

Seminar series

Securities markets: trends, risks and policies

Repo resilience

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Abstract:

The dash for cash during the financial crisis, 2019 repo blowup, and Covid-19 pandemic severely disrupted repo markets. We analyze the impact of the trading and clearing mechanism on repo resilience in a dynamic model of short-term lending that allows for two types of runs - narrow runs and systemic runs. Repo market structure affects the run type and, as a result, resilience to funding shocks, lending activity, loan terms, and welfare. The model provides conditions for when non-anonymous OTC-based repo markets are more resilient than anonymous CCP-based repo markets and when proposed reforms to existing repo markets improve financial stability and welfare. We provide novel predictions for how the collateral premium varies with funding conditions and repo market structure that are consistent with empirical evidence.

Keywords: asymmetric information, resource allocation, financial stability, social welfare

JEL Classification: G01, G14, G21, G28

Link to participate: <https://global.gotomeeting.com/join/755296861>