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Abstract

Repos are not only one of the financial instruments with crucial importance for funding. They primarily played a significant role to the recent financial crisis as well. Hence, the question is, whether Basel III and the Dodd-Frank Act successfully mitigate instabilities in repo markets. Within this analysis and by reviewing key studies, I am going to explain two statements: Firstly, how Gorton and Metrick (2012) empirically verified that the repo functioned as a crisis trigger, and secondly, how Valderrama (2010) modeled an economic framework to deduce several constrictions for regulators. These researches build the base for the evaluation of repo regulations. I explain why capital requirements and CCPs are the most effective preventive policies to reduce both counterparty credit risk and systemic liquidity risk associated with repos. Under a libertarian evaluation approach, specifically the CCP framework constitutes an effective element and starting point for regulatory haircuts and liquidity ratios.