

Access policy and money market segmentation

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Paper Objectives/Findings

- Paper examines how open access policy of the SNB affects interbank money market rates in normal and stress periods
- More specifically, paper focuses on potential segmentation resulting from:
 - Direct access to SNB liquidity;
 - Foreign vs. domestic financial institutions.
- Access and cross-border premia extracted from CHF Libor – interbank rates spread

Paper Objectives/Findings (cont'd)

- Reported evidence shows (positive) access and (negative) cross-border premia
- Access premium weakens over the different stages of the financial crisis as the CB provides more liquidity to the banking sector
- Cross-border premium is more stable over time

My Comments

- CHF LIBOR-OIS spread controls for tensions in money market
 - Spread however includes credit and liquidity components;
 - Relative weights are changing over time -> in some periods, it (essentially) captures market liquidity risk, in some it captures credit risk concerns (McAndrews et al. (2008), Sarkar (2009), Schwarz (2010))
 - Proxy is good for tensions in general, bad for individual credit/liquidity components.
- Might be interesting to separate the two components as
 - Market liquidity is influenced by (a) access policy, and (b) liquidity directly provided by the CB;
 - Liquidity argument is used to explain the size of the access premium.

My Comments (cont'd)

- Further microstructure effects:
 - To what extent does market liquidity/activity vary across maturities?
 - How do risk premia behave across maturities?
 - Access premium might be subject to seasonality induced by payments flows or operational framework (see McAndrews, 2009)
 - In the LSDV framework used in the paper, more active banks have more weight (more trades) -> is this an issue?
- Minor comments:
 - More details on the way the market is organised (OTC market? Centralised market?)
 - Is computation of 'total impact' in Table 2 consistent with model specification (p. 16)?
 - What exactly is $d_{rp,cris,k}$?

References

- McAndrews, J., Sarkar, A., Wang Z. (2008): The effect of the term auction facility on the London inter-bank offered rate, Federal Reserve Bank of New York Staff Reports No. 335.
- McAndrews (2009): Segmentation in the US dollar money markets during the financial crisis, Mimeo.
- Sarkar, A. (2009): Liquidity risk, credit risk, and the federal reserve's responses to the crisis, Financial Markets and Portfolio Management 23 (4), 335-348.
- Schwarz, K. (2010): Mind the gap: disentangling credit and liquidity in risk spreads, Mimeo.