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UNITED STATES: A DROP OF OIL IN THE TREASURIES MARKET'S GEARS

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The US regulatory framework is becoming more favourable to intermediation conditions within the US Treasuries market. The easing of leverage requirements has enabled the largest banks, known as Global Systemically Important Banks, or G-SIBs, to fulfil their role as intermediaries during the first months of the year. The ongoing reassessment of the G-SIB capital surcharge calculation method could also benefit market liquidity. However, the capacity of large US banks to absorb federal debt is expected to remain limited.

THE LEVERAGE STANDARD ONCE AGAIN ACTS AS A BACKSTOP

In 2025, the need to recalibrate the enhanced Supplementary Leverage Ratio (eSLR) imposed on Global Systemically Important Banks (G-SIBs) became a priority for US regulators[1]. The constraints on balance sheets were, in fact, on the verge of becoming more binding than the risk-weighted capital requirements (*see box*). It risked preventing, or even discouraging, certain major banks from fulfilling their role as intermediaries in the Treasury market. This was an undesirable situation under normal circumstances and even more so during periods of stress.

Last November[2], the enhanced Supplementary Leverage Ratio (eSLR) requirement was aligned with the Basel recommendation, set at 3% plus a buffer equal to 50% of the G-SIB surcharge calculated according to the Financial Stability Board's Method, referred to as "Method 1" in the US regulatory framework[3]. The effective date of this new eSLR ru le was set for 1 April 2026 (the legal deadline). However, due to the introduction of a relaxation, banks were permitted to apply it early, starting on 1 January 2026. Under the new formula, the eSLR requirements for the eight largest US banks (the G-SIBs) now range from 3.5% to 4.25%, compared to the previous uniform requirement of 5%. The buffer imposed on their depository institution subsidiaries (in addition to the basic 3% requirement) has been capped at 1%, ensuring that their eSLR requirements cannot exceed 4%. This places them within a range of 3.5% to 4%, down from the previous uniform requirement of 6%.

The eSLR requirement for the eight GSIBs is now less binding than their riskweighted requirements (Chart 1, left-hand panel). In other words, the amount of Tier 1 capital needed to satisfy the eSLR is lower than that required by the riskweighted requirement. At the consolidated level, this allows every GSIB to increase its balance sheet in favour of riskfree assets without the need to raise additional Tier 1 capital. Consequently, the eSLR requirement is no longer considered "binding".

A MORE FLEXIBLE REGULATION IN FAVOUR OF TREASURY MARKET LIQUIDITY

The relaxed leverage requirements achieved the outcome regulators had hoped for: intermediation conditions in the Treasury market improved during the first months of the year. Against a backdrop of heightened uncertainty due to the Iran conflict, major banks were able to absorb a portion of Treasuries that had no buyers. This is reflected in the rising net positions of primary dealers, predominantly GSIB subsidiaries, which reached 1.8% of the outstanding federal debt in March and April, the highest level since the 2008 financial crisis (Chart 2).

Definitions of capital requirement

Banks are subject to various capital requirements; some rules are risk-weighted, while others are not.

The risk-weighted Tier 1 requirement compels banks to mobilise sufficient core capital based on the risks (credit, counterparty, market and operational risks) associated with their exposures. The Tier 1 capital ratio is the ratio of Tier 1 capital to risk-weighted assets.

Conversely, the leverage requirements are non-risk-weighted capital requirements. Their purpose is to ensure that a bank's assets or commitments, regardless of the risks associated with them, do not exceed a specific multiple of its capital. As a result, US Treasury securities, although considered «safe» assets with a zero risk-weighting for risk-weighted capital ratio calculations, are fully accounted for in the exposure calculations (the denominator of leverage ratios) just like any other asset, including those that are highly risky. A leverage ratio limits the size of bank balance sheets. Its calibration should enable it to function as an extreme limit (safety net) rather than a permanent constraint. Otherwise, it could become the decisive factor in portfolio choices, incentivising banks to favour riskier, more capital-intensive, yet more profitable assets.

All US banking institutions are subject to a simple leverage requirement (Leverage Ratio, LR), which compares Tier 1 capital to average on-balance sheet assets. The largest banks (those with consolidated assets exceeding USD 250 bn or with at least USD 75 bn in non-bank assets, short-term market debt, or off-balance-sheet exposures) and their depository institution subsidiaries are also subject to the Basel leverage rule (Supplementary Leverage Ratio, or SLR). This rule compares Tier 1 capital to leverage exposure, which includes all on-balance-sheet assets (in accordance with applicable accounting rules, excluding derivatives and securities financing transactions recorded at gross value) and a reduced measure of off-balance-sheet commitments. The SLR requirement for the eight G-SIBs is stricter and is referred to as the enhanced Supplementary Leverage Ratio (eSLR).

1 See The US Treasuries market, an idol with feet of clay: Oiling the wheels.
2 Federal Reserve Board - Agencies issue final rule to modify certain regulatory capital standards.
3 In the United States, the capital surcharge imposed on GSIBs is determined using two methods: the Financial Stability Board's approach ("Method 1") and the Federal Reserve's approach ("Method 2"). The more stringent of the two (typically Method 2) is used to set the overall riskweighted capital requirement. The outcome of Method 1 is now used to set the eSLR requirement.

The leverage ratio eSLR is once again acting as a backstop for the 8 G-SIBs | **... but remains binding for their major deposit-taking subsidiaries**

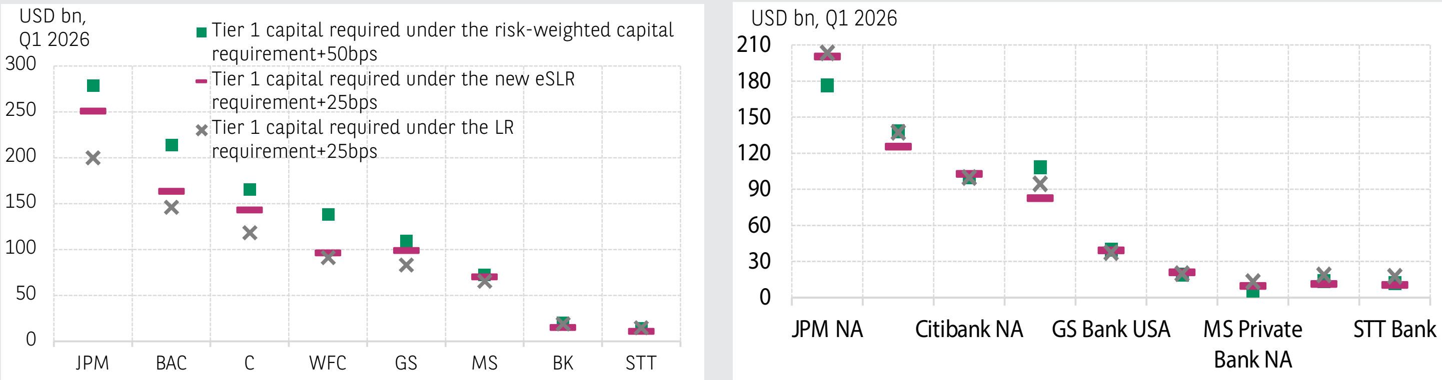


CHART 1

SOURCE: FINANCIAL REPORTS, S&P CAPITAL IQ, BNP PARIBAS

The chart shows the Tier 1 capital amounts required to meet various solvency benchmarks. Left-hand panel: for the eight G SIBs, the risk weighted Tier 1 requirement (plus a 50 basis point safety margin) is stricter than the leverage standards LR and eSLR (both plus a 25 basis point safety margin). The eSLR leverage standard is more binding than the LR leverage standard for six of the eight G SIBs. Right-hand panel: with the exception of Wells Fargo Bank NA, the major deposit-taking subsidiaries of the G SIBs are mainly constrained by leverage standards. The eSLR standard exceeds the risk weighted T1 requirement for four of the nine major subsidiaries and is practically equivalent for three others. The LR standard is more binding than the eSLR standard for six subsidiaries and slightly less binding for the remaining three.

Primary dealers' Treasury inventories reach their highest level since 2008

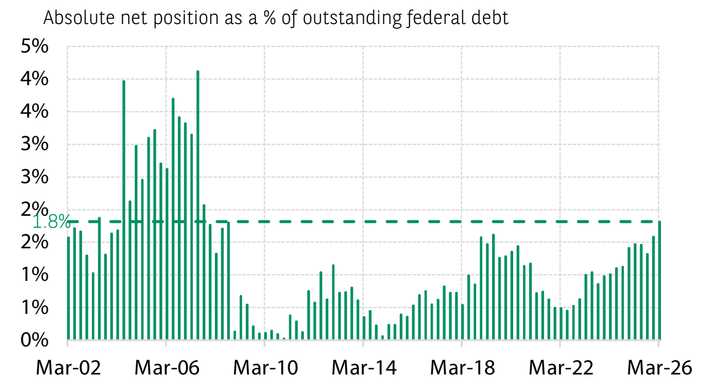
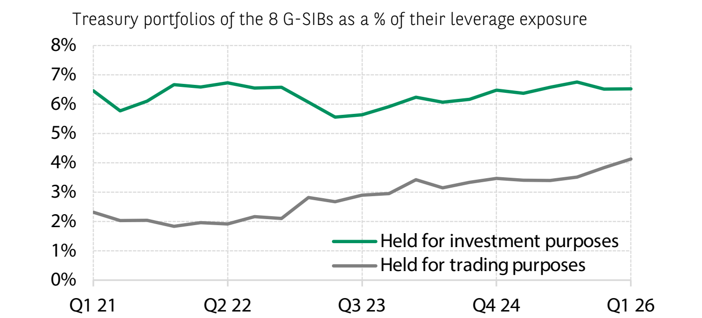


CHART 2

SOURCE: FEDERAL RESERVE BANK OF NEW YORK, BNP PARIBAS

The relaxation of the eSLR requirement has not sparked a significant increase in Treasury purchases



Leverage exposure is a proxy for a bank's total assets and commitments, used as the denominator in the Basel leverage ratio (SLR and eSLR in the US)

CHART 3

SOURCE: S&P CAPITAL IQ, BNP PARIBAS

This increase is particularly significant as, from midDecember to mid-April, the Federal Reserve (Fed) absorbed a substantial share of new Tbill issuance, contrasting with the periods of 2014–2019 and 2022–2025 when the Fed was reducing its holdings. With the Federal Reserve Management Purchases and Treasury buybacks programmes in place, the relaxation of the leverage standard helped preserve Treasury market liquidity and contributed to more favourable conditions in the repurchase agreement (repo) markets.

FEDERAL DEBT ABSORPTION CAPACITY REMAINS LIMITED

The relaxation of the eSLR requirement has not resulted in the anticipated increase in demand for these securities. Admittedly, GSIB trading portfolios, which contain positions booked by brokerdealer subsidiaries, have grown (averaging 4.13% of leverage exposure in Q1 2026, up from 3.54% in 2025), yet their Treasury investment portfolios (held-to-maturity or available-for-sale) have remained virtually unchanged[4] (6.52% compared with 6.55%; Chart 3). Various limitations[5] have prevented the stimulus hoped for by the Treasury Secretary, including the eSLR itself.

4 With the exception of JPMorgan and Goldman Sachs
5 Large-scale outright purchases would have resulted in an increase in GSIB surcharges by enlarging the size indicator and worsened simple leverage and eSLR ratios (which continue to be binding for some depository institution subsidiaries). These acquisitions would also have heightened banks' maturity-transformation and interest-rate risk exposures or breached internal market-risk exposure limits.

For seven of the nine large GSIB depository institution subsidiaries, the standard continues to be binding—or nearly so (Chart 1, right-hand panel). Yet, the Treasury investment portfolios of major banks are, for the most part, recorded on the balance sheets of their deposit-taking subsidiaries.

THE PROPOSED REFORM TO GSIB CAPITAL SURCHARGES COULD LIKEWISE PROVIDE SOME MOMENTUM

Market-making requires maintaining extensive inventories of securities and executing numerous repo (and reverserepo) transactions. This tends to inflate leverage ratios at dealer parent companies by enlarging their balance sheets, while also exacerbating their systemic risk scores (due to increased size, shortterm wholesale funding, and complexity indicators). These scores are critical in determining the capital surcharges levied on large banks (the GSIB surcharges).

The Federal Reserve has recently proposed revisions to its methodology[6]. It plans to reassess all the coefficients in its formula (to account for economic growth and inflation), reduce the weight of the short-term wholesale funding indicator, introduce narrower surcharge brackets (to mitigate threshold effects), and calculate positions based on annual average data rather than end-of-period data. These adjustments should give GSIBs greater flexibility in their intermediary activities and positively impact Treasury market liquidity. They will relieve balance-sheet pressure by reducing both the level and growth rate of surcharges. They should also smooth liquidity supply over the year and reduce repo rate fluctuations around balance-sheet reporting dates.

Nevertheless, this reform is unlikely to trigger large-scale Treasury purchases. On the one hand, leverage standards LR and eSLR are expected to remain binding for most GSIB deposit-taking subsidiaries. On the other, the proposed relaxation of risk-weighted capital rules could reverse the prevailing hierarchy of capital requirements, pushing the leverage standard back to a "binding" status on a consolidated basis[7] and deterring large banks from acting as market-makers.

The expanding scope of centralised clearing for Treasury repo transactions would undoubtedly improve market liquidity. However, unless the federal debt trajectory is more effectively managed, US authorities may feel compelled to continue using tools to maintain the role of dealers in the Treasury market.

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6 Federal Register: Regulatory Capital Rule (Regulation Q): Risk-Based Capital Surcharges for Global Systemically Important Bank Holding Companies; Systemic Risk Report (FR Y-15). The proposal is open for comment until 18 June.
7 For context, the capital surcharge for US GSIBs is determined by "Method 2" (currently under review), whereas the buffer used to calibrate the eSLR requirement is based on "Method 1", which is less stringent but remains unchanged.

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