Statement on the Proposed Rule Regarding Modifications to the Enhanced Supplementary Leverage Ratio

Acting Chairman Travis Hill

June 27, 2025

In March 2020, U.S. fiscal and monetary authorities took unprecedented steps to support the U.S. and global economy and restore the orderly functioning of financial markets in the wake of the COVID-19 pandemic.[1] The enormous fiscal and monetary stimulus caused bank balance sheets to expand dramatically, and, along with many other measures,[2] bank regulators provided temporarily adjustments to the supplementary leverage ratio (SLR)[3] to enable banking organizations to continue to accommodate customer deposits and serve as financial intermediaries in the U.S. Treasury market.[4]

The COVID-19 experience illustrated a well-known concern of a binding leverage capital requirement: it can disincentivize banking organizations from engaging in low-risk, low-return activities that are critical for financial market functioning and the broader economy, a concern that often becomes more acute during periods of stress.[5] Meanwhile, market stresses have continued to test the capacity of leverage-constrained bank and bank-affiliated dealer balance sheets,[6] and many of the structural contributors to an increasingly binding eSLR—including the size of the Federal Reserve's balance sheet[7] and the growth of new Treasury issuance[8]—remain persistent, with no near-term prospects of abating.

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[1] *See, e.g.*, CARES Act, Pub. L. No. 116-136, 134 Stat. 281 (Mar. 27, 2020); Press Release, Board of Governors of the Federal Reserve System, Federal Reserve announces extensive new measures to support the economy (Mar. 15, 2020).

[2] *See, e.g.*, Federal Deposit Insurance Corporation, Our Response to the Coronavirus Pandemic (last updated Aug. 13, 2024).

[3] *See* Federal Reserve System, Temporary Exclusion of U.S. Treasury Securities and Deposits at Federal Reserve Banks From the Supplementary Leverage Ratio, 85 Fed. Reg. 20,578 (Apr. 14, 2020); *see also* Office of the Comptroller of the Currency, Federal Reserve System, Federal Deposit Insurance Corporation, Regulatory Capital Rule: Temporary Exclusion of U.S. Treasury Securities and Deposits at Federal Reserve Banks From the Supplementary Leverage Ratio for Depository Institutions, 85 Fed. Reg. 32,980 (June 1, 2020). References to the SLR include the "enhanced" SLR (eSLR) applicable to U.S. global systemically important banks (GSIBs).

[4] *See, e.g.*, Falk Bräuning and Hillary Stein, "Evidence That Relaxing Dealers' Risk Constraints Can Make the Treasury Market More Liquid," Federal Reserve Bank of Boston Current Policy Perspectives 25-4 ("Evidence indicates that the policy succeeded in increasing Treasury trading activity, especially among primary dealers that had been more constrained by the SLR rule—that is, banks with low SLRs.").

[5] *See, e.g.*, Office of the Comptroller of the Currency, Federal Reserve System, Federal Deposit Insurance Corporation, Regulatory Capital Rules: Regulatory Capital, Revisions to the Supplementary Leverage Ratio, 79 Fed. Reg. 57,725, 57,729 (Sept. 26, 2014) ("Because the [SLR] is insensitive to risk, it is possible that banking organizations' costs of holding low-risk, low-return assets—such as reserve balances—could increase if such ratio were to become the binding regulatory capital constraint.").

[6] *See, e.g.*, Alex Harris and Liz Capo McCormick, "Market Chaos Puts Wall Street on Alert for Funding Strains," BLOOMBERG (Apr. 7, 2025).

[7] *See, e.g.*, Federal Reserve Bank of St. Louis, Liabilities and Capital: Other Factors Draining Reserve Balances: Reserve Balances with Federal Reserve Banks: Wednesday Level (last updated June 20, 2025).

[8] *See* Proposed Rule, at 47-48 ("[T]he amount of U.S. Treasury securities outstanding, excluding holdings of the Federal Reserve System Open Market Account, has expanded by 139 percent, from $10 trillion to $24 trillion, since

Today, the FDIC Board is considering a proposed rule to address the issue of frequently-binding leverage capital requirements for the largest U.S. banking organizations. Specifically, the proposed rule would, at both the holding company and bank subsidiary levels, replace the existing gold-plated eSLR standards for U.S. GSIBs with a buffer that equals 50 percent of a GSIB's capital surcharge calculated under method 1 of the Federal Reserve's GSIB surcharge framework.

The largest U.S. banking organizations, including their bank and dealer subsidiaries, are critical to financial market functioning and economic growth. I support the proposal, which will provide more capacity for institutions to engage in low-risk activities such as U.S. Treasury market intermediation.

At the same time, I continue to believe[9] that strong capital standards are critical to ensuring a resilient banking system, in which banks can withstand unexpected shocks and continue to serve their customers and communities. The proposal would, at the holding company level, reduce aggregate required tier 1 capital by approximately $13 billion,[10] a reduction of approximately 1.4 percent.

I would like to thank the FDIC staff, as well as the Federal Reserve and OCC staff, for their work on this proposed rule, and I look forward to reviewing comments from the public.

2014. Meanwhile, the U.S. Treasury securities positions of primary dealers have grown by 155 percent, reaching $0.6 trillion in aggregate. This expansion in primary dealers' U.S. Treasury securities positions reflects both the abundant supply of these securities and the central role of these broker-dealer subsidiaries of banking organizations as intermediaries in this market.").

[9] *See, e.g.*, Vice Chairman Travis Hill, Proposal to Revise the Regulatory Capital Requirements for Large Banks (July 27, 2023) ("I support strong capital requirements, and believe that placing limits on leverage is one of the most powerful tools bank regulators possess to promote a resilient banking system.").

[10] *See* Proposed Rule, at 66.