

- **JP-banks pay a premium in the US repo-market!**

**BUT!** Not in the unsecured market

- Lots of controls

⇒ Conclude **Bargaining Power**

— Japan    - - - Other

# Summary

- Important topic: US Money Markets very important for Global banks
- Great data
- Learn lots from reading. Institutional details, empirical facts
- Puzzling empirical finding (JP repo premium)

⇒ **Great paper!**

## Why do JP-banks pay a premium in US repo market?

- **Counterparty risk? No!**

- a) Repos are “risk-free”

- b) JP-banks get discount in un-secured

- **Cross-subsidization by MM-funds? No!**

- a) Empirically shown

**BUT** why wouldn't JP-banks just shop around?

Search costs? Search can't be hard with few dominating MM funds

### Three alternative explanations:

- 1 THIS PAPER: **Bargaining power** of MM funds

#### Alternatives:

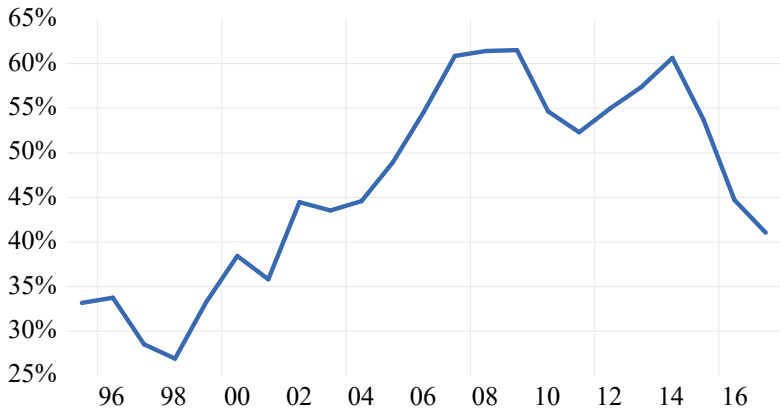
- 2 **Risk:** Repo-assets by JP-banks are longer-dated (?)
- 3 **Cost:** JP-banks minimize capital-usage (?)

# 1. Bargaining power

- What are determinants of bargaining power?  
Both over time and across funds and banks
- It's relative bargaining power that matters  
Why do JP-banks have less than others?

# 1. contd. Market concentration

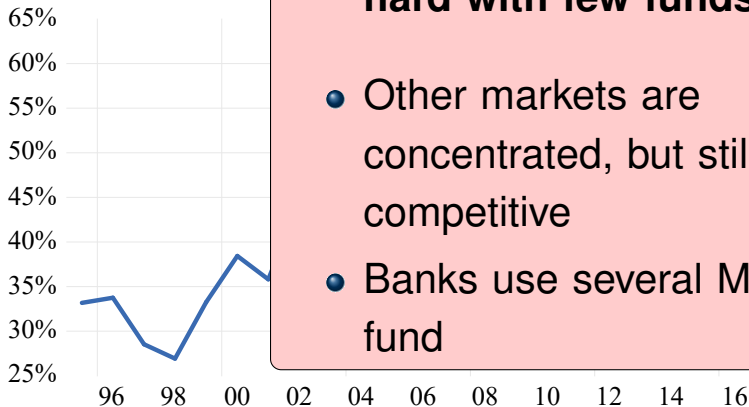
Share of top5-banks in FX





# 1. contd. Mark

## Share of top5-banks in FX



- **Search can't be that hard with few funds**
- Other markets are concentrated, but still competitive
- Banks use several MM fund

# 1. contd. Suggestions

- Discuss determinants of bargaining power
- Find other variables than Fixed Effects to identify bargaining power
  - ▶ FE require variation in number of funds that banks use, while paper suggest low bargaining power for JP-banks due to little such variation
- Characterize bank-fund relations

**BUT:** Large concentration by JP-banks with top5-funds doesn't imply that top5-funds get bargaining power. Could be opposite.

## 2. Risk

- JP banks have lots of long-maturity assets  
(more than others!?)
- JP-banks use short repos to fund long assets
- Long-maturity assets have more interest-rate risk and less market-liquidity

⇒ **Higher rate in repo**

**Test:** Control for maturity, not only type

- *Possibly consistent with evidence:*  
Larger funds more willing to participate?

### 3. Capital cost

- JP banks wants to commit as little capital as possible ⇒ prefer low hair-cut
- Negotiate combinations of hair-cut/repo rate with lower hair-cut

⇒ **Higher rate in repo**

- *Possibly consistent with evidence:*  
Larger funds more willing to participate?

# Summary

- Great question, topic, data

⇒ Great paper! . . . Especially next version



## Why a JP repo-premium in US Money Markets?

- 1 **Bargaining power:** Draw more on theory.  
Characterize bank-fund relations
- 2 **Risk:** Control for maturity of collateral
- 3 **Cost:** Get data on hair-cut

