

# Transparency in the U.S. Repo Market

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# Outline

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- Overview of U.S. repo market
- Lack of transparency prior to the crisis
- Improved transparency today, but much remains to be done

# The U.S. repo market

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- The U.S. repurchase agreement (repo) market is a large financial market where participants effectively provide collateralized loans to one another
- Key financing source for broker-dealers that make markets in Treasury and agency securities
  - Supports dealer intermediation of credit
- Played a central role in the recent financial crisis
  - “Run on repo”
- Unfortunately, sufficient data are not available

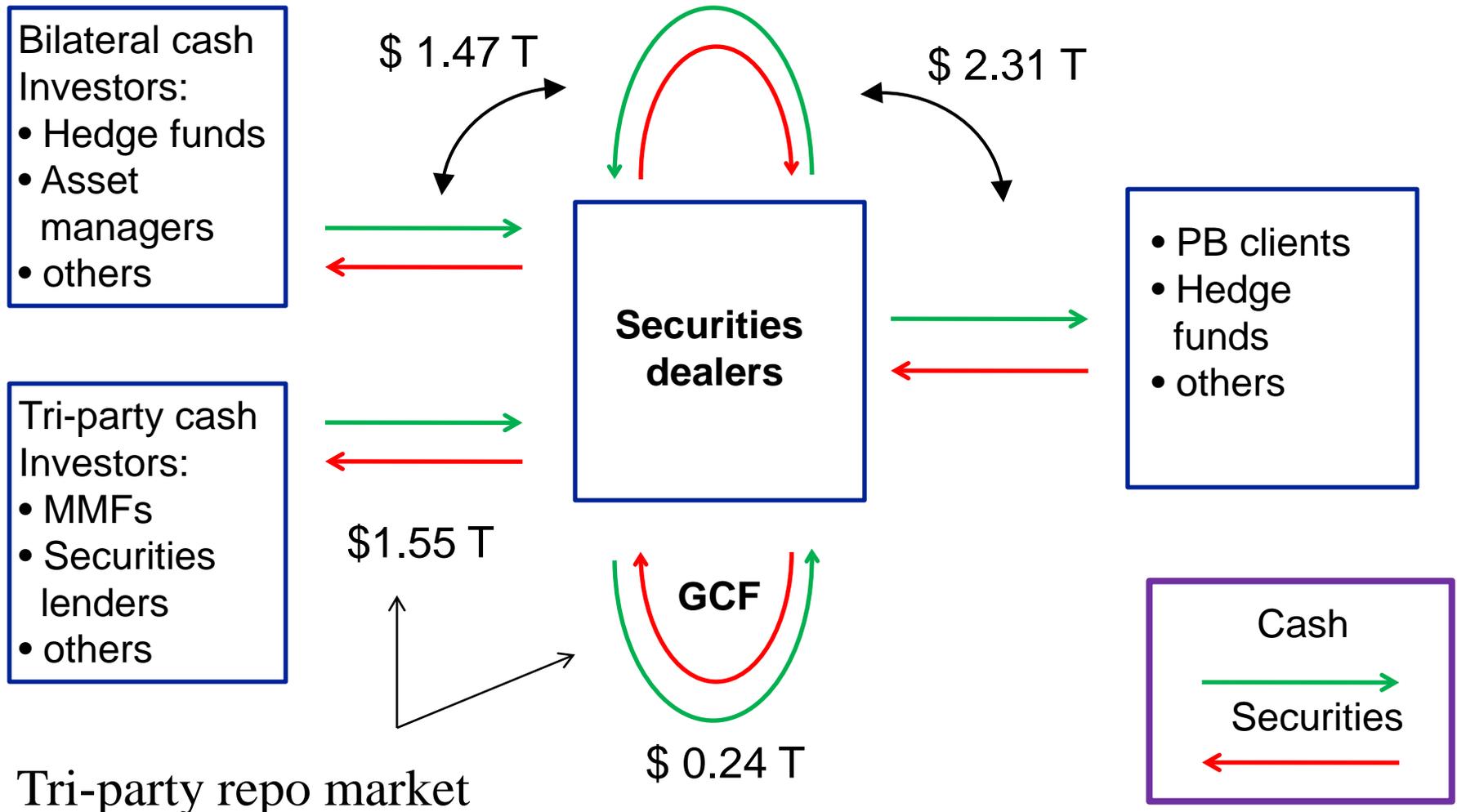
# Repo and tri-party repo

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- A repo is the sale of a security with a promise to repurchase the security at a specific future date
- In a tri-party repo (TPR) a clearing bank provides collateral management and settlement services
- Two clearing banks in U.S. TPR market
  - JP Morgan Chase (JPMC)
  - Bank of New York Mellon (BNYM)

# Segments of the U.S. repo market

Volumes as of September 2013



# Repo markets and systemic risk

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- Loss of repo funding contributed to the problems experienced by Bear Stearns and Lehman
  
- Failure of a large dealer could lead to fire sales
  - Large size of portfolios financed
  - Some investors, such as MMFs and securities lenders, face liquidity pressures of their own

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# Need for more transparency

# Why do we want more data?

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- Data is useful for regulators
  - To monitor market functioning
  - To understand market evolution
- Data can inform policy response in times of stress
- Data is useful for market participants
  - To better understand the risk they take
  - To assess risk of fire sales and spillovers

# Before the crisis: Almost no data

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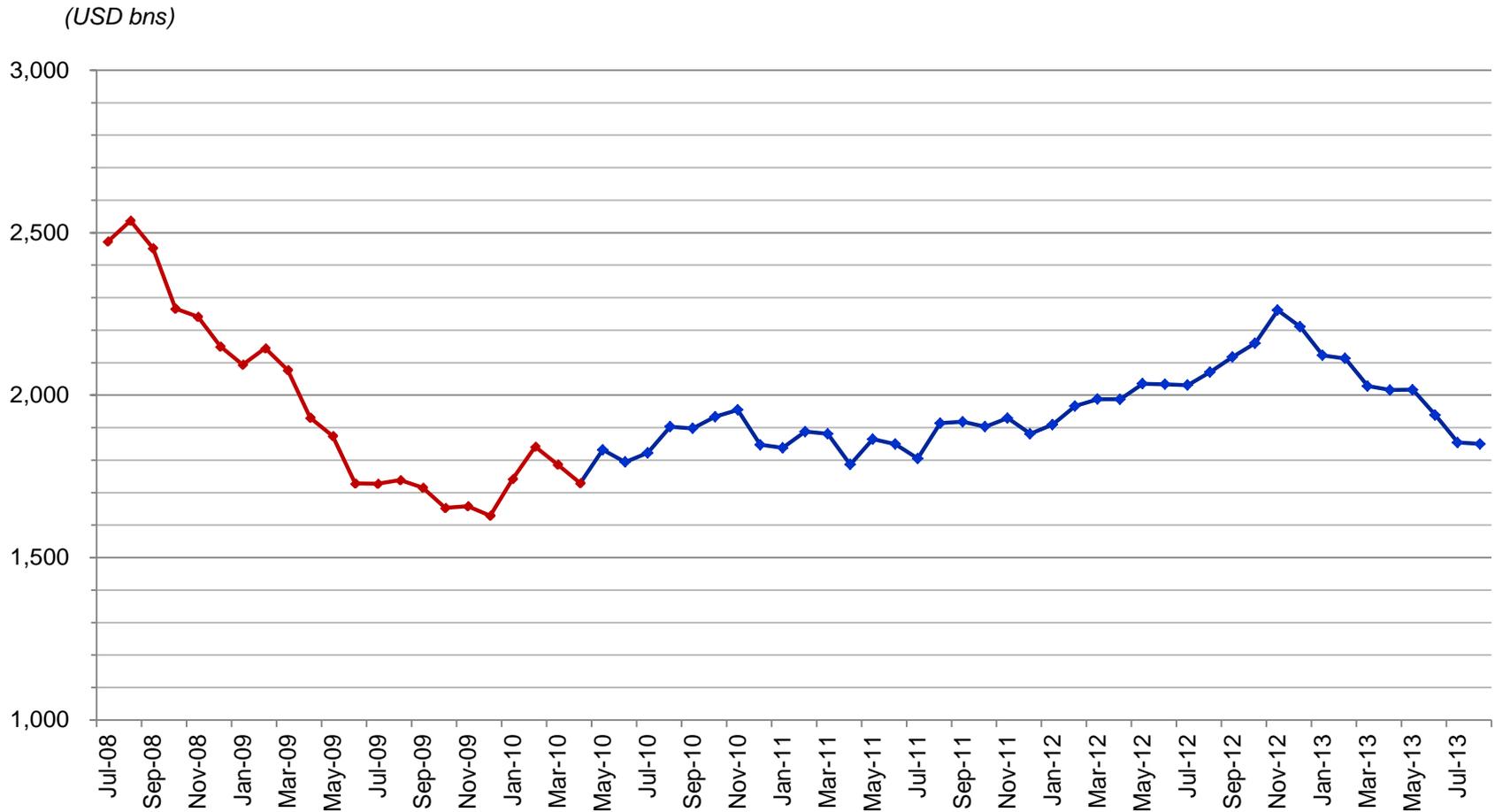
- Only exception: Primary dealer data
  - Provides aggregate amount of repos and reverses
  
- Available on the NY Fed's website
  - <http://www.newyorkfed.org/markets/statrel.html>
  - More granularity regarding collateral since April 2013

# Data since the crisis: Tri-party repo

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- TPR reform process led by industry (2009-2011)
- Monthly data available on NY Fed's website since May 2010 on
  - Volumes
  - Haircut
  - Market concentration
- [http://www.newyorkfed.org/banking/tpr\\_infr\\_reform\\_data.html](http://www.newyorkfed.org/banking/tpr_infr_reform_data.html)

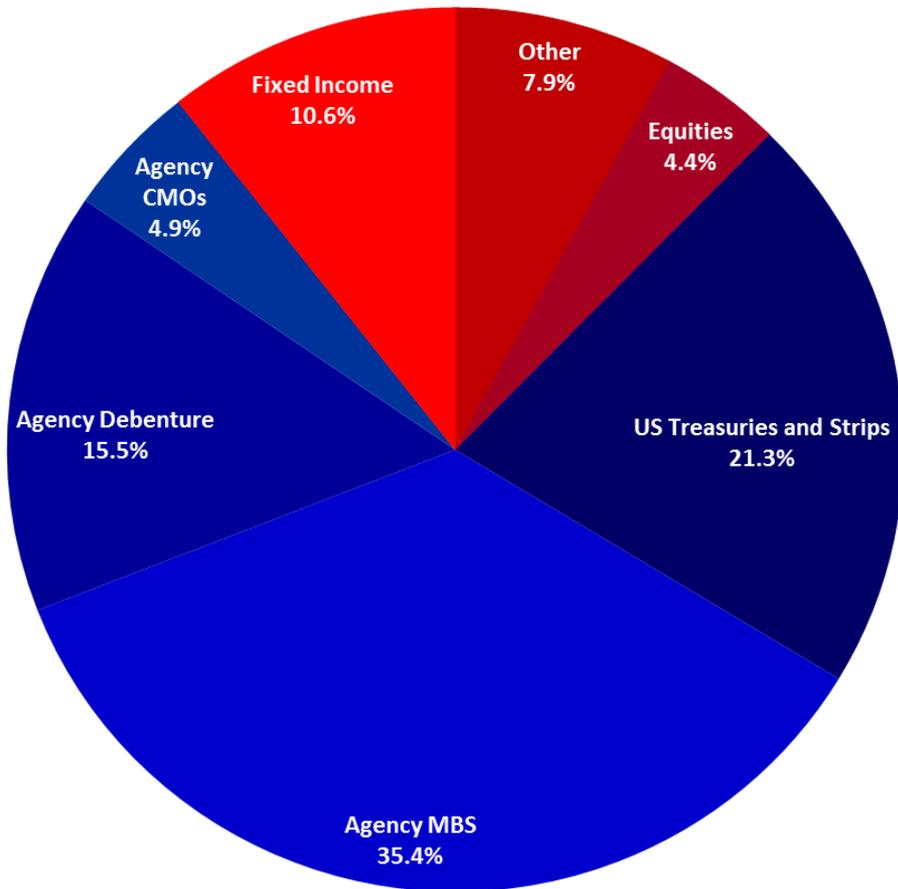
# Size of the tri-party repo market



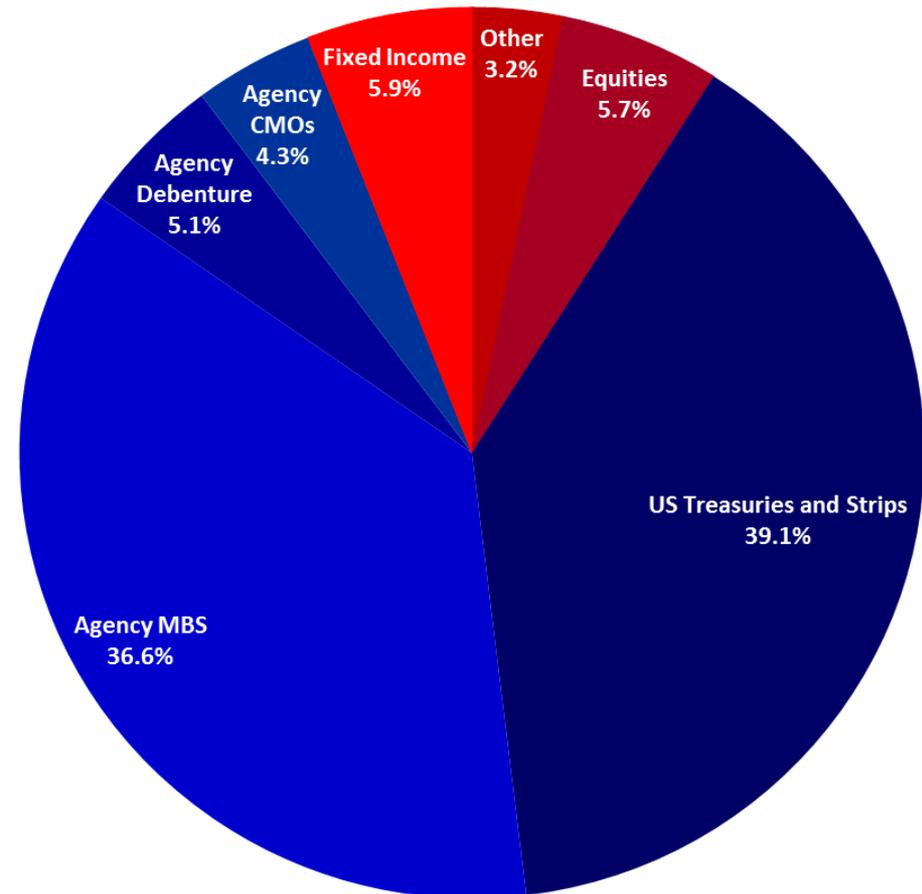
Source: Bank of New York Mellon, JP Morgan Chase

# Collateral financed in the TPR market

September 2008

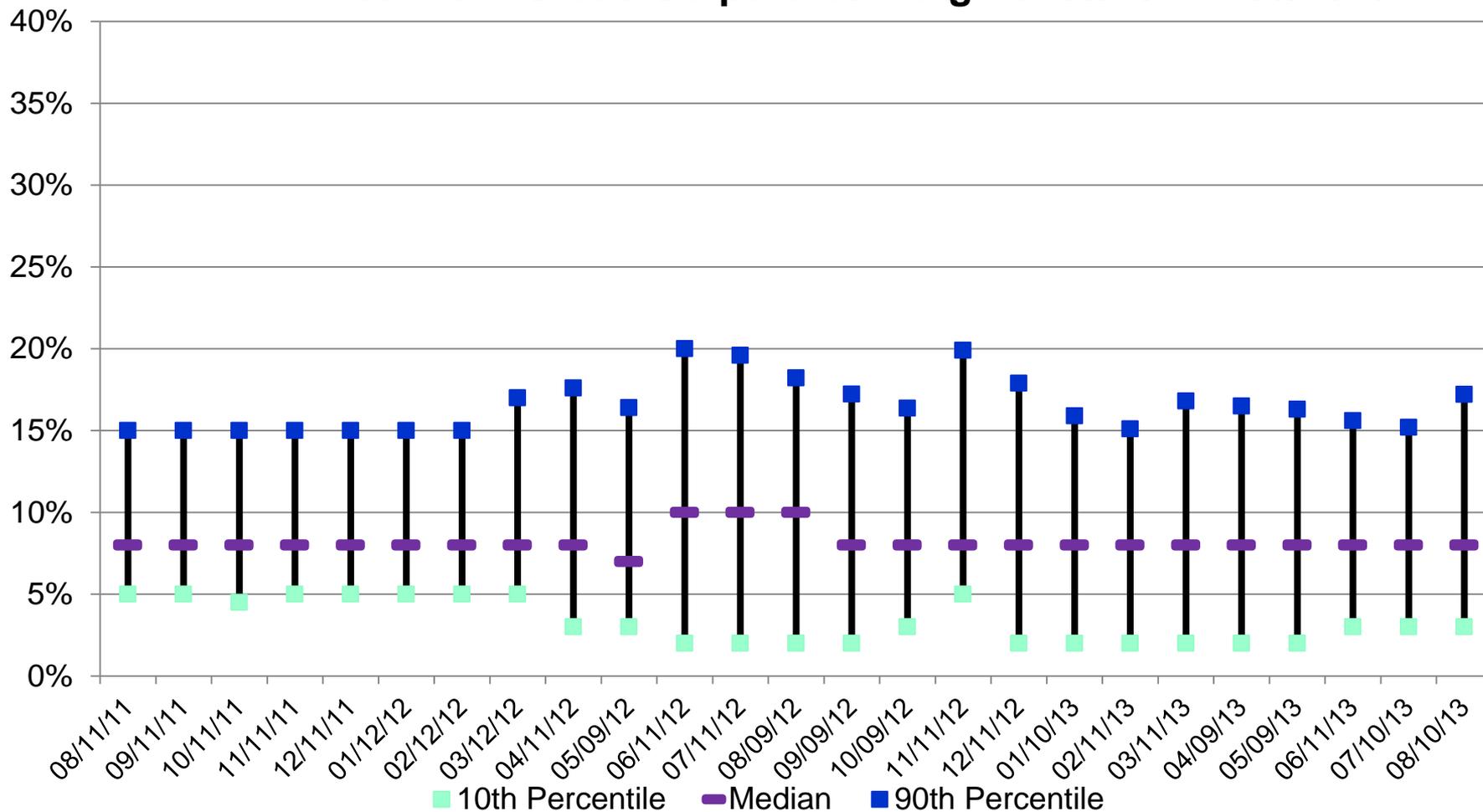


September 2013



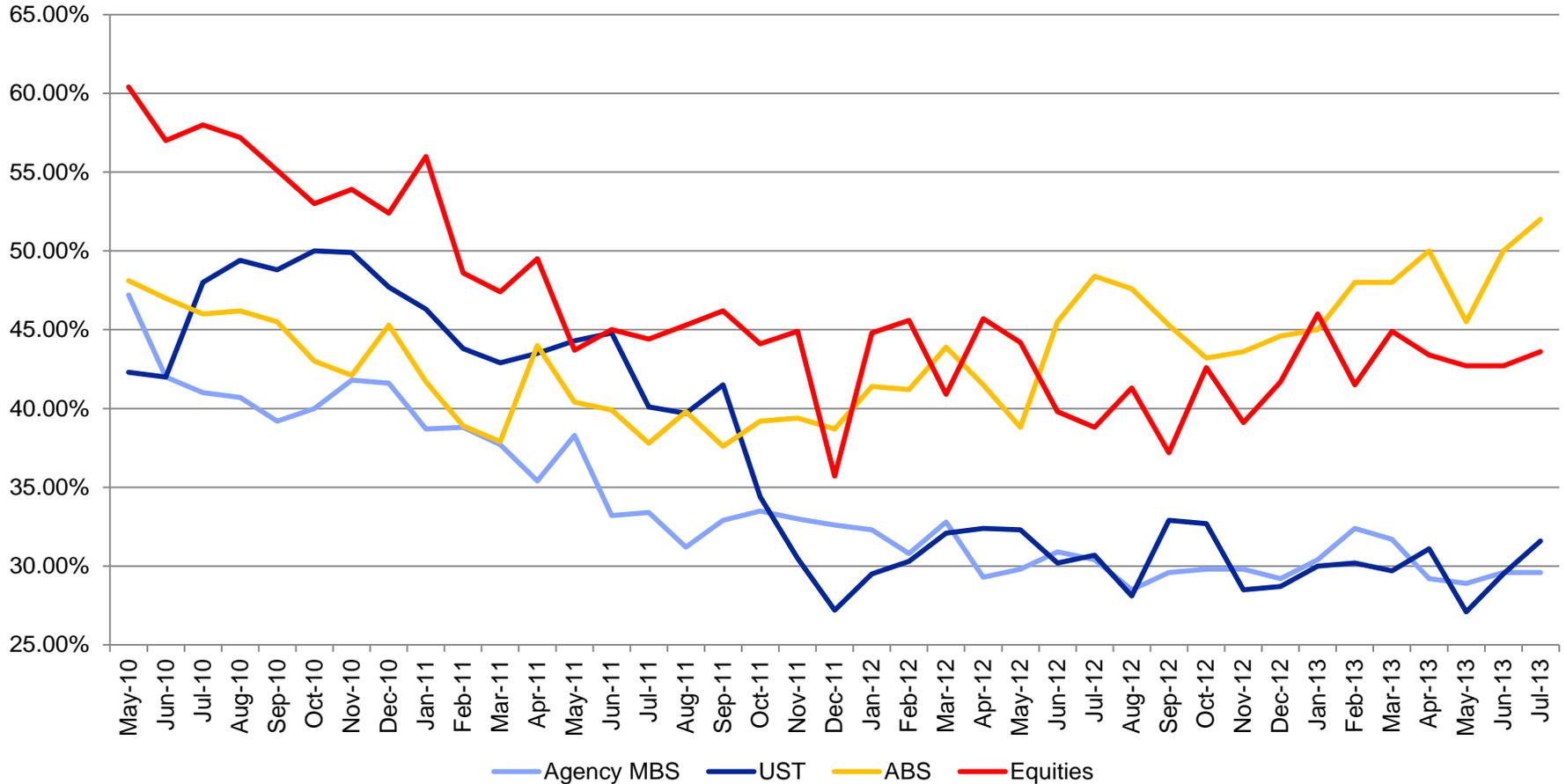
# Haircuts by asset class

## Non Investment Grade Corporates Margins: 08/2011 – 08/2013



# Concentration by asset class

## Concentration of Top 3 Dealers in Tri-Party Repo by Asset Class



# Major data gap: Bilateral repo

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- In the U.S. too little is known about the bilateral repo market
  - Collecting data is more difficult because there is no central point of collection
  
- Things we would like to know:
  - What type of collateral is financed in that market?
  - Which institutions are most active?
  - How do bilateral and tri-party markets interact?

# Data needed: FSB recommendations

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- FSB report of August 2013 gives more detail about data needed and why
- Data needed:
  - Amount, counterparty, maturity, collateral type, haircut, ...
- Data use:
  - Understand maturity transformation and rollover risk, leverage, interconnectedness, concentration, ...