Americans for Financial Reform Education Fund

Mr. Adam Cohen
Chief Counsel
Attention: Comment Processing
Office of the Comptroller of the Currency
400 7th Street SW
Suite 3E-218
Washington, DC 20219
Docket No. OCC-2025-0006

Ms. Jennifer M. Jones
Deputy Executive Secretary
Attention: Comments/Legal OES (RIN 3064-AG11)
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429
Docket No. RIN 3064-AG

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

August 26, 2025

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.

Docket Nos. OCC-2025-0006; Docket No. RIN 3064-AG11; and Docket No. R-1867 and RIN 7100-AG96

Dear Mr. Cohen, Ms. Jones, and Ms. Misback:

Americans for Financial Reform Education Fund (AFREF)[1] appreciates the opportunity to comment on the proposed rulemaking to dangerously weaken the enhanced supplementary regulatory capital rule.[2] AFREF strongly opposes the proposed erosion of the enhanced Supplementary Leverage Ratio (supplementary leverage ratio) that would reduce the resiliency of the largest banking organizations and increase the likelihood and severity of financial crises that pose significant risks to the real economy, communities, and families.

[1] AFREF is a nonpartisan and nonprofit coalition founded by more than 200 civil rights, consumer, labor, business, investor, faith-based, and civic and community groups and is dedicated to advocating for policies that shape a financial sector that serves workers, communities and the real economy, and provides a foundation for advancing economic and racial justice.

[2] Office of the Comptroller of the Currency, Treasury; the Board of Governors of the Federal Reserve System; and the Federal Deposit Insurance Corporation. 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. 130. July 10, 2025 at 30780 et seq.

AFREF urges the agencies to withdraw this proposal because it would undermine the simplicity and integrity of the leverage ratio and slash capital at insured banks by more than $210 billion, weakening resilience and exacerbating systemic risk that could imperil the financial system and the economy.

This proposal would significantly weaken one of the most important safety and soundness guardrails established after the 2008 financial crisis to protect against excessive borrowing, risk taking, and leverage. The supplementary leverage ratio is straightforward and transparent. It is easy to confirm, difficult to game, and inspires confidence. The proposed rule notes that "An appropriately calibrated leverage capital requirement sets a simple and transparent limit on a banking organization's leverage" and that risk-neutral leverage ratios "mitigate underestimations of risk both by banking organizations and risk-based capital requirements."[3] During the financial crisis, market participants lost confidence in the risk-based capital and gave far more credence to the leverage ratio.[4]

The supplemental leverage ratio is a straightforward division of equity capital over total exposures. It is a non-risk-weighted, model-independent standard that requires banks to fund their assets with a minimum amount of equity. The enhanced supplementary leverage ratio sets a leverage ratio standard for the 8 globally systemically important bank (GSIB) holding companies. This is *the* critical post-crisis capital standard that safeguards against fragility and financial crisis and its strength lies in its simplicity and transparency.

Currently, GSIBs are required to have a supplementary leverage ratio of 3 percent and a leverage buffer over 2 percent (for a total of 5 percent) and subsidiary insured depository institutions must maintain a supplementary leverage ratio of at least 6 percent to be considered well-capitalized.[5] The GSIBs have remained highly profitable while exceeding the supplementary leverage ratio for years.[6] The U.S. banking sector remains highly profitable, with net income near historic highs, total assets continuing to expand, and bank credit growing faster than in recent years — hardly a sector that is constrained by the supplementary leverage ratio.

The proposed rule would radically reduce the enhanced supplementary leverage ratio capital requirements at GSIB depository subsidiaries (by 36 percent).[7] GSIB insured depository institutions could reduce their regulatory capital by an estimated $213 billion — or 27 percent.[8] Reducing these equity cushions makes failures more likely, increases the chances of bailouts, and exposes the financial system, the economy, and the public to greater risk. As former FDIC Board Member Martin Gruenberg noted when similarly steep reductions in the supplementary leverage ratio were proposed in 2018, the "reduction in capital would benefit the affiliates, parent companies, and shareholders of these institutions. It would however, make the banks themselves more vulnerable to

[3] 90 Fed. Reg. 130 at 30783.
[4] Gruenberg, Martin J. Federal Deposit Insurance Corporation. [Speech]. "An Essential Post-Crisis Reform Should Not be Weakened: The Enhanced Supplementary Leverage Capital Ratio." Peterson Institute for International Economics. Washington, DC. September 6, 2018 at 4.
[5] The proposal would lower the GSIB holding company's leverage buffer percentage from 2 percent to half of its capital surcharge framework (under method 1, which the proposed rule notes "produces a generally lower calibration" than method 2), match the GSIB insured depository institution supplementary leverage ratio with its parent (instead of one percentage point higher), and would remove the supplementary leverage ratio "well capitalized" consideration under the corrective action framework. 90 Fed. Reg. 130 at 30785, 30786 and 30788.
[6] Cochran, Paul et al. Federal Reserve. "Dealers' Treasury Market Intermediation and the Supplementary Leverage Ratio." *FEDS Notes*. August 3, 2023.
[7] 90 Fed. Reg. 130 at 30796
[8] *Ibid.* at 30799 and 30803.

disruption and failure."[9] These risks are compounded by the broader deregulatory agenda that undermines the independence of financial regulators, cuts supervisory staff, and weakens tools for monitoring and responding to systemic risks.

The weakening of the enhanced supplementary leverage ratio rule cannot be evaluated in a vacuum. The language in the proposal only considers the most optimistic outcome of how these changes alone would impact the safety and soundness of banking organizations. But the administration has stalled the consideration of improved risk-based capital standards, weakened stress testing, and provided exemptions to resolution planning. The combination of these rollbacks allows — even encourages — the biggest banks to take on more leverage and more risk with a lower capital cushion and less supervision and oversight. That was the recipe for financial disaster in 2008 and could easily pave the way for another financial crisis.

This comment addresses the importance of capital standards, the criticality of the supplementary leverage ratio, how weakening the supplemental leverage ratio increases the likelihood and severity of financial crises, the inadvisability of weakening the supplementary leverage ratio by excluding the consideration of certain Treasury securities, and the likelihood that weakening the supplementary leverage ratio would incentivize capital distributions to investors, further imperiling financial stability.

The proposal weakens capital standards that are critical to financial stability

Capital helps a bank avoid insolvency and failure and federal capital standards — including the supplementary leverage ratio — are essential to maintaining a resilient financial system. A bank's capital — defined as the difference between the value of a firm's assets and the value of its liabilities — gives it the ability to sustainably absorb losses in its business lines and still operate to provide critical services to the economy, depositors, businesses, and communities. A 2020 World Bank literature review found that well-capitalized U.S. banks had higher loan growth than nearby banks with less capital and had higher loan originations and liquidity.[10]

Banks without the capital necessary to weather economic storms can and do fail in times of economic stress and put the economic fortunes of depositors, customers, and communities in jeopardy. A 2019 St. Louis Federal Reserve Bank study found that stronger capital levels reduced the likelihood and improved the response to financial crises that could forestall credit crunches, and "in all cases the economic benefits of moderate increases to in capital levels above current levels exceed the economic costs."[11]

Federal Reserve Board Governor Michael Barr summarized:

> [N]othing is more basic to the safety and soundness of banks and the stability of the financial system than capital. Capital enables firms to serve as a source of strength to

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[9] Gruenberg (2018).
[10] World Bank. Global Financial Development Report. Chapter 3 Bank Capital Regulation. 2019/2020 at 85.
[11] Firestone, Simon, Amy Lorenc, and Ben Ranish. St. Louis Federal Reserve Bank. "An Empirical Economic Assessment of the Costs and Benefits of Bank Capital in the United States." *Federal Reserve Bank of St. Louis Review*. Third Quarter 2019.

> the economy by continuing to lend through good times and bad. To continue to perform these functions, banks must have a sufficient level of capital to ensure that they can absorb losses and continue operations during times of stress in the financial system when losses may be significant.[12]

Capital is the bank's own stake in its operations, not a rainy-day fund: The industry has intentionally distorted the discussion of federal capital regulations to suggest that capital requirements mandate a reserve or a rainy-day fund that cannot be used to support bank activities. This is simply false. Capital is not an asset that banks must hold and capital requirements do not force banks to maintain idle cash. Capital is simply the bank's equity that has been invested by shareholders or retained from the bank's past earnings. Stanford University Professor Anat R. Admati succinctly deconstructs the industry deception on what capital is and is not:

> Many believe that bank capital is analogous to cash reserves or a rainy-day fund, and that capital requirements force banks to 'set aside' or 'hold in reserve' idle cash that cannot be used to make loans or other investments. This suggestion is patently false. Capital requirements do *not* require banks to hold anything; they only concern the source of funding banks use and the extent to which investments are funded by equity.[13]

Capital rules solely concern the source of funds — whether they are from the bank or are borrowed. Arguments that higher equity capital is too costly or will constrain lending are myths.[14] Research from the Bank for International Settlements shows that better-capitalized banks actually have lower funding costs and lend more, not less.[15] Bank capital requirements essentially direct banks to have their own skin in the game and rely less on borrowed funds. As Professors Steven Cecchetti and Kim Schoenholtz noted:

> The primary debate is over regulators' call to raise capital requirements — that is, increase the fraction of banks' funding that comes from shareholders (equity) rather than from depositors or bondholders (borrowing). Bank advocates argue that this equity is somehow idle, so any increase in required capital wastes resources and depresses lending, reducing the ability of households and businesses to finance essential activities…. This is wrong. The truth is that capital is never a wasted resource. It is a source of funds that the bank uses to provide loans. A well-capitalized bank has more resources to supply credit, not fewer.[16]

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[12] Barr, Michael S. Vice Chair for Supervision. Board of Governors of the Federal Reserve. [Speech]. "Making the Financial System Safer and Fairer." Brookings Institution. Washington, DC. September 7, 2022.
[13] Admati, Anat R. "The missed opportunity and challenge of capital regulation." *National Institute Economic Review*. Not. 235. February 2016 at R5.
[14] Admati, Anat R. and Martin F. Hellwig. "The Parade of the Bankers' New Clothes Continues: 44 Flawed Claims Debunked." January 4, 2024.
[15] A BIS study finds that a one-percentage-point increase in equity-to-assets reduces bank funding costs by 4 basis points and increases loan growth by 0.6 percentage points: Gambacorta, Leonardo and Hyun Song Shin. "Why Bank Capital Matters for Monetary Policy." Bank of International Settlements. BIS Working Papers 558. April 7, 2016.
[16] Cecchetti, Steven and Kim Schoenholtz. "Ignore the bank lobby, regulators. It's high time for banking reform." *Washington Post*. January 10, 2024

The proposed rule reinforces the false narrative that capital requirements constrain banks' business activity by suggesting that the enhanced supplementary leverage ratio acts as a "constraint" that creates "disincentives for GSIBs and their depository institution subsidiaries to participate in low-risk, low-return businesses."[17] It does not; it constrains how much of that business can be done with borrowed money.

The proposal erodes the critical importance of the supplementary leverage ratio to the capital framework

Capital requirements are safety and soundness regulations that aim to reduce banking organizations' excessive risk taking and to make sure they have adequate resources to sustain losses and avoid bank collapse. More equity capital makes banks more able to absorb losses, prevent distress, and avoid failure. Former FDIC Board Member Martin Gruenberg noted that "the buildup of leverage — in other words, reliance on debt — at the largest financial institutions in the United States increased the vulnerability of the financial system and was a critical contributor to the crisis."[18]

The proposal notes that the fundamental purpose of the capital framework is to increase the likelihood that banking organizations have sufficient resources to absorb losses, reduce financial distress, and prevent failure.[19] As Professor Admati observed "If designed and implemented properly, capital regulation can be a powerful tool for correcting market failures, reducing externalities, and ensuring the financial system serves the economy."[20]

U.S. capital requirements include complementary approaches of both leverage and risk-based requirements designed to reduce the risk of bank failure and financial crisis. The enhanced supplementary leverage ratio should work in tandem with the risk-weighted capital requirement. The straightforward leverage ratio compensates for the tendency for risk-weighting to dramatically underestimate impending risks. The proposal both weakens the supplementary leverage ratio and also subjugates it to the risk-based capital standards and instead makes it a "backstop" to other capital standards instead of a partner.

The supplementary leverage ratio was the most critical post-financial crisis capital standard that transparently and simply measures a banking organization's ability to absorb losses. It is a non-risk-based capital requirement that measures the ratio of a banking organization's capital (tier 1 capital) to its total leverage (borrowing) exposure. It evaluates all assets equally and limits the amount a banking organization can borrow.

Banks that have more capital are less leveraged and are thus more resilient and banks that have less capital are more leveraged, riskier, and more likely to fail. Leverage ratios are the strongest predictor of bank financial distress and leverage ratios substantially outperform the predictivity of other metrics, including risk-weighted capital, which has no meaningful relationship with bank failure.[21]

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17 90 Fed. Reg. 130 at 30780.
18 Gruenberg (2018).
19 90 Fed. Reg. 130 at note 17 at 30783.
20 Admati (2016) at R4.
21 *See* Estrella, Arturo, Sangkyun Park and Stavros Peristiani. Federal Reserve Bank of New York. "Capital Ratios as Predictors of Bank Failure." *Economic Policy Review*. Vol. 6, No. 2. July 2000; International Monetary Fund (IMF). Global Financial Stability Report. Chapter 3: Detecting Systemic Risk. April 2009; Detragiache, Enrica, Asli Demirguc-Kunt, and Ouarda Merrouche. IMF. "Bank Capital: Lessons from the Financial Crisis." IMF Working Paper No. 10/286.

The supplementary leverage ratio creates micro-prudential safety and soundness benefits for institutions, reduce the likelihood of propagating shocks between institutions, and lower the costs from externalities like fire sales from failed banks. Since the leverage ratio is the more robust capital standard, weakening it is particularly dangerous to the resiliency of the biggest banks.

The proposal exacerbates the shortcomings of risk-weighted capital standards. Although the risk-based capital requirements have a certain logic that takes into account the riskiness of the assets, how and who determines the risk can be subject to underestimation and manipulation that can leave banks undercapitalized, fuel distress, and precipitate failure. The proposed rule acknowledges that "historical experience, however, has demonstrated that risk-based measures alone may be insufficient to support loss-absorbing capacity at banking organizations through economic cycles."[22]

Underestimating risk-weighting can be catastrophic. The risk-based capital levels seemed more than adequate on the eve of the financial crisis. But the risk-weighted capital measures vastly underestimated the economic turmoil among the largest banks in the 2008 financial crisis.[23] The Federal Reserve Bank of New York concluded that typical models did not predict the extreme outcomes necessary for the estimation and allocation of capital.[24] Mortgage-backed securities and derivatives were all considered to be extremely low risk, which meant banks had lower capital requirements for these soon to implode assets. Wachovia was considered well-capitalized until it was on the brink of collapse, but its capital levels even after raising additional capital were far from sufficient to absorb losses from its mortgage and derivatives losses.[25]

The proposed rule inappropriately lowers the supplementary leverage ratio, reducing the amount of capital and increasing the amount of leverage, and recalibrates the supplementary leverage ratio buffer to be related directly to a firm's GSIB surcharge, which is a risk-based metric. The proposal notes that the changes to the supplementary leverage ratio "would [make it] more aligned with risk."[26] The combination the changes effectively makes the risk-based capital requirements the binding capital requirement.[27]

Making risk-based capital standards the binding requirement would encourage banks to contort their capital determinations to fit the most favorable mix of capital requirements. This can create a kind of regulatory arbitrage where banks can justify the lowest level of capital possible. Risk weighted

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December 2010; Cole, Rebel and Lawrence White. "Déjà vu All Over Again: The Causes of U.S. Commercial Bank Failures This Time Around." *Journal of Financial Services Research*. Vol. 42, Iss. 2012; Blundell-Wignall, Adrian and Caroline Roulet. Organization for Economic Cooperation and Development. "Business models of banks, leverage and the distance-to-default." *OECD Journal: Financial Market Trends*. Vol. 2012, Iss. 2. 2013; Berger, Allen N., and Christa H.S. Bouwman. "How Does Capital Affect Bank Performance During Financial Crises?" *Journal of Financial Economics*. Vol. 109, Iss. 1. July 2013; Mayes, David G. and Hanno Stremmel. "The Effectiveness of Capital Adequacy Measures in Predicting Bank Distress." SUERF Study No. 2014/1. 2014; Grill, Michael, Jan Hannes Lang and Jonathan Smith. European Central Bank. "The Leverage Ratio, Risk-Taking and Bank Stability." ECB Working Paper No. 2079. June 2017; Jing, Zhongbo and Yi Fang. "Predicting U.S. bank failures: A comparison of logit and data mining models." Journal of Forecasting. 2018.

[22] 90 Fed. Reg. 130 at 30783.

[23] Jordà, Òscar et al. Federal Reserve Bank of San Francisco. "Bank Capital Redux: Solvency, Liquidity, and Crisis." June 2017.

[24] Federal Reserve Bank of New York. Senior Supervisors Group. "Risk Management Lessons from the Global Banking Crisis of 2008." October 21, 2009.

[25] Financial Crisis Inquiry Commission. "The Financial Crisis Inquiry Report." January 2011 at 304 to 305.

[26] 90 Fed. Reg. 130 at 30785.

[27] *Ibid.* at note 96 at 30803.

capital standards can be manipulated by banks' modeling and gamed through asset rebalancing. Banks will have incentives to adjust activities to minimize surcharges and lower their effective leverage floors. The proposed framework gives GSIB depository institutions more than $200 billion in capital headroom before the supplementary leverage ratio becomes binding. That is not a safeguard; it is an invitation to load up on leverage.

The combination of changes weakens the purpose of the supplementary leverage ratio to be a risk-neutral constraint on leverage. It repeatedly states that the intention was to convert the supplementary ratio into "a backstop to risk-based capital requirements rather than as a constraint."[28] This amplifies the danger from underestimating risks that are inherent in risk-weighted capital requirements by doubling up the risk-weighting in both the supplementary leverage ratio and the risk-based capital standards.

The proposal increases the likelihood of bank failures and financial crises with widespread costs

The benefits of the proposal accrue primarily to the private interests of the largest banking organizations, but the risks and the costs of the proposal are the reduced resilience of the financial system that would make financial crises more likely and more severe. Avoiding these costs through robust capital standards generate very significant public benefits. Foundering banks — especially large banks like the GSIBs — can create contagions that spread throughout the financial system. And economic shocks driven by financial crises are longer, deeper, and more painful than other economic downturns.

Reducing the supplemental leverage ratio allows banking organizations to increase their total leverage, which increases the aggregate risk and likelihood of distress and failure. The proposal notes that the "proposal would create room for the GSIBs to increase any asset holdings, not only the ones with low risk weights."[29] The proposal acknowledges that by reducing the supplemental leverage ratio, GSIBs could "increase their leverage by increasing the share of debt financing on their balance sheets."[30] It contends that although GSIBs could increase their total leverage, making them riskier because they would be more vulnerable to economic and asset value shocks, it presumes that banking organizations will "grow by adding low-risk assets" which would mitigate these risks.[31] The proposal would allow GSIB subsidiary insured depository institutions to take on even more leverage, which the proposal admits could lead to failures:

> The proposal may increase costs in the event of failure. All else equal, a reduction in required capital increases the size and likelihood of losses shifting from shareholders to creditors and the Deposit Insurance Fund in the event of failure. Such losses may lead to additional spillovers and costs.[32]

[28] This phrase with minor alterations is in the proposed rule nine times at [90 Fed. Reg. 130] at 30780, 30782, 30874, 30875, 30876, 30791, 30794, 30807, and 30810.
[29] [90 Fed. Reg. 130] at note 96 at 30803.
[30] *Ibid.* at 30803.
[31] *Ibid.* at 30803.
[32] *Ibid.* at 30804

The "additional spillovers and costs" include financial crises. A 2020 study by Stanford and UCLA economists that looked at recessionary periods over the past 150 years found that "recessions in the aftermath of financial crises are severe and protracted" and "longer and deeper than the recessions surrounding non-financial crises."[33] The 2008 financial crisis was driven in large part by financial institutions amassing tremendous leverage ratios with what the Financial Crisis Inquiry Commission called "extraordinarily thin capital."[34]

The costs of the financial crisis were severe and protracted. The financial companies reaped enormous profits in the lead up to the financial crisis and bounced back faster from the 2008 crisis than millions of households that lost their life savings, their homes, and their jobs. U.S. families generally did not share in the upside of financial deregulation, but they paid a dear price for the downside. The financial crisis robbed millions of Americans of their wealth and homeownership, with particularly devastating impacts on people and communities of color.[35] The large bank failures and financial sector free-fall during and after the 2008 crisis set back the U.S. economy for years, cost millions of jobs, suppressed household earnings for years, erased retirement and household savings, and destroyed homeownership for millions of families. The stock market lost half its value and total household wealth fell by $17 trillion by 2011.[36]

Banking regulators must not exclude Treasury trading activities from the supplemental leverage ratio

The proposal inappropriately considers the exclusion Treasury securities trading activities from the supplementary leverage ratio, which would substantially undermine the effectiveness of the supplementary leverage ratio's transparent measurement of banking organizations' risk-neutral leverage. The proposed rule suggests excluding held-for-trading Treasury securities of a GSIB's broker-dealer subsidiaries from the denominator of the supplementary leverage ratio with the intended goal to increase GSIB's role in Treasury intermediation. The proposal suggests — without any credible evidence — that a binding leverage capital requirement would disincentivize GSIBs from intermediating the Treasury market.[37]

The proposal to exclude Treasury trading from the supplementary leverage ratio would further exacerbate the problem of commingling the risk-neutral leverage ratio with risk-weighted capital standards (discussed above). The exclusion of Treasury securities trading (or other presumably low-risk assets) undermines the proper function of a leverage ratio, which is to create a hard cap on total bank leverage. Moreover, the proposal presumes that Treasury securities are low-risk assets for banks. While these assets generally may pose lower risks, they can pose significant risks (such as

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33 Krishnamurthy, Arvind and Tyler Muir. National Bureau of Economic Research. "How Credit Cycles across a Financial Crisis." Working Paper No. 23850. September 2020.
34 Financial Crisis Inquiry Commission (2011) at ix.
35 Bayer, Patrick, Fernando Ferreira, and Stephen L. Ross. "What Drives Racial and ethnic Differences in High-Cost Mortgages? The Role of High-Risk Lenders." Review of Financial Studies. Vol. 31, Iss. 1. January 2018 at 175 to 205.
36 Financial Crisis Inquiry Commission. "The Financial Crisis Inquiry Report." January 2011 at xviii; Emmons, William R. and Bryan J. Noeth. Federal Reserve Bank of St. Louis. "Household financial stability: Who suffered most from the crisis." July 1, 2012; Greenstone, Michael et al. Brookings Institution. "Unemployment and Earnings Losses: A Look at Long-Term Impacts of the Great Recession on American Workers." November 4, 2011; Adejumo, Vincent. "African Americans' economic setbacks from the Great Recession are ongoing — and could be repeated." *The Conversation*. February 5, 2019.
37 90 Fed. Reg. 130 at 30783.

interest rate and illiquidity risks) that demonstrate some of the problems with underestimating risks in capital standards and can imperil the stability of banks. Silicon Valley Bank's failure was precipitated by a $1.8 billion after-tax loss from the sale of Treasury securities to cover demands from exiting depositors.[38]

Moreover, there is no evidence that the supplementary leverage ratio is constraining Treasury market intermediation. The Federal Reserve sets the interest rates that affect Treasury securities prices totally independently of bank capital levels. The demand for Treasury securities is driven far more by macroeconomic factors including the value of the U.S. dollar, the perception of the U.S. economy as a safe haven from market instability, confidence in the independence of U.S. financial regulators, and other factors that have nothing to do with GSIB Treasury intermediation.

The GSIB subsidiary trading firms that perform Treasury intermediation are a modest contributor to the Treasury market and are unconstrained by the supplementary leverage ratio. The supplementary leverage ratio was temporarily relaxed during the pandemic, but there was no evidence of improved Treasury intermediation. When Treasury securities were temporarily excluded from the supplemental leverage between April 2020 and March 2021, it had little impact on market functioning. A Federal Reserve analysis found that the GSIB dealer subsidiaries' Treasury market making activities were modest, had a modest impact on the banking organizations' total leverage exposure, and, critically, "did not change significantly during the exemption period or after its expiration."[39] Weakening bank resilience in the name of market-making capacity is a dangerous misdiagnosis.

The proposal would divert capital distributions from banking business to shareholders and executives

The real effect—and likely the true intent—of this proposal is to allow increased capital distributions to shareholders and executives through stock buybacks and dividends. History shows that when banks are given capital relief, they use it to boost payouts and engage in riskier activities, not to increase productive lending. Stock buybacks are when a company purchases its own shares, resulting in fewer outstanding shares and an artificially higher share price. These capital distributions divert capital from investing in workers, innovation, or productive capacity to instead increase executive compensation and bolster market valuations. stock buybacks are associated with wage stagnation and layoffs, investment slowdowns, and reduced innovation.[40]

When banks make capital distributions to shareholders and executives, they are shifting equity capital that should be dedicated to strengthening the institution, absorbing potential losses, and averting distress to reward investors. The GSIBs are already diverting equity capital to Wall Street investors. For example, following the Federal Reserve's 2025 stress tests, large banks announced significant shareholder payouts. Goldman Sachs increased dividends by 33 percent and JPMorgan

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[38] Vanek Smith, Stacey. "Bank fail: How rising interest rates paved the way for Silicon Valley Bank's collapse." *NPR*. March 19, 2023; Steele, Graham. Assistant Secretary for Financial Institutions. Department of the Treasury. Remarks at the Americans for Financial Reform Education Fund. July 25, 2023.

[39] Authors find that: "Overall, our inspection during the temporary exclusions of Treasury securities and reserves from TLE between April 2020 and March 2021 does not show a noticeable effect on the big six dealers' Treasury intermediation, including direct holdings of Treasuries and SFTs backed by Treasuries." Cochran et. al. (2023).

[40] Palladino, Lenore. "Financialization at work: Shareholder primacy and stagnant wages in the United States." *Competition & Change*. Vol. 25, Iss. 3-4. June 22, 2020; Lazonick, William. Brookings Institute. "Stock Buybacks: From Retain-and-Reinvest to Downsize-and-Distribute." April 17, 2015.

authorized a $50 billion share repurchase program and increased its quarterly dividend to 7 percent.[41] Other big banks like Bank of America, Wells Fargo, Morgan Stanley, and also announced dividend hikes and reauthorized buybacks.[42]

This proposal would make it easier for GSIBs to make these equity capital distributions to investors and executives by lowering the supplemental leverage ratio and by eliminating the supplemental leverage category of well capitalized from the corrective action framework. The proposal admits that it would give "GSIBs greater discretion to determine the optimal allocation of capital within the consolidated organization," which really means share buybacks, dividend payouts, and executive compensation.[43] The proposal specifically concedes that "GSIBs could also distribute some of their equity capital to external shareholders and replace it with new debt."[44] The benefits of reducing capital requirements accrue narrowly to this small number of shareholders and executives but expose the financial system, the economy, and the public to increased risks and heightened severity of financial crises.

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Americans for Financial Reform Education Fund urges the Federal Reserve, Office of the Comptroller of the Currency, and the FDIC to withdraw the ill-considered proposal to substantially weaken the supplementary leverage ratio for the 8 biggest banking organization. The dangers of deregulation are not theoretical. In 2023, the United States experienced the second, third, and fourth largest bank failures in history — Silicon Valley Bank, Signature Bank, and First Republic.[45] Each institution had benefited from regulatory tailoring, which relieved them from more stringent capital, liquidity, stress testing, and resolution planning requirements.[46] These failures cost billions of dollars in public backstops and underscored that "tailored" capital relief creates fragility.

Weakening the supplemental leverage ratio now risks repeating those mistakes on an even larger scale that would increase the likelihood and severity of financial crises that could upend the economic fortunes of millions of families. The supplementary leverage ratio was appropriately designed as a straightforward and effective protection against the very dangers of excessive leverage and risk-weighting model manipulation that fueled the 2008 crisis.

It is especially inappropriate to severely undermine the supplementary leverage ratio, which is the most robust of the capital standards, without considering how the recalibration will interact with the other, widespread deregulatory efforts already underway and being considered. The post-crisis reforms have made the financial system more durable and resilient despite repeated efforts by industry to weaken the commonsense guardrails that have reduced the likelihood of another financial crisis. Weakening the supplementary leverage ratio while the Basel III risk-weighted capital

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41 Quinio, Akila and Joshua Franklin. "US banks announce big shareholder payouts as Fed eases stress tests." *Financial Times*. July 1, 2025; Hamilton, Katherine. "JPMorgan Chase upgrades dividend, approves $50 billion buyback after stress test." *Dow Jones*. July 1, 2025.
42 Anand, Nupur and Niket Nishant. "Biggest US banks hike dividends, announce share buybacks after stress tests." *Reuters*. July 1, 2025.
43 90 Fed. Reg. 130 at 30785.
44 *Ibid.* at 30803.
45 Stewart, Jackie. "Hall of shame: 10 biggest bank failures." *American Banker*. April 26, 2023.
46 Steele, Graham. "Regulatory Overreach: The Price Tag on American Prosperity." Before the Subcommittee on Financial Institutions Committee on Financial Services. U.S. House of Representatives. April 29 2025.

standards have been stalled, the stress tests have been weakened, and supervisory staff have been cut will amplify the risks of substantially weakening the supplementary leverage ratio is unjustified and reckless. A resilient financial system depends on strong capital standards that put financial stability and the resiliency of the real economy above the interests of Wall Street banks and their investors.

Thank you for your consideration.

Americans for Financial Reform Education Fund