Collateral and Financial Plumbing: Second Impression
Collateral and Financial Plumbing is one of the building blocks on which the financial markets are constructed. Used for a number of purposes—including trading with central counterparties (CCPs), secured funding with market counterparties and central banks, OTC derivatives margining and settlement—the role of effective collateral management in monetizing assets has never been more important. Until now, policymakers have tended to ignore the complex collateral plumbing that is fundamental to lending and enabling growth in the economy. Attention is now focused on this important issue. Manmohan Singh leads you through this complex subject highlighting the importance of financial plumbing and provides a practical understanding of how financial collateral moves across jurisdictions. Also, the discussion on restricting collateral velocity and how it links to monetary policy rate cycle is original. Now with two additional chapters covering the breakdown of financial plumbing and monetary policy transmission, this updated edition provides the insight and wisdom delivered in the first edition of this book, along with the latest techniques and know-how needed when monetizing assets. This is an essential guide to navigating the future as rules and regulations for the global financial markets are redrawn. Through a thorough examination of the role collateral plays in the market the reader will gain a deeper understanding of complex and important themes that are likely to remain topical in the near future.

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Before the financial crisis, the use (and reuse) of pledged collateral was comparable with the velocity of monetary aggregates like M2, but has since slowed. Researchers (Bank of England, Dutch Central Bank, Reserve Bank of Australia, and private- and public-sector regulators like FSB, DTCC, etc.) have been investigating this topic since estimates of collateral velocity were first calculated in 2011. Essentially, this ratio measures the reuse of collateral due to financial intermediation between banks and nonbanks, also known as collateral chains. Research in this area has shown that collateral velocity has been lower in recent years. The slowdown was initially the result of the Lehman crisis and the counterparty risk aversion it caused among G-SIBs (i.e., the large global banks). Second, preferred habitat theory posits that financial market participants have preferences over maturities of assets. For example, life insurance companies have long-maturity liabilities to hedge, so these financial intermediaries prefer longer-term assets. When plumbing breaks, understanding the role of collateral in financial markets is crucial. Singh, Manmohan. Collateral and Financial Plumbing, Second Impression. Risk Books, 2016. Stella, Peter. Collateral Transformation and Financial Stability. Large part of AAA issuance was private sector securitization (i.e., "burgundy") area. Regulatory focus—so far… When plumbing breaks... Understanding the role of collateral in financial markets. Brookings Institution, Feb 23rd, 2015. Manmohan Singh Senior Economist, International Monetary Fund. Views expressed are of the author only and not attributable to the IMF. Summary of key messages: Second, HFs also fund their positions via repo(s) with dealers who may or may not be PBs. HF collateral "to the street" from PB and repo was about $1.7 trillion (2007) and down to about $1.35 trillion in recent years. Most recently, AUM growing slowly, leveraged rebouding... collateral from HF to PB about $1.88 trillion and 2015.