Comments on Recalibration of the Enhanced Supplementary Leverage Ratio Standards for U.S. Global Systemically Important Bank Holding Companies and Their Subsidiary Depository Institutions; etc.

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Executive Summary

This comment endorses the agencies' proposed approach (Proposal § II.A)—realigning the eSLR as a risk-sensitive buffer calibrated at 50 percent of each GSIB's surcharge, while maintaining a robust 1 percent hard floor so that no GSIB ever falls below a 4 percent total SLR—thereby preserving minimum resilience even as we better match buffers to systemic footprints. The existing flat buffer has discouraged ultra-safe asset intermediation, strained Treasury and repo market liquidity, and reduced resilience during stress. I recommend this approach over NPR Alternative B (100 percent surcharge) and also suggest:

- Surcharge smoothing and phased implementation
- Quarterly buffer disclosures tied to FR Y-9C
- Clarified PCA sequencing and "most-binding constraint" treatment
- Explicit TLAC and broker-dealer calibrations
- Integration of LCR/NSFR interactions

Introduction

Under the agencies' joint Notice of Proposed Rulemaking, U.S. global systemically important bank holding companies (GSIBs) and their subsidiary depository institutions would replace the current flat 2 percent enhanced supplementary leverage ratio (eSLR) buffer with a surcharge-based calibration. Basel III's 'endgame' framework currently requires GSIB holding companies to maintain a 3 percent minimum supplementary leverage ratio plus a uniform 2 percent enhanced buffer (total eSLR of 5 percent), while their depository institution subsidiaries must meet a stand-alone 3 percent SLR floor to qualify as "well-capitalized" under the PCA framework. The NPR would rescind that 6 percent combined-leverage threshold solely for PCA purposes, replacing it with a surcharge-based buffer equal to 50 percent of each GSIB's annual surcharge. As many GSIBs have accumulated zero-risk-weight U.S. Treasuries and reserve balances, that rigid 2 percent add-on has in practice become the binding constraint—discouraging intermediation of ultra-safe assets and straining Treasury and repo market liquidity. The April 1, 2020–March 31, 2021 interim final rule, which temporarily excluded U.S. Treasuries and reserves from the SLR denominator, clearly demonstrated how risk-sensitive relief can restore market-making capacity and alleviate liquidity stress.

The NPR's proposed approach -- setting the eSLR buffer at 50 percent of each GSIB's annual surcharge—realigns the leverage ratio as a true backstop to risk-based capital requirements, binding only when systemic exposures warrant. This calibration unlocks headroom for safe-asset intermediation, preserves a coherent loss-absorption ladder across capital and TLAC buffers, and enhances transparency for supervisors and market participants. I support this approach over the 100 percent surcharge buffer for striking the right balance between risk sensitivity and implementation practicality. This approach maintains the integrity of the leverage backstop by preserving a minimum floor and embedding transition safeguards, not by eroding capital requirements.

Rationale for Support

Under Proposal § II.A, the agencies would replace the flat 2 percent add-on with a buffer set at 50 percent of each GSIB's annual surcharge, restoring the intended capital hierarchy of a 3 percent leverage floor plus a risk-sensitive top-up. I suggest a new approach: that this buffer be based on 50 percent of whichever GSIB surcharge method (Method 1 or Method 2) yields the higher requirement—ensuring it fully reflects each firm's systemic footprint and mitigates arbitrage.

According to the NPR's impact analysis, calibrating the eSLR buffer at 50 percent of surcharge would reduce Tier 1 capital at GSIB holding companies and at subsidiary banks, thereby freeing headroom for U.S. Treasury and repo intermediation without undermining loss-absorption capacity. This liberated capacity can lower reliance on emergency liquidity facilities, dampen stress-related spreads, and support more consistent market-making in ultra-safe assets. Importantly, GSIBs with annual surcharges above 4 percent will end up with an eSLR buffer exceeding today's 2 percent level, ensuring the highest-risk institutions actually face a stronger backstop.

Extending the surcharge-based approach to Total Loss-Absorbing Capacity and long-term debt under Proposal § III further decreases aggregate TLAC needs by roughly 5 percent (about $90 billion) and LTD requirements by 16 percent (around $132 billion), delivering material funding-cost savings for GSIBs while preserving resolution preparedness.

Hard Minimum Buffer Floor

Under Proposal § II.A, the eSLR buffer equals 50 percent of each GSIB's annual surcharge, without any prescribed lower bound. I suggest instead establishing a **1 percent hard minimum floor**, so the buffer can never fall below 1 percent of total leverage exposure. This ensures a baseline supplementary leverage requirement of at least 4 percent (3 percent SLR plus a 1 percent floor), preventing a "zero-buffer" cliff that could force abrupt dividend cuts or bonus freezes when surcharges plunge. A hard floor also protects the Deposit Insurance Fund by preserving core loss-absorbing capacity and sustains continuous Treasury and repo intermediation by guaranteeing a minimum eSLR cushion. Aligning with past Basel III phase-in floors, this approach balances risk sensitivity with systemic resilience.

Surcharge Smoothing and Phase-In

The eSLR buffer resets annually based solely on the most recent GSIB surcharge, which can introduce unwelcome volatility. To address this, I suggest a new approach: calculating each year's buffer as a simple average of the current and prior year's GSIB surcharges, then phase in any change equally over two consecutive calendar quarters. This two-year trailing average and six-month phase-in mirrors Basel III "endgame" transition timelines, smoothing abrupt buffer swings, enhancing capital planning horizons, and reducing the risk of sudden dividend cuts or bonus freezes. Codifying these features in the final rule ensures the eSLR remains a stable, risk-sensitive backstop that supports both market resilience and operational predictability, serving as a guardrail against unintended weakening of capital buffers.

Transparency and Liquidity Interactions

Proposal § II.B focuses on refining the SLR denominator but does not address public reporting of the recalibrated eSLR buffer.

Although the NPR omits new disclosure mandates, I urge the agencies to consider requiring quarterly publication of each GSIB's eSLR buffer percentage alongside end-quarter leverage exposures in FR Y-9C and Call Reports (consistent with Pillar 3 formatting). Enhanced transparency would give supervisors, investors, and counterparties timely insight into firms' intermediation capacity with minimal incremental burden. This disclosure requirement further acts as a guardrail to ensure the recalibration does not inadvertently erode minimum capital protections.

The NPR also does not discuss how expanded headroom for U.S. Treasuries will interact with the Liquidity Coverage Ratio (LCR) and Net Stable Funding Ratio (NSFR). I recommend the preamble—and, where feasible, illustrative appendices—explicitly address these second-order effects, showing how freed-up capacity should be counted under LCR and NSFR frameworks. Doing so ensures a comprehensive assessment of the recalibration's impact on both capital and liquidity resilience.

Interaction with Prompt Corrective Action Framework

Under Proposal § II.C, the agencies would remove the 6 percent eSLR threshold from the "well-capitalized" PCA category and replace it with the surcharge-based buffer. I support eliminating the fixed 6 percent trigger, but I urge the agencies to adopt a new approach: **full decoupling**. Prompt corrective action categories should remain tied exclusively to risk-based capital ratios, while the recalibrated eSLR buffer serves solely as a limit on capital distributions. Decoupling PCA designations from a variable surcharge-based buffer prevents abrupt category shifts when surcharges swing, preserves clear and predictable supervisory triggers, and aligns with the proposal's goal of keeping the leverage ratio as a backstop without unintended PCA consequences.

TLAC Calibration and Resolution Planning

In Proposal § III, the agencies propose linking the TLAC and long-term debt leverage buffers to 50 percent of each GSIB's surcharge. I agree that aligning TLAC with the surcharge-based calibration enhances consistency across backstop metrics, but I recommend clarifying that this adjustment **complements rather than replaces** the baseline TLAC leverage ratio and LTD requirement on which resolution authorities rely. The final rule should explicitly state that resolution plans will incorporate the surcharge-based eSLR buffer into loss-absorbing capacity assessments while preserving the minimum TLAC and LTD ratios. In addition, the text should confirm how broker-dealer subsidiaries—especially those holding U.S. Treasuries for market-making—are treated under the recalibrated TLAC framework. These clarifications will reinforce confidence in GSIB resolvability and support uninterrupted Treasury and repo intermediation.

Sequencing of Buffer Constraints

Under Proposal § II.C, the NPR adjusts the eSLR buffer but remains silent on how it interacts with the stress capital buffer under CCAR and DFAST—each of which independently triggers caps on dividends, buybacks, and bonuses. This omission creates three possible sequencing regimes: eSLR constraints subordinate CCAR limits, CCAR constraints override eSLR shortfalls, or both sets of constraints stack cumulatively. I suggest adoption of a new **"most-binding constraint" approach**, whereby at each supervisory test date firms face the distribution and compensation limits tied to whichever buffer breach is most severe. Codifying this in the final rule—by adding a provision that dividend and bonus caps default to the more restrictive of eSLR- or CCAR-triggered limits—promotes clarity, aligns enforcement with each buffer's unique supervisory intent, and prevents unnecessary layering of constraints that could amplify market stress while ensuring credit continues to flow to consumers and businesses.

Conclusion

I appreciate the agencies' notice of proposed rulemaking to restore the eSLR as a true backstop and to align TLAC and LTD buffers with each GSIB's systemic footprint. By adopting the 50 percent surcharge-based eSLR buffer (Proposal § II.A), embedding a 1 percent hard floor and surcharge smoothing (new proposals), and quarterly buffer disclosures for transparency, the final rule will unlock meaningful headroom for U.S. Treasury and repo intermediation without compromising loss-absorption capacity.

Clarifying how the recalibrated buffer interacts with Prompt Corrective Action, sequencing eSLR alongside CCAR triggers under a "most-binding constraint" framework, and explicitly incorporating broker-dealer treatment and liquidity ratio interactions will seal technical gaps that could otherwise cause market uncertainty. These refinements collectively advance safety and soundness, safeguard deposit insurance, and preserve the mechanics of our Treasury and repo markets—ensuring stable credit availability for consumers and businesses alike, even in stress conditions.

Thank you for considering my comments.

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