

# Research at FRBNY

Nina Boyarchenko

Federal Reserve Bank of New York

June 2016

The views expressed here are those of the author and do not necessarily reflect those of the Federal Reserve Bank of New York or the Federal Reserve System



# Federal Reserve Bank of New York

- Supervises institutions in New York, Connecticut, New Jersey, Puerto Rico and US Virgin Islands
- Houses the trading desk of the Federal Reserve System
  - Buys/sells securities on behalf of the entire system
  - Implements Treasury auctions
  - Limited trading on behalf of foreign governments
- President of the New York Fed is the permanent Vice Chair of the Federal Open Market Committee (FOMC)
- Implemented the facilities created to deal with the financial crisis
  - Term auction facility (TAF)
  - Term securities lending facilities (TSLF)
  - Primary dealer credit facility
  - Maiden Lane facilities



# Research at the New York Fed

- “Consulting group” for the Bank
- Close collaboration with
  - Trading desk
  - Supervision group
  - Policy analysis group



# Research at the New York Fed

- “Consulting group” for the Bank
- Close collaboration with
  - Trading desk
  - Supervision group
  - Policy analysis group

## Some examples

- Financial stability
- Market and funding liquidity
- OTC markets



# Financial stability research I

## Basic questions

- How resilient to shocks is a financial institution?
  - What externalities does the institution create for other financial institutions? Real economy?
  - If unstable, does default generate contagion?
- 
- “Institution”  $\neq$  banks: insurance companies, mutual funds, hedge funds, etc
  - Realistic constraints
  - Interaction between regulatory constraints, agent’s preference and other policies



# Financial stability research II

From the April 2016 FOMC minutes:

## *The Relationship between Monetary Policy and Financial Stability*

*The staff presented several briefings on a special topic, the relationship between monetary policy and financial stability [...] Participants stressed the need for further research and analysis to advance understanding of the relationship between monetary policy and financial stability and to help identify situations in which it might be desirable to incorporate financial stability considerations in the design of monetary policy.*



# Market and funding liquidity research I

- “Market liquidity”: the cost (money or time) of buying or selling an asset for cash
- “Funding liquidity”: ability of an institution to raise cash by borrowing; secured or unsecured

From Pres. Dudley’s May 1, 2016 speech at FRB Atlanta 2016 Financial Markets Conference:

- Has market liquidity declined for some asset classes?
- If so, what are the causes?
- Has the increase in the regulatory requirements imposed on systemically-important securities dealers adversely impacted market liquidity?
- Are there adjustments that could be made that might improve market liquidity without impairing financial stability?



# Market and funding liquidity research II

- Market and funding liquidity interlinked
- Funding liquidity and regulatory constraints interlinked
- Funding liquidity and lender-of-last-resort (LOLR) interlinked



# Over-the-counter markets research I

- OTC markets are an important part of financial markets
- As of 2015 H2:
  - FX OTC: \$70,446 billion gross notional; \$2,579 billion MV
  - (FX ET: \$383 billion open interest)
  - IR OTC: \$384,025 billion gross notional; \$10,148 billion MV
  - (IR ET: \$63,078 billion open interest)
  - Equity-linked OTC: \$7,141 billion gross notional; \$495 billion MV
  - Commodity OTC: \$1,320 billion gross notional; \$297 billion MV
  - CDS: \$12,294 billion gross notional; \$421 billion MV
  - Other OTC: \$17,685 billion gross notional; \$558 billion MV



# Over-the-counter markets research II

- Have seen a lot of changes post-crisis
  - Mandatory central clearing: IR, CDX, ...
  - Larger balance sheet costs: SLR, Volcker rule, ...
  - Margin rules
- Potential questions:
  - Relationship formation? How stable? Cross-market?
  - What contracts should be centrally cleared? CCP structure?
  - OTC markets and regulation?
- Sidenote: more data becoming available
  - FINRA: “enhanced” TRACE, 144-a trades, MBS/ABS trades
  - OFR: anonymized CDS trades

