CSBS eSLR Comment Letter

COMMENT LETTER

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Ann E. Misback, Secretary
Federal Reserve Board of Governors
20th Street and Constitution Avenue NW
Washington, DC 20551
Docket No. R-1867; RIN 7100-AG96

Jennifer M. Jones, Deputy Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429
RIN 3064-AG11

Chief Counsel's Office
Attention: Comment Processing
Office of the Comptroller of Currency
400 7th Street SW, Suite 3E-218
Washington, D.C.
Docket ID OCC-2025-0006

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

Dear Sir or Madam,

The Conference of State Bank Supervisors ("CSBS") 1 provides the following comments on the Notice of Proposed Rulemaking ("proposal") issued jointly by the Federal Reserve Board ("FRB"), Federal Deposit Insurance Corporation ("FDIC"), and Office of the Comptroller of the Currency ("OCC") (collectively, the "agencies") entitled *Regulatory Capital Rule: Modifications to the Enhanced Supplementary Leverage Ratio Standards for U.S. Global Systemically Important Bank Holding Companies and Their Subsidiary Depository Institutions; Total Loss-Absorbing Capacity and Long-Term Debt Requirements for U.S. Global Systemically Important Bank Holding Companies*. 2

State regulators support robust capital requirements, particularly for firms designated as global systemically important banking organizations ("G-SIBs"). 3 The enhanced supplementary leverage ratio ("eSLR") is a critical component of the post-crisis capital framework designed to bolster G-SIB resilience and financial stability.

CSBS requests that the agencies:

- Revise G-SIB risk-based capital requirements prior to finalizing changes to the eSLR.
- Refrain from excluding any assets or exposures from the eSLR's total leverage exposure.
- Analyze deposit and market concentration effects further, and adjust the proposal to promote competition.

I. Revise G-SIB risk-based capital requirements prior to finalizing changes to the eSLR.

Among other objectives, the proposal aims to position the eSLR as a backstop to risk-based capital requirements, rather than the regularly binding capital constraint for G-SIBs and their insured depository institution ("IDI") subsidiaries. 4 However, there are additional proposed or anticipated changes to other components of the capital framework applicable to G-SIBs, including revisions to the stress testing regime, stress capital buffer, 5 and the forthcoming Basel III Endgame risk-based capital reforms, that raise important considerations for appropriately calibrating the eSLR. 6

These various changes to the capital rules are interconnected and, taken together, could have a major impact on the overall capital adequacy of impacted institutions. Therefore, CSBS recommends that the agencies prioritize changes to the risk-based capital rules if they are to serve as the "first line of defense" prior to finalizing revisions to the eSLR. At a minimum, the public should have an opportunity to comment on proposed eSLR changes alongside any proposed changes to risk-based capital to better understand the collective impact of revisions to these major capital standards.

II. Refrain from excluding any assets or exposures from the eSLR's total leverage exposure.

CSBS urges the agencies to refrain from excluding any on-balance sheet assets or off-balance sheet exposures from the eSLR's total leverage exposure calculation, including Treasury securities and Reserve Bank deposits. 7 Leverage capital requirements are a trusted and transparent backstop to risk-based capital insofar as they treat all assets, including "safe" assets, in a risk-neutral manner. Such exemptions would diminish the eSLR's effectiveness and undermine the purpose and credibility of leverage capital requirements. 8 CSBS also agrees with the agencies' concerns that exempting certain assets from the total leverage exposure could lead to a "slippery slope" in which additional exposures are ultimately excluded. 9

III. Analyze deposit and market concentration effects further, and adjust the proposal to promote competition.

Beyond the immediate impacts to capital, the proposed eSLR modifications could intensify deposit competition by enabling additional G-SIB leverage, allowing these firms to expand their deposit franchises and further grow their already dominant market positions. 10 Increased deposit competition from G-SIB banks could exacerbate market concentration and come at the expense of mid-sized and community banks. CSBS requests that the agencies further analyze these potential deposit and market concentration effects and, if warranted, adjust the proposed eSLR to address financial stability risks and protect the diversity of the financial system.

Conclusion

The eSLR is an important component of the G-SIBs' overall capital requirements. To ensure that the eSLR serves as a credible backstop, CSBS requests that the agencies first finalize risk-based capital changes and

refrain from excluding any assets or exposures from the eSLR. Furthermore, the agencies should be ready to adjust the proposal to protect mid-sized and community banks from unfair market competition. State regulators look forward to continued engagement with the agencies to promote a resilient, well-capitalized, and competitive banking system.

Sincerely,

Brandon Milhorn

President and CEO

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  CSBS is the nationwide organization of state banking and financial regulators from all 50 states, the District of Columbia, and the U.S. territories.

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  OCC, FRB & FDIC, Notice of Proposed Rulemaking, *Regulatory Capital Rule: Modifications to the Enhanced Supplementary Leverage Ratio Standards for U.S. Global Systemically Important Bank Holding Companies and Their Subsidiary Depository Institutions; Total Loss-Absorbing Capacity and Long-Term Debt Requirements for U.S. Global Systemically Important Bank Holding Companies*, 90 Fed. Reg. 30780 (July 10, 2025).

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  See, e.g., CSBS, Comment Letter Re: *Regulatory Capital Rules: Regulatory Capital, Enhanced Supplementary Leverage Ratio Standards for U.S. Global Systemically Important Bank Holding Companies and Certain of Their Subsidiary Insured Depository Institutions; Total Loss-Absorbing Capacity Requirements for U.S. Global Systemically Important Bank Holding Companies* (June 25, 2018); CSBS, Comment Letter Re: *Regulatory Capital, Proposed Revisions to the Supplementary Leverage Ratio* (June 13, 2014); CSBS, Comment Letter Re: *Regulatory Capital Rules: Regulatory Enhanced Supplementary Leverage Ratio Standards for Certain Bank Holding Companies and Their Subsidiary Insured Depository Institutions* (Oct. 21, 2013).

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  The agencies estimate that from Q2 2021 to Q2 2024, the eSLR has been the binding constraint 60% of the time for 7 out of 8 G-SIBs, and 87% of the time for their major IDI subsidiaries over the same period. *Supra* note 2, at 30791.

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  FRB, Notice of Proposed Rulemaking, *Modifications to the Capital Plan Rule and Stress Capital Buffer Requirement*, 90 Fed. Reg. 16843 (Apr. 22, 2025).

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  According to press reports, a revamped Basel III Endgame could be proposed as soon as Q1 2026. *See, e.g.*, Katanga Johnson, "Fed Starts Talks on a Looser Version of Basel III Endgame," Bloomberg (Aug. 1, 2025).

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  Questions 5 – 8 of the proposal request feedback on potentially excluding U.S. Treasuries and reserves from the eSLR's total leverage exposure. Various alternatives to the proposal contemplate how such assets could be excluded from the eSLR. *Supra* note 2, at 30787 and 30795.

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  It is unclear whether excluding Treasuries from the eSLR would result in the largest firms meaningfully increasing their Treasury market intermediation activities. The temporary COVID-era exclusion of Treasuries from the SLR denominator did not have "a noticeable effect on the big six [bank] dealers' Treasury intermediation." *See* Paul Cochran, Sebastian Infante, Lubomir Petrasek, Zack Saravay, and Mary Tian, "Dealers' Treasury Market Intermediation and the Supplementary Leverage Ratio," FEDS Notes, Board of Governors of the Federal Reserve System (July 28, 2023).

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  Supra note 2, at 30787.

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  Greater than 41% of all U.S. deposits are held within the eight U.S. G-SIBs' IDI subsidiaries. Two of those organizations each already command more than 10% of the nation's deposits on a consolidated basis, thus exceeding the nationwide deposit concentration limits established for acquisition approval purposes under 12 U.S.C. §1842(d)(2)(A). The remaining 59% of deposits are distributed among the United States' roughly 4,400 other banks. *See* FDIC, BankFind Suite: Summary of Deposits (SOD data as of June 30, 2024).

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