

Stephen Morris Discusses Cross-Product Netting Under US Capital Framework and Implications for Mandatory Clearing for US Treasuries

September 30, 2025

Financial Markets and Funds Partner Stephen Morris spoke with *Risk.net* regarding efforts to resolve critical questions surrounding central clearing of US Treasury cash and repo transactions. Steve noted that there are hurdles yet to be cleared by prudential regulators, in addition to a potential overhaul of the Basel III capital framework.

The current US regulatory capital framework permits a bank to recognize netting between repo and derivatives exposures for purposes of risk-weighted asset calculations – but only where the bank an 'advanced' rather than the 'standardized' approach for such calculations, and "subject to a pretty rigorous vetting process by the prudential regulators." The original Basel III Endgame proposal would have ended the use of internal models, leaving the standardized approach as the only option for banks looking to net cross-product exposures. Steve noted: "If a bank uses the standardized approach, the capital benefits of a cross-product netting agreement cannot be recognized, and it's not clear how this will come out in the revised Endgame proposal – the initial proposal would have removed recognition of cross-product netting entirely."

Steve recently wrote in more detail about the issues to be resolved prior to go-live for mandatory clearing, here.

"Accounting fix brings FICC agent clearing a step closer," *Risk.net*, September 26, 2025

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