 percent, or $210 billion, total loss-absorbing capacity requirements by 5 percent, or $73 billion, and long-term debt requirements by 16 percent, or $132 billion? Do I have that math right?

AKOS HORVATH. The numbers in the economic analysis of the proposal. Additionally, the proposal would leave the risk-based capital requirements unchanged. So the capital rule would require firms to maintain capital commensurate with their risks, both at the depository institution and the holding company level. And finally, it would be important to emphasize that the holding company level requirements would only -- the proposal would reduce holding company requirements not materially. Specifically, the reduction would be less than 2 percent for the holding companies of G-SIBs, and G-SIBs would be required under the capital rule to remain a source of strength for their depository institutions.

GOVERNOR BARR. Thank you. The second question is about estimates of firm allocation of this additional capital to Treasury market intermediation. I didn't see an estimate in the proposal on the impact of the proposal on Treasury market intermediation. There's basically an increase in the capacity to do more activities, but no measure, at least as an actual increase in activity. Is that correct?

AKOS HORVATH. That is correct. We estimate -- we produced several capacity estimates. The reason that we didn't produce an estimate, a quantitative estimate for by how much the actual intermediation activity would go up is twofold. One is that the proposal's main purpose is to reduce the unintended incentives, disincentives for lower-risk activities and create the flexibility for holding companies to allocate their existing tier 1 capital to the subsidiaries where they see fit. The proposal does not target to incentivize U.S. Treasury market intermediation, per se. And the other reason is that creating such projections is challenging because it depends on the particular firm and circumstances, both at the macroeconomic level, but also at the business line level.

GOVERNOR BARR. Thank you very much. The last question is really about the extent to which our existing risk-based rules cover or don't cover interest rate risk of Treasury securities. There's some partial coverage, but other areas of risk that are not covered. So I wonder if you could just describe for us the extent to which interest rate risk is and is not covered by our risk-based rules.

DAVID LYNCH. Thank you, Governor Barr. So interest rate risk is partially covered within our risk-based capital rules. So for trading positions, interest rate is covered explicitly. For credit risk positions, interest rate is not covered on a position-by-position basis because it is a firm-wide risk. Our capital rules do require firms to identify and assess their risks and the amount of capital that they hold against those risks. And our supervisory activities do go in and check for how banks are holding capital against them.

GOVERNOR BARR. Let's say for the held to maturity book, is there any interest rate coverage in our capital rules?

DAVID LYNCH. So no, there isn't explicitly, but as indicated, banks do need to assess the risk and hold capital against that under our capital rules.

GOVERNOR BARR. Thank you very much, Mr. Chair.

CHAIR POWELL. Thank you. Governor Kugler, please.

GOVERNOR KUGLER. Thank you very much, Chair Powell. I have one question with two parts. So the proposal indicates that the supplemental leverage ratio is intended to be a backstop. Additionally, the NPR says that the SLR exists because historical experience has demonstrated that risk-based measures alone may be insufficient to support loss-absorbing capacity at banking organizations through economic cycles. According to Table 7, currently, the supplemental leverage ratio for the G-SIB holding companies amounts to 98 percent of their risk-based capital requirements. This proposal would reduce that ratio to 75 percent. In that light, please explain first under what circumstances, either in the macroeconomy or at a particular firm, the staff believes that the SLR should be binding. And second, please tell me under what circumstances is the SLR actually likely to become binding under the new proposal and indeed work as a backstop as it is intended to do.

NADYA ZELTSER. Thank you, Governor Kugler. I'll take this question. A leverage capital requirement is simple and risk-insensitive.

GOVERNOR KUGLER. Can you speak louder? I can't hear you.

NADYA ZELTSER. Absolutely. By design, a leverage capital requirement is simple and risk-insensitive and thus requires the same amount of capital for every exposure regardless of its risk. So it by design does not account for the risks of banks' exposures. But it is required to have a minimum amount of capital for all risks. And it treats every exposure equally, whether it's like a high-risk position or low-risk position. And when a leverage capital requirement is binding, it has, of course, incentive effects. It discourages banks from participating in low-risk activities, including –

GOVERNOR KUGLER. But can you answer my questions? No, we've gone through that. Thank you.

NADYA ZELTSER. Yeah, right. So when the risk-based capital, like as the financial crisis demonstrated, risk-based requirements have some deficiencies as well. That's why we have leverage capital requirements that would address risks not captured by the risk-based capital requirements. And so if the bank has a lot of leverage, risk-based capital requirements would become binding. So it sets a simple and transparent limit on banks' leverage.

GOVERNOR KUGLER. So right now we know the SLR was binding 60 percent of the time for seven out of the eight G-SIBs between '21 and '24. Moving forward, what do you think that percentage would be?

AKOS HORVATH. In the economic analysis, we do not provide a projection or a prediction for that. But I would like to note that we do calculate the additional capacity that the proposal would create for firms to hold low-risk assets, such as U.S. Treasuries and reserves. And that capacity is very large compared to the 2020 relief effect.

GOVERNOR KUGLER. So can you give me some percentage? I know there's uncertainty, there's always uncertainty, but I imagine you have done some of these back-of-the-envelope calculations on this that we have spoken about before.

AKOS HORVATH. We didn't provide a quantitative estimate for a percent reduction in that probability.

GOVERNOR KUGLER. I think it would be helpful for us to know, to know if indeed it could become a backstop like it is intended to do, right? Obviously, there is a difference between 60 percent and zero, but there could be something in between.

CHAIR POWELL. Okay. If there are no more questions, we'll now proceed to stating our positions on the proposal. And I will turn first to Vice Chair Jefferson.

VICE CHAIR JEFFERSON. Thank you, Chair Powell. And again, I want to thank the staff for their presentation and for their work on the proposed modifications to the enhanced supplemental leverage ratio standards before us today. I view the enhanced supplemental leverage ratio requirement as an important element of our regulatory capital framework. And I am attentive to the fact that generally binding leverage ratio requirements inadvertently may disincentivize banking organizations from participating in certain low-risk activities such as Treasury intermediation. The modifications being proposed today could help promote consistency in the leverage requirements for large, complex, and internationally active banking organizations across jurisdictions. I support the approach to publish the proposed modifications to the enhanced supplementary leverage ratio for public comment. As always, I look forward to reviewing the public comments on the proposal, including responses to the many questions posed. The public's comments will help inform my views on any final rulemaking, which I will evaluate on its merits. Thank you, Chair Powell.

CHAIR POWELL. Thank you. Vice Chair for Supervision Bowman, please.

VICE CHAIR FOR SUPERVISION BOWMAN. Thank you, Mr. Chair. I too want to, again, thank the staff for all of the work that you've done. This has been a great deal of effort, and we really appreciate the quality of the work that you've done, your work to answer questions from all the Board members, and your work with the other agencies. So thank you very much for that. I look forward to several more years of working together with you as we're engaging in other proposals, especially on capital going forward. I would like to say that I do support publishing the proposal for comment, and I look forward to reviewing the comments that we will receive.

CHAIR POWELL. Thank you. Governor Waller, please.

GOVERNOR WALLER. Thank you, Chair Powell. I too would like to thank the staff who worked on the proposal and made the presentation today. Simple and transparent regulatory requirements, like those based on leverage ratios, can serve an important role in the regulatory capital regime, but they must be calibrated appropriately. As currently calibrated, the enhanced supplementary leverage ratio, or eSLR as it's known, is regularly the binding requirements for some banks, not a backup as intended. This can have unintended consequences for bank health, and it can also impede market functioning, particularly during times of stress. Regularly binding leverage ratio requirements, which treat all assets the same, no matter their risk, can make it unattractive for banks to hold lower-risk assets. For example, the leverage ratio treats a Treasury bond the same as a junk bond. We know they're not the same. When the leverage ratio binds, that can push bank management toward riskier business models as they get no credit in the regulatory capital requirements from operating a low-risk business. This in turn can have implications for the broader functioning of markets for safe assets, particularly during times of stress. That is because the leverage-based regulatory requirements can constrain the capacity of large banks to intermediate in markets, like the Treasury market. Recent research has suggested that a recalibration of the requirements could allow banks to absorb more treasuries in a crisis. So reworking that incentive structure to address these unintended consequences of current calibration makes sense to me. I believe the proposed approach to simply reduce the degree to which the eSLR binds is preferable to explicitly excluding particular assets like government liabilities. It is not our job to pick winners and losers as to who banks lend to. The proposed approach will leave those choices in the risk management to the banks, which I believe is appropriate. For these reasons, I support the proposal to recalibrate the eSLR so that it serves as a backstop to the risk-based requirements. I look forward to reviewing comments. Thank you, Chair Powell.

CHAIR POWELL. Thank you. Governor Cook, please.

GOVERNOR COOK. Thank you, Chair Powell. First, I would like to thank staff for their hard work on this proposal and for organizing a public Board meeting today. I would also like to thank stakeholders for their engagement and for taking time to attend this open Board meeting. As has been discussed, the SLR requirements are introduced to serve as a backstop to risk-based capital requirements, rather than the ongoing binding requirement. Although I am inclined to think that the overall amount of capital in the banking system is reasonably close to where it should be, a proposal to ensure SLR requirements serve as a proper backstop to risk-based capital requirements may be appropriate. And resorting and restoring the SLR to its role as a backstop could remove undue disincentives for important lower-risk activities like Treasury disintermediation. I support issuing this proposal for comment as an important part of an open and transparent rulemaking process. I look forward to receiving comments, data, and views from a broad range of stakeholders. I will evaluate any proposed final rule on its merits as informed by public comment. I especially look forward to hearing from the public on three specific aspects of today's proposal. First, I note that the expected reduction in SLR requirements at the bank level appears to be economically significant. I look forward to hearing from the public about those costs and benefits of this part of the proposal. I particularly welcome views on how capital that has been maintained in G-SIBs' bank subsidiaries that may flow within or outside the organization and any associated implications for financial stability. Second, I welcome insights, data, and views from all stakeholders on the extent to which the current SLR requirements constrain Treasury market intermediation during both times of normal activity and in periods of stress. The preamble contains a potential alternative counterproposal which would permanently exclude treasuries held for trading at broker-dealers from the calculation of total leverage exposure in the SLR. I can see the intuitive appeal of directly targeting Treasury intermediation, but it is very important to establish that such an exclusion would actually increase intermediation, especially in periods of stress, without undue buildup of risks that are not appropriately mitigated by risk-based capital requirements alone. I am concerned that permanent exclusions reduce the efficacy of the SLR as both a measure of and constraint on excessive leverage. I would also observe that Treasuries have a very unique characteristic or very unique characteristics relative to other exposures. Accordingly, I welcome views from the public on the relative merits of today's proposal versus this exclusion-alternative counterproposal. Finally, it is important that we consider today's proposal in the context of the overall capital regulation framework. In my view, today's modest reduction in G-SIB holding company capital requirements achieved by restoring leverage requirements to their role as a backstop does not seem inappropriate given our current risk-based capital requirements. Nonetheless, as we consider potential changes to capital requirements, we should be mindful of their cumulative effect on the resilience of our financial system. I especially welcome comments from all stakeholders about such potential cumulative effects. Again, I would like to thank staff for their work and stakeholders for their interest. I look forward to analyzing the comments received from the public on today's proposal.

CHAIR POWELL. Thank you. Governor Barr, please.

GOVERNOR BARR. Thank you, Mr. Chair, and let me once again thank the staff for their hard work. I cannot support today's proposal to weaken the enhanced supplementary leverage ratio, or eSLR. Enhancing the resilience of the U.S. Treasury market is an important objective that I share with my colleagues. But this proposal unnecessarily and significantly reduces bank-level capital by $210 billion for G-SIBs' bank subsidiaries, and weakens the eSLR as a backstop. I am skeptical that it will achieve the stated objective of improving the resiliency of the Treasury market. Despite my reservations, I could support a much more modest adjustment to the eSLR were it to be accompanied by prompt, full, and effective implementation of the Basel III endgame reforms to risk-based capital. Let me take these in a little bit more depth. First, the proposal significantly reduces bank capital. The proposal would reduce tier 1 capital requirements by 27 percent at G-SIB depository institution subsidiaries, resulting in a $210 billion decline in bank capital. At the holding company, the decline is 1.4 percent, or $13 billion. The proposal would also reduce total loss-absorbing capacity by 5 percent, or $73 billion, and long-term debt requirements by 16 percent, or $132 billion. Taken together, these changes would significantly increase the risk that a G-SIB bank would fail, orderly resolution would not be possible, and the deposit insurance fund would incur higher losses. The decline in capital at the holding company level would be much worse if it were not for the risk-based capital requirements. But if the eSLR is reduced, the risk-based capital requirements could go down as well. This can occur not only as a result of policy changes, but also by actions that banks can take to reduce their risk-based requirements. Looking solely at the leverage ratio, without considering the limiting effect of risk-based capital requirements, the aggregate reduction in the eSLR requirement at the holding company level would be about $210 billion for G-SIBs and $280 billion for their depository institution subsidiaries. Significantly lowering the eSLR in this manner increases the incentives that firms have to game their risk-based requirements by lowering their risk-weighted asset density. This kind of gaming of risk-based requirements is precisely what leverage ratios are designed to block. The proposal downplays the concern about the decline in bank-level capital by pointing to the expectation that holding companies serve as a source of strength to their banks. In practice, however, there are lots of examples of firms failing without supporting their bank subsidiary, as happened with Silicon Valley Bank in 2023. During the global financial crisis, the Federal Reserve granted numerous exemptions in order to allow depository institutions to upstream capital to bail out their broker-dealer affiliates, the opposite of the source of strength doctrine. Second, the reduction in capital is significantly larger than under the 2018 proposal. The declines in capital are much deeper than what the agencies have previously considered. This proposal would reduce the supplementary leverage ratio requirement by nearly three times as much for G-SIB holding companies in percentage terms as the never-finalized 2018 proposal would have done. It also would reduce tier 1 capital requirements for G-SIB depository institutions by 10 percentage points, or $65 billion more than in the 2018 proposal. Third, the proposal is unlikely to significantly enhance Treasury market intermediation, especially in times of stress. Treasury market intermediation primarily happens at the broker-dealer, but the overwhelming bulk of the capital depletion under the proposal happens in the bank. While firms could, in theory, use the additional headroom provided under the proposal to increase their participation in Treasury market intermediation, it is not clear that result would occur. Firms could just as easily shift to other activities with low risk-based capital requirements and significantly higher returns than Treasury market intermediation. Moreover, much of the capital that is freed up at the holding company level, where not otherwise constrained, is likely to be diverted to returning equity to shareholders rather than intermediation. Even if some further Treasury market intermediation were to occur in normal times, this proposal is unlikely to help in times of stress. If banks use up their excess capital in normal times, there will not be excess capital in stressful times. Moreover, firms' internal stress models measuring value at risk will likely limit Treasury intermediation when volatility increases, as they have in the past. In short, firms will likely use the proposal to distribute capital to shareholders and engage in the highest-return activities available to them, rather than to meaningfully increase Treasury intermediation. Fourth, the proposal erodes the transparency of the capital backstop. The proposal takes a relatively straightforward leverage ratio and lowers it by using a risk-based G-SIB surcharge metric, making it more difficult for the market to understand and rely on in times of stress. The way the proposal integrates the G-SIB surcharge calculation is also at odds with how the G-SIB surcharge framework we use in the United States works, where the Method 2 G-SIB surcharge is generally the binding calculation. This proposal relies instead on the Method 1 calculation in order to allow for a larger capital reduction. Fifth, an alternative option to exclude Treasuries should not be pursued. While there may be some superficial appeal to completely excluding exposures to the United States government because of its credit risk-free status, such a change would be ill-advised. Such a decision easily leads to a slippery slope, an erosion in global capital levels as other jurisdictions apply a similar logic to their own sovereign debt. And Treasuries have interest rate risks not fully covered by our rules. In conclusion, this proposal puts our banking system at risk by weakening capital of the largest banks. Despite my reservations, I remain open to working towards a much more modest eSLR reform if paired with Basel III implementation. Thank you, Mr. Chair.

CHAIR POWELL. Thank you. Governor Kugler, please.

GOVERNOR KUGLER. Thank you, Chair, and thank you to the staff for your good work on this proposal. Today's proposal is intended to address a potential unintended consequence of our current capital framework. Specifically, the enhanced supplemental leverage ratio, or eSLR, for G-SIB holding companies may be over-calibrated in a manner that disincentivizes firms from participating in lower-risk, lower-return activities like Treasury market intermediation. In light of this and other concerns discussed in the proposal, I would have been inclined to support this proposal for comment if it had been limited to changing the calculation for the eSLR for G-SIB holding companies. Unfortunately, however, I cannot support today's proposal because of its other elements. The proposal would also reduce tier 1 capital requirements by 27 percent for the bank subsidiaries of G-SIBs. To justify this reduction, the proposal points once again to benefits to Treasury market intermediation. However, as the proposal emphasizes, broker-dealers, not banks, are the subsidiaries of the G-SIB organizations that play the most critical role in intermediating Treasury markets through market making and security financing activities. Banks do not play the same role, and I am not convinced that the benefits to Treasury market intermediation from the change at the bank level justify the significant proposed reductions in tier 1 capital requirements, especially in light of the potential for elevated financial stability risk. Moreover, the proposal emphasizes that concerns about significant reduction in capital requirements at the bank level are mitigated by the fact that the capital would mostly remain trapped within the G-SIB holding company due to consolidated holding company capital requirements. But banks are the subsidiaries within these holding companies that engage in maturity transformation related to the critical provision of deposits for households and businesses, and the emergence of significant strains at banks could trigger runs and systemic stress. If excess capital is positioned at a different subsidiary within the G-SIB holding company, for example, at a foreign or domestic non-bank subsidiary, there is no guarantee that capital could or would be reallocated to the bank subsidiary when it is needed to avert or to mitigate the effects of a run. This could result in larger losses to uninsured depositors and the deposit insurance fund and greater systemic risk as well. Ultimately, I believe this reduction in capital requirements at the bank subsidiaries of the nation's largest and most complex banking organizations will increase systemic risk in a manner that is not justified by the benefits cited in the proposal. I am also concerned about looking at this one aspect of capital requirements alone at this juncture. It is difficult to assess the impact of the reduction in the eSLR without knowing what risk-based capital levels will ultimately be once the Basel III endgame and stress testing-related changes are finalized. I would prefer to take a holistic approach to capital regulation and to evaluate the costs and the benefits of the proposed eSLR reduction, inclusive of any changes in risk-based capital requirements. I appreciate the thought and the work that has gone into this proposal. I remain open to supporting these modifications if changes are made to mitigate the concerns that I have articulated, and I would be pleased to work with my colleagues to do so. Also, I look forward to reading the comments from the public. Thank you very much.

CHAIR POWELL. Thank you. I support the proposal. The U.S. banking system remains sound and resilient with strong levels of capital and liquidity. This resiliency, alongside appropriate and efficient regulation and supervision, helps to ensure that the banking system can support households and businesses throughout our country and over the entire economic cycle, and I am committed to preserving that strength. Our system of capital requirements is a source of this strength. It uses multiple measures of capital adequacy, which work collectively to achieve an overall level of resilience. These measures evaluate a bank's profile in different and complementary ways. The supplemental leverage ratio is one of these tools. It complements the risk-based requirements with each addressing factors not covered by the other. I believe that the performance of U.S. banks in times of stress has greatly benefited from this overall framework and that the level of capital in the system remains about right. However, in the case of the leverage ratio, over-calibration may lead to diminished liquidity in the Treasury markets and other unintended consequences. A leverage requirement functions best when it is generally a backstop to risk-based capital requirements. When leverage requirements are binding, they can discourage banks from participating in lower-risk, lower-return activities, and instead encourage higher-risk activities in search of higher returns without a corresponding increase in capital requirements. This can incentivize inefficient allocation of capital. More broadly, regularly binding leverage requirements imply that capital requirements are not reflective of a bank's underlying risks. Since the eSLR was finalized, we've seen leverage ratio requirements become a binding constraint rather than a backstop, resulting in those incentive concerns. The proposal before us today addresses that problem. It reduces the likelihood and frequency of the leverage ratio becoming a binding capital requirement for banks and, in turn, reduces the disincentives for banks to engage in essential lower risk activities that support the U.S. financial system and economy, such as Treasury market intermediation. It also accomplishes this without materially impacting capital requirements in the banking system. Importantly, this proposal brings our regulatory regime into greater parity with international standards. Almost all other jurisdictions with globally systemic banks have aligned their leverage ratio with the Basel standard. I believe that the U.S. should adjust accordingly. While bank rules work best when they're tailored to the nature of each jurisdiction, international standards, such as the Basel leverage ratio standard, serve as a benchmark that encourages a level playing field and supports stability in the global financial system. So today, I support putting the proposal out for comment, and I look forward to reviewing and assessing the comments that we receive from the public. And we will now proceed to vote on the proposal. I need a motion to approve a notice of proposed rulemaking seeking comment on revisions to the Board's enhanced supplemental leverage ratio standards and authorizing staff to make any minor or non-substantive changes to prepare the document for publication in the *Federal Register.*

VICE CHAIR JEFFERSON. So moved.

CHAIR POWELL. I need a second.

VICE CHAIR FOR SUPERVISION BOWMAN. Second.

CHAIR POWELL. After I call your name, please indicate your vote in a yes or no form, please. Vice Chair Jefferson.

VICE CHAIR JEFFERSON. Yes.

CHAIR POWELL. Vice Chair for Supervision Bowman.

VICE CHAIR FOR SUPERVISION BOWMAN. Yes.

CHAIR POWELL. Governor Waller.

GOVERNOR WALLER. Yes.

CHAIR POWELL. Governor Cook.

GOVERNOR COOK. Yes.

CHAIR POWELL. Governor Barr.

GOVERNOR BARR. No.

CHAIR POWELL. Governor Kugler.

GOVERNOR KUGLER. No.

CHAIR POWELL. And I vote yes. The motion has carried, and the proposal is approved. I would like to close by once again thanking the staff for all of your hard work on the proposal. We look forward to receiving comments on the proposal and encourage members of the public to share their views during the comment period. And with that, thank you again. The meeting is now adjourned.