June 27, 2025

MEMORANDUM TO: Board of Directors

FROM: Ryan Billingsley, Acting Director

SUBJECT: Regulatory Capital Rule: Modifications to the Enhanced Supplementary Leverage Ratio (eSLR) Standards for U.S. Global Systemically Important Bank Holding Companies (GSIBs) and Their Subsidiary Depository Institutions; Total Loss-Absorbing Capacity (TLAC) and Long-Term Debt Requirements (LTD) for GSIBs

SUMMARY: Staff presents for the approval of the Federal Deposit Insurance Corporation (FDIC) Board of Directors (FDIC Board) a request to publish the attached interagency notice of proposed rulemaking (proposal) by the FDIC, the Office of the Comptroller of the Currency (OCC), and the Board of Governors of the Federal Reserve System (FRB) (collectively, the agencies) in the *Federal Register*. The proposal would modify the eSLR buffer standard applicable to GSIBs to equal 50 percent of the GSIB's method 1 risk-based capital surcharge. The proposal would also modify the eSLR standard for depository institution subsidiaries of GSIBs to have the same form and calibration as the GSIB parent-level standard. Such modifications would help ensure that eSLR standards serve as a backstop to risk-based capital requirements rather than as a constraint that is frequently binding over time and through most points in the economic and credit cycle, thus reducing potential disincentives for GSIBs and their depository institution subsidiaries to participate in low-risk, low-return businesses, including U.S. Treasury market intermediation. In addition, the FRB is proposing to amend the TLAC and LTD requirements applicable to GSIBs to maintain alignment with the proposed eSLR standards. The OCC is also proposing to revise the methodology it uses to identify which

Concur:

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national banks and Federal savings associations are subject to the eSLR standards to ensure that the standards apply only to those banking organizations that are subsidiaries of a GSIB. Pursuant to the proposal, the FRB would be revising its relevant FR Y-9 reporting forms with the agencies making corresponding revisions to the Consolidated Reports of Condition and Income in a separate *Federal Register* notice. The FRB and the FDIC would also propose to make certain technical corrections to the capital rule.

Recommendation: Staff presents to the FDIC Board for approval the attached proposal and authorization of its publication in the *Federal Register* with a public comment period that closes on August 25, 2025.

Discussion:

I. Background

The agencies' capital rule includes two leverage-based requirements for large banking organizations: (1) the tier 1 leverage ratio, measured as the ratio of a banking organization's tier 1 capital to average total consolidated assets;[1] and (2) the supplementary leverage ratio (SLR), measured as the ratio of a banking organization's tier 1 capital to its total leverage exposure.[2] In contrast to the tier 1 leverage ratio, the SLR includes certain off-balance sheet exposures (in addition to all on-balance sheet assets) in the denominator measure, total leverage exposure.[3]

[1] A minimum tier 1 leverage ratio requirement of 4 percent applies to all banking organizations subject to the capital rule. See 12 CFR 3.10 (OCC), 12 CFR 217.10 (FRB), 12 CFR 324.10 (FDIC). An insured depository institution must maintain a tier 1 leverage ratio of at least 5 percent to be "well capitalized" for purposes of the prompt corrective action (PCA) framework. See 12 CFR 6.4 (OCC), 12 CFR 208.43 (FRB), 12 CFR 324.403 (FDIC).

[2] A minimum SLR requirement of 3 percent applies to all banking organizations subject to Category I, II, or III capital standards. See 12 CFR 3.10 (OCC), 12 CFR 217.10 (FRB), 12 CFR 324.10 (FDIC).

[3] In 2019, the agencies adopted rules establishing four categories of capital standards for U.S. banking organizations with $100 billion or more in total assets and foreign banking organizations with $100 billion or more in combined U.S. assets. Under this framework, Category I standards apply to U.S. global systemically important bank holding companies and their depository institution subsidiaries. Category II standards apply to banking organizations with at least $700 billion in total consolidated assets or at least $75 billion in cross-jurisdictional activity and their depository institution subsidiaries. Category III standards apply to banking organizations with total consolidated

In addition, U.S. banking holding companies identified as GSIBs and their depository institution subsidiaries must satisfy enhanced SLR (or eSLR) standards. At the parent level, each GSIB must maintain an SLR of at least three percent plus a buffer of greater than two percent to avoid limitations on the GSIB's capital distributions and certain discretionary bonus payments.[4] Any insured depository institution subsidiary of a GSIB must maintain an SLR of at least six percent to be "well capitalized" under the PCA framework.[5] Since the eSLR standards took effect in 2018, the current calibration has frequently served as the binding capital constraint for GSIBs and their insured depository institution subsidiaries.

II. Objective of the Proposal

When a leverage capital requirement is calibrated too high and becomes a banking organization's regularly binding capital requirement, it can create incentives for a banking organization to engage in higher-risk activities in search of higher returns and to reduce participation in lower-risk, lower-return activities, including U.S. Treasury market intermediation. The efficient functioning of the U.S. Treasury market, including during times of stress, is critical to the stability of the domestic and global banking and financial systems. Recalibrating the eSLR would address existing disincentives that GSIBs and their depository institution subsidiaries have to engage in activities that are critical to the functioning of the

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assets of at least $250 billion or at least $75 billion in weighted short-term wholesale funding, nonbank assets, or off-balance sheet exposure and their depository institution subsidiaries. Category IV standards apply to banking organizations with total consolidated assets of at least $100 billion that do not meet the thresholds for a higher category and their depository institution subsidiaries. See 12 CFR 3.2 (OCC), 12 CFR 238.10, 12 CFR 252.5, (FRB), 12 CFR 324.2 (FDIC); "Prudential Standards for Large Bank Holding Companies, Savings and Loan Holding Companies, and Foreign Banking Organizations," 84 FR 59032 (November 1, 2019); and "Changes to Applicability Thresholds for Regulatory Capital and Liquidity Requirements," 84 FR 59230 (November 1, 2019).

[4] See 12 CFR 217.11.

[5] See 12 CFR 6.4 (OCC); 12 CFR 208 (FRB); 12 CFR 324.403 (FDIC).

financial system and reduce the need for temporary regulatory capital adjustments in the event of severe market stress, as occurred during the onset of the COVID pandemic in 2020.[6]

In addition, by taking a GSIB's systemic footprint into account in the determination of its eSLR buffer standard, the proposal would align with the purposes of the eSLR standards to strengthen the ability of these banking organizations to remain a going concern during times of economic stress and to minimize the likelihood that problems at these organizations would contribute to financial instability. Calibration based on the GSIB surcharge framework would also help promote consistency in the eSLR standards for large, complex, and internationally active banking organizations across jurisdictions.[7]

III. The Proposal

A. Calibration of the eSLR Standards

The proposal would modify the eSLR standard applicable to GSIBs by recalibrating the fixed two percent eSLR buffer standard for GSIBs to equal 50 percent of a GSIB's method 1 surcharge as determined under the FRB's GSIB surcharge framework.[8] The proposal would also

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[6] During the March 2020 economic turmoil, U.S. Treasury market liquidity rapidly deteriorated as a result of supply-demand imbalance, while primary dealers were reluctant to increase their holdings of U.S. Treasury securities, prompting market participants and regulators to consider enhancements to the resilience of the U.S. Treasury market. On April 1, 2020, FRB provided holding companies a temporary exclusion for U.S. Treasury securities and deposits at the Federal Reserve from the denominator of the SLR through March 31, 2021. On May 15, 2020, FRB, the OCC, and the FDIC extended comparable treatment to depository institutions, which could elect this exclusion subject to capital action preapproval. Both interim final rules expired as scheduled on March 31, 2021. See 85 FR 20578 (April 14, 2020) and 85 FR 32980 (June 1, 2020).

[7] The proposed calibration would be consistent with the leverage ratio framework published by the Basel Committee on Banking Supervision. See Basel Committee, "Basel III leverage ratio framework and disclosure requirements" (January 2014) available at *http://www.bis.org/publ/bcbs270.htm*. The Basel Committee is an international coordinating committee of banking supervisory authorities, established by the central bank governors of the G-10 countries in 1975, and comprised of representatives from supervisory authorities of 28 jurisdictions, that develops prudential minimum standards. More information regarding the Basel Committee and its membership is available at *https://www.bis.org/bcbs/about.htm*. Documents issued by the Basel Committee are available through the Bank for International Settlements website at *https://www.bis.org*.

[8] The FRB's capital rule requires a GSIB to calculate its risk-based capital surcharge in two ways, known as method 1 and method 2, and apply the higher of the two results. See 12 CFR 217.402, subpart H; 80 FR 49082 (August 14, 2015). Under the rule, a GSIB must calculate its GSIB surcharge under two methods and is subject to

align the calibration of the eSLR standard applicable to depository institution subsidiaries of GSIBs with that applicable to their GSIB parent holding companies.

B. FRB's Request for Comment on Potential Modification to the SLR Calculation

In the proposal, the FRB would seek comment on a potential modification to the calculation of total leverage exposure for depository institution holding companies to exclude Treasury securities that are reported as trading assets on the organizations' balance sheets and held at broker-dealer subsidiaries (and foreign equivalents thereof) that are not subsidiaries of a depository institution (narrow exclusion approach). The narrow exclusion approach could provide further certainty such that, if these holding companies' balance sheets or activities change in the future, they would not face disincentives to Treasury market intermediation due to a binding SLR requirement.

C. Modification to the Form of the Depository Institution Standard

The proposal would remove the eSLR threshold for a depository institution subsidiary of a GSIB to be considered "well capitalized" under the prompt corrective action framework and instead implement the eSLR for such banking organization as a buffer standard.[9]

This approach would align the form of the depository institution eSLR standard with that of the holding company, which could enhance effective capital management across a banking organization. In addition, a buffer approach may have less pro-cyclical effects because a

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the higher surcharge. The first method (method 1) is based on five categories that are correlated with systemic importance—size, interconnectedness, cross-jurisdictional activity, substitutability, and complexity. The second method (method 2) uses similar inputs but replaces substitutability with the use of short-term wholesale funding and is calibrated in a manner that generally will result in surcharge levels for GSIBs that are higher than those calculated under method 1. Use of the method 1 surcharge, rather than the higher of the method 1 or method 2 surcharge, would produce a generally lower calibration that is consistent with the objective for leverage capital requirements to act as a backstop to risk-based capital requirements.

[9] The proposed leverage buffer framework would follow the same general mechanics and structure as the capital conservation buffer contained in the agencies' respective capital rules.

banking organization may choose to use its buffer during times of economic stress. At the same time, the payout restrictions of a leverage buffer framework would continue to provide an incentive for covered depository institutions to maintain sufficient capital and reduce the risk that their capital levels would fall below their minimum requirements during economic downturns.[10]

D. Conforming Amendments

1. TLAC/LTD Amendments

The FRB requires GSIBs to maintain outstanding minimum levels of TLAC based on risk-based and leverage-based measures and to meet buffers on top of both the risk-weighted asset and leverage components of the TLAC requirements to avoid limitations on the firm's capital distributions and certain discretionary bonus payments. The leverage-based TLAC buffer is equal to two percent, above the 7.5 percent minimum leverage component of a GSIB's external TLAC requirement. This buffer amount was expressly designed to align with the eSLR buffer standard applicable to these firms. Accordingly, the FRB is proposing to replace the two percent TLAC leverage buffer with a new TLAC leverage buffer equal to the eSLR buffer standard under the proposal. This change would maintain the original alignment of the TLAC leverage buffer and the eSLR standards. The FRB is also proposing to revise the minimum leverage-based external LTD requirement to reflect the proposed change to the eSLR standard.

[10] In April 2018, the FRB and OCC jointly issued a proposal similar to this proposal to modify the eSLR standards for GSIB holding companies and FRB- or OCC-regulated insured depository institution subsidiaries (2018 proposal) by using the GSIB surcharge framework to determine a banking organization's applicable eSLR standard. As part of the 2018 proposal, the two agencies requested comment on the appropriateness of an alternative that would have implemented the proposed eSLR standard for GSIBs' depository institution subsidiaries as a capital buffer standard instead of as a threshold for such banking organizations to be considered "well capitalized." The majority of commenters on the 2018 proposal supported the alternative form of the eSLR as a buffer standard at the depository institution level.

2. OCC Amendments

The OCC is proposing to make a technical change by removing the existing asset size thresholds and instead applying the eSLR standard to those national banks and federal savings associations that are subsidiaries of GSIBs identified by the FRB's GSIB surcharge framework.

3. Technical Amendments

The proposal includes certain technical corrections to the FRB's capital rule and the FDIC's regulations implementing the prompt corrective action framework.

IV. Estimated Effects on Capital Requirements

The proposal would lead to a less-than-two percent aggregate reduction in the tier 1 capital requirement for GSIBs, or $13 billion, and about 27 percent aggregate reduction in the tier 1 capital requirement, or $213 billion, for their depository institution subsidiaries. This difference between GSIBs and their depository institution subsidiaries in the level of tier 1 capital requirements is due to the lower risk-based capital buffer requirements and the higher eSLR standard at the depository institutions. Any adjustment to the eSLR standard that aims for the SLR requirement to be a backstop to risk-based capital requirements would lead to a larger reduction in tier 1 capital requirements for GSIB's depository institution subsidiaries than for GSIBs. Although the capital requirements of the depository institution subsidiaries of GSIBs would decline, capital requirements applicable to GSIBs would remain approximately at their present level, and with better incentive effects from leverage-based requirements declining below risk-based requirements. GSIBs would not be able to significantly increase dividend payments or other capital distributions, due to bank holding company capital requirements. The proposal would instead provide GSIBs greater discretion to determine the optimal allocation of capital within the consolidated organization. The proposed rule would only affect one FDIC-supervised

depository institution and would decrease its tier 1 capital requirements by approximately 17% or $7 million.

Under the proposal, aggregate TLAC requirements that apply to GSIBs would decline by approximately five percent, or $90 billion, and aggregate LTD requirements would decline by approximately 16 percent, or $132 billion. Although the reduction in LTD and TLAC requirements could reduce overall loss-absorbing capacity, including gone-concern resources available in resolution, the proposal would maintain the existing alignment of LTD and TLAC requirements with capital requirements, consistent with the approaches used to calibrate these requirements. In addition, other enhanced prudential standards applicable to GSIBs help to mitigate any reduction in the overall loss-absorbing capacity of these firms.[11] The proposal is expected to support increased lending and economic activity and would be consistent with international standards.

Overall, the staffs of the agencies assess that the benefits of the proposal justify the costs.

Conclusion:

FDIC staff presents to the FDIC Board for approval the attached proposal and authorization of its publication in the *Federal Register* with a public comment period that closes on August 25, 2025.

Staff Contacts:

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[11] See, e.g., section 165 of the Dodd-Frank Wall Street Reform and Consumer Protection Act (12 USC 5365) subsection (d) (resolution plan), subsection (e) (concentration limits), subsection (h) (risk committee), and subsection (i) (stress test). See also 12 CFR part 252.