

# United States Senate

WASHINGTON, DC 20510

July 15, 2022

The Honorable Jerome Powell  
Chair  
Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue NW  
Washington, DC 20551

Dear Chair Powell:

We are writing to urge the Federal Reserve Board to consider permanent modifications to the Supplementary Leverage Ratio (SLR), through notice and comment. Modifications to the SLR are necessary to make sure it functions as an appropriate backstop as opposed to a constraint on banks' abilities to provide credit to businesses and households.

As you know, capital and liquidity levels at our largest, most systemically-important banks have remained at multi-decade highs. You have noted these high levels of capital and liquidity at each of your semi-annual appearances before the Senate Banking Committee in the last year. Furthermore, the Federal Reserve wrote in its most recent Supervision and Regulation Report released on May 6, 2022 that "the banking system remains strong overall, with robust capital and liquidity and improved asset quality." And there is consensus among regulators – Treasury Secretary Janet Yellen agreed with the Federal Reserve's assessment in her latest appearance before the Senate.

Commercial banks across the country experienced unprecedented deposit growth and lower demand for loans since the onset of the pandemic. The combination of relief efforts, shifts in spending by consumers and businesses and the search for profitability in a low-interest-rate environment has led to significant changes in bank balance sheets. Specifically, banks have had fewer options for deploying cash. Before the Federal Reserve recently changed course, quantitative easing also contributed to deposits flooding the banking system.

Higher reserves and balance sheet growth associated with the government's support for the economy during the pandemic have resulted in the SLR becoming a binding constraint or near-binding constraint on many supervised institutions. The risk-insensitive SLR was finalized in 2014 when the Treasury market was much smaller and there were lower levels of central bank reserves. Today, however, there are \$3.1 trillion in reserve balances and Treasury issuances have increased dramatically. The ballooning of these low-risk assets has caused the SLR to increase and exceed the risk-based capital requirements designed to primarily maintain adequate capital. Unlike risk-based capital requirements, the SLR is a blunt tool that does not take risk into account; therefore, from a regulatory perspective, a firm has less incentive to seek lower-risk assets.

As you know, in April 2020, the Federal Reserve took the important step of temporarily excluding U.S. Treasury securities and deposits at Federal Reserve banks from the calculation of the SLR. We want to thank you for recognizing that the constraints of the SLR on banks' ability to serve as intermediaries were having a negative impact on liquidity in the Treasury market – and posed a risk to these banks' ability to provide credit to consumers and businesses. Following the expiration of this modification in March 2021, you indicated that to make sure “that the SLR...remains effective in an environment of higher reserves, the Board will soon be inviting public comment on several potential SLR modifications.” We have yet to see details of these proposed modifications over a year later.

Governor Quarles, in his departing remarks on December 2, 2021 before the American Enterprise Institute, rightly pointed out that excessively high capital standards constrain the banking system from providing credit and ultimately cost jobs and living standards. We agree and urge the Federal Reserve to revisit the calibration of our leverage capital standards, as you indicated it intended to do.

Sincerely,



M. Michael Rounds  
United States Senator



Pat Toomey  
United States Senator



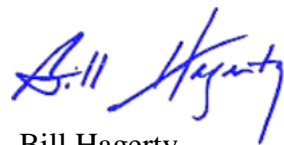
Mike Crapo  
United States Senator



Tim Scott  
United States Senator



Thom Tillis  
United States Senator



Bill Hagerty  
United States Senator



Cynthia M. Lummis  
United States Senator

CC:

The Honorable Michael Barr, Vice Chair for Supervision, Federal Reserve Board of Governors

The Honorable Lael Brainard, Vice Chair, Federal Reserve Board of Governors

The Honorable Michelle Bowman, Governor, Federal Reserve Board of Governors

The Honorable Christopher Waller, Governor, Federal Reserve Board of Governors

The Honorable Phillip Jefferson, Governor, Federal Reserve Board of Governors

The Honorable Lisa Cook, Governor, Federal Reserve Board of Governors