

Clearing the Path for Treasury Market Resilience

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Abstract

The U.S. Treasury market is the world's deepest and most liquid market, and its resilience is critical for asset pricing and liquidity risk management. This paper examines progress on expanding central clearing for Treasury cash and repo, a key reform adopted to reduce risk and strengthen the resilience of Treasury market liquidity. Central clearing for repo can increase dealer balance sheet capacity through netting across different market segments. We estimate, based on data for December 2025, that substantial netting benefits have already been achieved with the growth of the sponsored repo market, and that netting benefits for primary dealers could increase further, by up to \$1.3 trillion, if all of their Treasury repos were cleared. New client access models and new Treasury clearinghouses will serve the needs of different market participants. Other efforts to strengthen Treasury market resilience, including targeted changes to the supplementary leverage ratio (SLR), also could increase intermediation capacity and the elasticity of market liquidity without significantly increasing risks. Ultimately, however, Treasury market resilience will also require reducing the rapidly growing amount of Treasury debt.

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Disclosures: Nellie Liang served as undersecretary for domestic finance at the Treasury Department from July 2021 to January 2025. Haoxiang Zhu served as director of the Division of Trading and Markets at the Securities and Exchange Commission from December 2021 to December 2024. The Brookings Institution is committed to quality, independence, and impact. We are supported by a [diverse array of funders](#). In line with our [values and policies](#), each Brookings publication represents the sole views of its author(s). No part of this paper may be used for training artificial intelligence systems.

What's New in the February 2026 Update

Since the publication of our July 2025 paper, the structure of the U.S. Treasury market continues to evolve rapidly as debt continues to grow. This updated paper highlights a number of significant developments to strengthen the resilience of the Treasury market since then, including:

- (1) Significant growth in centrally cleared repo volume;
- (2) A revised methodology for estimating the impact of Treasury repo clearing for dealer balance sheet netting, applied to December 2025 data;
- (3) Updates on FICC rules for Treasury clearing, such as the Collateral-in-Lieu model (approved), expansion of the agent clearing model to triparty repo (approved), and cross-margin arrangement with CME for customer positions (proposed);
- (4) New entrants into Treasury clearing, including the approval of CME and ICE to operate Treasury clearinghouses;
- (5) Interpretation and guidance for technical yet important questions, such as the accounting treatment of bringing customer repo to clearing;
- (6) New bank capital rules to reduce the enhanced Supplementary Leverage Ratio; and
- (7) A brief update of the current state of play for other significant actions taken to strengthen the functioning and resilience of the Treasury market.

Enhancing the resilience of the U.S. Treasury market is a multi-year, collective effort between regulators, the industry, and investors. This update of our earlier paper is intended to provide readers a useful snapshot of the remarkable milestones accomplished so far and what's yet to come.

1. Introduction

The U.S. Treasury market serves a vital role to finance the government at the lowest cost to taxpayers, to provide a safe and liquid asset underpinning the broader financial system, and to support the transmission of monetary policy. In the face of periodic episodes of market disruption in recent years, reforms to strengthen the resilience of the Treasury market have been a critical priority for financial regulators (Duffie 2020; Liang and Parkinson 2020; IAWG 2021; Group of Thirty 2021). A principal goal is to improve the efficiency and flexibility of intermediation in the Treasury cash and repo markets by expanding capacity for market-making and managing surges in demand for market liquidity during stress periods.

Resilience has become even more important as Treasury debt is growing very rapidly, placing greater demands on market infrastructure and intermediation capacity. Treasury debt held by the public has risen to \$30 trillion,¹ representing an increase to almost 100% of GDP in 2025, from about 30% in 2007 before the global financial crisis and great recession.² This ratio will increase to 120% in 2036 under projections made by the Congressional Budget Office.³ As of December 2025, primary dealers' Treasury repo market daily activity had grown to \$6.1 trillion.⁴ In addition, the share of Treasury securities held by hedge funds, open-end funds, and other non-bank financial entities, which tend to be more price-sensitive than foreign official institutions, has been increasing for the past decade.

This paper examines central clearing for Treasury cash and repo, which represents a significant change in how the market operates, which can improve the resilience of intermediation in Treasury markets. Substantial changes are already underway before the new clearing requirements become effective in December 2026 and June 2027. Central clearing offers significant benefits—namely greater balance sheet capacity from more efficient netting across repo segments, as well as counterparty risk reduction, more standardized risk management, and more market visibility. Other reforms, including revisions to the supplementary leverage ratio, improvement in price transparency and data availability, and new official sector liquidity support programs, have also been implemented to increase resilience.

We begin by summarizing Treasury central clearing and the possible netting benefits for dealers' balance sheets in the sponsored repo market, which has grown dramatically since 2020 even before the clearing rule was proposed. Data on sponsored repo volume at the Fixed Income Clearing Corporation (FICC) suggests that about \$1.4 trillion is already nettable on clearing members' balance sheets as of December 31, 2025. We then estimate the additional balance sheet netting that could be achieved from central clearing based on netting opportunities across different segments of the repo market by matching aggregate primary dealer Treasury repo and reverse repo positions. Based on primary dealer data from the Federal Reserve, we estimate that

¹ See <https://fred.stlouisfed.org/series/FYGFDPUN>.

² See <https://fred.stlouisfed.org/series/FYGFQDQ188S>.

³ See <https://www.cbo.gov/publication/61882>.

⁴ Source: <https://www.newyorkfed.org/markets/counterparties/primary-dealers-statistics>. Cenicola, Friedrichs, Mann, and Olson (2025) estimate based on a new data collection for non-cleared bilateral repo transactions that the gross size of the U.S. repo market reached \$12.6 trillion in Q3 2025. Treasury repo is estimated to be \$8.8 trillion. Hempel, Kahn, and Shephard (2025) estimate based on information from financial intermediaries that the gross size of the U.S. repo market reached \$11.9 trillion in 2024. Their estimate does not separate Treasury collateral from other collateral. They document that gross repo activity of U.S. banks and dealers grew by 50% between 2019 and 2024.

up to \$1.3 trillion more of Treasury repos could be netted on primary dealers' balance sheets as central clearing continues.⁵ For comparison, primary dealers' total net position in Treasury securities was \$477 billion at the end of 2025.

The market structure for central clearing of Treasury securities also is undergoing significant changes. Client access models are being expanded to meet the needs of more market participants and business models, and two firms have applied and been approved to operate as new Treasury clearinghouses. Market participants are actively working to balance the benefits of increased competition and more services and costs of possible fragmentation for margins and netting.

Other notable reforms also have gathered pace. The federal banking regulators recently finalized a rule to reduce the enhanced supplementary leverage ratio (eSLR) for the largest bank holding companies and its insured depository institutions to reduce the likelihood that the eSLR would be the binding capital constraint and discourage low-risk low-return activities like Treasury market intermediation.⁶ Given current risk-based capital requirements, the lower eSLR is not expected to lead to any meaningful reduction in required capital at the global systemically important banks (G-SIBs), indicating an increase in balance sheet capacity without raising their risks. Moreover, Treasury securities were not excluded outright; such exclusion would have created interest rate risk vulnerabilities for Treasury securities in the banking book and would not directly support Treasury market intermediation.⁷

In addition, the Treasury introduced regularly scheduled, limited size buyback operations to help dealers to reduce positions in off-the-run Treasury securities and recently increased the frequency of the operations. The Federal Reserve's Standing Repo Facility (SRF) can lend to qualified counterparties based on Treasury collateral to improve intermediation in periods of stress, and the Fed is adjusting the SRF to increase usage. To improve data transparency, FINRA began making available post-trade transactions-level data for on-the-run securities, and the Office of Financial Research (OFR) is regularly collecting data on transactions in the non-cleared bilateral repo market. In addition, these reforms collectively over time could lead to wider adoption of all-to-all trading, representing another avenue to improve Treasury market intermediation and liquidity in periods of stress.

⁵ As further discussed below, this estimate is materially larger than that obtained by Bowman, Huh, and Infante (2024) based on Q2 2022 data, partly because of changes in the net lending by money market funds and the net borrowing by private funds between 2022 and 2025.

⁶ Final rule adopted to modify the eSLR: <https://www.federalregister.gov/documents/2025/12/01/2025-21626/regulatory-capital-rule-modifications-to-the-enhanced-supplementary-leverage-ratio-standards-for-us>. The federal bank regulatory agencies had requested comments on a proposal to reduce the eSLR applicable to the G-SIBs, to reduce the likelihood that the eSLR would be the regulatory capital constraint and to not discourage engaging in lower-risk, lower-return activities such as Treasury market intermediation, as well as on alternative ways to reduce the eSLRs. See <https://www.federalreserve.gov/newsevents/pressreleases/bcreg20250627a.htm>.

⁷ Liang and Parkinson (2020) highlighted that Treasury securities have interest rate risk and should not be excluded from an SLR calculation. Currently G-SIBs are required to reflect unrealized gains and losses on securities held outright in the investment account as available-for-sale in accumulated other comprehensive income, but the fair value fluctuations of held-to-maturity securities are not reflected in regulatory capital. Kim, Kim, and Ryan (2025) document how banks have changed the classification of these securities with different capital rules and interest rates since 2013.

In Sections 2 and 3, we describe central clearing in Treasury markets and its potential benefits, and then turn in Section 4 to quantify the potential netting benefits in the sponsored repo market and additional netting benefits as more repo becomes centrally cleared. We highlight significant changes in market practices as central clearing is expanding in Section 5. We note progress on other significant reforms to improve Treasury market resilience in Section 6.

2. Central Clearing Requirements in Treasury Markets

Central clearing transforms the structure of Treasury market transactions by inserting a clearinghouse between counterparties. In a traditional non-centrally cleared repo transaction, for example, a dealer serves as a direct counterparty to client such as money market funds that lend cash and hedge funds that borrow. Under central clearing, the clearinghouse becomes the legal counterparty to all participants, and the dealer is no longer a direct counterparty to clients but is a counterparty to the clearinghouse. Figure 1 illustrates the distinction between non-centrally cleared repos (left graph) and centrally cleared repos (right graph).

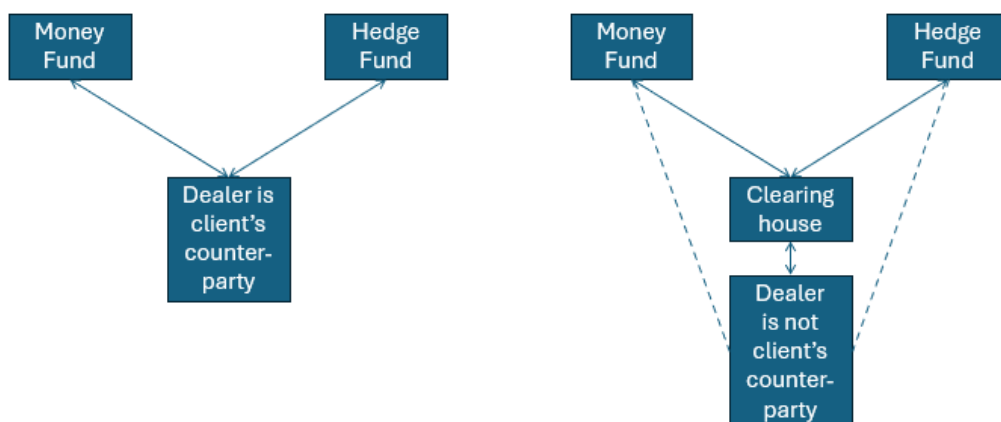


Figure 1: Non-centrally cleared and centrally cleared repo.

This structural change has significant implications for risk management, capital efficiency, and market oversight. The introduction of a clearinghouse to a transaction brings in standardized margin requirements and daily marking-to-market, which reduces counterparty credit risk on Treasury repo and cash transactions. The clearinghouse may offer different client access models to meet differing preferences and constraints of clients and dealers as clearing members, such as a sponsored model or an “agent” model based on prime broker or correspondent banking (discussed below). Participants benefit from additional multilateral netting opportunities that can significantly reduce risk and reduce balance sheet usage.

The final rule of the Securities and Exchange Commission (SEC), adopted in December 2023 with bipartisan support, represents a watershed development in Treasury market structure.⁸

⁸ See <https://www.sec.gov/files/rules/final/2023/34-99149.pdf> and the deadline extension <https://www.sec.gov/newsroom/press-releases/2025-43>.

Building on the SEC's authority over clearing agencies, the rule establishes a phased implementation schedule that will gradually expand clearing requirements across different segments of the Treasury market.

The implementation timeline began in March 2025. FICC implemented changes that separated house and customer margin, allowed onward posting of customer margin under specific conditions, and provided additional models for clients to gain access to clearing services. By December 2026, the rule requires clearing of cash transactions executed on interdealer broker platforms that are also clearinghouse members, as well as transactions between clearinghouse members and broker-dealers. The final phase, effective June 2027 after the extension of the compliance dates, mandates clearing of repo transactions where at least one party is a clearinghouse member.

Importantly, the rule provides exemptions to transactions for certain counterparties, specifically central banks, official sector entities, clearinghouses, and natural persons. It also includes exceptions for certain inter-affiliate transactions and transactions by state and local governments. This targeted approach reflects the regulatory balance between comprehensive coverage and practical implementation considerations. Finally, transactions that do not involve clearinghouse members are outside the scope of the SEC's final rule.

3. Benefits of Central Clearing

We first briefly discuss the key potential benefits of central clearing before providing a quantitative estimate of the potential netting benefits for dealer balance sheets. There also are potential costs, such as the increased systemic importance of a Treasury clearinghouse, which are discussed by others (see Yadav and Younger 2025 and Parkinson 2025 for a discussion of some potential costs).

3.1 Risk Reduction and Improved Market Visibility

Central clearing significantly reduces counterparty risks by guaranteeing delivery of cash and securities. Clearing reduces settlement fails and prevents their propagation throughout the market, addressing a key source of systemic risk during periods of market stress. Research by Fleming and Keane (2021) demonstrates the magnitude of these benefits, showing that netting through central clearing of all outright trades in the Treasury cash market would have reduced dealers' daily gross settlement obligations by approximately \$330 billion (60%) during the weeks surrounding the March 2020 market disruptions, with reductions reaching nearly \$800 billion (70%) when trading volumes peaked.

Still, in a centrally cleared market, clearing members' credit exposure to clients persists because they guarantee their clients' performance, creating risk-weighted asset capital charges for bank-affiliated clearing members (but not SLR charges). That said, this credit exposure is mitigated if clients post margin.

To help reduce new costs for institutional cash investors (such as money market funds, MMFs) as they move to central clearing, a new "collateral in lieu" model in Treasury repo markets has

been approved by the SEC. In this model, the clearinghouse and the clearing member can put a lien on the assets of institutional cash investors which are held at custodian banks. Because the market value of the fund's assets far exceeds the margin requirement of the clearinghouse and the credit exposure of the clearing member, margins and credit guarantees would no longer be necessary under collateral-in-lieu.⁹ With this innovation, we believe repo clearing for long-only institutional cash investors is largely a solved problem. In other words, they can continue “business as usual”—lending \$100 cash and receiving \$102 in Treasury collateral—without incurring, directly or indirectly, the costs of posting margin or a credit guarantee, both of which are usually born explicitly by their clearing members but recovered implicitly by a higher spread on repo transactions or other charges.

Central clearing also facilitates standardized risk management practices around margin requirements. Margins assessed by the clearinghouse would depend on the risk of the position, but not on the size, trading volume, or other characteristics of Treasury market participants. This uniformity, in turn, helps to level the playing field among dealers and promotes competition. It could work to increase the congruence of regulations to avoid the migration of activities from more regulated markets to less regulated ones (Metrick and Tarullo 2021).

Another way central clearing can reduce risk is by enhancing trading venue transparency and oversight, particularly for interdealer broker trading platforms and principal trading firms. It provides greater visibility into market conditions as well. The concentration of transaction data and risk management information at clearinghouses creates efficiencies in financial market monitoring when risk events unfold and, via quantitative disclosures and other publications, enables market participants to make better-informed trading and risk management decisions.¹⁰ Central clearing also supports more informed regulatory oversight for systemic risks that could arise from leverage across participants, including hedge funds and principal trading firms, and offers a path for setting market-wide margin requirements to mitigate financial stability risks.

3.2 Enhanced Intermediation Capacity Through Netting

Central clearing can increase a dealer's balance sheet capacity by netting down gross exposures across participants and enhance market intermediation and liquidity in normal periods and in stress periods. The netting benefits from central clearing efficiency for repo are far larger than for cash transactions; unsettled cash transactions can already be netted on dealer balance sheets for accounting purposes regardless of whether the cash trades are centrally cleared. Under current bank capital regulations, netting repo transactions across different counterparties is not permitted for the purpose of calculating total leverage exposure (TLE) for the SLR. Thus, if a dealer does back-to-back repo and reverse repo transactions, of the same size but with two different clients (left graph of Figure 1), the gross value of the repo would be added to the dealer's balance sheet, as illustrated by Table 1 below.

⁹ See <https://www.sec.gov/files/rules/sro/ficc/2025/34-104374a.pdf>. See also Wuerffel (2025).

¹⁰ For example, see <https://www.dtcc.com/legal/policy-and-compliance> for DTCC's quarterly quantitative disclosure.

	Asset	Liability
Dealer borrows cash from MMF	Cash ↑ \$100	Payable ↑ \$100
Dealer lends cash to HF	Cash ↓ \$100	
	Receivable or loan ↑ \$100	

Table 1: Balance sheet impact of non-centrally cleared repo.

However, central clearing enables netting of matched repo and reverse repo positions provided they meet specific criteria. Specifically, netting is possible for balance sheet purposes if the repo and reverse repo “are with the same counterparty, have the same explicit final settlement date, have legally enforceable offset rights, and are settled on the same settlement system” (see Bowman, Huh, and Infante 2024).

Central clearing generally satisfies the first, third, and fourth conditions, but not necessarily the second. Repo maturities range from overnight to term to “open,” and some lenders prefer shorter maturities while some borrowers prefer longer maturities. However, dealers facing balance sheet constraints would have incentives to structure the trades with matching maturities to take advantage of balance sheet netting. In that case where maturities are adjusted to coincide, the gross value of matched client repo and reverse repo transactions could be netted on dealers’ balance sheets and excluded from TLE.

While the stylized illustration in Figure 1 has a single dealer intermediating two repo transactions, the netting benefit applies even if different dealers transact with different sides of the market. Suppose, for example, that Dealer A borrows \$100 from a MMF and Dealer B lends \$100 to a hedge fund, where both transactions are centrally cleared. With an additional interdealer transaction in which Dealer A lends \$100 to Dealer B in a centrally cleared repo transaction, both dealers would be able to net their repo and reverse repo, assuming matching maturities.

4. Quantifying Potential Netting Benefits of Treasury Repo Clearing

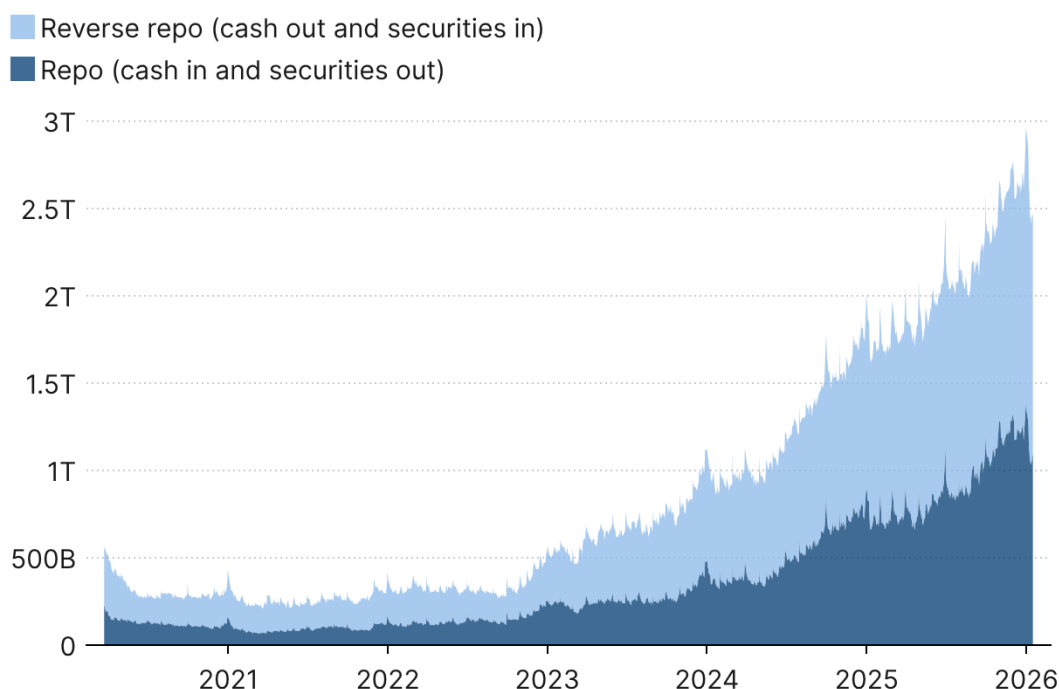
To estimate netting benefits from Treasury repo clearing, we first look at the sponsored repo market based on data from FICC. The FICC data represent the client clearing activity of all its sponsoring members in the Treasury repo market. We then look at the positions of the primary dealers in Treasury repo based on data from the Federal Reserve Bank of New York (FRBNY) for potential additional netting benefits. As discussed later, the SEC approved Treasury clearinghouse applications from CME and ICE Clear Credit, but FICC’s sponsored model remains the dominant client repo clearing model as of this writing.

4.1 Sponsored Repo

In a sponsored repo transaction, a dealer (clearing member) sponsors a client counterparty onto the FICC cleared repo platform, which matches and nets the trades. Dealers provide a guarantee to FICC for its sponsored members' obligations and post additional resources into FICC's clearing fund. This arrangement allows client money market funds, hedge funds, and other participants that are not members of FICC to centrally clear their repos. Sponsored repo and reverse repo (the cleared dealer-to-client, or D2C, segment of FICC) have grown dramatically, to about \$3 trillion per day as of December 31, 2025, from about \$2 trillion one year ago. The daily cleared repo volume was about \$400 billion from 2020 to 2023 (Figure 2).¹¹

Sponsored repo volumes

U.S. dollars



Source: Office of Financial Research

Hutchins Center
on Fiscal & Monetary Policy
at BROOKINGS

Figure 2: FICC Sponsored Repo Volume.

To quantify the potential effects of sponsored repo on dealer balance sheets, Table 2 decomposes the cleared client repo volume in two ways. The first way is by the type of product. “Sponsored GC” repo, in which the cash borrower can deliver any security within a pre-defined set, was \$813.4 billion as of December 31, 2025, whereas “sponsored DVP” repo, in which

¹¹ The sponsored repo market was about \$138 billion in 2018, based on MMF’s reported holdings. See “[A Primer on Sponsored Repo](#),” J.P. Morgan, 2019. The report highlighted the capital efficiency as an incentive for rapid growth.

specific securities are required to be delivered, was \$2,146.6 billion. The second way to decompose the volume is by whether the client is borrowing or lending cash. Repos in which clients acted as cash borrowers were \$1,576.4 billion, whereas repos in which clients acted as cash lenders were \$1,383.6 billion. Copeland and Kahn (2024) document that from January 2020 to June 2024, money market funds accounted for 66% of sponsored lending, while hedge funds represented 78% of sponsored borrowing.

The matched part of client borrow and client lend suggests that potentially \$1384 billion in matched repo and reverse repo positions could be netted, which would reduce a dealer’s balance sheet and, to the extent the dealers are affiliated with banks or bank holding companies, the TLE denominator for SLR calculations. This represents a significant opportunity for capital efficiency, which dealers reportedly are already utilizing.¹²

D2C Sponsored Repo at FICC Total \$2960.0 billion			
By product type		By transaction type	
Sponsored GC	Sponsored DVP	Client Borrow	Client Lend
\$813.4 bn	\$2,146.6 bn	\$1,576.4 bn	\$1,383.6 bn

Source: FICC

Table 2: D2C sponsored repo volume as of December 31, 2025.

A limitation of the FICC data is that they include both Treasury repo and agency MBS repo, suggesting that \$1384 billion is an upper bound on the amount that could be netted through sponsored Treasury repo. That said, all sponsored MBS repo is in the “sponsored GC” segment, and the larger “sponsored DVP” segment is predominantly Treasury repos;¹³ as we show in the next section, primary dealer data from FRBNY also reveal comparable amounts of matched repo and reverse repo backed by Treasury securities. In addition, capital rules that govern balance sheet netting do not depend on whether repos are backed by Treasury securities or MBS.

4.2 Potential for Additional Clearing and Netting

Our analysis of market data suggests significant potential for additional clearing and netting opportunities. We start with primary dealers’ repo and reverse repo positions as of December 31, 2025, obtained from the website of FRBNY (FR 2004C) and reproduced in Table 3. Primary dealers are the largest intermediaries in the repo markets, but do not represent all clearing members of FICC.

¹² Adrian, Fleming, and Nikolaou (2025) indicate that primary dealer data reported to FRBNY suggest a trend toward central clearing even before the central clearing rule takes effect, but they do not estimate possible netting benefits.

¹³ Agency MBS are eligible in FICC’s Sponsored GC service but not in FICC’s Sponsored DVP service. See <https://www.dtcc.com/clearing-and-settlement-services/ficc-gov/sponsored-membership>.

U.S. Treasury (excluding TIPS) as repo collateral	Primary Dealers Securities In (lending cash)	Primary Dealers Securities Out (borrowing cash)	Net
	(billions USD)	(billions USD)	(billions USD)
Bilateral - Uncleared Total 2,349	\$1,254	\$1,096	Net lend 158
Bilateral - Cleared Total 2,436	\$1,610	\$826	Net lend 785
Triparty - GCF (interdealer cleared) Total 49	\$27	21	Net lend 6
Triparty - Uncleared Total \$845	15	\$830	Net borrow 815
Triparty - Sponsored (client cleared) Total \$394	0	394	Net borrow 394
Total	\$2,906	\$3,167	Net borrow 260

Source: FR 2004C, Federal Reserve Bank of New York.

Table 3: Primary dealer repo activity in various segments as of December 31, 2025.

Primary dealer repo activity totaled \$6.07 trillion on December 31, 2025. The bilateral segment of repo is dominant, representing \$4.79 trillion, or 79% of all primary dealer repo volume $(=(2349+2436)/(2906+3167))$. The triparty segment totaled \$1.29 trillion.¹⁴ Centrally cleared transactions—including cleared bilateral repo, cleared client triparty repo (sponsored), and cleared interdealer triparty repo (GCF)—are \$2.88 trillion, representing 47% of total primary dealers' repo volume $(=(2436+394+49)/(2906+3167))$.

The simple breakdown of primary dealers' repo positions allows us to conduct a back-of-envelope calculation of balance sheet netting opportunities of repo clearing. Recall from Table 1 and Section 3.2 that the central clearing of matched client repo and reverse repo can lead to balance sheet netting under certain conditions. Thus, we look for the incremental amounts of primary dealer repo and reverse repo that could be matched in quantity if all uncleared repos and reverse repo were to move to central clearing.

Table 4 below illustrates the methodology, applied to data as of December 31, 2025. If primary dealers' \$3.2 trillion repos and \$2.9 trillion reverse repos were all centrally cleared, the minimum of the two numbers, namely up to \$2.9 trillion, would be nettable for balance sheet purposes, assuming maturities are matched. In practice, only \$1.2 trillion repo and \$1.6 trillion

¹⁴ Typically, dealers use the triparty market to source funding from cash investors, such as money market funds, to finance hedge funds or Treasury purchases and the bilateral segment to trade directly with each other and with clients. The GCF segment is relatively small at \$126 billion and is where dealers source and provide funding in the interdealer market and utilize a triparty custodian bank. Most interdealer activity is conducted in the bilateral segment.

reverse repo were cleared, leading to \$1.2 trillion nettable amount inside the clearinghouse. Thus, the difference, or \$1,665 billion, is a rough estimate of the incremental impact of repo clearing for balance sheet netting, assuming matched maturities and before adjusting for inter-affiliate transactions.

	All repo (\$bn)	All cleared repo (\$bn)	Effect of clearing repo	Adjusting for inter-affiliate trades
Primary dealers lend cash (reverse repo)	2,906	1,637		
Primary dealers borrow cash (repo)	3,167	1,241		
Nettable	2,906	1,241	1,665 = 2906-1241	1,365 = 1665 – 300

Source: FR 2004C, Federal Reserve Bank of New York. Data are as of December 31, 2025.

Table 4: Effect of repo clearing on primary dealers' balance sheet netting.

Bai, Bostrom, Infante, and Ivashina (2025) find that, among all primary dealers, five dealers affiliated with G-SIBs consistently engage in inter-affiliate repo transactions. In their sample for March 2025, these five dealers borrow from affiliated entities about \$370 billion in repo and lend to affiliated entities about \$250 billion in reverse repo, with a net borrow of about \$120 billion. Moreover, this net borrow of \$120 billion is almost entirely from the triparty segment. Inter-affiliate transactions are not reflected on the bank holding company's balance sheet, regardless of whether they are centrally cleared (Bowman, Huh, and Infante 2024). These patterns are consistent with what Bowman, Huh, and Infante (2024) document in an earlier sample ending in September 2023: (i) G-SIBs' inter-affiliate transactions in the bilateral segment are symmetric between repo and reverse repo; (ii) G-SIBs' inter-affiliate repo in the triparty segment is dominated by dealers borrowing from their affiliates, likely bank affiliates; and (iii) G-SIBs' cleared bilateral transactions are all with nonaffiliates. Hempel, Isley, Kahn, and McCabe (2023) find that as money market funds participated more actively in the Federal Reserve's overnight Reverse Repo Facility in 2021 and 2022, dealers relied more on affiliates for repo financing.

To adjust our netting estimates for inter-affiliate transactions, we start with the \$250 billion matched inter-affiliate volume as of March 2025 and scale it up by the growth of all primary dealer repo volume between March and December 2025. This adjustment leads to an estimate of about \$300 billion matched inter-affiliate repo volume for December 2025,¹⁵ which is then deducted from the previous step: \$1,665 billion – \$300 billion = \$1,365 billion. In other words,

¹⁵ The daily primary dealer repo and reverse repo volume as of March and December 2025 were \$5187 billion and \$6073 billion. So, \$250 billion $\times$ 6073/5187 = \$293 billion.

the matched inter-affiliate volume would never show up on the balance sheet of primary dealers in the first place, regardless of whether they are centrally cleared.

This estimate of \$1,365 billion may overstate the incremental balance sheet capacity from central clearing because, as mentioned before, this estimate assumes matching maturity of repo and reverse repo. Complete matching of maturities could be difficult despite strong economic incentives to do so. Also, the matched inter-affiliate volume in December 2025 can only be approximated, and the actual number could be larger. That said, without additional data, we believe that up to \$1.3 trillion is a reasonable estimate of the incremental balance sheet capacity for primary dealers that could be created by central clearing of all uncleared Treasury repo and reverse repo.¹⁶

4.3 Comparison with Other Estimates in Literature

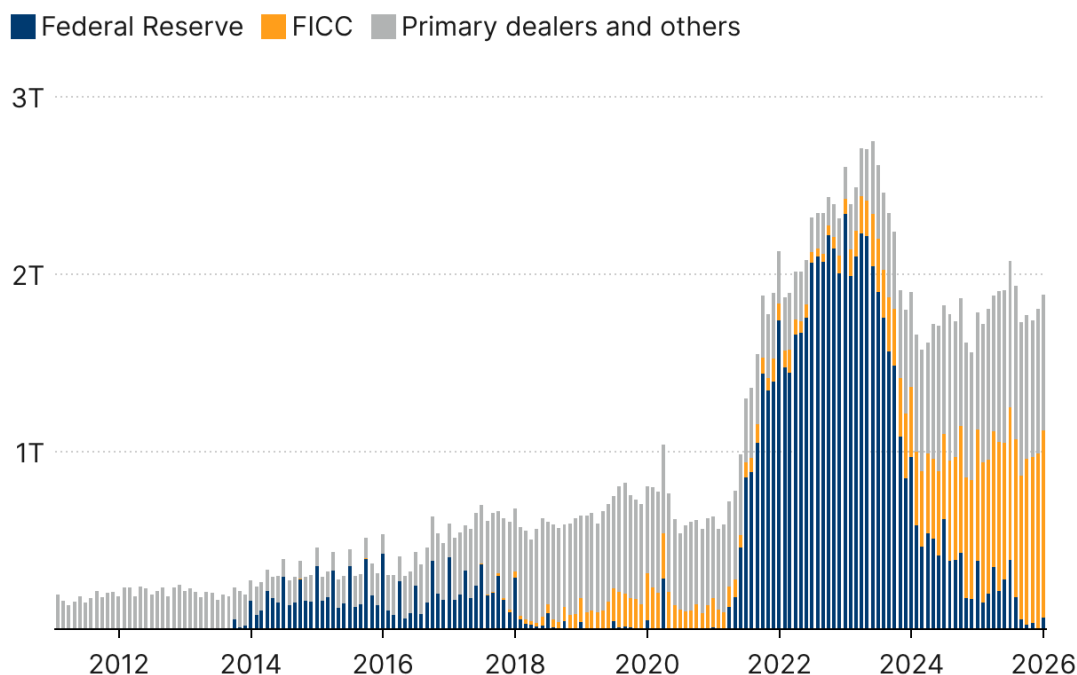
Hempel, Kahn, Mann, and Paddik (2023) document evidence of potential balance sheet netting for non-centrally cleared bilateral repos based on netted packages, using data from June 2022 collected from a pilot study by OFR. Specifically, about 68% of dealers' repo and 60% of dealers' reverse repo with hedge funds in the uncleared bilateral segment are being netted because a dealer trades with the same hedge fund in a reverse repo and a repo with the same maturity date. In comparison to their focus on the uncleared bilateral repo segment, our approach also incorporates netting across different market segments—a benefit that may not materialize without central clearing.

Bowman, Huh, and Infante (2024) estimate a more modest \$104 billion in additional repo that would be netted on balance sheets as a result of clearing, based on Q2 2022 data for six G-SIBs. As it turns out, repo market net borrowing has grown dramatically since then, and much more of the money market fund repo volume is with dealers than with the Federal Reserve, which helps to explain the difference between their estimate and ours. In particular, according to the OFR, in June 2022, money market fund Treasury repo totaled \$2,317 billion, but the vast majority, \$2,063 billion, was conducted with the Federal Reserve, and the cleared volume at FICC was \$63 billion (see Figure 3). Only \$192 billion of repo done by money market funds was with counterparties other than the Federal Reserve and FICC, of which \$117 billion were with primary dealers. In other words, there was a low supply of cash in repo markets from money market funds in Q2 2022.

¹⁶ The July 2025 version estimated this amount in a more conservative way. Rather than adding all repos and reverse repos across segments and then comparing, the earlier method compared primary dealer's *net* lend in the bilateral segment to their *net* borrow in the triparty segment. The new method is more granular.

Counterparties to U.S. MMFs in treasury repurchase agreements

U.S. dollars



Source: Office of Financial Research

Note: FICC is Fixed Income Clearing Corporation; Primary dealers and others includes primary dealers, other dealers, and other financial firms.

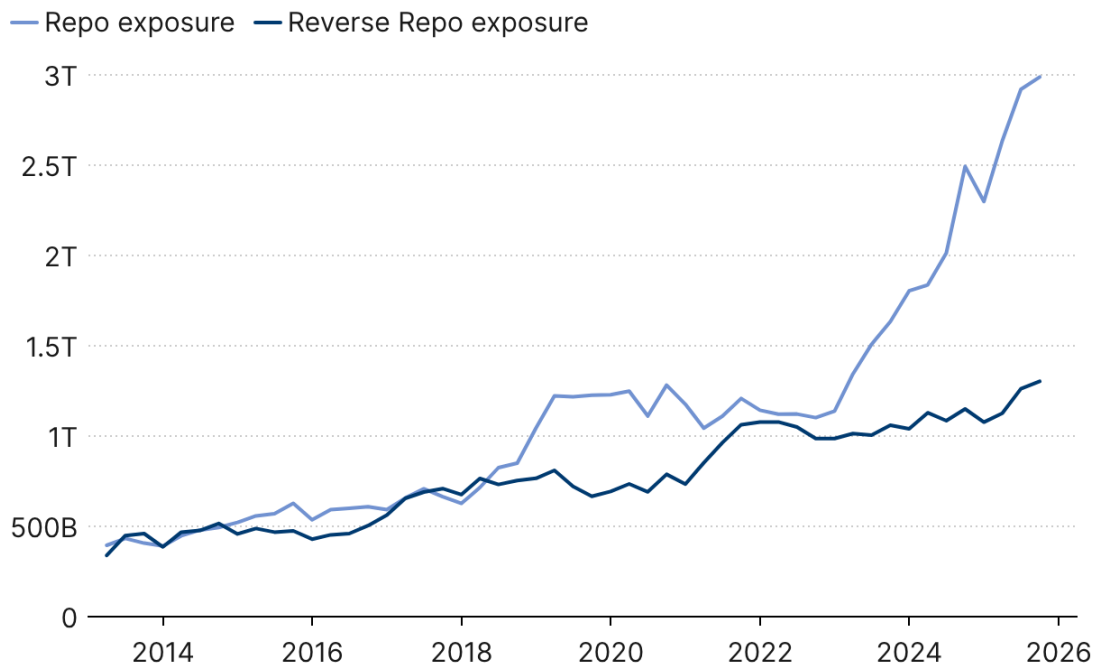
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Figure 3: Money market fund counterparties in Treasury repos.

In addition, net borrowing from hedge funds was only about \$72 billion in that quarter (see Figure 4). While money market funds and hedge funds are not the only cash lenders and borrowers in this market, these low volumes by these entities indicate limited potential for matching and netting client repo and reverse repo activities in Q2 2022.

Long and short repo exposures

U.S. dollars



Source: Office of Financial Research



Figure 4: Hedge fund borrowing and lending.

After the Federal Reserve began tightening monetary policy in 2022, money market fund repo with the Federal Reserve started declining, and their repo with FICC and primary dealers expanded over time. Net borrowing by hedge funds began a steep rise as a higher premium on Treasury futures made the cash-futures basis trade more attractive (Gilcoes et al, 2024 and Kashyap et al, 2025). Thus, the financing amounts in 2025 are considerably larger than in Q2 2022 and indicate substantially greater netting potential for the primary dealers.

5. Implementation of Central Clearing with Multiple Client Access Models

Treasury central clearing is changing rapidly to feature multiple client access models and clearinghouses, which we view as a beneficial development rather than a complication. Market participants are engaged actively in evaluating various client access models and how margin and liquidity risk management resources will be affected.¹⁷

¹⁷ See FICC survey (July 2024), <https://www.dtcc.com/ustclearing/treasury-clearing-mandate>. See also the SIFMA-BNY-Broadridge-DTCC survey (November 2025), <https://www.sifma.org/research/white-papers/us-treasury-central-clearing-pulse-survey>.

FICC now offers two clearing models: the Sponsored Service model and the Agent Clearing Service (ACS) model. While the FICC ACS model was only available for cash clearing, the SEC approved its use for triparty repo clearing in December 2025.¹⁸ In the same month, the SEC also approved CME Group's Treasury clearinghouse application (separately from its futures clearinghouse).¹⁹ In January 2026, the SEC approved the application by ICE Clear Credit (ICC) to enter the business of Treasury clearing.²⁰ Having more than one clearinghouse increases competition in product offerings as well as reduces the systemic operational risks of relying on a single clearinghouse for a critical financial function. The availability of multiple access models meets the needs and constraints of different dealers and clients.

We illustrate commonalities and differences across the four access models from three Treasury clearinghouses in Table 5 below. First, in the FICC Sponsored Service model and CME model, there is a direct contractual relationship between the clearinghouse and the client, but that is not the case for the FICC agent clearing model or ICC's model. Second, in the FICC sponsored model, bringing a client transaction to the clearinghouse does not in itself make the sponsoring clearing member a counterparty to the transaction. The same accounting opinion for the clearing member to be an agent was obtained by SIFMA in September 2025 for the FICC agent clearing model.²¹ While CME's and ICC's Treasury clearinghouses were approved very recently, we believe the same accounting treatment would likely apply there as well. Third, client initial margin is calculated and posted on a gross basis under the FICC sponsored model and CME model, but net initial margining is allowed under the FICC agent clearing model and ICC's model. Under Collateral-in-Lieu, no margin would be required. Variation margin is generally net, except for clients at CME who elect to post gross variation margin. Finally, both FICC models rely on clearing members to provide operational linkages between the client and the clearinghouse, whereas CME's model provides direct client-clearinghouse linkage. ICC's model allows for both possibilities.

¹⁸ See <https://www.sec.gov/files/rules/sro/ficc/2025/34-104492.pdf>.

¹⁹ See <https://www.sec.gov/files/rules/other/2025/34-104281.pdf>.

²⁰ See <https://www.sec.gov/files/rules/other/2026/34-104762.pdf>. Different from CME's new Treasury clearinghouse that is a distinct legal entity from its derivatives clearinghouse, ICC offers Treasury clearing within its existing derivatives clearinghouse, with a separate rulebook and financial resources.

²¹ See <https://www.sifma.org/research/white-papers/accounting-treatment-for-ust-repo-transactions-cleared-through-ficc>.

	FICC Sponsored Service	FICC Agent Clearing Service	CME	ICC
Is the client a member of the clearinghouse?	Yes (limited membership)	No	Yes (limited membership)	No
Is the clearing member an agent for accounting purposes if the clearing member is not a counterparty to the trade?	Yes (off balance sheet)	Yes (off balance sheet)	Likely yes (off balance sheet)	Likely yes (off balance sheet)
Is client margin gross or net across clients?	Initial margin is gross; variation margin is net. Under Collateral-in-Lieu, no margin is required from cash lenders.	Initial margin can be gross or net; variation margin is net	Initial margin is gross; variation margin can be gross or net	Initial margin can be gross or net; variation margin is net
Operational linkage between client and clearinghouse	Through sponsoring member	Through agent clearing member	Direct link between clients and clearinghouse	Link between clients and clearinghouse can be direct or through clearing members

Table 5: Treasury clearing client access models.

The diversity of clearing models provides choices for different market segments and market participants. For long-only institutional investors such as MMFs, the FICC sponsored model is a familiar and time-tested option. In addition, the collateral-in-lieu arrangement offered by FICC and BNY Mellon further reduces the costs of posting margin and the cost of credit guarantee for bank-affiliated clearing members. On the other hand, hedge funds and other levered investors engaged in Treasury cash-futures basis trade or the Treasury-swap spread trade could find CME's model appealing due to CME's existing business in interest rate derivatives and portfolio margining, where the risk of the cash leg partially offsets the risk of the derivatives leg.

The FICC agent clearing model and the ICC model also have features that can be attractive to certain market participants. Under the net initial margin arrangements within these models, clearing members that run approximately matched repo-reverse repo books would have a

relatively low initial margin requirement, although the low initial margin could imply larger potential loss to the clearing member if a client does not post full initial margin and subsequently defaults.

The flip side of competition and choice is fragmentation. Fragmented central clearing could increase two types of costs. The first is the cost of margin. For example, a trade that involves a long position in Treasury securities (financed by repo) and a short position in a Treasury derivative might require the posting of two separate margins if the two legs are cleared at different clearinghouses. Cross-margining between the clearinghouses could reduce redundancies, although clearinghouses and regulators need to avoid excessively low margin that could create systemic risk.²² Currently, the FICC-CME cross-margining arrangement applies to common clearing members. In December 2025, FICC filed an application with the SEC to extend cross-margining to clients, and it is pending as of this writing.²³ Client cross-margining will likely increase margin efficiency but also increase the overall leverage in the system. Striking the right balance is important.

The second cost associated with clearing fragmentation is the potential limitation on balance sheet netting. Recall that balance sheet netting requires, among other things, that the dealer faces the same counterparty (i.e., the same clearinghouse) for its matched repo and the reverse repo. If, for example, a dealer clears its repo (with a money market fund) at FICC and its reverse repo (with a hedge fund) at CME or ICC, balance sheet netting would not be permitted under the current Federal Reserve rules. This concern is mitigated if large dealers and large institutional investors maintain access at multiple (or all) Treasury clearinghouses and choose clearing locations in a manner that maximizes balance sheet netting.²⁴ The final steady state of clearing across multiple clearinghouses is largely up to the market, driven by economics, with appropriate regulatory oversight that focuses on systemic risk.

6. Other Reforms to Improve the Resilience of Treasury Market Intermediation

6.1 Supplementary Leverage Ratio Relief

In addition to central clearing, bank capital regulations have important effects on dealer balance sheet capacity. The SLR is intended to be a backstop capital requirement to risk-weighted capital standards by not differentiating assets by their risk: If what are perceived as low-risk assets in the risk-based capital framework were to become high risk, the SLR would apply a backstop capital charge for those assets. In the U.S., the Basel III minimum SLR of 3% applies to bank holding companies (BHCs) with more than \$250 billion in assets. The U.S. G-SIBs are subject to the eSLR that includes a surcharge at the BHC level and at the insured depository institution

²² Yadav and Younger (2025) note that greater clearing of Treasury repo allows for more cross-margining of offsetting cash and derivative positions. Cross-margining that leads to more stable, even if not lower, margin requirements could improve Treasury market stability. See also Patel (2026) for a discussion of the operational and default management aspects of cross-margining for Treasury clearing.

²³ See <https://www.sec.gov/files/rules/sro/ficc/2025/34-104485.pdf>.

²⁴ See Hull and Solimine (2026) for more information about overlapping membership of primary dealers at multiple clearinghouses.

(IDI) level. The primary dealer activities of the G-SIBs are conducted mainly in the broker-dealer subsidiaries of the BHCs, not in the IDIs.

In practice, the surcharge made the eSLR the binding constraint rather than a backstop for some of the G-SIBs with significant dealer activities, although it had become less binding over time for others as Tier 1 risk-based capital and G-SIB surcharge frameworks were implemented more fully. Others argue that dealers' internal risk management models may be the most constraining in periods of high volatility (Duffie et al. 2023; Cochran et al. 2024).

The federal banking regulators recently finalized a rule to recalibrate the eSLR requirements to reduce the likelihood that the eSLR would be a regularly binding capital constraint and to reduce disincentives to engage in low-risk, low-return activities, such as Treasury market intermediation. The new rule is to reduce the eSLR surcharge for BHCs to one half of its G-SIB surcharge based on the Basel/Method 1 calculation.²⁵ In effect, the eSLR will be reduced from 5% at the BHC level to between 3.5% to 4.25%.

While the agencies requested comments on other alternatives, none were adopted. However, some warrant additional consideration if further reforms to the SLR were deemed appropriate subsequently. One option is the additional narrow exclusion approach to exclude Treasury securities held as trading assets at broker-dealer subsidiaries for calculating TLE. This exclusion would apply to G-SIBs and BHCs subject to Category II or III capital standards.²⁶ Treasury securities held in trading accounts are marked-to-market and subject to market risk capital requirements, providing incentives for better risk management.²⁷ This exclusion would have the desirable feature of allowing primary dealers to flexibly absorb Treasury securities and support market liquidity in periods of stress.²⁸

Many have called for a full exclusion of Treasury securities and reserves from calculating TLE, repeating the action taken in April 2020 when the banking agencies temporarily relaxed the SLR in April 2020 to help restore Treasury market functioning following the onset of the COVID-19 pandemic. We would not support a proposal for a full exclusion of all Treasury securities because interest rate risks are not captured in the risk-weighted capital framework.²⁹ The failure

²⁵The Method 1 G-SIB surcharges ranged from 1% to 2.5% for the U.S. G-SIBs in 2025. The Method 2 G-SIB surcharges were higher and ranged from 1% to 4.5%, reflecting different risk factors and weights, including gross repo transactions. See Covas and Rosa (2025).

²⁶ Roughly, Category I standards apply to the G-SIBs, Category II to BHCs with \$700 billion or more in assets and cross-border activities, and Category III to BHCs with \$250 billion or more in assets and wholesale short-term funding or off-balance sheet exposures. BHCs in Categories II and III include some U.S. holding company subsidiaries of foreign banking organizations, whose U.S. broker-dealer subsidiaries are primary dealers.

²⁷ See Menand and Younger (2023).

²⁸ Evidence is mixed on whether the temporary exclusion of Treasuries and reserves from TLE affected market-making behavior. Cochran et al (2023) do not find evidence of greater intermediation; Koontz and Waltz (2021) show a positive effect from a countercyclical reduction on credit provision; Brauning and Stein (2024) show that firms with the lowest SLRs increased trading activity.

²⁹ The six G-SIBs with large primary dealers had \$643 billion of Treasury securities in the trading account and \$1,081 billion in the available-for-sale and held-to-maturity accounts as of Q1 2025. Source: FR Y-9C. Tarullo (2025) notes that there have been proposals to eliminate the leverage ratio entirely. However, the leverage ratio is the only capital requirement for HTM Treasuries. For AFS securities, price declines that have occurred are recorded for regulatory capital, but there is not a market risk charge to reflect the possibility of future declines. The lack of a market risk charge has become even more problematic given the increasing amount of Treasury debt.

of Silicon Valley Bank in March 2023 serves as a vivid reminder of the significance of such risks.³⁰

We support the exclusion of reserves, however. Reserves represent the ultimate safe asset, and the aggregate level of reserves is not determined by individual banks but by the Federal Reserve. Moreover, reserves increase when the Federal Reserve purchases assets to ease monetary policy, but such an increase in reserves would tighten the SLR constraint for banks and complicate the implementation of monetary policy. Reserve exclusion has been implemented, such as by the Bank of England, though paired with an upward adjustment to the 3% minimum to be consistent with Basel III standards.

In addition, we support further study of a countercyclical buffer for the leverage ratio, in which some or all of the surcharge would be released in periods of stress based on a pre-determined rule and then rebuilt over time to be usable again. A countercyclical surcharge would need to be transparent and operationally simple to be effective in improving the elasticity of intermediation.³¹

6.2 Additional Reforms to Increase Treasury Market Resilience

In addition to expanded central clearing of repo and a lower eSLR, other significant reforms have been put in place to improve Treasury market intermediation and resilience. A concise summary of progress is provided in Table 6.

First, a few official-sector programs have been introduced since March 2020 to provide an additional source of liquidity and help prevent surges in Treasury selling. The Federal Reserve's Standing Repo Facility (SRF) allows dealers and banks to borrow against eligible collateral from the Fed, although some believe that there needs to be a significant expansion of counterparties for it to be effective (see Group of Thirty 2021).³² In addition, the standing Foreign and International Monetary Authorities (FIMA) facility is offered to foreign official institutions with Treasury securities held in custody at FRBNY.

However, it appears that some dealers have been reluctant to use the SRF when markets are stressed, reducing its effectiveness to ease liquidity pressures in Treasury funding markets. On some days in late 2025, dealers were paying more to borrow in the repo market than from the SRF mainly due to concerns about stigma of using a Federal Reserve facility. Actively working to assuage this concern, the Federal Reserve emphasized that the goal of the facility is to improve

³⁰ In addition to capital regulation for interest rate risks, Hanson, Ivashina, Nicolae, Stein, Sunderam, and Tarullo (2024) also point out that tighter liquidity regulation could mitigate risks underlying the SVB failure.

³¹ Another option that has been raised and worth further study is to exclude dealers' reverse repo with Treasury collateral, which is a main way dealers provide the repo financing for leveraged investors to buy Treasuries. Higher risks that could arise from excluding reverse repo from the SLR could be mitigated if it did not result in a significant reduction to capital retention by an adjustment similar to that used when considering excluding reserves.

³² In addition, while repo transactions involving the Federal Reserve, such as those in the SRF, are not required to be centrally cleared, Logan (2025) argues that voluntary clearing of these trades could further improve balance sheet netting for bank-affiliated dealers if dealers borrow from the Fed and onward lend to other market participants.

Treasury market functioning rather than to meet an individual dealer's financing needs; it also renamed the facility the standing repurchase agreement (SRP) operations.³³

Moreover, the Treasury Department introduced a buyback program to support liquidity by scheduling a regular operation to allow dealers to sell off-the-run securities to the Treasury. This program offers a predictable outlet for less liquid Treasury securities, thereby boosting market liquidity and potentially easing dealer balance sheet constraints. Following a review of the initial buybacks, the Treasury recently announced doubling the frequency of buybacks for long-end nominal coupon securities from two times per quarter to four times per quarter, which will increase the aggregated size of liquidity support buybacks from a maximum of \$30 billion per quarter to up to \$38 billion per quarter.³⁴

The second area of additional reform is greater post-trade transparency and data availability. Since March 2024, FINRA has released at the end of each day transaction-level data for on-the-run Treasury coupon securities.³⁵ Given the strong evidence of reduced transaction costs for investors in other parts of U.S. fixed income markets after post-trade transparency, we encourage regulators to further strengthen post-trade transparency for Treasury securities. The daily dissemination of transactions for first off-the-run Treasury coupon securities seems a natural next step, followed by daily dissemination of deeper off-the-run Treasury coupon securities. Real time transaction dissemination could follow a similar incremental path.

In addition, OFR is providing regulators, for the first time through a new data collection, comprehensive data on the non-centrally cleared bilateral repo market (NCCBR), a critical and yet opaque segment. OFR documents that the U.S. repo market reached \$12.6 trillion daily volume as of the third quarter of 2025, of which the NCCBR segment totaled \$5.0 trillion.³⁶ OFR's data cover all collateral types and all currencies. Of the \$12.6 trillion, Treasury securities account for about 69%, or \$8.8 trillion. Because the OFR data are based on transactions and cover a broader set of entities than primary dealers, the \$8.8 trillion estimate of Treasury repo market is larger than the \$6 trillion estimate from the primary dealer data (FR 2004C). For the benefit of transparency, OFR should consider providing additional summary statistics, such as volume, repo rates, and haircuts to the market on a regular basis.

The third area is greater use of all-to-all trading. Central clearing could facilitate wider adoption of all-to-all trading between non-dealer buyers and non-dealer sellers, by removing counterparty credit risk concerns that previously limited direct trading between certain market participants. Research by Chaboud et al. (2024) demonstrates that customer order flows in U.S. Treasury cash markets are largely balanced, even in short time intervals. Thus, expanded all-to-all trading appears feasible, which reduces the need for dealers to intermediate every trade and frees up balance sheets. To the authors' knowledge, Treasury cash transactions on IDBs are already cleared in a done-away model. Further growth of done-away clearing will provide an additional boost to all-to-all trading in Treasury cash and repo markets. Finally, adoption of all-to-all trading would also be faster with additional price transparency, in particular real-time

³³ See https://www.newyorkfed.org/markets/opolicy/operating_policy_251210.

³⁴ See <https://home.treasury.gov/news/press-releases/sbo305>.

³⁵ See <https://www.finra.org/media-center/newsreleases/2024/finra-enhances-post-trade-transparency-us-treasury-securities-market>.

³⁶ See Cenicola, Friedrichs, Mann, and Olson (2025).

price transparency, as well as appropriate oversight of Treasury securities trading platforms, an item listed by the SEC in its 2025 regulatory agenda.³⁷

Reform item	Goal	Progress
Expanded central clearing	Risk reduction and greater capital efficiency	Steady and significant growth in client clearing ahead of compliance date
Revision to the supplementary leverage ratio	Relax dealer balance sheet constraints for low-risk, low return intermediation	New rule adopted in fall 2025, implementation underway
Standing repo facility	Backstop liquidity support	Program is ongoing and is being revised to encourage greater use
Treasury buyback	Liquidity support	Program is ongoing and is being expanded
Post-trade transparency	Improve price discovery and liquidity of Treasury securities	Ongoing end-of-day dissemination of on-the-run Treasury securities transactions
Repo data collection	Improve regulatory oversight of repo market, including the non-centrally cleared bilateral segment	Ongoing data collection and periodic release of market size statistics
Treasury ATS	Improve regulatory oversight of trading platforms of government securities and repo	Previously proposed but not adopted; on SEC agenda

Table 6: Summary of Treasury Market Reforms. Progress is as of February 2026.

7. Conclusion

Central clearing represents a transformative development for U.S. Treasury market structure, offering significant benefits in terms of risk reduction, enhanced intermediation capacity, and improved market transparency. The implementation of comprehensive clearing requirements, while complex, is proceeding along a well-designed timeline that balances broad coverage with practical considerations. Sponsored repo activity has grown rapidly. Client access models are being expanded to serve different market segments and business models. New clearinghouses have been approved. Market participants and regulators are paying careful attention to managing the costs of clearing associated with margins, capital, and new operational arrangements.

³⁷ See

https://www.reginfo.gov/public/do/eAgendaMain?operation=OPERATION_GET_AGENCY_RULE_LIST¤tPub=true&agencyCode=&showStage=active&agencyCd=3235.

Our analysis suggests that the additional balance sheet capacity for primary dealers from central clearing could be up to \$1.3 trillion, as of December 2025. This estimate exceeds previous estimates in the literature based on 2022 data because the repo market has grown significantly and more money market fund activity represents transactions with FICC and the primary dealers than with the Federal Reserve. Targeted reductions in the SLR should further expand capacity and increase the elasticity of intermediation, without significantly increasing risks to safety, soundness, and financial stability.

Central clearing's balance sheet netting benefits are also additive to other Treasury market reforms to improve intermediation capacity, including official-sector liquidity support programs, data collection and transparency efforts, stronger oversight of trading platforms, and enhanced all-to-all trading. All these actions help to reinforce the role of Treasury securities in global financial markets as a safe, highly liquid asset.

While these reforms represent substantial progress toward enhanced Treasury market resilience, they must be understood within the context of ongoing fiscal challenges and a changing investor base. Continued attention to these fundamental dynamics will be essential for maintaining the Treasury market's role as the foundation of global financial stability.

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