# Statement by Martin J. Gruenberg, Member, FDIC Board of Directors; on the Interim Final Rule: Temporary Exclusion of U.S. Treasury Securities and Deposits at Federal Reserve Banks from the Supplementary Leverage Ratio

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**Introduction**

This Interim Final Rule (IFR) before the FDIC Board would temporarily reduce the supplementary leverage ratio capital requirement for the bank subsidiaries of the eight U.S. global systemically important banks (GSIBs) by approximately $55 billion, or about 9 percent, through March 31, 2021.[1] Under the Interim Final Rule, the banks could elect this more lenient capital requirement beginning with the second quarter of 2020.

In addition, beginning with the third quarter of 2020, the Interim Final Rule would require an electing bank to obtain approval from its primary federal regulator for any capital distribution, including dividends and stock repurchases. However, based on the broad standards described in the rule, the primary regulator could allow banks to continue to make capital distributions which would further reduce their capital.[2] In 2019, the eight U.S. GSIBs paid more than $94 billion in dividends -- just over 90 percent of annual net income on average.[3]

Given the current severe downturn in the U.S. economy as a result of COVID-19, and the large credit losses U.S. banks may experience over the next twelve months, this is not the time to reduce significantly the leverage capital of the most systemically important banks in the United States. Instead, their loss absorbing capacity should be preserved, including by prohibiting capital distributions such as dividends and stock repurchases. For that reason, I will vote against this Interim Final Rule.

**Purpose of the Interim Final Rule**

The impetus for this Interim Final Rule is the growth on the balance sheets of banks of Treasury securities and deposits at Federal Reserve Banks. This has been the result of the inflow of customer deposits to banks in response to the crisis, the drawdown of credit lines by households and businesses, Federal Reserve open market operations to implement monetary policy and stabilize the financial system, and new Federal Reserve programs to support the flow of credit to the economy.[4]

Treasury securities and deposits at Federal Reserve Banks are included in the on-balance sheet assets of large banks subject to the supplementary leverage ratio. As a result, an increase in the volume of these assets on the banks' balance sheets may cause an increase in the regulatory capital needed to meet the banks' supplementary leverage ratio requirement. The concern is that this may, in turn, constrain the ability of the banks to own Treasury securities and support the

Federal Reserve's open market operations, to increase deposits at Federal Reserve Banks, to facilitate increases in customer deposits, and to provide loans and lines of credit to households and businesses.[5]

The Interim Final Rule is intended to loosen this constraint by allowing these banks the ability to exclude temporarily Treasury securities and deposits at Federal Reserve Banks from the supplementary leverage ratio through March 31, 2021.[6]

**Concerns with the Interim Final Rule**

There are several concerns raised by this Interim Final Rule.

Most importantly, now is not the time to reduce significantly the capital of the most systemically important U.S. banks in order to facilitate financial market liquidity. Both are essential to the stability of the financial system and the functioning of the economy. We learned the hard way during the 2008 financial crisis the importance of preserving loss absorbing leverage capital at systemically important banks. The capital of U.S. banks may look strong today, but that profile may change drastically over the next 12 months as credit losses mount. This is particularly true given the severity and scope of the current crisis involving extraordinary levels of economic contraction, business closures, job loss, and potential bankruptcies.

Further, while the Interim Final Rule authorizes the primary federal regulator of each bank to reject any capital distributions, this authority is discretionary and to be made on an institution-by-institution basis. As the preamble to the IFR states, "The requirement that a depository institution request approval for distributions is not intended to prohibit electing depository institutions from paying dividends in all cases."[7] It does not ensure uniform treatment and may actually raise market concerns if institutions are treated differently.

Finally, this rulemaking is overly broad in scope. The impact of the COVID-19 crisis on financial markets did not really begin until the latter part of the first quarter of this year. On that basis, no adjustment would be appropriate for assets on the balance sheets of banks before that time. Otherwise assets on bank balance sheets unrelated to the financial market stress caused by COVID-19 would be excluded from the supplementary leverage ratio and capital would be reduced gratuitously.

**Conclusion**

In the current severely stressed economic environment, the federal banking agencies should act to preserve -- not reduce -- the loss absorbing leverage capital of the eight U.S. global systemically important banks, including a simple prohibition on all capital distributions, to better enable them to weather the stress to come and support the economy.

For this reason, I will vote against this Interim Final Rule.

[1]Preamble to the Interim Final Rule: Regulatory Capital Rule: Temporary Exclusion of U.S. Treasury Securities and Deposits at Federal Reserve Banks from the Supplementary Leverage Ratio, adopted by the FDIC Board of Directors on May 14, 2020, at 14-15. The supplementary leverage ratio generally applies to depository institution holding companies, including their subsidiary insured banks, with at least $250 billion in total consolidated assets. The eight GSIBs –Bank of America, Bank of New York Mellon, Citigroup, Goldman Sachs, JPMorgan Chase, Morgan Stanley, State Street, and Wells Fargo -- are also subject to the enhanced supplementary leverage ratio. The IFR impacts the leverage capital of the GSIBs. Data sourced from quarterly Reports of Condition and Income through the 4th Quarter of 2019.

[2]Preamble to the IFR at 12-13.

[3]Data sourced from quarterly Reports of Condition and Income through the 4th Quarter of 2019.

[4]Preamble to the IFR at 9-10.

[5]Id. at 10-11.

[6]Id.

[7]Preamble to the IFR at 13.