

US Rates Strategy

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December 10, 2025

A perspective on PORTs

In a recent Brookings piece, Duffie and Wilson propose a novel Treasury security that could both serve as stablecoin collateral and, in tokenized form, become a settlement asset.¹ We consider some structural impediments to its creation and use.

- **PORTs are perpetual overnight rate Treasury securities.** They would be issued daily at par with investors bidding on the overnight rate they are to be paid the next day. Owners would have the option to roll or redeem the next day.
- **PORTs could be used as collateral backing stablecoin issuance.** They could also be held by money funds in place of repo or used as margin collateral on exchanges. Alternatively, tokenized PORTs could become a settlement asset like bank reserves or currency.
- But issuance requires solving some mechanical obstacles created by their variable, daily redemptions. Capping daily redemptions might affect their cash equivalence.
- We are uncertain whether PORTs are sufficiently different from existing instruments like bills and repo to make a case for their strong demand. That said, we think they might compete more directly with repo than bills.
- **We think there is scope to tokenize Treasuries of all maturities.** We also think tri-party repo trades could be blockchained.

Re-PORTed purpose

Duffie and Wilson propose a new Treasury security – a perpetual overnight rate Treasury or PORT. **PORTs would be auctioned daily at par with investors bidding on the interest rate they are to receive the next day.** The securities would settle on the day of their auction although Duffie and Wilson note that it might be possible to create a security with staggered settlements. Our sense is that same day settlement – like repo – might be more attractive. **On the next day, holders could redeem their PORTs from the Treasury, or they could roll them over at that day's auction rate.** We think the security's daily interest rate might be lower than tri-party repo. Unlike repo, the Treasury security is more liquid – it can be transferred to a different owner before the security matures. Similarly, PORTs would not have counterparty risk. PORTs could be held in custody accounts from where they could be tokenized on a blockchain.

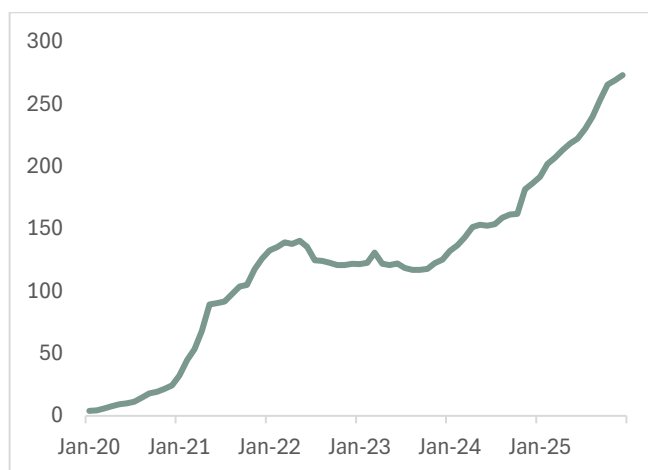
¹ See, "The case for a new floating rate Treasury note", D. Duffie and D. Wilson, Jr, Brookings Institute, December 2, 2025.

The authors see two broad uses for PORTs. **First, as they are risk free and have overnight maturities, PORTs could be used to collateralize stablecoins and money funds** (Figure 1). Issuers of stablecoins and money fund managers would have an overnight instrument that they could always redeem at par to meet their outflows and redemptions. Because the assets held have the same maturity as the stablecoin/money funds' promise of same-day liquidity there is no timing mismatch between redemptions and maturing assets. This substantially reduces the risk that a surge in redemptions forces the stablecoin issuer or money fund to de-peg or "break-the-buck" triggering more redemptions and potentially spilling over to other issuers. In the past, liquidity mismatches exacerbated runs on (prime institutional) money funds.

Duffie and Wilson argue that this demand would be large given the expected adoption of stablecoins which in some estimates could exceed \$2trn by 2030.² Assuming issuers allocate 25% of their reserves to PORTs, this might be worth \$500bn. Adding in their estimate for repo substitution, demand for PORTs might approach \$2trn. This would make the PORTs market comparable in size to the TIPs market and about 3x larger than the Treasury current 2y FRN program. We suspect the demand for stablecoins will be smaller than \$2trn in 2030 and much of it will be concentrated offshore as a currency replacement.

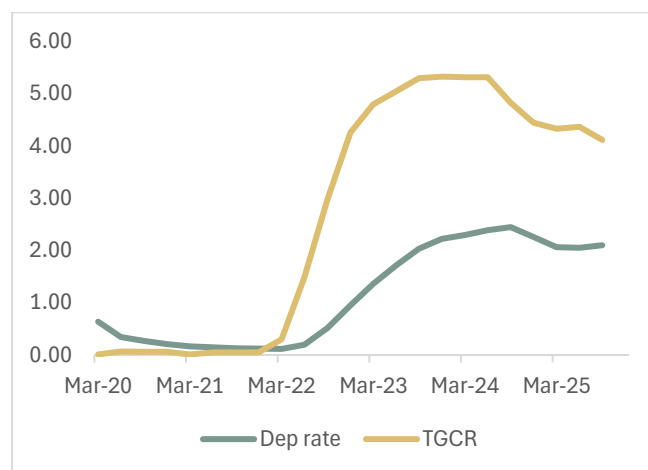
However, we see an additional collateral role for PORTs. As risk-free cash equivalents, tokenized PORTs could be used to margin requirements on exchanges. US central clearing platforms hold nearly \$1trn in margin and default fund contributions. Much of this is held as Treasuries and cash.

Figure 1: Stablecoins (\$bn)



Source: visaonchainanalytics, SMBC Nikko

Figure 2: Tri-party repo and deposit rates (bp)



Source: Blick et al, SMBC Nikko

Separately, we think that portfolios of PORTs could help establish secondary markets for exchanging liquidity pools on a 24/7 basis – just like tokenized deposits, money funds and stablecoins. Indeed, this leads to their second use case. PORTs could become a settlement asset for completing purchases of securities and transferring value. **Because PORTs are risk-free, overnight, and theoretically always redeemable, the securities are cash equivalent.** As a result, investors should be indifferent between selling assets in return for cash in a bank deposit or a PORT holding. Just as bank depositors do not need

² Estimate provided in a Treasury Borrowing Advisory Committee presentation, April 30, 2025. Other market estimates are higher - \$4trn was cited in the Duffie and Wilson paper.

to convert their balances into paper currency before settling transactions, holders of PORTs could do likewise. Moreover, as PORTs would pay interest – presumably near a tri-party level - investors may prefer to settle their transactions in the higher-yielding token than deposits (Figure 2).

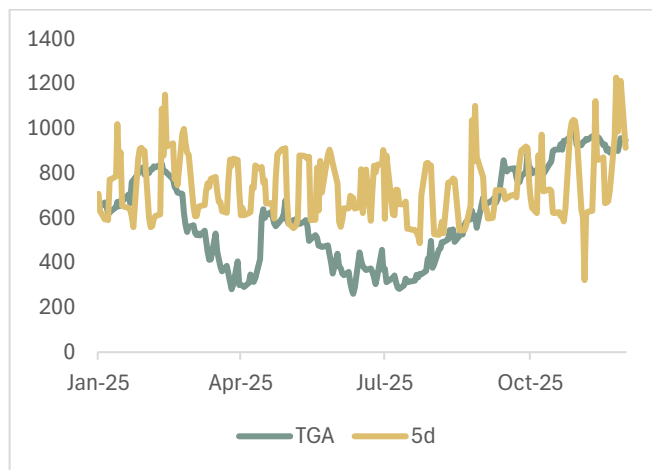
PORT complications

We see two complications. First, mechanically, the Treasury has never issued a security that could be partially redeemed. Instead, it redeems and retires an entire CUSIP at maturity. But to make the security fungible across issues (dates), PORTs would need to have the same CUSIP. This might also make it easier to tokenize on a blockchain. Duffie and Wilson argue that this is not insurmountable as the Treasury's existing system for stripping securities works along the same line.

However, partial redemption creates more serious issues than CUSIP fungibility. The Treasury keeps its operating balance at the Federal Reserve and targets a balance equal to a week's worth of its expected daily outflows in case it cannot settle auctions (Figure 3). As the deficit has grown and the Treasury's bill issuance has increased, its precautionary buffer has grown to \$900bn. **But, if in theory every PORT can be redeemed each day, the size of this buffer must be at least as large as total PORTs outstanding.**

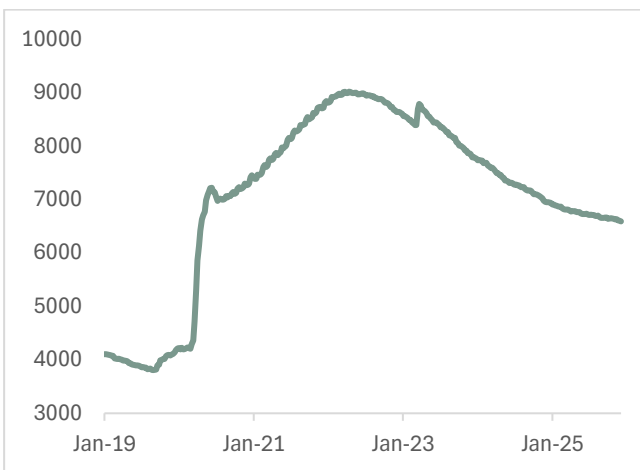
In practice the Treasury could operate with a smaller buffer as it is unlikely that all PORT holders would demand their cash back simultaneously. We think this is especially the case if investors consider PORTs to be cash equivalent. Cash equivalence would mean that they would have no reason to redeem them for another settlement asset. That said, just how large a precautionary cash balance the Treasury would need to maintain relative to PORTs outstanding could only be learned over time.

Figure 3: Treasury cash (\$bn)



Note: Following 5d actual outflows. Source: US Treasury, SMBC Nikko

Figure 4: Federal Reserve balance sheet (\$bn)



Source: Federal Reserve, SMBC Nikko

Our sense is that the Treasury might need to hold potentially \$2trn or more on deposit at the Federal Reserve if PORTs reach the size foreseen by Duffie and Wilson. To avoid crowding out bank reserves the Fed would need to considerably expand the size of this balance sheet – by at least an additional \$2trn (Figure 4).

Alternatively, the Treasury could impose a cap on daily redemptions – redemptions above the day's cap would be pro-rated or rationed. While capping redemptions would give the Treasury (and

Fed) clarity about the size of its potential daily liquidity need, we wonder if it might jeopardize PORTs cash equivalence status. Cash equivalence requires the instrument be readily convertible into cash at a known value. But if a PORTs investor was not certain exactly how much of their holding could be redeemed the next day and that this amount depended on the behavior of other investors, would they still consider it cash equivalent? This may have a similar effect on their behavior as money fund gates; investors may demand full rather than partial redemption of their holdings in periods of financial stress.

Of course, PORT holders could sell their securities into the secondary market if a cap on redemptions was binding. We assume that this might occur at a price *below* par. After all, as the sellers are “paying” for immediate access to their cash rather than taking the risk of partial redemption, we expect they might have to sacrifice some of the PORT’s value. PORTs issued the next day would be sold at par – although the auction clearing rate might be higher.

PORT competition

We are a little uncertain about whether PORTs are sufficiently different from existing instruments like bills and repo to make a case for their strong demand. **We think PORTs *might* compete more with repo than bills.** PORTs have two advantages over repo. First, they are more liquid and second it is easier to buy a security than to negotiate counterparty and clearing documents. That said, the additional liquidity likely means they will trade at rates below tri-party repo. This effect may be amplified if a significant volume of transactions migrates from repo to POSTs and borrowers are forced to bid up rates.

Separately, would cash investors prefer PORTs to a bank deposit or gov-only money fund? In theory, PORTs might be more attractive than bank deposits since they offer a direct, unlimited par guarantee (unlike the \$250,000 cap on deposit insurance). And while gov-only money funds also offer an unlimited guarantee, theirs is more indirect as the underlying assets need to be sold or mature to back their “\$1-in/\$1-out” promise. This also applies to the stablecoins. **But, if an investor can buy and hold a PORT with a daily interest rate that can be used to satisfy transactions why would she need either the stablecoin or money fund?** The investor might still prefer bank deposits to either, as banks provide other services than transaction settlements (like credit). But if the Treasury can impose redemption caps on POSTs are they truly cash equivalent? And could that reduce their attraction relative to deposits and money funds?

Would investors prefer PORTS to bills? Our sense is that this will depend on how much value they attach to the daily redemption option. As bills have plenty of secondary market liquidity, it is not clear that this would be worth enough to make PORTs a significant bill substitute.

Finally, we think the more fundamental question raised by PORTS concerns tokenizing *all* Treasuries rather than a specific type meant to be sold to money funds and stablecoin issuers. In theory, it might be possible to custody Treasuries of various maturities into pools that are themselves tokenized. These tokens would trade as claims on the pool’s assets. We wonder if such a structure might apply to tri-party repo where the cash and collateral are held in a “box” at the clearing bank.

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