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Letter

Letter: Come the next crisis, don't say you weren't warned

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I wish to highlight an implication in Robert Armstong's insightful discussion of the effect of US Treasuries' holdings and transactions on bank solvency risk ("Privatising the Fed's balance sheet", [Opinion](#), Unhedged, February 6).

Bank regulations treat Treasuries as riskless, subject only to the lower bound of the supplementary leverage ratio (SLR), which has recently been relaxed by US bank regulators.

However, even if we posit that Treasuries have no repayment risk (a contentious concession given the frequent Congressional brinkmanship over the debt limit), they are not riskless. Holding Treasuries carries interest rate risk, which caused the insolvency of Silicon Valley Bank in 2023. Treasury repos and derivatives, even when margined, carry the risk of counterparty default.

Therefore, the regulatory treatment of Treasuries on bank balance sheets is a fiction, and the relaxation of the SLR lower bound raises the solvency risk that banks are allowed to assume. If the next financial crisis is linked to how much exposure banks have to Treasuries, it cannot then be claimed that it came as a surprise.

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