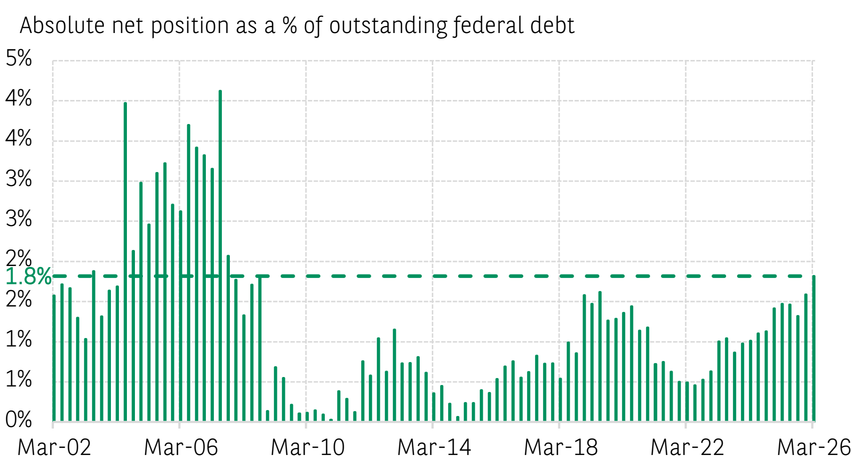
# THE US REGULATORY EASING OFFERS LIMITED SUPPORT TO THE TREASURIES MARKET

**Céline Choulet**

**Primary dealers' Treasury inventories reach their highest level since 2008**




SOURCE: FEDERAL RESERVE BANK OF NEW YORK, BNP PARIBAS

## A relaxation in regulations that supports Treasury market intermediation

Last year, the need to recalibrate the enhanced supplementary leverage ratio (eSLR) imposed on global systemically important banks (G-SIBs) rose to the top of American regulators' agenda[1]. The leverage constraint was on the verge of becoming more binding than risk-weighted capital requirements. It risked preventing – or even discouraging – major banks from fulfilling their role as intermediaries in the Treasury market, an undesirable situation in normal times and even more so during periods of stress. Under the new formula in effect[2], the eSLR requirements for the eight US G-SIBs now range from 3.5% to 4.25% as of 1st January[3], compared to the previous uniform 5% requirement[4].

As regulators had hoped, this easing has improved intermediation conditions in the Treasury market. Amid heightened uncertainty driven by the Iran conflict, it has enabled major banks to absorb some of the Treasuries without buyers. This is evidenced by higher net positions among primary dealers – most of which are G-SIB subsidiaries – which reached 1.8% of outstanding federal debt in March and April, the highest level since the 2008 financial crisis. In conjunction with the Federal Reserve's Reserve Management Purchases and the Treasury's buyback programmes, the easing of leverage requirements has helped to preserve liquidity in the Treasury market and contributed to lower interest rates in the repurchase agreement markets.

## However the capacity to absorb federal debt is still limited

Conversely, the eSLR easing has not triggered the expected surge in demand for these securities. While G-SIBs' trading portfolios – hosting securities held by their broker-dealer subsidiaries – have expanded, their Treasury investment portfolios (held-to-maturity or available-for-sale) have remained virtually unchanged. Multiple constraints have thwarted the Secretary of the Treasury's hoped-for surge in demand, including the eSLR requirement itself. It is still binding, or near-binding, for major G-SIB depository subsidiaries. Yet, G-SIBs' Treasury investment portfolios are predominantly booked on the balance sheets of these subsidiaries. The proposed reform of G-SIB capital surcharges (still under consideration) may further support Treasury market liquidity, but it will not fully alleviate balance sheet constraints[5].

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1 A leverage ratio is a non-risk-weighted capital requirement designed to ensure that a bank's size – regardless of its risk profile – does not exceed a certain multiple of its capital. See Bensaidani, A. and Choulet, C. (2025), The US Treasuries Market, An Idol with Feet of Clay – Oiling the Wheels, EcoInsight, BNP Paribas.
2 The new eSLR requirement has been aligned with the Basel recommendation, set at 3% plus a buffer equal to 50% of the G-SIB surcharge calculated under the Financial Stability Board's method.
3 The effective date of the new eSLR rule was set for 1st April 2026, but banks were permitted to adopt it early as of 1st January 2026.
4 The buffer for their depository institution subsidiaries is capped at 1%, so their eSLR requirement cannot exceed 4% (down from the previous 6% requirement).
5 See Choulet C. (2026), *A drop of oil in the Treasuries market's gears*, forthcoming in EcoInsight.

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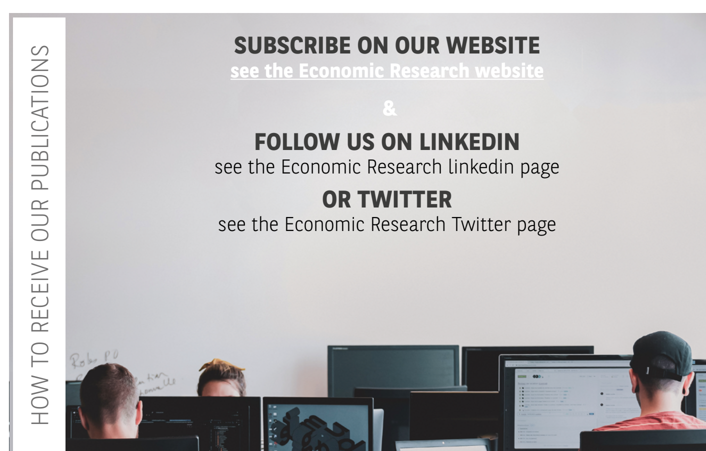



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