

US Rates Watch

Regs update – taking a step forward

B3 endgame and eSLR moving on parallel tracks

There are two separate bank regs threads that may be advancing soon: the leverage side (eSLR = enhanced supplementary leverage ratio applied to GSIBs), and the risk-weighted side (Basel 3 endgame). News reports indicate that B3 endgame is close to publication. With broad strokes mostly priced in, we do not expect this to move rates or spreads markets, but details will matter for relative impacts across banks.

Leverage ratio changes, the eSLR calculation specifically, are likely coming soon as well. The comment period for eSLR ended in August and while several sub-proposals were included in the eSLR proposal, eSLR itself is widely expected to be changed to $0.5 * GSIB_method1$ soon.

Basel 3 endgame = risk-weighted capital reqs

News reports on Wednesday indicate that outlines of a final rule on B3 endgame from the Fed has been distributed to other agencies for review. The reports indicate that the proposal will have a negligible impact on total bank capital needs (3-7% area for large banks), a marked improvement from the original proposal requiring closer to 19% additional capital. This does not come as a surprise, however, given that the Fed's bank capital conference in July showed strong consensus amongst all stakeholders for getting B3 finalized and making it close to capital neutral for the banking system. After this rule is finalized, we expect the Basel endgame thread to conclude and attention to turn to Treasury market functioning and liquidity, which entails potentially lowering risk-weighted capital requirements for primary dealers who sit at the heart of the Treasury bond and financing markets.

eSLR = leverage capital requirements

New rules for leverage may soon be finalized, with other sub-proposals advancing forward. The comment period on the eSLR proposal ended in August and we are likely close to a finalized version of $eSLR = 0.5 * GSIB_method1$, which is widely expected. This should push the bank leverage requirements deeply into the background, below the risk-weighted requirements, which is their intended position. Because risk-weighted requirements are about the same today as leverage requirements, pushing the leverage requirement into the background is not expected to free up any new capital at banks, as the similar risk-weighted constraints will then bind. But possible additional future changes such as changing the overall GSIB surcharge requirement to be the lower of methods 1 and 2 could bring more substantial capital relief going forward. Markets likely anticipate this direction for GSIB surcharge, but the exact details will matter.

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GSIB = globally systemically important bank

GSIB_method1 = the lower of the 2 required GSIB calculations

eSLR = enhanced supplementary leverage ratio

B3 = Basel 3

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Swap spreads widen in extreme cases – uncertainty high

For swap spreads, a key theme will be primary dealer regulations in the risk-weighted realm. This was the first topic discussed in the July capital conference, and at that time we were surprised by the depth of that dive (see report: [US Rates Watch: Capital conference may begin push to lower dealer capital requirements 22 July 2025](#)). We think regulatory relief for primary dealers could materially widen swap spreads (lower Treasury rates vs swaps) if it is substantial. Dealers are the market makers for primary and secondary Treasury markets and their regulatory costs/frictions/constraints translate into lower market liquidity in risk-off episodes, lower inventories of Treasuries, and less relative value trading of Treasuries.

In the most extreme thought experiment, where dealer Treasury/swap/futures/repo portfolios were free of balance sheet cost, regulatory constraint, or internal risk constraint, we think swap spreads would trade close to 0bp which we view as their no-arbitrage fair value. The dealer constraints are in the risk-weighted domain, especially in repo financing counterparty exposures and risk-taking. Any discussion of dealer risk-weighted requirements in the forthcoming communications would be an indication that this area is more likely to see changes. The depth of the changes will determine the magnitude of spread widening. We think that it makes sense to reduce requirements for Treasuries as ultimately there is no default risk and because of Fed lending capacity, no funding risk for dealers. If dealers are to provide liquidity in Treasuries, it makes sense to make their balance sheets as elastic as possible.

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