Federal Banking Agencies Propose Reduction in "Enhanced Supplementary Leverage Ratio" Requirements for US GSIBs and Corresponding Reductions in TLAC and LTD Requirements

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On June 27, 2025, the three federal banking agencies released a notice of proposed rulemaking (NPR) that would "reduce the calibration" of the minimum enhanced supplementary leverage ratio (eSLR) requirement that applies to US GSIBs and their bank (insured depository institution) subsidiaries. The NPR is available here.

The NPR

US GSIBs and their bank subsidiaries are the only companies subject to eSLR requirements.[1] The proposal does not affect any leverage requirement that applies to any bank or bank holding company other than a US GSIB or US GSIB subsidiary bank.

Separately, the proposal would make corresponding reductions in the leverage based (and not the risk weighted assets based) US GSIB total loss-absorbing capacity (TLAC) and long-term debt (LTD) requirements. The leverage based TLAC and LTD requirements are tied to the same BHC "total leverage exposure" as the SLR and eSLR, but they only apply to US GSIBs (*i.e.,* the BHCs), not to a US GSIB's subsidiary banks.

The proposal also requests comment on whether treasury securities held in the trading account of a broker-dealer BHC subsidiary that is not a bank subsidiary should be excluded from the SLR denominator of "total leverage exposure." This potential change would affect all advanced approaches banks and bank holding companies (including all Category I–III BHCs), because those BHCs and their depository institution subsidiaries are subject to the basic SLR requirement. The potential change would not affect a subsidiary bank's SLR denominator, because the potential exclusion would only apply to treasuries held in the trading accounts of broker-dealer subsidiaries that are not bank subsidiaries.

Questions and Answers about the NPR

Why are the agencies issuing this proposal?

Since the agencies introduced the Basel "risk-based capital" framework in 1989, they have retained separate leverage restrictions as a "backstop" to the risk-based capital requirements that establish minimum capital to "risk weighted assets" ratios. The separate leverage tests impose minimum capital to total (non-risk weighted) assets (either solely balance sheet assets or balance sheet assets and certain off-balance sheet exposures).

The agencies state in their proposal that it is important the risk-based capital standard generally be the "binding"[2] capital requirement for BHCs and banks rather than a "leverage requirement" that weighs all assets equally, because a bank or BHC constrained by a leverage requirement rather than a risk-based capital requirement could be incentivized to hold higher risk assets than it would otherwise choose. In particular, the agencies emphasize that a binding leverage restriction could discourage banks and BHCs from conducting low risk, low margin activities like Treasury market intermediation, which activities are usually only profitable if conducted in large volumes.[3]

The agencies state in their proposal that, since the second quarter of 2021 through the end of 2024, the eSLR has been the binding tier 1 capital requirement 60% of the time for seven of the eight US GSIBs and 87% of the time for bank subsidiaries of all eight US GSIBs. The agencies, therefore, justify their proposal to "recalibrate" the eSL buffer standard for GSIBs"[4] as a means to "reduce the likelihood of the eSLR standards being the binding regulatory capital constraint for GSIBs and their depository institution subsidiaries."[5]

The agencies justify the identical "recalibration" for the leverage components of the TLAC and LTD on the same reasoning that the leverage component of those requirements should be a "backstop" rather than the generally binding capital requirement under those minimum tier 1 capital ratios.

What is the eSLR requirement?

The eSLR requirement is a tier 1 capital "buffer" requirement for US GSIBs and their bank subsidiaries that must be maintained by the US GSIB (BHC) to avoid limitations on dividends, other capital distributions, and certain discretionary bonus payments (payouts) and must be maintained by a bank subsidiary to be classified as "well capitalized" under the prompt corrective action (PCA) framework.

The required tier 1 capital buffer is in addition to the SLR requirement that an "advanced approaches" BHC (including all Category I-III BHCs) and its bank subsidiaries maintain tier 1 capital equal to at least 3% of "total leverage exposure" (TLE) (which includes the amount of all on-balance sheet assets and specified exposure amounts for certain off-balance sheet exposures).

Currently, the eSLR requires US GSIBs to maintain a 2% tier 1 capital buffer above the SLR 3% requirement and US GSIB bank subsidiaries to maintain a 3% tier 1 capital buffer above the 3% SLR requirement.

US GSIBs, therefore, are required to maintain a 5% ratio of tier 1 capital to TLE to avoid limitations on payouts, and US GSIB bank subsidiaries are required to maintain a 6% ratio of tier 1 capital to TLE to remain "well capitalized."

What change to the eSLR requirements do the agencies propose?

The proposal would change the eSLR tier 1 capital buffer requirement to one-half of the US GSIB's "method 1 surcharge" calculated under the Federal Reserve's risk-based capital surcharge framework. That "method 1 surcharge" generally produces a lower surcharge than "method 2."[6] Although the US GSIB's risk-based capital surcharge is the higher of the method 1 and method 2 computations, the agencies propose to use only method 1 to establish the eSLR tier 1 capital buffer requirement for US GSIBs.

The proposal would assign the same capital buffer requirement to US GSIB bank subsidiaries. This would eliminate the extra 1% tier 1 capital buffer requirement that currently applies to those banks. In addition, the proposal would make the bank eSLR requirement consistent with the US GSIB requirement by eliminating the PCA effect from a failure to maintain the capital buffer and replacing it with the same limitation on payouts that applies to the US GSIB. Thus, a bank would not be required to maintain the buffer to remain "well capitalized' under the PCA framework.

Based upon the current "method 1 surcharge" for each US GSIB (which range from 1-2.5%[7]), if the proposal is adopted, the new eSLR ratio requirements would range from 3.5% to 4.25% for both US GSIBs and their bank subsidiaries compared to the current uniform 5% ratio requirement for US GSIBs and 6% for their bank subsidiaries.

What are the expected reductions in required tier 1 capital amounts for US GSIBs and their bank subsidiaries that would result if this proposal is adopted?

Based on data from 2021 through the end of 2024, the agencies estimate that the tier 1 capital requirement for US GSIBs would only reduce by $13 billion, because US GSIBs are subject to the special US GSIB "surcharge" in their tier 1 capital to risk weighted assets capital requirement, which would generally become their "binding" tier 1 capital requirement.[8] Based on data from that same period, the agencies estimate that the tier 1 capital requirements for US GSIB bank subsidiaries would decline by $213 billion, because those bank subsidiaries are not subject to the same tier 1 capital surcharge for their risk based capital requirement.[9]

The agencies state that they are not concerned by this significant reduction in the amount of tier 1 capital required for US GSIB bank subsidiaries, because the much smaller reduction in required US GSIB (*i.e.*, BHC) tier 1 capital will retain roughly the same restrictions on payouts by US GSIBs. The agencies state that reductions in subsidiary bank tier 1 capital requirements will, therefore, only permit US GSIBs to reallocate tier 1 capital among different subsidiaries.[10]

Are the proposed eSLR reductions the same as reductions the Federal Reserve and OCC proposed in 2018, but never enacted?

No. Although the 2018 proposal also would have changed the eSLR tier 1 capital requirement for a US GSIB to 3% plus one-half of the US GSIB's tier 1 risk-based capital "surcharge," the proposal would have used the higher of the "method 1" and "method 2" surcharges.

The agencies state that the 2018 proposal "would not achieve the goal of making the supplementary leverage ratio requirement a backstop for US GSIBs because, based on 2021-24 data, the tier 1 capital requirement it would produce "would exceed the risk-based tier 1 capital requirement for some GSIBs."[11] On the other hand, that data reviewed by the agencies indicate that the new proposal would "meaningfully reduce the supplementary leverage ratio requirement relative to the risk-based tier 1 capital requirement for GSIBs and their depository institution subsidiaries."[12]

The agencies also noted that the Basel framework uses method 1 to compute a GSIB's "risk-based capital surcharge," so that the agencies' use of that method would be consistent with the Basel framework.[13]

What are TLAC and LTD requirements?

Like the eSLR, the total loss absorbing capital (TLAC) and long-term debt (LTD) requirements only apply to US GSIBs, and they only apply to the actual US GSIB (the BHC) not its bank subsidiaries. Both require a GSIB to maintain a ratio of capital or long-term debt equal to a percentage of both risk-weighted assets and total leverage exposure.

The basic TLAC requirement is that a US GSIB maintain a ratio of "total loss absorbing capital" (TLAC) equal to at least 18% of risk-weighted assets and at least 7.5% of total leverage exposure. Separately, a US GSIB is required to maintain a "buffer" of at least 2% of CET 1 capital for its risk-based capital TLAC test and of tier 1 capital for its leverage test to avoid restrictions on pay outs.

The LTD test requires that a US GSIB maintain a ratio of "long term debt" (LTD) equal to at least the sum of 6% plus the US GSIB's risk-based capital surcharge to risk weighted assets and at least 4.5% to total leverage exposure. The agencies explain that this 4.5% requirement includes the same 2% buffer requirement as the eSLR and LTD tests, because 4.5% derives from the 3% SLR requirement, minus "a balance sheet depletion allowance of 0.5 percent,"[14] plus the uniform 2% buffer.

Thus, for the current leverage TLAC and LTD ratio requirements, the current eSLR 2% capital buffer requirement also applies.

How would the proposal change the TLAC and LTD requirements?

As with the proposed eSLR changes, the proposed changes to the TLAC and LTD requirements would apply only to the total leverage exposure component of the TLAC and LTD requirements.

For both the TLAC and the LTD requirements, as for the eSLR requirement, the uniform 2% buffer would be replaced for each US GSIB by a buffer equal to one-half of the US GSIB's tier 1 risk-based capital surcharge calculated under method 1.

Because the method 1 surcharges for US GSIBs range from 1% to 2.5%, the current 2% TLAC and LTD capital buffers would be reduced to between 0.50 and 1.25%.

The proposed TLAC leverage ratio requirements would, therefore, range from 8.00% to 8.75% for the US GSIBs in contrast to the current uniform 9.5% requirement. The proposed LTD leverage ratio requirements would range from 3.00% to 3.75% for the US GSIBs in contrast to the current uniform 4.5% requirement.[15]

By how much would the proposal reduce a US GSIB's TLAC and LTD requirements?

Based on US GSIB reporting for 2024, the agencies compute that the proposed changes would have reduced aggregate US GSIB TLAC requirements by $90 billion (or 5%) and aggregate US GSIB LTD requirements by $132 billion (or 16%).[16]

The agencies also state that the leverage-based requirement is currently higher than the risk-based requirement for three of the eight US GSIBs and that the leverage-based LTD requirement is currently higher than the risk-based requirement for all eight US GSIBs.[17]

Why do the agencies request comment on eliminating trading account treasuries from the SLR denominator's total leverage exposure amount only for BHC broker-dealer subsidiaries that are not bank subsidiaries?

The agencies do not explain this directly. The US GSIB broker-dealer subsidiaries currently active in the treasuries markets are BHC, not bank, subsidiaries. The agencies state that this potential "narrow exclusion approach would focus on the legal entities and balance sheet exposures directly involved in making markets in US Treasury securities."[18]

Unlike the NPR's rule change proposals, this potential change, which would need to be proposed through a separate notice of proposed rulemaking, would apply to all Category I-III BHCs. All such BHCs, not only US GSIBs, are subject to the SLR requirement to maintain a 3% ratio of tier 1 capital to total leverage exposure.

When must comments on the NPR be submitted?

The NPR states that comments must be submitted by 60 days after the June 27, 2025, press release of the proposal (which would be August 26, 2025).[19]

For More Information

If you would like further information concerning the matters discussed in this article, please contact the Chapman attorney with whom you regularly work.

1 The OCC eSLR requirements currently apply to all BHCs with more than $700 billion in consolidated assets and their bank subsidiaries, because the OCC rule was enacted before the US GSIB framework was established. In practice, this asset threshold is met only by US GSIBs currently. Nevertheless, the OCC proposes in the NPR to revise its eSLR requirement to conform to the Federal Reserve and FDIC rules to apply the eSLR only to US GSIBs and their depository institution subsidiaries. Pages 43-44 of NPR.

2 NPR Page 10: "'binding tier 1 capital requirement' refers to the highest of all tier 1 capital requirements, inclusive of the capital buffer framework and the prompt corrective action framework, expressed in dollar terms."

3 NPR Pages 46-47: "the marginal effect of a binding leverage ratio requirement makes the banking organization prefer higher-risk activities to low-risk activities because both activities need to be financed by the same amount of tier 1 capital under the supplementary leverage ratio requirement, while higher-risk activities typically have higher expected returns. This marginal effect could incentivize the banking organization to forgo investments in low-risk activities or, in the extreme, substitute its existing low-risk exposures with higher-risk ones. Such unintended incentives are further amplified by the fact that low-risk activities tend to be balance sheet intensive because their typically low expected returns make them profitable only if they are conducted in large volumes."

4 NPR Page 20.

5 NPR Page 20.

6 On NPR page 21, the agencies state: "The first method (method 1) is based on five categories that are correlated with systemic importance—size, interconnectedness, cross-jurisdictional activities, 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."

7 NPR Page 90.

8 NPR Pages 66- 67.

9 NPR Pages 66-68.

10 NPR Page 22.

11 NPR Page 66.

12 NPR Page 64. This reference to the supplementary leverage ratio requirement is a reference to the higher (eSLR) requirement that only applies to US GSIBs and their bank subsidiaries. Specifically, the agencies state "the proposal would set the level of the supplementary leverage ratio requirement below the level of the risk-based tier 1 capital requirement for all US GSIBs, thereby making the supplementary leverage ratio a backstop for all holding companies…Furthermore, the proposal would set the level of the supplementary leverage ratio requirement below the level of the risk-based tier 1 capital requirement for 6 out of the 9 major depository institution subsidiaries of GSIBs."

13 NPR Page 25.

14 NPR Page 41.

15 NPR Page 90.

16 NPR Page 91.

17 NPR page 89.

18 NPR Page 30.

19 NPR Page 2.