



Federal Reserve NY discusses Direct Repo with FOMC

As you know, we at AVM have been working very hard on our Direct Repo™ product for the last 5 years, speaking with and educating over 450 cash providers and collateral providers directly and over 2200 clients indirectly. Some of the clients have been skeptical and some have been reluctant to change their Investment Policy, despite FSB's shadow banking reform, Dodd-Frank Act's Rule 165, Basel III's LCR, SEC's and S&P's Money Market Fund reform, Federal Reserve/FDIC's leverage cap, Federal Reserve's Triparty Repo reform, CCP derivatives clearing collateral upgrade, Federal Reserve's zero interest rate policy, non-US bank branch capital requirements, and broker/dealer's balance sheet rationing, **which have all forced end-user clients to move away from the traditional pipeline of liquidity through the broker/dealers.** No doubt, now these clients are seeing the writing on the wall, as the FOMC minutes from July showed that the Federal Reserve Bank of NY has briefed the FOMC on an overnight Reverse Repo facility (Direct Repo) with non-traditional Federal Reserve counterparties (GSEs, banks, money market funds, municipalities, seclending agents) using their new \$2.9 trillion balance sheet of US Treasury and Agency MBS securities. This would align money market rates (CP, tbills, Fed Funds, repo, etc.) with IOER. There are no details yet on when this might be implemented, if approved by the FOMC, and whether it will take an auction format (similar to what they do with the primary dealers now on Repo) or a set rate. There are also no details on whether the Federal Reserve will be the repo counterparty or whether the counterparties will face each other. Basically, the premise is the same as Direct Repo™ for cash providers, the same non-traditional clients the Federal Reserve is speaking of. There are no details on how this proposed facility will impact the broker/dealers, who have already shrunk 50% of their balance sheets since 2007 (not coincidentally about \$2.9 trillion, the same as what the Federal Reserve balance sheet is now), prime brokers, or the other collateral providers (credit unions, hedge funds, mREITs, banks). Clearly though, for repo and securities lending market participants, Direct Repo is the wave of the future.

If you would like to see some more information about **Direct Repo™** check out our website <http://www.avmsolutions.com>. Remember that in **Direct Repo™**, AVM acts as introducing broker, not a principal, to end-user cash providers and collateral providers, pairing the two up to provide needed additional liquidity to the repo market. You can also give me a call or send me an email.

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Team Contacts

Pat Doyle

561.544.4575

Pat.Doyle@avmltd.com

Jeff Kidwell

561.544.4557

Jeff.Kidwell@avmltd.com

Jerry Dupont

561.544.4585

Jerry.Dupont@avmltd.com

Aaron Stearns

561.544.4559

Aaron.Stearns@avmltd.com

Sara Weber

561.544.4558

Sara.Weber@avmltd.com

www.avmsolutions.com