The Numbers Don't Lie: eSLR Reform and the Effect on Bank Capital

Banks are subject to two kinds of capital requirements: **risk-based ratios**, which vary the required capital for a given asset with its risk; and **leverage ratios,** which require the same capital regardless of risk. The former, for example, requires a bank to hold less capital for a Treasury security than a subprime loan. **Importantly, banks must meet the higher of the two requirements (their binding maximum).**

Federal banking regulators recently proposed changes to the enhanced supplementary leverage ratio, which applies to the 8 GSIBs. Currently, these firms are subject to a minimum ratio of Tier 1 capital to total leverage exposure of 5% (3% SLR plus an additional 2% buffer). The proposal would recalibrate the requirement to equal 3% plus ½ of each institution's GSIB surcharge (Method 1). Some have asserted that this change would reduce bank capital by $210 billion, or 27%. **That suggestion is misleading** and deliberately mischaracterizes how bank capital requirements work.

Capital Requirements Today

$965.4 billion is the current risk-based capital requirement for the 8 U.S. GSIBs based on 2025-Q1 data (the most recent data available). **$922.9 billion** is the current leverage-based capital requirement. Banks must meet the higher of the two requirements (their binding maximum). Therefore, their total current capital requirements are **$972.5 billion.**

Firm	Tier 1 Risk-Based Req. ($ Billions)	eSLR (5%)	Higher Capital Req.	Capital Req.
J.P.Morgan	250.5	247.7	Risk- Based	250.5
Bank of America	208.7	193.0	Risk- Based	208.7
citi	158.1	151.7	Risk- Based	158.1
Wells Fargo	138.1	113.4	Risk- Based	138.1
Goldman Sachs	105.3	107.7	eSLR	107.7
Morgan Stanley	75.4	77.6	eSLR	77.6
BNY Mellon	16.9	18.0	eSLR	18.0
State Street	12.4	13.9	eSLR	13.9
Total	**$965.4 Billion**	**$922.9 Billion**	**Binding Constraint**	**$972.5 Billion**

Under the new eSLR proposal, the eSLR requirement would decline by almost $210 billion to $713.4 billion. However, remember that **banks must meet the higher of the two capital requirements**. As the proposal purposely provides relief, such that risk-based ratios are binding, this means the new capital requirement would be **$965.4 billion.**

Firm	Tier 1 Risk-Based Req. ($ Billions)	eSLR (Revised)	Higher Capital Req.	Capital Req. ($ Billions)
J.P.Morgan	250.5	210.5	Risk-Based	250.5
BANK OF AMERICA	208.7	144.7	Risk-Based	208.7
citi	158.1	121.3	Risk-Based	158.1
WELLS FARGO	138.1	79.4	Risk-Based	138.1
Goldman Sachs	105.3	80.8	Risk-Based	105.3
Morgan Stanley	75.4	54.3	Risk-Based	75.4
BNY MELLON	16.9	12.6	Risk-Based	16.9
STATE STREET	12.4	9.7	Risk-Based	12.4
Total	**$965.4 Billion**	**$713.4 Billion**	**Binding Constraint**	**$965.4 Billion**

Current Binding Requirement **$972.5B** − New Binding Requirement **$965.4B**

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Difference: **$7.1 billion or -0.74%**

Why Subsidiary-Level Capital Changes Don't Mean Weaker Banks

Capital rules apply both to the parent bank holding company and the bank subsidiary. What matters most to financial stability is the capital position of the overall firm (aggregate capital for the holding company). Even if the bank subsidiaries see lower leverage ratio requirements, they also continue to be subject to their risk-based requirements and in any event cannot release that capital to shareholders of the parent, because the parent company still must meet the higher risk-based standard. The parent holding company is also subject to other requirements to support its bank subsidiaries.

Analogy: The Family Hiking Trip

Imagine a family of three going for a hike. To carry everything they need, each family member is given a backpack with 10 pounds of gear. The goal is for the family to carry a total of 30 pounds, no more, no less. Now, suppose the kid gets tired. So, the parents say, "Okay, you only have to carry 5 pounds now." Does that mean the family only needs to bring 25 pounds? Of course not. The total weight still needs to be 30 pounds. So, what happens? The parent picks up the remaining 5 pounds and carries it in their own backpack.

The Bottom Line

- Capital requirements at the top still apply.
- The safety and soundness of the holding company aren't compromised.

Changes to the eSLR won't undermine financial stability, but it will enhance banks' ability to intermediate Treasury markets. To learn more about what's at stake and additional steps that regulators could take to address mounting challenges to Treasury market liquidity, click here.