



Repo Market Fact Sheet

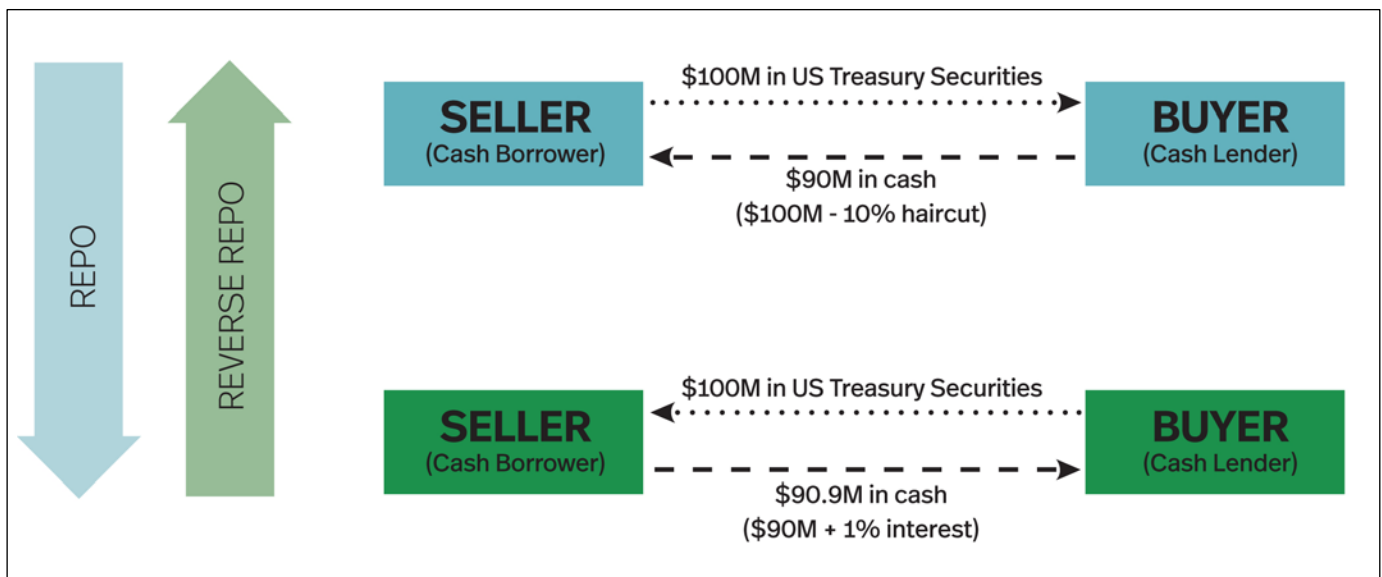
2018

September 2018

Repurchase and Reverse Repurchase Agreements

Overview

With a notional amount outstanding of \$2.2 trillion, the repurchase agreement (repo) market is a vital, yet not always well understood, part of the U.S. financial system. The repo market represents a liquid, efficient, tested and safe way for firms to participate in a short-term financing arrangement, providing funding for their day-to-day business operations. Repurchase agreements are a sale of financial assets combined with a promise to repurchase those assets in the future (in many cases, the repurchase is agreed for the following business day). These arrangements have the economic characteristics of a secured loan – cash vs. collateral – and are used by short-term institutional cash investors as a secured money market instrument and by dealers to finance long positions in securities.



While a broad array of assets may be financed in the repo market, the financial assets most commonly used include U.S. government and federal agency securities, high quality mortgage-backed bonds, corporate bonds and money market instruments. Recent data for the tri-party repo (a form of repo that uses an agent to maintain cash and securities accounts for both parties) market, which represents a significant part of the entire U.S. repo market, indicates that, by dollar value, U.S. government securities account for approximately 51.4 percent of the most common collateral, agency mortgage-backed securities (MBS) and collateralized mortgage

obligations (CMOs) account for 29.2 percent, and equities make up 7.6 percent. In addition, corporate bonds account for 5.0 percent, non-agency mortgage-backed and asset-backed securities for roughly 3.1 percent, federal agency and government sponsored enterprises securities (for example, Fannie Mae and Freddie Mac) account for approximately 1.8 percent, and other (which includes international securities, municipality debt, and whole loans) account for the remaining 1.9 percent.

Benefits for both individual market participants and the financial system

A liquid and developed repo market allows market participants, most prominently the primary dealers, to act as market makers in fixed income securities and thus contribute to the highly liquid secondary markets in these securities. An active repo market allows market makers to finance an inventory of securities and to source securities that are not in inventory to meet secondary market, or investor, demand. This ability to finance and source securities in an efficient way contributes to lowering interest rates paid by the issuers, most notably the U.S. Treasury. This, in turn, lowers the debt-service cost borne by taxpayers. The repo market presents significant advantages to both cash providers (investors such as money market funds and insurance companies) and those who require financing (such as primary dealers and other market makers). Cash investors have flexibility as to term of investment (overnight to, in some cases, one year), are fully collateralized, usually with additional margin, by the financial assets subject to repurchase, and receive competitive money market rates of return. Repo allows these investors to manage excess cash balances safely and efficiently. Dealers, on the other hand, benefit from the significantly reduced funding costs that repo provides, the ability to finance long positions in financial assets, and the ability to borrow securities to cover short positions and satisfy client needs. Long-holders of securities can also gain incremental returns by engaging in repo transactions with cash investors for securities they own but have no immediate need to sell.

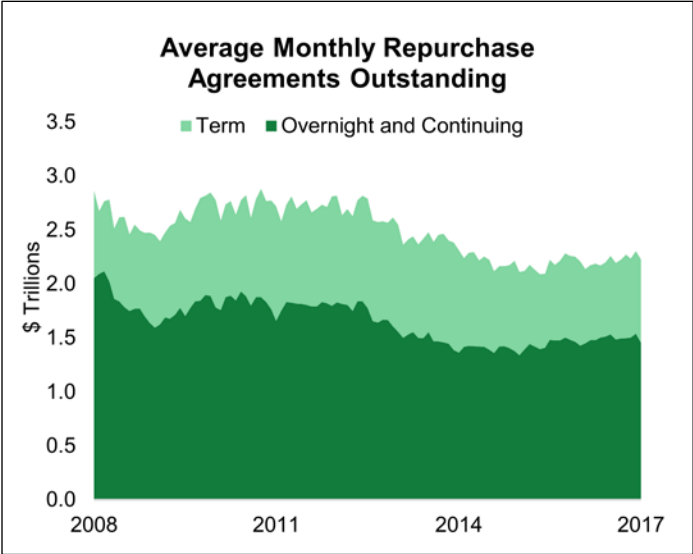
Important sectors of the economy participate in the repo market

Significant participants in the repo market include the primary dealers, central banks, (including the U.S. Federal Reserve in connection with its implementation of monetary policy), banks, insurance companies, industrial companies, municipalities, mutual funds, pension funds and hedge funds. These entities all benefit from the operational efficiency, security, and low funding costs available in the repo market.

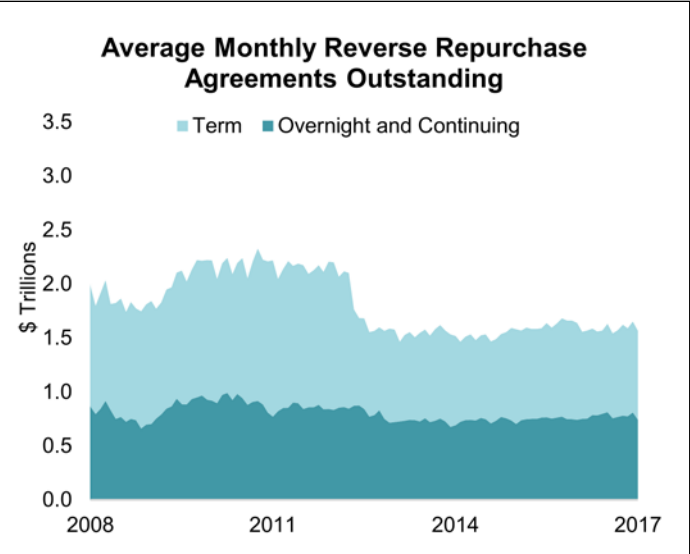
Safety of the repo market

The repo market has been tested over the years and during the recent credit crisis and performed reliably. Repos offer cash providers collateralization (with additional margin requirements in most cases) marked-to-market daily to ensure continuing protection. The operational efficiencies developed through tri-party repo and the largely-centralized settlement mechanism for repos further minimize risks. In addition, recent reforms in the tri-party repo market have further enhanced the resiliency of this market. Market standard documentation, broadly accepted in the market, provides further certainty for market participants.

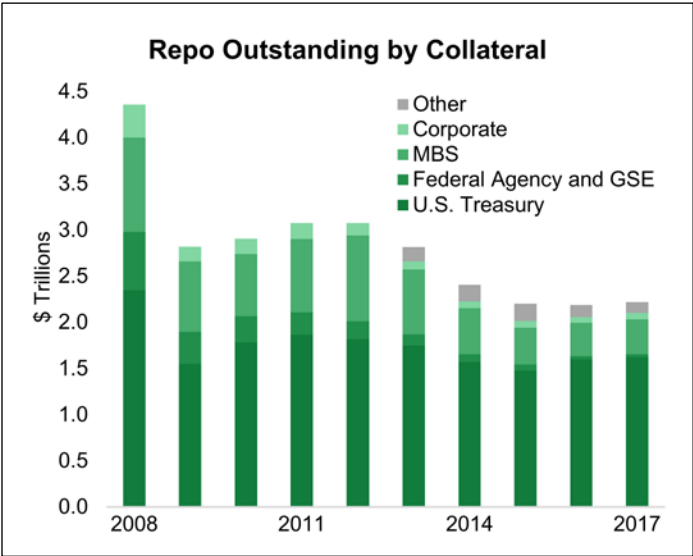
Statistics



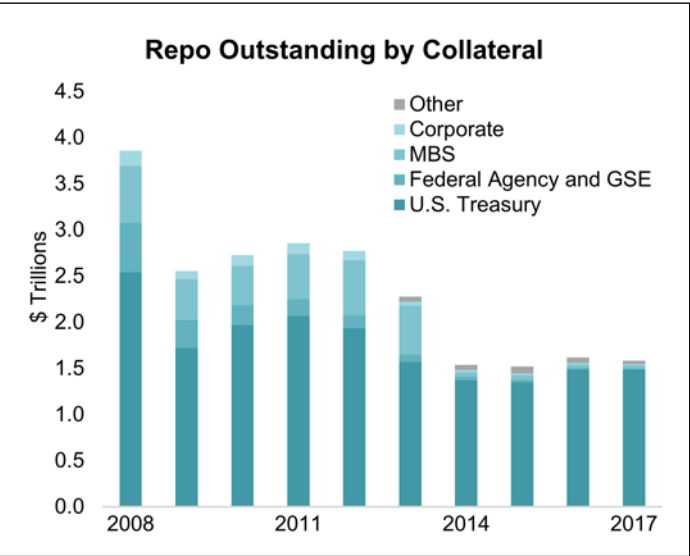
Source: Federal Reserve Bank of New York



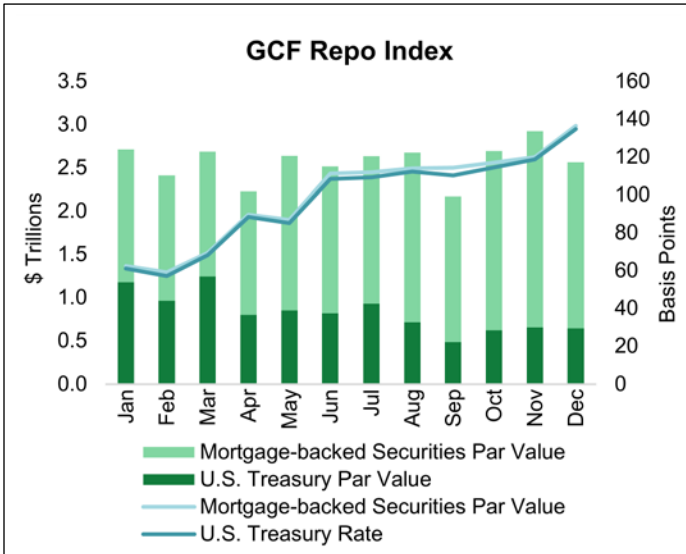
Source: Federal Reserve Bank of New York



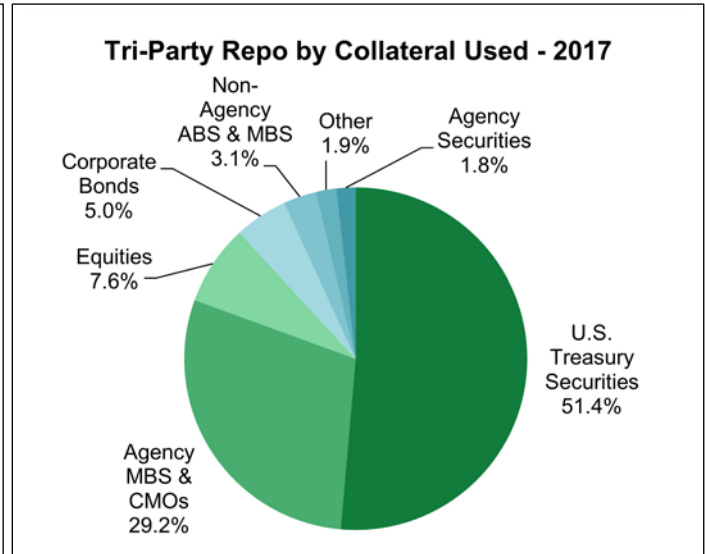
Source: Federal Reserve Bank of New York



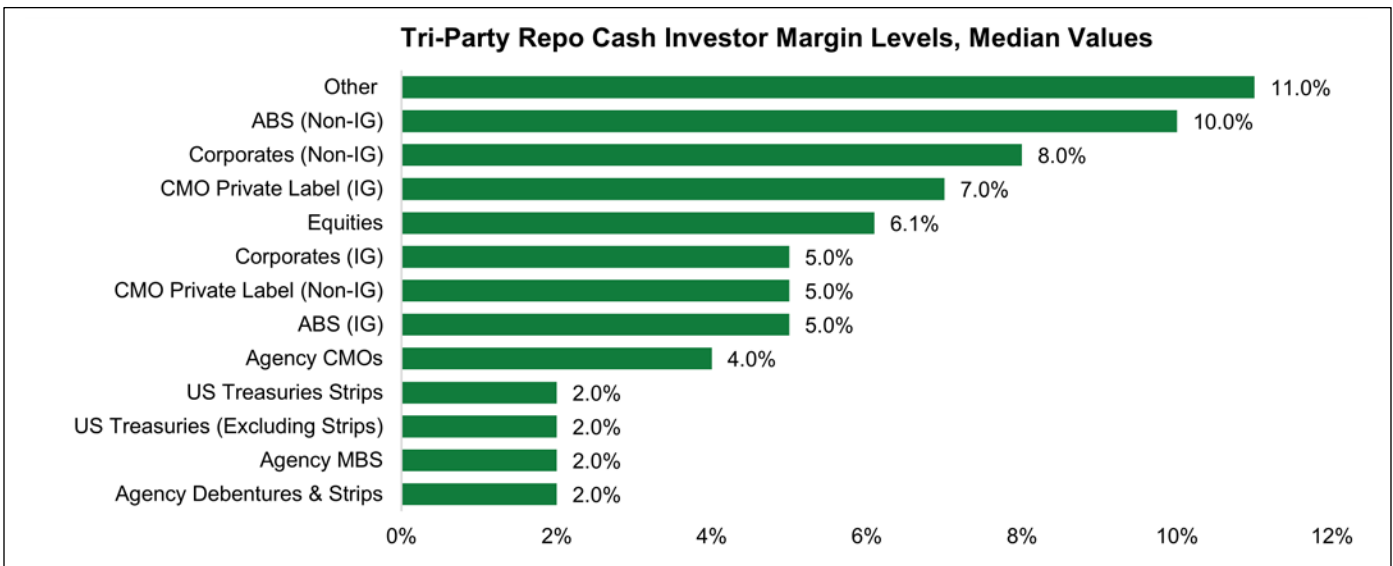
Source: Federal Reserve Bank of New York



Source: Depository Trust & Clearing Corporation



Source: Federal Reserve Bank of New York



Source: Federal Reserve Bank of New York

Credits

SIFMA Capital Markets

Robert Toomey

Managing Director, Associate General Counsel, Rates Division

SIFMA Research

Justyna Podziemska

Assistant Vice President, Research

Andrew Greene

Intern, Research

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