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SAFE Working Paper No. 355 | July 2022

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Safe asset shortage and collateral reuse *

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July 22, 2022

Abstract

The reuse of collateral can support the efficient allocation of safe assets in the financial system. Exploiting a novel dataset, we show that banks substantially increase their reuse of sovereign bonds in response to scarcity induced by Eurosystem asset purchases. While repo rates react little to purchase-induced scarcity when reuse is low, they become increasingly sensitive at high levels of reuse. An elevated reuse rate is also associated with more failures to deliver and a higher volatility of repo rates in the cross-section of bonds. Our results highlight the trade-off between shock absorption and shock amplification effects of collateral reuse.

Keywords: safe assets, government bonds, collateral reuse, rehypothecation, repo market, securities lending

JEL: E4, E5, G1, G2

*We thank Darrell Duffie, Peter Egger, Heiko Hofer, Sebastian Infante (discussant), Toomas Laarits (discussant), Julien Mazzacurati, Jose-Louis Peydro, Maxim Pinkovskiy, Angelo Ranaldo, Jean-Paul Renne (discussant), Kathi Schlepper, Zorka Simon and seminar and conference participants at Deutsche Bundesbank, Goethe University, SFS Cavalcade, ECB Money Market Conference, and the CAMF & Bank of England 8th Asset Pricing Workshop for helpful comments and suggestions. We are grateful to LCH RepoClear for the provision of delivery fails data. This paper represents the authors' personal opinions and does not necessarily reflect the views of the Deutsche Bundesbank, its staff, or the Eurosystem.

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1 Introduction

Safe assets play an important role in the economy: they store value over time and serve as collateral in financial transactions. However, an increasing global demand for high-quality assets has been facing a declining pool of issuers in recent years, raising concerns about a shortage of safe assets. Large-scale purchases of sovereign debt by central banks have further contributed to a scarcity of high-quality collateral. Yet, the availability of safe assets as collateral does not only depend on the issued volume net of central bank holdings. Market participants can adjust to a shortage by reusing received collateral in other transactions. In this paper, we use a unique proprietary dataset to study this largely ignored "collateral reuse channel" in the context of safe asset scarcity induced by central bank asset purchases.

We make the following contributions. First, we document that banks substantially increase collateral reuse in response to scarcity induced by Eurosystem asset purchases. Second, we show that reuse mitigates scarcity premia when it is low but amplifies them when reuse is already high. Finally, we document that elevated levels of reuse are associated with a higher prevalence of failures to deliver in the repo market and an increased volatility of repo rates.

When market participants receive a security as collateral in one transaction, they can reuse it to support another transaction with a different counterparty. For example, they can use the security to raise cash in a repurchase agreement or earn a fee in a securities lending transaction. The collateral receiver, in turn, can reuse the security in a different transaction, for example in a short-sale or as collateral in another repurchase agreement. The number of times a piece of collateral is reused in unrelated transactions is referred to as "collateral velocity". Conceptually, the collateral velocity resembles the well-known money multiplier. As collateral can be reused multiple times, even a modest increase in collateral reuse would contribute to a significant increase in collateral available for market transactions. The more often a security is reused as collateral, the higher the volume of financial transactions it is backing. In theory collateral velocity can be infinite, but in practice it is constrained by haircuts (Bottazzi, Luque and Pascoa, 2012) or other institutional constraints (Gorton, Laarits and Metrick, 2020). Although reuse increases collateral availability and mitigates safe asset scarcity, it may also increase the interconnectedness of market participants and hence lead to an amplification of shocks (Brumm, Grill, Kubler and Schmedders, 2022; FSB, 2017*b*). Moreover, extended reuse may give rise to collateral runs and thus contribute to fragility of dealer banks' balance sheets (Infante and Vardoulakis, 2021).

Reuse of collateral is a wide-spread practice in the financial system. However, due to a lack of data little is known about the extent to which collateral is reused by financial intermediaries. Very few studies quantify collateral reuse, and only at the dealer level, relying on dealers' annual reports (Singh and Aitken, 2010; Singh, 2011) or on supervisory data (Infante, Press and Strauss, 2018; Infante, Press and Saravay, 2020). Granular data on how dealers manage their collateral has not been available thus far. We fill this gap by making use of a unique regulatory dataset that provides comprehensive *security-by-security* information on dealers' collateral positions. Specifically, we exploit a unique feature of the Bundesbank's Securities Holdings Statistics (SHS), which provides security-level information on the amount of collateral received and posted in securities lending or repo transactions for each security.

Central bank purchases of government bonds provide a useful laboratory to study the effects of safe asset scarcity on collateral reuse. Under its Public Sector Purchase Programme (PSPP), the Eurosystem bought more than EUR 2.5 trillion of member countries' sovereign debt from 2015 to date. These purchases correspond to almost 30 percent of the total amount of debt outstanding and thus represent a significant reduction of collateral available to market participants. While the overall purchase amounts for different asset classes are published by the Eurosystem, the specific purchase amounts of individual securities are unknown to market participants. This allows us to study how a reduction in available collateral affects dealers' reuse activity.

The rate at which dealers reuse incoming euro area sovereign collateral is high, fluctuating between 50% and 90% in our sample period which covers the years 2008 through 2017. Notably, the reuse rate increased markedly after the start of Eurosystem asset purchases. The amount of collateral reused is also substantial with regard to the outright ownership in these bonds, and increased from one and a half times dealers' own holdings before the start of the PSPP to more than seven times at the end of the sample.

Using proprietary security-level information on PSPP purchases of European government bonds, we document a sizable adjustment in reuse when collateral becomes more scarce: an asset purchase of one percent of the bond's outstanding amount increases the collateral reuse in that bond by 0.15% in the same month. This increase is driven by two channels. On the one hand, dealers increase the rate at which they reuse collateral that they already have available by 0.89 percentage points. On the other hand, dealers obtain 0.11% more collateral for reuse from other market participants given the same reduction in collateral supply.

To what degree does dealers' endogenous adjustment of collateral reuse mitigate safe asset scarcity? To analyze this question we study the security-level reuse of German federal government bonds (Bunds), which is the collateral most commonly used by German dealer banks. In line with the estimates in Arrata, Nguyen, Rahmouni-Rousseau and Vari (2020), we find that an asset purchase of 1% of the amount outstanding reduces Bunds' specific collateral repo rates by about 1 basis point, thus making it more costly to borrow such securities. Going beyond existing studies that document a link between central bank purchases and scarcity premia, we show that dealers mitigate this scarcity by actively increasing collateral reuse. That said, their ability to do so crucially depends on the prevailing level of reuse in a given bond: a one standard deviation higher reuse raises the sensitivity of the repo rate to asset purchases by about two thirds relative to the baseline effect. These results highlight the importance of collateral reuse in compensating asset scarcity. Repo rates are less sensitive to scarcity induced by asset purchases at low levels of reuse, and more so when reuse activity is already high and thus the possibility to increase it further is limited.

In principle, dealers can substitute scarce bonds with similar securities in their collateral portfolio. We therefore analyze the spillover of asset purchase-induced scarcity on the reuse activity in bonds with similar rating and maturity. We find evidence for substitution of collateral being asymmetric: reuse in German Bunds is less sensitive to scarcity in other high-quality collateral than vice versa. This is consistent with some degree of fragmentation of the European collateral market (Brand, Ferrante and Hubert, 2019; Cœuré, 2019; Schaffner, Ranaldo and Tsatsaronis, 2019).

A potential side effect of high collateral reuse could be an increase in the interconnectedness among market participants, which in turn might contribute to an amplification of shocks in the financial system. To assess the empirical relevance of this channel, we study the relation between reuse and delivery failures in the repo market as well as the volatility of repo rates. Controlling for various demand and supply factors, we find that for a one standard deviation higher reuse rate, the probability of fails increases by 0.25 percentage points and repo market volatility by about 5.5% in the next month. The link between reuse and future repo market fails and volatility is non-linear, however. While there is no discernable relation for reuse rates below 50%, there is a strong positive link above that threshold. Moreover, reuse also determines the impact of central bank purchases on fails-to-deliver in the repo market. For reuse rates above 50%, central bank purchases corresponding to one percent of the amount outstanding raise the rate of delivery fails by 1.4 percentage points more than for reuse rates below that threshold.

In sum, our findings highlight the importance of the collateral reuse channel in the context of safe asset scarcity: financial market participants endogenously respond to a shortage of safe assets by enhancing the reuse of collateral. At the extensive margin they seek more collateral from counterparties, and at the intensive margin they reuse available collateral at a higher rate. While the associated increase in effective collateral availability dampens the impact of asset purchases on scarcity premia, the rate of fails-to-deliver in the repo market and the volatility of repo rates increases with the degree of reuse activity. Hence, we highlight an important tradeoff. Reuse can mitigate safe asset scarcity and help buffer shocks to net supply, but when it is already high collateral reuse may act as a shock-amplifier.

Our paper relates to several strands of the literature. First and foremost, we contribute to the literature on safe asset shortage and its consequences for the economy (Krishnamurthy and Vissing-Jorgensen, 2012; Gorton, Lewellen and Metrick, 2012; Gorton, 2017). Increasing global demand for high-quality assets has raised concerns about a shortage of safe assets. Post-crisis regulatory reforms have further increased the demand for high-quality collateral (Fender and Lewrick, 2013; Duffie, Scheicher and Vuillemey, 2015). Different solutions for alleviating safe asset scarcity have been proposed in the literature. On the one hand, the public sector can expand the production of safe assets by issuing more government debt (Gorton and Ordoñez, 2014; Brunnermeier et al., 2016). On the other hand, the financial sector can produce safe assets through securitization, but Gorton and Metrick (2012) and Gennaioli, Shleifer and Vishny (2012), among others, highlight neglected risks in the securitization process. We document that market participants can significantly alleviate safe asset scarcity via a third channel: the reuse of received collateral. We show that this channel plays a quantitatively important role in the effective supply of available collateral to market participants and helps explain scarcity premia in the repo market.

There is a growing theoretical literature on the role of collateral reuse in financial markets. In general, this literature acknowledges a trade-off between economic efficiency and financial stability with respect to collateral reuse (e.g. Lee, 2017). Bottazzi et al. (2012) show that constraints on the rehypothecation of assets induce liquidity premia in repo markets and study the conditions under which a repo market equilibrium exists. Infante (2019) highlights that runs may arise due to collateral reuse, and Infante and Vardoulakis (2021) further show that such runs may generate fragility of dealer banks' balance sheets. In Andolfatto, Martin and Zhang (2017) reuse of collateral improves the efficient allocation of liquidity. Gottardi, Maurin and Monnet (2019) show that repurchase agreements arise optimally as a borrowing instrument in competitive markets with limited commitment. Moreover, lenders reuse collateral in equilibrium, and the benefits of reuse are highest when assets are scarce. Consistently, we find that reuse rises when central bank asset purchases increase scarcity. In Brumm et al. (2022) moderate collateral reuse improves welfare due to more efficient risk sharing, but excessive reuse increases leverage and volatility in the economy, reducing welfare. In line with this mechanism, we document a direct link between reuse and repo market quality.

To quantify the magnitude of reuse researchers have initially resorted to dealers' annual reports (Singh and Aitken, 2010; Singh, 2011; Kirk, McAndrews, Sastry and Weed, 2014). More recently, Infante et al. (2020) and Infante and Saravay (2021) quantify dealer-level collateral reuse activity from U.S. confidential supervisory data. Consistent with our findings, the latter paper shows that Treasury reuse increases as Federal Reserve asset purchases reduce the supply of available securities. Going beyond this analysis, our dealer-security-level data additionally allow us to study the compensating effect of reuse on asset scarcity, scarcity-induced reuse spillovers between securities, as well as the implications of reuse activity on repo market fails and repo rate volatility. Fuhrer, Guggenheim and Schumacher (2016) construct a measure of collateral reuse in the Swiss repo market from transaction data, showing that collateral reuse decreases with the availability of collateral.[1] Our dataset captures the reuse of collateral not only in the repo but also in the securities

[1] Fuhrer et al. (2016) propose an algorithm to quantify collateral reuse from repo transaction data. Applying their method to the Swiss franc repo market, they find that around 5% of the interbank market was secured with reused collateral. This is a rather low level of reuse compared to the estimates from dealers' annual reports (70-80%). The low estimate for reuse is likely due to the fact that the authors only consider repos denominated in Swiss francs and also cannot factor in securities lending transactions.

lending market, which represents an important part of the collateral intermediation chain. In the context of collateral transformation, Aggarwal, Bai and Laeven (2021) highlight the importance of the securities lending market for accessing safe assets during periods of market stress. Ferrari, Guagliano and Mazzacurati (2017) propose broker-to-broker activity in the securities lending market as a proxy for collateral reuse activities and document that it is negatively related to bonds' specialness premia, suggesting an endogenous market reaction to scarcity. This is consistent with our finding that reuse increases in response to a reduction of available high-quality collateral, and that scarcity premia are lower for securities with a higher level of reuse.

Finally, we contribute to the literature on repo markets and bond specialness (e.g. Jordan and Jordan, 1997; Krishnamurthy, 2002). Several authors study the scarcity effects of central bank asset purchase programs on the repo market in the U.S. and the euro area, providing evidence that such purchases raise specialness spreads (D'Amico, Fan and Kitsul, 2018; Jank and Moench, 2018; Brand et al., 2019). In a recent study, Arrata et al. (2020) also document that purchases through the ECB's public sector purchase program (PSPP) lead to a reduction in repo rates. Moreover, Corradin and Maddaloni (2020) show that the ECB's securities markets program (SMP) increases the probability of fails-to-deliver. Our results document that the endogenous response of dealers in using scarce collateral more effectively reduces the impact of such purchases on repo market specialness and on fails-to-deliver when reuse can be easily expanded, but that high levels of reuse amplify the sensitivity of specialness premia and fails to central bank asset purchases.

2 Measuring collateral reuse

Following the broad definition of the FSB (2017*b*), collateral reuse includes "any use of assets delivered as collateral in a transaction by an intermediary or other collateral taker". Market participants receive securities as collateral from various transactions, such as reverse repos, securities lending, margin lending, and over-the-counter derivative transactions. If the incoming collateral is eligible for reuse, the financial institution can reuse the security to support another such transaction. Received collateral can also be used to establish a short position. The definition of collateral reuse is more general than the narrower concept of collateral re-hypothecation, which refers to the use of client's assets (FSB, 2017*b*) as collateral.

We study financial institutions' incoming and outgoing collateral from securities financing transactions, which include reverse repo transactions and securities lending. Importantly, collateral received from these transactions is eligible for reuse since securities lending and repo transactions in Europe generally involve full temporary transfer of title of the underlying security. Data collected by the ESRB suggest that a large proportion of collateral reuse is currently occurring via securities financing transactions (Keller et al., 2014). Specifically, the study reports that for European banks 98% and 99% of collateral received through reverse repo and securities lending/borrowing transactions are eligible for reuse, respectively. Hence, for simplicity we assume that all incoming collateral is eligible for reuse.

To compute collateral reuse at the dealer-security level we rely on the Bundesbank's Securities Holdings Statistics (SHS) which provides security-level data on German banks' portfolios at quarter and – since 2013 – month ends. In addition to the banks' own holdings, the data also include for each security the amount of incoming and outgoing collateral from securities lending and repo transactions. Due to their conceptual similarity, securities lending transactions and repos are pooled in the securities holdings statistics. The original purpose of collecting figures on incoming and outgoing collateral is to avoid double counting in securities holdings. We utilize this information to compute security-specific reuse activity at the bank level.[2]

We focus on sovereign bonds issued by euro area countries with a remaining maturity between 1 and 30 years and denominated in Euro. Furthermore we require an investment

[2]While the data do not contain any information on haircuts, they typically do not feature much variation, especially for safe assets, such as highly-rated government bonds (Gorton et al., 2020).

grade rating (BBB or higher) and restrict our analysis to countries for which BrokerTec provides repo rate information.[3] Before calculating our reuse measures we apply the following filters to the data. We employ a plausibility check to our data by checking whether the outgoing collateral exceeds the sum of amount owned outright and incoming collateral. If this inequality is violated we omit the erroneous position. Moreover, we restrict the sample to bonds that are actively used by German dealers as collateral. To this end we drop observations where the outgoing collateral is zero both for the current and the previous period.

Figure 1(a) describes the dynamics of the aggregate incoming and outgoing collateral, normalized by the outright ownership across dealers and securities. Both ratios move in lockstep, already suggesting that much of the received collateral is reused when collateral is posted. Moreover, the figure shows that both incoming and outgoing collateral considerably exceed the dealers' outright holdings. Both metrics range between two and nine in our sample period. In particular, we see a strong increase in incoming and outgoing collateral after the introduction of the PSPP in March 2015.

Using the dealers' own holdings as well as their incoming and outgoing collateral allows us to quantify their collateral reuse activity in each security. Our main measure follows the FSB's (2017*a*) final recommendation for measuring reuse:

$$Reuse_{ij} = \left(\frac{Incoming\ collateral_{ij}}{Incoming\ collateral_{ij} + Outright\ ownership_{ij}}\right) \times Outgoing\ collateral_{ij}, \quad (1)$$

where $Incoming\ collateral_{ij}$ is the market value of bond i received as collateral by dealer j, $Outgoing\ collateral_{ij}$ is the market value of bond i posted as collateral or sold short by dealer j, and $Outright\ ownership_{ij}$ is the market value of dealer j's outright ownership of bond i. The measure assumes proportional use of own assets and incoming collateral when posting collateral. This is in line with the responses received by market participants to a

[3]The BrokerTec data covers all major euro area sovereign debt markets. Specifically, our analysis includes sovereign bonds issued by Austria, Belgium, Germany, Spain, Finland, France, Greece, Ireland, Italy, Netherlands, and Portugal.

call for evidence by the FSB. According to the FSB (2017*a*) survey, market participants do not generally distinguish between own securities or securities originating from another collateralized transaction when posting collateral.[4] We discuss robustness with respect to this assumption below. Figure 1(a) shows the aggregate amount of collateral reused, normalized by the outright ownership. The ratio is always slightly lower than for incoming and outgoing collateral. It closely tracks the other two metrics, including the sharp increase during the PSPP period.

To capture the intensive margin of reuse activity, we compute the rate at which dealer j reuses collateral in bond i as follows:

$$Reuse\ rate_{i,j} = \left(\frac{Reuse_{i,j}}{Incoming\ collateral_{i,j}} \right). \tag{2}$$

The reuse rate thus measures the fraction of incoming collateral that has been reused by a dealer bank in a specific security. It indicates how extensively the dealer uses its collateral resources and therefore sometimes referred to as "collateral efficiency" (Kirk et al., 2014). When there is no incoming collateral we define $reuse\ rate_{i,j} \coloneqq 0$. We compute the security-specific $reuse\ rate_i$ by aggregating for a specific bond i the amount of incoming and reused collateral over all German dealers.

Figure 1(b) shows the aggregate reuse rate for European sovereign bonds over time. Consistent with anecdotal evidence, collateral reuse declined in times of market stress such as the global financial crisis of 2007-2008 and the European sovereign debt crisis. Moreover, there appears to be a decline in the reuse rate around 2015, coinciding with the Basel III leverage ratio disclosure requirement. After the start of the Eurosystem's public sector purchase program (PSPP) in 2015 reuse activity has been continuously on the rise.

[4] An important aspect of repo markets is central clearing. Central counterparties (CCPs) provide several advantages, such as netting and clearing of bilateral positions. However, CCPs may also impede collateral reuse. In Europe trading platforms and associated CCPs tend to specialise in particular segments of the market (Schaffner et al., 2019). Such specialization reduces the scope for netting to market participants. Our data does not provide information on banks' counterparties or the use of central clearing. But even if a fraction of dealers' collateral is excluded from reuse by CCPs, our measure captures collateral reuse that takes place despite such frictions.

For robustness we compute two alternative measures which represent an upper and lower bound for the proportional measure of collateral reuse activity, respectively. As an upper bound to the amount of collateral reused we define (FSB, 2016):

$$\textit{Collateral reused}_{ij}^{upper} = \min(\textit{Incoming collateral}_{ij}, \textit{Outgoing collateral}_{ij}). \tag{3}$$

This measure assumes that a dealer first uses all the incoming collateral of a particular bond before resorting to its outright owned shares. Finally, the lower bound to the amount of collateral reused is given by:

$$\textit{Collateral reused}_{ij}^{lower} = \max((\textit{Outgoing collateral}_{ij} - \textit{Own assets}_{ij}), 0) \tag{4}$$

This measure assumes that a dealer first uses all its outright owned shares of a particular bond before resorting to the incoming collateral.

Consider the following example for illustration of the three reuse measures. Dealer A posts 90 million EUR of a specific bond as collateral. This outgoing collateral can in principle originate from two sources: own assets or incoming collateral. In our example dealer A received 100 million EUR as collateral and owns outright 20 million EUR. Hence, the lower bound of collateral reused is given by $\max((90-20), 0) = 70$ million EUR. In this case the dealer first depletes all own holdings (20 million EUR) before using the incoming collateral of which she sources the remaining amount (90-20 = 70 million EUR). So, we know for sure that the dealer reuses 70 million EUR of its incoming collateral. The proportional measure of collateral reuse is given by $(100/(100 + 20)) \times 90 = 75$ million EUR. Here the dealer obtains collateral proportionally from the two sources, of which the incoming collateral amounts to $100/(100 + 20) = 83.3\%$. The upper bound of collateral reuse is given by $\min(100, 90) = 90$ million EUR. Here the dealer fully sources her outgoing collateral with incoming collateral. Relating the amount of collateral reused to the amount of incoming collateral (100 million EUR), the corresponding reuse rates for the lower bound, proportional approach, and upper bound are 70%, 75% and 90%.

Note that the three measures specified in equations (1), (3) and (4) are identical if the dealer has no outright ownership in a particular bond. In this case all the outgoing collateral has to come from incoming collateral. Following the same logic, if the outright ownership becomes small relative to incoming and outgoing collateral the three measures converge. Indeed, we find that the three measures yield very similar reuse rates in our sample.[5] In what follows, we will thus focus on the proportional measure of collateral reuse since it most closely resembles actual market practices. As a robustness check we repeat our main analyses in the Internet appendix using the upper/lower bound approach, and obtain very similar results.[6]

Figure 2 shows the aggregate market value of collateral reused over time, where we distinguish between domestic (i.e. German) sovereign bonds and bonds issued by other euro area countries. The aggregate value of reused collateral was highest at the beginning of our sample in 2007 at more than 100 billion EUR and decreased to less than 40 billion EUR in early 2014. Reuse volume picked up again towards the end of 2015 and was at around 70 billion EUR during 2017. The share of domestic collateral is substantial, ranging between 35.8% and 65.2%. In Figure 3 we report the average share of collateral reused by issuer country and rating, respectively. German bonds, on average, account for 48.5% of market value, while Italian and French bonds represent 18.2% and 12.4% of the total, respectively. Dutch, Austrian and Belgian bonds take up 5.0%, 4.4% and 3.7%, respectively. In terms of ratings, the vast majority (65.4%) of reused collateral is AAA-rated and 20.9% has a AA rating. 13.8% are rated either A or BBB.

[5]See Table IA.1. The correlation of the reuse rate obtained using the proportional measure with the reuse rate from both the upper and lower bound is very high at 0.98. The upper and lower measure also have a correlation of 0.93.

[6]See Table IA.2 of the Internet Appendix

3 Collateral reuse adjustment to scarcity of safe assets

In this section, we empirically analyze how dealers react to changes in collateral scarcity. We first investigate how dealers adjust their reuse rate to collateral scarcity. We then study to what degree dealers also adjust the amount of incoming collateral, and the resulting (joint) effect on the amount of collateral reused.

3.1 Reuse rate response to scarcity

We start by analyzing how market participants adjust their reuse of collateral to a shock in collateral supply. We exploit the Eurosystem's purchases of government bonds via its Public Sector Purchase Program (PSPP) as a measure of variation in safe asset shortage. The PSPP was announced on 22 January 2015 and consists of the large-scale purchase of bonds issued by euro area governments, agencies and European institutions. The program started on 9 March 2015 and is restricted to purchases in the secondary market. The majority of securities bought under the program are acquired by the national central banks. The geographic allocation of PSPP purchases closely tracks the national central banks' subscription to the ECB capital key. By the end of our sample period in December 2017, total PSPP purchases reached almost €1.9 Tn.[7] In our analysis, we make use of proprietary security-level information on Eurosystem PSPP purchases.[8]

Our approach resembles that of the literature which studies the effects of central banks' asset purchases on bond yields (De Santis and Holm-Hadulla, 2017; Schlepper, Hofer, Riordan and Schrimpf, 2020) or on bond specialness (D'Amico et al., 2018; Arrata et al.,

[7] See https://www.ecb.europa.eu/mopo/implement/omt/html/index.en.html

[8] To reduce potential scarcity effects on the repo market the Eurosystem initiated a securities lending program which started shortly after the PSPP on 2 April 2015. Over the course of the PSPP, the Eurosystem made its holdings available for securities lending though various channels. Initially, securities lending was carried out as combined repo/reverse repo transactions. In December 2016 the ECB enhanced the securities lending facilities in several ways. The overall limit was raised, and, most notably, it became possible to borrow securities via a repo transaction without an offsetting reverse repo, i.e. against cash collateral, cf. https://www.ecb.europa.eu/press/pr/date/2016/html/pr161208_2.en.html.

2020; Corradin and Maddaloni, 2020). Our basic panel regression specification is the following:

$$\begin{aligned}\Delta \textit{reuse rate}_{i,j,t} &= \beta_0 + \beta_1 \textit{Purchase}_{i,t} + \gamma' \text{Controls}_{i,t} \\ &\quad + \alpha_{j,t} + \alpha_{i,j} + \alpha_{m,c,t} + \varepsilon_{i,j,t}, \end{aligned} \tag{5}$$

where $\Delta \textit{reuse rate}_{i,j,t}$ is the change in dealer j's reuse rate of bond i over month t. The main explanatory variable of interest is $\textit{Purchase}_{i,t}$, the amount of bond i that is purchased in the same month by the Eurosystem, measured in percent of the total amount outstanding. If market participants expand their collateral reuse in response to a tightening of supply, we expect a positive sign for the coefficient β_1.

Equation (5) represents our most saturated regression model, including various high-dimensional fixed effects. $\alpha_{j,t}$ denotes dealer×time fixed effects, which absorb any regulatory shocks to the dealers or any other observable or unobservable shocks to dealers that may affect their willingness to reuse collateral (e.g., funding or liquidity shocks). Including dealer-time fixed effects is important, because the sample period we consider (2015-2017) is not only characterized by the Eurosystem's asset purchase program, but also by a number of macroprudential policies that came into effect (Ranaldo, Schaffner and Vasios, 2021). In particular, Basel III regulations introduced in this period, such as the leverage ratio or liquidity coverage ratio, may affect dealers' willingness to participate in the repo market or to reuse collateral. These regulations are likely to affect dealer banks differently and possibly result in confounding effects in the previous analysis. For example, Kotidis and Van Horen (2018) demonstrate that U.K. dealer banks reduced their repo intermediation in response to the introduction of the leverage ratio. Additionally, we include dealer-bond fixed effects $\alpha_{i,j}$ in the regression, which absorb any unobservable dealer-bond-specific variation, for example dealers' specialization in trading certain bonds. Following Arrata et al. (2020), we also include maturity bucket×country×time fixed effects $\alpha_{m,c,t}$ to account for effects related to the issuer (e.g. rating changes), the yield curve (e.g. haircuts) and market-wide variation. As in Arrata et al. (2020), we define maturity buckets for one to two years, two to five years, five to ten years, and ten to thirty years. Standard errors are clustered at the bond×time level.

We control for various factors that capture changes in supply or demand of collateral. A bond's supply to the repo market increases if that particular bond reopened for auction, thus raising its total amount outstanding. We therefore control for changes in the amount outstanding. In the government bond market the most recently issued bond of its type ("on the run") is generally more liquid than the previously issued bond ("off-the-run") (Krishnamurthy, 2002). Since on-the-run bonds are often in high demand on the repo market (Jordan and Jordan, 1997) we control for the on-the-run status using a dummy variable. Another reason for a bond to be in high demand is when it becomes the cheapest-to-deliver in the futures market (Buraschi and Menini, 2002; Brand et al., 2019). Some investors will have difficulties buying bonds that they need for futures delivery. To avoid penalties from a failure to deliver these investors will borrow it in the repo market, leading to a high demand for this bond. We therefore also control for the cheapest-to-deliver status.

Table 2 shows the results from this benchmark panel regression. Starting point is the specification in Column (1), which only includes dealer, bond, and time fixed effects. The coefficient for *Purchases* indicates a significant positive relationship between the share of a bond purchased by the PSPP and changes in collateral reuse. This shows that market participants respond to collateral scarcity by increasing the reuse rate. This finding is robust across all specifications (1) to (5), where we subsequently include various multidimensional fixed effects. The effect even increases in economic magnitude in our most saturated regression of column (5), including dealer-time, dealer-bond and maturity bucket-country-time fixed effects. The coefficient estimate of 0.89 indicates that a one percentage point purchase of the Eurosystem as a share of the total outstanding of a bond increases the collateral reuse rate by 0.89 percentage points.

We also find that the reuse rate is positively associated with increases in the amount outstanding. This is intuitive as more collateral becomes available for reuse through re-issuance. However, the effect is smaller compared to that of PSPP purchases. A one percent increase in the amount outstanding lowers the reuse rate only by 0.10 percentage points. This asymmetry is consistent with the findings of Infante and Saravay (2021) who also document a reuse sensitivity to central bank purchases that is five to ten times higher compared to that of issuances. When bonds are in high demand we also see an increase in the reuse rate. For "on the run" bonds we observe a statistically significant higher reuse rate. The coefficient for "cheapest to deliver" is positive but not statistically significant. In sum, our baseline regression shows that collateral reuse by dealers increases in response to scarcity induced by central bank purchases.

3.2 Intensive and extensive margin of collateral reuse adjustment

We next study the different channels through which dealers may adjust their collateral reuse. On the one hand, they can increase the rate at which they reuse already received collateral, as we have shown above. On the other hand, dealers can seek to borrow more collateral in the market in order to funnel it to prospective borrowers. We refer to the former as the intensive and to the latter as the extensive margin of collateral reuse. To study the two channels and their joint effect we run a similar regression as in Equation (5), using $\Delta \log(\textit{Incoming collateral})$ and $\Delta log(reuse)$ as dependent variables.

Table 3 reports the results of these regressions, using the most saturated fixed effect specification. Column (1) repeats the analysis of Table 2 with $\Delta \textit{Reuse rate}$ as dependent variable, serving as comparison. As can be seen from Column (2), dealers not only adjust collateral reuse at the intensive but also the extensive margin when a bond becomes scarce. The volume of incoming collateral increases by 0.11 percent for a purchase of 1% of the outstanding amount. Looking at our control variables, we see that when the amount outstanding of a bond rises this increases also the availability of this bond, which in turn leads to an increase in the incoming collateral for that bond. Column (3) studies the joint effect, i.e. the changes in the overall amount of collateral reused. We find that dealers increase their reuse by 0.15 percentage points in response to an asset purchase that equals 1% of the bond's outstanding amount.

For robustness regarding the measurement of collateral reuse we consider the different reuse metrics introduced in Section 2, which represent an upper and lower bound. The results, which are provided in Table IA.2 of the Internet appendix, are virtually the same as those of our baseline regression in Table 3. Hence our results do not depend on the assumption that dealers proportionally use own assets and collateral received when posting collateral.

As discussed in Section 2, the majority of reused collateral of German dealers is domestic. In the subsequent analyses, we thus focus on German Bunds where the banks in our sample are most active. By means of comparison, Columns (4) - (6) of Table 3 repeat our previous analysis for German government bonds only. For all three specifications, the point estimates are larger than for the overall European sample. An asset purchase of 1% of the total amount outstanding increases the level of reuse of German collateral by about 0.22 percent and the reuse rate by 1.25 percentage points. Also for German collateral there is a positive association between asset purchases and incoming collateral, however the coefficient is not statistically significant with a t-statistic of 1.61.

The granularity of our data allows us to study whether the sensitivities to asset purchases further depend on the type of collateral. We conduct two such analyses, which extend on the regressions in Table 3. First, in Table Table IA.3 we consider the (additional) sensitivity of on-the-run bonds by including an interaction term of asset purchases with the on-the-run dummy. The estimation coefficient for this interaction term is not significant across all specifications, providing no evidence that European on-the-run bonds are significantly more sensitive to purchases than off-the-run bonds. Second, we distinguish between collateral with different remaining maturities in Table IA.4. That is we repeat the sensitivity analysis of the reuse rate for subsets of shorter-dated collateral (bonds with a remaining maturity of between 1 and 5 years, medium-dated collateral (remaining maturity between 5 and 10 years) and longer-dated collateral (remaining maturity between 10 and 30 years). For European collateral we observe only minor differences in sensitivities to asset purchases across these maturity bands. For German collateral a "term-structure" of sensitivities is discernible, with shorter- and medium-dated collateral being about twice as sensitive to asset purchases than longer-dated collateral.

3.3 Economic magnitude of the collateral reuse channel

We have shown that dealers react to scarcity-inducing purchases primarily via the intensive margin, that is by adjusting their reuse rate. To highlight the economic significance of these adjustments we perform the following exercise. Given a reduction in the supply of collateral, how much additional collateral do dealers need to provide through collateral reuse in order to maintain a constant amount of collateral in the market-place?

For a given base amount of collateral that is available, we can compute the effective amount of available collateral it is able to support as follows[9]:

$$\begin{aligned} \textit{effective amount} &= \textit{base amount} \times \sum_{n=0}^{\infty} \textit{reuse rate}^n \\ &= \frac{\textit{base amount}}{1 - \textit{reuse rate}} \,. \end{aligned} \tag{6}$$

The intuition behind Equation (6) is the following. Suppose bank A uses a certain amount of a bond as collateral in a transaction with bank B. This collateral is sourced from its outright holdings and we refer to it as the base amount of collateral. Bank B has access to this amount and reuses part of this collateral in another transaction with bank C. At this

[9]We thank Toomas Laarits for this suggestion.

point the effective amount of collateral available is equal to the sum of the base amount, the one received by bank B and the amount received by bank C. As this series of reuses goes to infinity, it can be approximated as a geometric sum, yielding the second identity of Equation (6), see also Bottazzi et al. (2012).

Given our estimated reuse rates, what would this imply for the total collateral available? To answer this question, we calibrate Equation (6) to our data. We assume a reuse rate of 62.1%, which is the median value in the dealer-security panel used in our previous estimation. Hence, at the given value of reuse rate one unit of a bond supports 2.64 times as much collateral in the market.

Given a reduction in the supply of collateral, how do dealers need to adjust their reuse rate in order to maintain constant the effective amount of collateral? Equation (6) implies that for a reduction in the base amount by 1%, the new reuse rate in our example needs to be 62.5%, i.e. an increase by 0.4 percentage points. This is considerably lower than the estimated coefficient in Table 3, Column (2). An asset purchase of 1% of the amount outstanding increases the reuse rate by 0.89 percentage points. This conclusion is robust at different levels of reuse and taking into account haircuts, see Table IA.5 in the Internet appendix. Hence, at first sight dealers seem to overcompensate the collateral reduction through collateral reuse.

One potential explanation for this discrepancy is that a purchase of one percent of the amount outstanding actually corresponds to a substantially larger depletion of the pool of collateral that can be accessed by dealers. This could be the case if central banks buy disproportionately from holders that would otherwise supply these assets as collateral. Hence a purchase of one percent of the amount outstanding may actually correspond to a reduction in the effective amount of collateral available to reuse that is about two to three times as large. Consistent with this notion, Koijen, Koulischer, Nguyen and Yogo (2021) find that euro area banks, which generally supply their holdings as collateral, are the second largest net seller of euro area government bonds (after foreign investors) to the

Eurosystem. They reduced their holdings by 470 billion EUR from the first quarter of 2015 to the last quarter of 2017, corresponding to 25% of purchases. In contrast, insurance companies and pension funds, which are generally less likely to supply collateral to the market (Duffie, 1996), increased their holdings over the same period.[10]

3.4 Substitutability of collateral

So far we have shown that dealers react to scarcity in one bond by increasing reuse in the same bond. In principle, dealers could substitute scarce bonds by other bonds with similar characteristics. Studying asset purchases of the Federal Reserve, D'Amico et al. (2018) find only limited substitutability of closely related bonds in the market for specific collateral. In the European market for safe assets, dealers can also substitute across bonds of similar maturity and rating but different issuer country. However, to the extent that there is fragmentation in the market for collateral, such substitutability might be hampered (Schaffner et al., 2019).

To study dealers' substitution of collateral, we include two additional explanatory variables in our regression. First, we measure purchases in bonds with similar maturity of different issuer countries which have the same broad rating group (AAA, AA, ...). Second, we refine the first measure by looking at purchases in bonds of different countries which have the same rating notch (AAA, AA+, AA, AA-, ...). A positive regression coefficient for these measures implies that dealers react to scarcity in one bond by increasing reuse in similar bonds.

Table 4 shows the results. Importantly, the regressions include both dealer×time and dealer×bond fixed effects. Since the substitutability measures are defined at the country-time-maturity level we cannot include maturity bucket-country-time fixed effects

[10] Another explanation could be that reuse chains are not infinitely long. That said, if we assume that each unit of collateral is reused only five (ten) times, i.e. if we truncate the sum in Equation (6) at $n = 5$ ($n = 10$), we still obtain a multiplier of 2.48 (2.62) in the example above. When we assume that collateral is reused only about twice the calculated estimate is comparable to the empirically observed value. However we deem such short chains unlikely.

as before. In Column (1) we study substitutability within a broad rating group, and in Column (2) within the narrower rating notch. While we find no significant substitution effects in the broad category, we observe that scarcity in bonds of other countries with the same rating notch has a significant positive effect on reuse. For an average purchase rate corresponding to one percent of the amount outstanding in these securities, the reuse rate increases by one percentage point.

German Bunds are widely considered as *the* Euro-denominated safe asset. It is thus a natural question whether the collateral reuse activity we have documented extends to other safe assets in the euro area. We therefore distinguish between reuse in non-German sovereign bonds and German Bunds. In Column (3) we consider the effect of asset purchases of bonds with the same rating notch and maturity bucket, including purchases of German bonds, on the reuse of bonds issued by non-German European sovereigns. We find that substitutability is more pronounced in this subsample: the coefficient estimate almost doubles from column (2) to (3). Column (4) considers the effect of asset purchases in AAA-rated non-German sovereign bonds (such as Finnish or Dutch securities) on the reuse of German Bunds. Here we find no substitutability. Hence, the reuse activity in German sovereign bonds is insensitive to purchases in other AAA rated sovereigns. These results show that dealers substitute between bonds in their collateral management. However, this substitutability is asymmetric, in line with prior evidence for fragmentation in the euro area repo market (Brand et al., 2019; Cœuré, 2019; Schaffner et al., 2019).

4 Collateral reuse and bond scarcity

We next explore how collateral reuse is related to a commonly used market measure of bond scarcity: the specialness spread. A bond is referred to trade "on special" in the repo market when the specific repo rate for that bond is lower than the general collateral rate e.g. due to increased demand (Duffie, 1996). The specialness spread thus measures the cost of borrowing a specific collateral in the repo market.

Dealers can increase supply in the repo market by reusing the incoming collateral from other transactions. However, there is a binding constraint as dealers cannot post more collateral than they received or own and may additionally be restricted by haircuts or margin requirements. We therefore study how market participants' reaction to asset scarcity depends on their already reached level of collateral reuse in the specific securities.

In order to capture the impact of collateral reuse on bond scarcity, we require a good coverage of overall reuse activity. As shown in Figure 3, German banks are mostly using domestic collateral in their transactions. Government bonds of other countries are also used, but German bank market coverage is considerably lower in these bonds. Therefore, from here on, we focus on the reuse of German sovereign bonds. In the Internet appendix, we repeat our analysis for a larger set of euro area bonds for which the banks of our sample are comparably active, yielding very similar results.[11]

The standard approach to compute a bond's specialness spread is to subtract from the bond's specific collateral rate a general collateral rate as a proxy for the risk-free funding rate. However, as Arrata et al. (2020) point out, the general collateral rate may be a biased benchmark when all eligible bonds are on special. We therefore follow their approach and use the specific collateral rate instead of the specialness spread to measure bond scarcity premia. The time fixed effects included in our regressions will capture any changes in the general collateral rate.

To evaluate the effect on asset scarcity we follow the approach of Arrata et al. (2020) and regress changes in the specific collateral repo rate $\Delta \mathit{repo\ rate}_{i,t}$ on our measures of reuse activity and a set of controls, including the lagged change in repo rates[12]:

$$\begin{aligned} \Delta \mathit{repo\ rate}_{i,t} &= \beta_0 + \beta_1 \mathit{Purchase}_{i,t} + \beta_2 \mathit{Reuse}_{i,t-1} + \beta_3 \mathit{Purchase}_{i,t} \times \mathit{Reuse}_{i,t-1} \\ &\quad + \gamma' \mathit{Controls}_{i,t} + \alpha_i + \alpha_{m,t} + \varepsilon_{i,t} \quad . \end{aligned} \tag{7}$$

[11] See Table IA.6 in the Internet Appendix.

[12] In a dynamic panel model estimates can be biased, but this bias is decreasing with the length of the sample T (Nickell, 1981). Given the sample length of $T = 34$ in our application, the Nickell bias is negligible irrespective of the persistence of the endogenous variable (Phillips and Sul, 2007).

To account for the potential endogeneity between reuse and repo rates we interact PSPP purchases with the *lagged* level of collateral reuse. The intuition is as follows: it should be easier for market participants to expand their reuse activity in bonds with a low level of reuse, thus making repo rates less sensitive to purchase-induced scarcity. In contrast, dealers may not be able to compensate the reduced supply for bonds that are already heavily reused. We thus expect a negative coefficient on this interaction term. We consider two measures of reuse. First, we standardize collateral reuse by dividing the amount reused by outright ownership and take the logarithm, i.e. log(*Reuse*/*Outright ownership*). Second, we measure reuse activity via the *Reuse rate*. For comparability, both measures are demeaned and standardized to have unit variance. *Controls* accounts for lagged changes in the repo rate and, as above, changes in the amount issued and on-the-run and cheapest-to-deliver status. We include bond fixed effects and maturity bucket×time fixed effects. Standard errors are clustered at the bond level.

Table 5 presents the estimation results. In Column (1) we estimate the baseline regression without the interaction term. Consist with the prior literature, we find that asset purchases compress repo rates, i.e. they increase bonds' specialness. An asset purchase of one percent of the amount outstanding reduces the bond's repo rate by 1.05 basis points. Despite the fact that our estimation approach is monthly and our sample is restricted to German government bonds, the magnitude is similar to Arrata et al. (2020), who report a reduction of 0.78 basis points with regard to a one percent PSPP purchase.

In Columns (2) and (3) we include the interaction term related to the past level of collateral reuse. Crucially, for both measures of reuse the interaction term is significant, both in statistical and economic terms. A one standard deviation increase in the normalized reuse measure in Column (2) further lowers the special repo rate by more than half a basis point for each percent share of amount outstanding purchased. This corresponds to an increase by about one half with respect to the baseline sensitivity of repo rates to Eurosystem asset purchases. The effect for a similar increase in the reuse rate, shown in

Column (3), is even stronger, implying an additional reduction in the repo rate by 0.67 basis points for each percent of amount outstanding purchased.

These results highlight the importance of collateral reuse in compensating asset scarcity. Repo rates are less sensitive to scarcity induced by asset purchases at low levels of reuse, and more so when reuse activity is high.

5 Collateral reuse and repo market quality

Market participants can contribute to dampening scarcity effects by more efficiently using their available collateral. Collateral reuse, however, can also increase the interconnectedness among market participants and thereby amplify shocks (Brumm et al., 2022). In this section we analyze the degree to which higher reuse activity affects repo market quality. Specifically, we analyze the link between reuse rates and delivery failures and volatility in the repo market.

We obtain security-level information on failures to deliver for Bund securities from LCH Limited, which is the clearinghouse for various European repo trading platforms, including Euro-MTS, MTS-France, MTS Italy, MTS Associated Markets, CME (BrokerTec), TP Repo (TP ICAP) and Tradeweb. We aggregate the daily fails data to the monthly frequency at which we observe reuse. Volatility in the repo market is measured as the monthly realized volatility of daily special repo rates from BrokerTec.

Figure 4 provides binned scatter plots of bonds' failures to deliver and repo-market volatility against their lagged reuse rate. The upper chart shows that repo fails are positively associated with the lagged reuse rate of a bond and that this relationship is strongly non-linear. In particular, bonds with elevated reuse rates experience much higher delivery failures in the subsequent month. Similarly, there is also a clear non-linearity in the relation between repo rate volatility and lagged collateral reuse. In both cases, reuse rates below 50% do not seem to be associated with increased subsequent volatility or fails, while the slope is clearly positive for reuse rates above 50%. This provides initial evidence that excessive reuse of collateral may be associated with heightened volatility and occurrence of delivery failures in the repo market.

Of course, other factors related to the supply and demand of collateral may affect both their reuse and delivery fails and repo rate volatility. We account for potential confounding factors in a regression of the fails rate on lagged collateral reuse, controlling for the lagged fails rate, a comprehensive set of security-specific controls as well as time fixed effects. The regression thus explores the cross-sectional relation between collateral reuse and delivery fails in the next month. For repo market volatility we proceed likewise, using the logarithm of repo rate volatility as dependent variable.

Panel A of Table 6 reports the results for the fails rate. Column (1) shows that there is a positive relation between collateral reuse and fails in the next month. A one standard deviation higher reuse rate (23 percentage points) raises the fails rate by $1.11 \times 23 = 0.25$ percentage points. In Column (2) we use a piecewise linear regression approach with a knot at a reuse rate of 50%. The estimates show that the relation between collateral reuse and fails is indeed nonlinear, as suggested by the upper panel of Figure 4. There is a strong and statistically significant slope coefficient for reuse rates above 50%, but it is statistically insignificant for reuse rates below that cutoff.

Column (3) shows that fails rates increase in particular if reuse rates are elevated and collateral available to market participants is additionally reduced by asset purchases. This can be seen from the statistically significant positive interaction effect of reuse rate and $AssetPurchases$. In other words, fails rates become more sensitive to collateral scarcity at higher reuse rates. Column (4) shows that the effect of a one percentage point purchase on fails is 0.63 - (-0.78) = 1.4 percentage points higher for reuse rates above 50% compared to reuse rates below that threshold. This effect is sizable given a median monthly fails rate of one percent and an average fails rate of about 2.8 percent in our sample.

Panel B of Table 6 reports the corresponding results for repo rate volatility. Consistent with our findings from Figure 4, there is a positive, convex relationship between collateral reuse and repo market volatility in the next month. Controlling for lagged volatility and the same set of security-specific control variables, Column (1) shows that a higher reuse rate is associated with significantly higher future repo rate volatility. Column (2) documents that this effect is entirely due to reuse rates above 50%. That said, as shown in Columns (3) and (4), there is no additional impact of scarcity induced by asset purchases.

In sum, while dealers' reuse of safe asset collateral mitigates scarcity effects induced by central bank asset purchases, a high level of reuse is associated with more delivery failures and higher repo market volatility. This highlights the tradeoffs associated with collateral reuse. While reuse can help to absorb shocks by making more collateral available, high levels of reuse increase the interconnectedness of market participants and can thus lead to an amplification of shocks.

6 Conclusion

In this paper we document that dealer banks adjust to safe asset scarcity by making more efficient use of received collateral. In response to sovereign debt purchases by the Eurosystem, dealers increase their collateral reuse activity. The increase in collateral reuse absorbs part of the supply reduction, which is reflected in a lower scarcity premium on the repo market following an asset purchase. But increasing collateral reuse also has a downside: high levels of collateral reuse are associated with higher rates of delivery failures and increased volatility in the repo market.

From a policy perspective our results highlight a new trade-off between unconventional monetary policy and financial stability. As a side effect to quantitative easing, asset purchases increase collateral reuse. High reuse rates, in turn, are associated with lower repo market quality. More generally, our results suggest that global supply and demand imbalances for safe assets impact financial markets beyond the resulting premia for safe assets. Market participants' endogenous response to safe asset scarcity through collateral reuse may ultimately result in an amplification of shocks.

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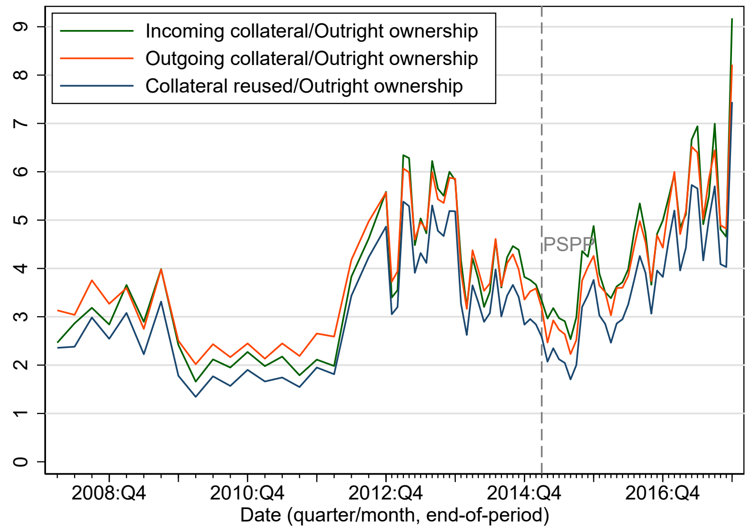
(a) Collateral over Outright Ownership



(b) Reuse Rate

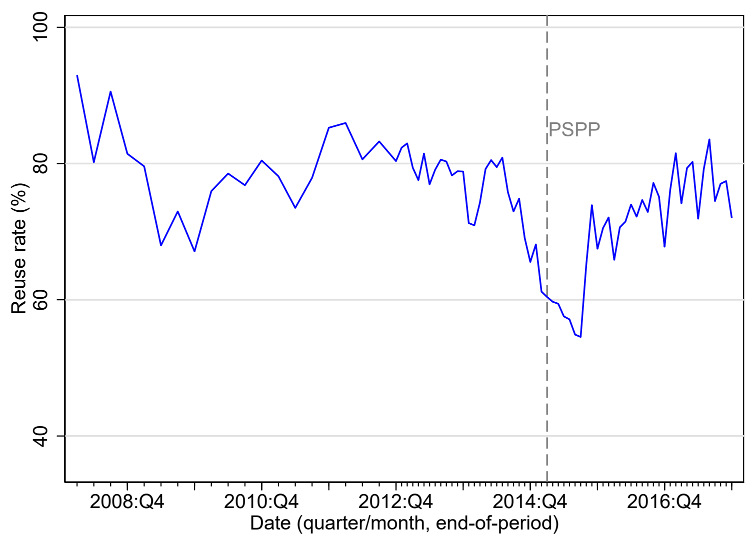


Figure 1: Collateral reuse over time

This figure shows the development of aggregate collateral reuse for European sovereign bonds with remaining maturity between 1 and 30 years. Figure 1(a) plots the multiplier obtained by dividing the amount of incoming, outgoing, and reused collateral in European sovereign bonds by the amount of bonds owned outright. Figure 1(b) shows the development of the aggregate collateral reuse rate. The sample period is 2008-2017, 2008-2010 at quarterly frequency, 2013-2017 at monthly frequency.

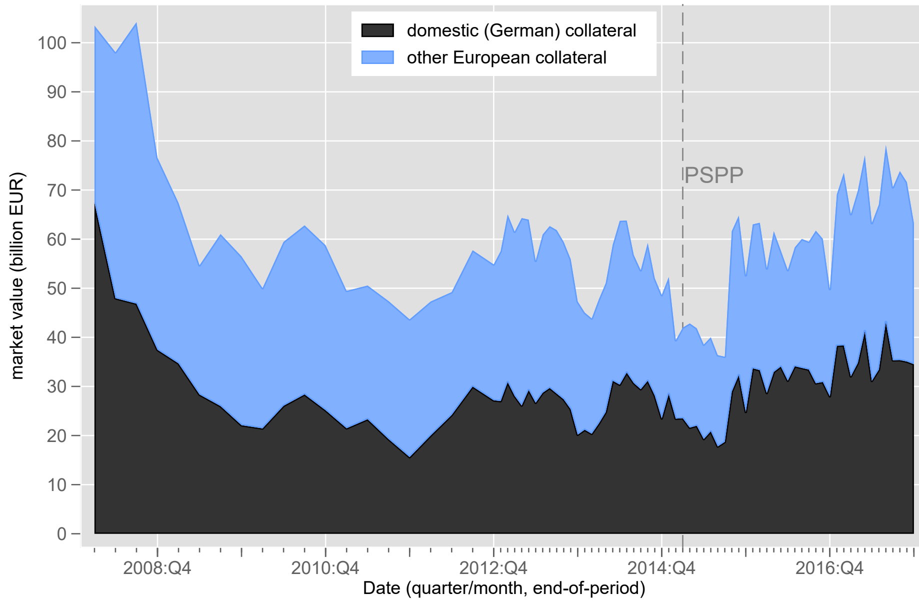


Figure 2: Collateral Reused: Domestic vs. foreign
This figure shows the market value of collateral reused for domestic (i.e. German) collateral and collateral by other European countries in our sample. We consider European sovereign bonds with remaining maturity between 1 and 30 years. The sample period is 2008-2017, 2008-2010 at quarterly frequency, 2013-2017 at monthly frequency.

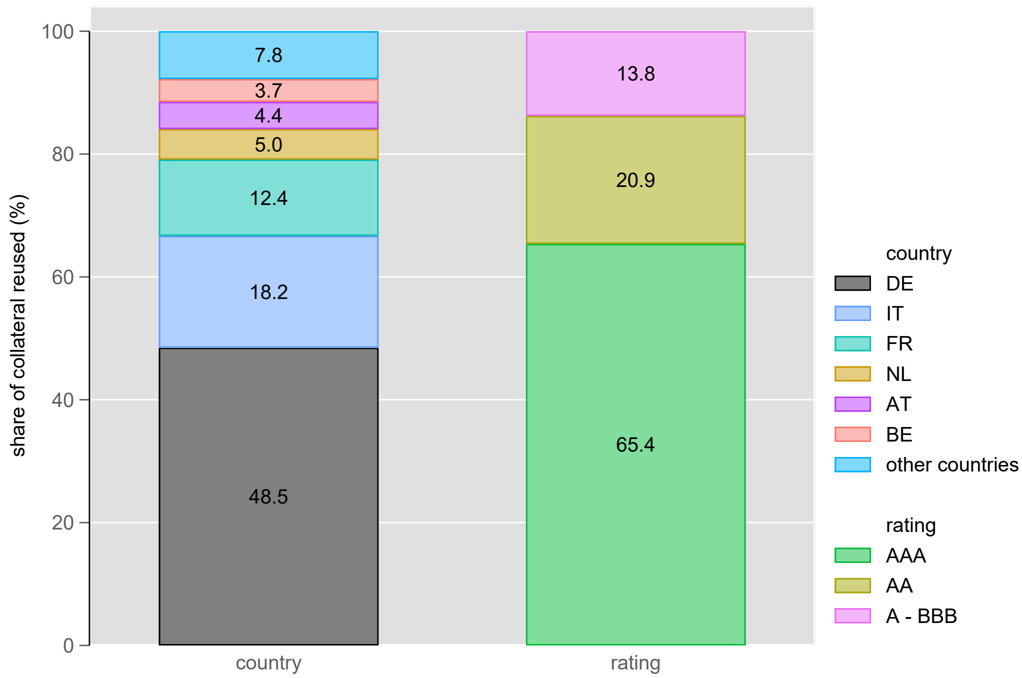
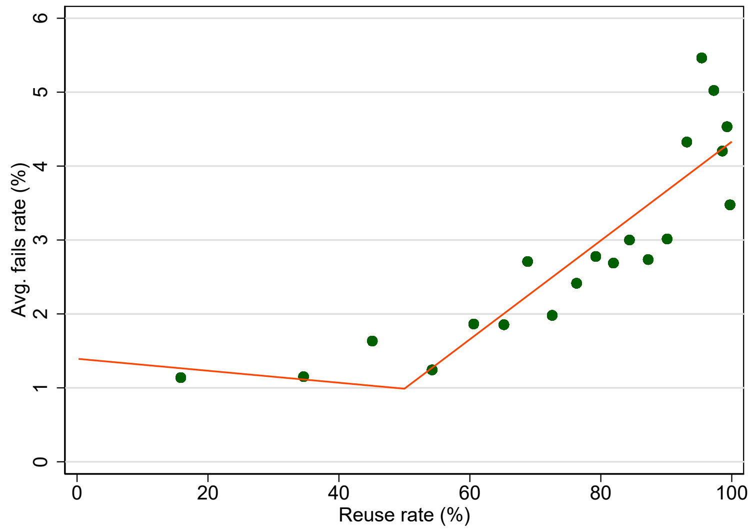


Figure 3: Collateral Reused by Issuer Country and Rating
This figure shows the overall share of collateral reused, computed as the time-series average, in our sample, by issuer country (left column) and by issuer rating (right column). The group *other countries* includes Spain, Finland, Greece, Ireland, and Portugal. We consider European sovereign bonds with a remaining maturity between 1 and 30 years. The sample period is 2008-2017 at quarterly frequency.

(a) Delivery Failures



(b) Repo Rate Volatility

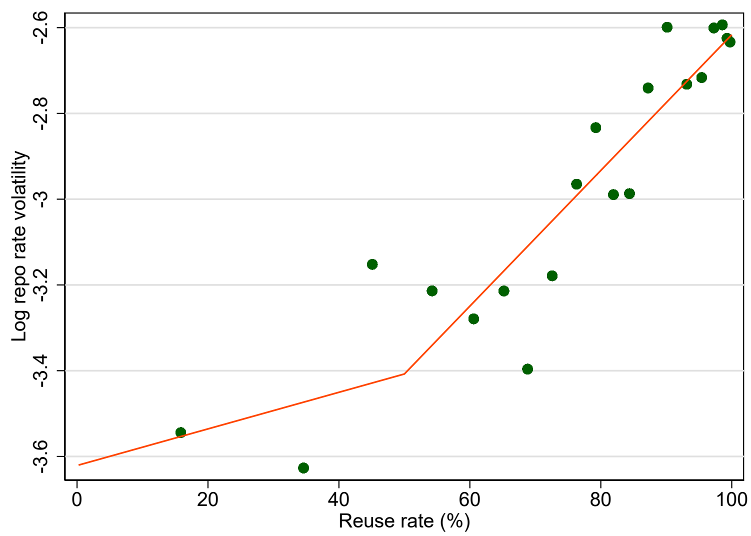


Figure 4: Collateral Reuse and Repo Market Quality
This figure depicts the relationship between reuse rates and measures of repo market quality. The top panel shows the link between reuse rates and the average rate of delivery failures in the next month. The bottom panel provides the relation between reuse rates and repo rate volatility (measured as the logarithm of the standard deviation of repo rates for each month), also in the next month. We group variables into equal-sized bins along the x-axis. The red line represents a piece-wise linear fit with the split point at a reuse rate of 50%. The sample consists of the monthly panel of German sovereign bonds with remaining maturity between 1 and 30 years. The sample period is March 2015 - December 2017.

Table 1:
Descriptive statistics

This table provides summary statistics of the main variables used in regressions throughout the paper. The sample period is March 2015 - December 2017 at monthly frequency. Panel A describes the dealer-bond-time panel consisting of European sovereign bonds with a remaining maturity between 1 and 30 years. The variables describe monthly changes in the reuse rate (ΔReuse Rate$_t$), logarithmic amount of incoming collateral ($\Delta \log$(Incoming collateral)$_t$) and logarithmic amount reused (Δlog Reuse$_t$). Panel B describes the bond-time panel consisting of German sovereign bonds with a remaining maturity between 1 and 30 years. The variables are monthly changes in repo rate (ΔRepo Rate$_t$), the standardized collateral reuse amount log(Reuse/Outright Ownership)$_t$, reuse rate (Reuse Rate$_t$), average rate of delivery failures (Avg. Fails Rate$_t$) and repo rate volatility, measured as the logarithm of the standard deviation of repo rates for each month (log(Repo Rate Volatility)$_t$).

Variable	Mean	Std. dev.	Percentiles 25th	50th	75th	N
Panel A: European dealer-bond-time panel						
ΔReuse Rate$_t$	0.18	44.62	-3.16	0.00	3.81	35,932
$\Delta \log$(Incoming collateral)$_t$	0.04	7.25	-0.06	0.00	0.03	35,932
Δlog Reuse$_t$	0.04	8.52	-0.25	0.00	0.26	35,932
Panel B: German bond-time panel						
ΔRepo Rate$_t$	-2.15	29.28	-7.02	-1.47	3.22	1,694
log(Reuse/Outright Ownership)$_t$	1.84	2.39	0.19	1.60	3.10	1,673
Reuse Rate$_t$ (%)	74.99	22.85	63.23	80.64	94.25	1,714
Avg. Fails Rate$_t$ (%)	2.83	4.70	0.13	1.08	3.34	1,714
log(Repo Rate Volatility)$_t$	-2.99	1.16	-3.81	-3.18	-2.43	1,714

Table 2:
Asset purchases and collateral reuse
The table reports the results of a regression of changes in reuse rate (ΔReuse Rate$_t$) on asset purchases in a dealer-bond-time panel at monthly frequency. The regression models is outlined in Equation (5). We account also for changes in the amount outstanding and control for on-the-run and cheapest-to-deliver status. The sample period is March 2015 - December 2017. t-statistics based on clustered standard errors (bond×time) are provided in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)
	Dependent variable: ΔReuse Rate$_t$				
Asset purchases$_t$ (%)	0.60**	0.57**	0.69**	0.73***	0.89***
	(2.29)	(2.15)	(2.46)	(2.65)	(2.80)
Δ Amount outstanding$_t$	-0.11**	-0.11**	-0.10*	-0.09*	-0.10*
	(-2.26)	(-2.20)	(-1.84)	(-1.74)	(-1.77)
Dummy: On the run$_t$	4.89***	4.54**	5.21**	5.24***	5.90***
	(2.70)	(2.44)	(2.56)	(2.63)	(2.85)
Dummy: Cheapest-to-deliver$_t$	0.12	0.06	0.12	0.26	0.48
	(0.08)	(0.04)	(0.08)	(0.17)	(0.30)
Constant	-0.45	-0.39	-0.51	-0.56*	-0.73**
	(-1.40)	(-1.22)	(-1.54)	(-1.72)	(-2.12)
Fixed effects:					
dealer	yes	-	-	-	-
time	yes	-	-	-	-
bond	yes	yes	-	-	-
dealer×time	-	yes	yes	yes	yes
dealer×bond	-	-	yes	yes	yes
country×time	-	-	-	yes	-
maturity bucket×country×time	-	-	-	-	yes
R^2	.01534	.09811	.1084	.1216	.1484
N	35,927	35,747	35,093	35,093	35,026

Table 3:
Asset purchases and collateral reuse: intensive and extensive margin
The table reports the results of a regression of changes in collateral reuse on asset purchases in a dealer-bond-time panel at monthly frequency. In specifications (1) and (4) the dependent variable is changes in reuse rate (ΔReuse Rate$_t$), and in specifications (2) and (5) changes in the logarithmic amount of incoming collateral ($\Delta \log(\text{Incoming})_t$). The dependent variable in specifications (3) and (6) is changes in logarithmic amount of collateral reused (Δlog Reuse$_t$), where specification (1) repeats specification (5) in Table 2. We account also for changes in the amount outstanding and control for on-the-run and cheapest-to-deliver status. The sample consists of European sovereign bonds in specifications (1) - (3), and of German sovereign bonds in specifications (4) - (6). The remaining maturity is between 1 and 30 years. The sample period is March 2015 - December 2017. t-statistics based on clustered standard errors (dealer×time) are provided in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	European collateral			German collateral		
Dependent variable:	ΔReuse Rate$_t$	$\Delta \log(\text{Incoming})_t$	$\Delta \log(\text{Reuse Amt.})_t$	ΔReuse Rate$_t$	$\Delta \log(\text{Incoming})_t$	$\Delta \log(\text{Reuse Amt.})_t$
Asset purchases$_t$ (%)	0.89***	0.11**	0.15**	1.25**	0.14	0.22**
	(2.80)	(1.98)	(2.43)	(2.52)	(1.61)	(2.42)
Δ Amount outstanding$_t$	-0.10*	0.02*	0.00	0.05	0.04***	0.03*
	(-1.77)	(1.82)	(0.04)	(0.60)	(2.86)	(1.65)
Dummy: On the run$_t$	5.90***	0.64*	0.78**	5.21	-0.07	0.45
	(2.85)	(1.78)	(1.97)	(1.27)	(-0.10)	(0.59)
Dummy: Cheapest-to-deliver$_t$	0.48	0.09	0.07	-0.86	-0.07	-0.12
	(0.30)	(0.32)	(0.22)	(-0.42)	(-0.22)	(-0.33)
Constant	-0.73**	-0.10*	-0.13*	-1.10	-0.15	-0.20*
	(-2.12)	(-1.75)	(-1.91)	(-1.59)	(-1.39)	(-1.65)
Fixed effects:						
dealer×time	yes	yes	yes	yes	yes	yes
dealer×bond	yes	yes	yes	yes	yes	yes
maturity bucket×country×time	yes	yes	yes	yes	yes	yes
R^2	.1484	.1073	.1382	.1698	.1128	.1681
N	35,026	35,026	35,026	10,054	10,054	10,054

Table 4:
Asset purchases and collateral reuse: Cross-country Spillovers

The table reports the results of a regression of changes in reuse rate (ΔReuse rate$_t$) on asset purchases in a dealer-bond-time panel at monthly frequency. The regression model is outlined in Equation (5) and in Section 3.4. In addition to the analysis of Table 3 we account also for the average level of purchases of bonds with the same rating and maturity bucket, excluding the country of the bond of interest. In specification (1) we consider bonds within the same rating group (e.g. AA) and in specifications (2) - (4) within the same rating notch (e.g. AA+). The sample consists of European sovereign bonds in specifications (1) - (2). In specification (3) we consider the effect of asset purchases of bonds with the same rating notch and maturity-bucket, including purchases of German bonds, on the reuse of bonds issued by non-German European sovereigns. Specification (4) considers the effect of asset purchases in AAA-rated non-German sovereign bonds on the reuse of German Bunds. The sample period is March 2015 - December 2017. t-statistics based on clustered standard errors (bond$\times$time) are provided in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)
Issuer country of reused collateral:	all		not Germany	Germany
	Dependent variable: ΔReuse Rate$_t$			
Asset purchases$_t$ (%)	0.64**	0.59**	0.78**	0.76*
	(2.25)	(2.09)	(2.10)	(1.70)
Asset purchases$_t$ (same rating group and maturity bucket, %)	0.47			
	(0.76)			
Asset purchases$_t$ (same rating notch and maturity bucket, %)		1.01**	1.81***	-0.76
		(2.01)	(3.11)	(-0.72)
Δ Amount outstanding$_t$	-0.10*	-0.09*	-0.21***	0.01
	(-1.80)	(-1.77)	(-2.86)	(0.10)
Dummy: On the run$_t$	5.20**	5.23**	4.81**	6.13
	(2.56)	(2.57)	(2.08)	(1.49)
Dummy: Cheapest-to-deliver$_t$	0.12	0.10	2.20	-0.73
	(0.08)	(0.07)	(0.92)	(-0.37)
Constant	-0.89	-1.25**	-1.89***	0.08
	(-1.48)	(-2.52)	(-3.23)	(0.08)
Fixed effects:				
dealer$\times$time	yes	yes	yes	yes
dealer$\times$bond	yes	yes	yes	yes
R^2	.1084	.1085	.1174	.1569
N	35,093	35,093	24,961	10,063

Table 5:
The Effect of asset purchases on Repo rates

The table reports the results of a regression of changes in repo rate (ΔRepo Rate$_t$) on asset purchases in a bond-time panel at monthly frequency. We account also for changes in the amount outstanding and control for on-the-run and cheapest-to-deliver status. In specification (2) we additionally account for the lagged level of collateral reuse normalized by outright ownership in the same bond, and its interaction with asset purchases, and idem in specification (3) for the lagged reuse rate. Both reuse measures are standardized to have mean zero and unit variance. The full regression models is outlined in Equation (7). The sample consists of German sovereign bonds with a remaining maturity between 1 and 30 years. The sample period is March 2015 - December 2017. t-statistics based on standard errors clustered at the bond level are provided in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)
	Dependent variable: ΔRepo Rate$_t$		
Asset purchases$_t$ (%)	-1.05***	-1.16***	-1.00***
	(-3.19)	(-3.64)	(-3.20)
ΔRepo Rate$_{t-1}$	-0.44***	-0.45***	-0.44***
	(-22.34)	(-23.96)	(-21.03)
Δ Amount outstanding$_t$	0.64*	0.66*	0.65*
	(1.95)	(1.79)	(1.97)
Dummy: On-the-run$_t$	-24.30*	-25.38	-25.07*
	(-1.68)	(-1.64)	(-1.71)
Dummy: Cheapest-to-deliver$_t$	0.10	0.22	0.00
	(0.12)	(0.27)	(0.00)
$\log(\textit{Reuse/Outright ownership})_{i,t-1}$		1.13***	
		(3.37)	
Asset purchases$_t$ (%) $\times$ $\log(\textit{Reuse/Outright ownership})_{i,t-1}$		-0.52**	
		(-2.50)	
Reuse rate$_{t-1}$			1.47***
			(2.73)
Asset purchases$_t$ (%) $\times$ *Reuse rate*$_{t-1}$			-0.67*
			(-1.87)
Constant	-1.68***	-1.57***	-1.68***
	(-3.83)	(-3.60)	(-4.00)
Fixed effects:			
bond	yes	yes	yes
maturity bucket$\times$time	yes	yes	yes
R^2	.8511	.8518	.8523
N	1,671	1,634	1,671

Table 6:
Collateral reuse and repo market quality

This table reports the results of a regression of the average rate of delivery failures (Panel A) and log repo rate volatility (Panel B) on determinants of collateral supply and demand. Avg. Fails Rate$_t$ is the percentage share of cleared collateral that failed to deliver in month t. log(Repo Rate Volatility)$_t$ is the logarithm of the standard deviation of repo rates for each month. Column (1) shows the linear relation between the reuse rate and the respective dependent variable, while in Column (2) we use a piece wise-linear regression approach with a kink at a reuse rate of 50%. Columns (3) and (4) additionally include interaction term between the reuse rate and asset purchases. For readability, *Reuse rate* ranges between 0 and 1 in this table. We control for the lagged level of fails/volatility, lagged yield, lagged repo rate, bond age, remaining maturity and amount outstanding and on-the-run and cheapest-to-deliver status. The sample consists of German sovereign bonds with a remaining maturity between 1 and 30 years and the sample period is March 2015 - December 2017. t-statistics based on standard errors clustered at the bond level are provided in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

Panel A: Average Fails Rate

	(1)	(2)	(3)	(4)
Dependent variable:		Avg. Fails Rate$_t$(%)		
Asset purchases$_{t-1}$ (%)	0.04	0.04	-0.23	0.23
	(0.73)	(0.75)	(-1.64)	(1.46)
Reuse rate$_{t-1}$	1.11**		0.80	
	(2.02)		(1.41)	
Reuse rate$_{t-1}$ if in $[0, 0.5)$		-1.51		-0.86
		(-1.23)		(-0.75)
Reuse rate$_{t-1}$ if in $[0.5, 1]$		2.25**		1.65*
		(2.54)		(1.84)
Reuse rate$_{t-1}$ $\times$ Asset purchases$_{t-1}$ (%)			0.34*	
			(1.69)	
Reuse rate$_{t-1}$ if in $[0, 0.5)$ $\times$ Asset purchases$_{t-1}$ (%)				-0.78*
				(-1.81)
Reuse rate$_{t-1}$ if in $[0.5, 1]$ $\times$ Asset purchases$_{t-1}$ (%)				0.63*
				(1.94)
Avg. Fails Rate$_{t-1}$(%)	0.46***	0.46***	0.46***	0.46***
	(8.51)	(8.48)	(8.53)	(8.52)
Remaining maturity$_t$	0.08**	0.08**	0.08**	0.07**
	(2.25)	(2.24)	(2.31)	(2.24)
Age$_t$	-0.05**	-0.05**	-0.05**	-0.05**
	(-2.33)	(-2.41)	(-2.33)	(-2.42)
log(Amount outstanding)$_{t-1}$	-0.13	-0.11	-0.12	-0.11
	(-0.30)	(-0.26)	(-0.26)	(-0.25)
Dummy: On-the-run$_t$	-1.10**	-1.14**	-1.08**	-1.19**
	(-2.31)	(-2.36)	(-2.25)	(-2.43)
Dummy: Cheapest-to-deliver$_t$	0.17	0.13	0.16	0.15
	(0.40)	(0.30)	(0.38)	(0.34)
Repo rate$_{t-1}$	-5.27***	-5.05***	-5.23***	-4.99***
	(-5.63)	(-5.33)	(-5.54)	(-5.24)
Yield$_{t-1}$	0.02	0.06	0.03	0.09
	(0.08)	(0.22)	(0.11)	(0.34)
Constant	0.57	1.18	0.39	1.04
	(0.05)	(0.11)	(0.04)	(0.10)
Time fixed effects:	yes	yes	yes	yes
R^2	.4272	.4289	.4278	.4299
N	1,621	1,621	1,621	1,621

Panel B: Repo Rate Volatility

	(1)	(2)	(3)	(4)
Dependent variable:	log(Repo Rate Volatility)$_t$			
Asset purchases$_{t-1}$ (%)	0.02*	0.02*	0.02	0.02
	(1.78)	(1.79)	(0.82)	(0.42)
Reuse rate$_{t-1}$	0.24***		0.24***	
	(4.07)		(3.76)	
Reuse rate$_{t-1}$ if in $[0, 0.5)$		0.06		0.05
		(0.47)		(0.43)
Reuse rate$_{t-1}$ if in $[0.5, 1]$		0.32***		0.32***
		(3.54)		(3.17)
Reuse rate$_{t-1}$ × Asset purchases$_{t-1}$ (%)			-0.00	
			(-0.10)	
Reuse rate$_{t-1}$ if in $[0, 0.5)$ × Asset purchases$_{t-1}$ (%)				0.00
				(0.05)
Reuse rate$_{t-1}$ if in $[0.5, 1]$ × Asset purchases$_{t-1}$ (%)				-0.01
				(-0.18)
log(Repo Rate Volatility)$_{t-1}$	0.26***	0.25***	0.26***	0.25***
	(6.76)	(6.74)	(6.76)	(6.72)
Remaining maturity$_t$	0.01**	0.01**	0.01**	0.01**
	(2.54)	(2.47)	(2.56)	(2.47)
Age	-0.01**	-0.01**	-0.01**	-0.01**
	(-2.31)	(-2.35)	(-2.31)	(-2.34)
log(Amount outstanding)$_{t-1}$	0.07	0.08	0.07	0.08
	(1.13)	(1.16)	(1.13)	(1.15)
Dummy: On-the-run$_t$	0.14	0.14	0.14	0.14
	(1.48)	(1.46)	(1.47)	(1.46)
Dummy: Cheapest-to-deliver$_t$	0.13***	0.13***	0.13***	0.13***
	(3.09)	(3.01)	(3.09)	(2.98)
Repo rate$_{t-1}$	-0.93***	-0.92***	-0.93***	-0.92***
	(-5.94)	(-5.85)	(-5.93)	(-5.85)
Yield$_{t-1}$	0.01	0.01	0.01	0.01
	(0.32)	(0.41)	(0.31)	(0.39)
Constant	-4.70***	-4.67***	-4.70***	-4.67***
	(-3.06)	(-3.05)	(-3.05)	(-3.04)
Time fixed effects:	yes	yes	yes	yes
R^2	.8659	.866	.8659	.866
N	1,621	1,621	1,621	1,621

Internet Appendix accompanying "Safe asset shortage and collateral reuse"

Table IA.1:
Descriptive statistics: reuse rates

This table shows summary statistics and correlations of collateral reuse rates, employing the three different measures for collateral reuse activity. The sample consists of the security-level panel of European sovereign bonds with remaining maturity between 1 and 30 years. The sample period is 2008 - 2017 at quarterly frequency.

			Std.	Percentiles			Correlation		
Row	Variable	Mean	dev.	25th	50th	75th	(1)	(2)	(3)
(1)	*reuse rate*^{lower} (%)	44.1	45.7	0.0	22.3	98.7	1		
(2)	*reuse rate*$^{prop.}$ (%)	46.2	45.4	0.0	41.9	98.8	0.98	1	
(3)	*reuse rate*^{upper} (%)	48.5	46.6	0.0	50.0	100.0	0.93	0.98	1

Table IA.2:
Asset purchases and collateral reuse: intensive and extensive margin
Robustness check: Using alternative reuse measures.

This table provides a robustness check to the analysis of Table 3 using the upper- and lower-bound reuse as dependent variable in the regression instead. The dependent variable is changes in reuse rate (ΔReuse Rate$_t$) in specifications (1) - (3), and changes in logarithmic amount of collateral reused (Δlog Reuse$_t$) in specifications (4) - (6). Specifications (2) and (5) are the benchmark, and are identical to specifications (1) and (2) in Table 3, respectively. In specifications (1) and (4) we emply the lower bound measure for reuse instead, and in specifications (3) and (6) the upper bound measure. We account also for changes in the amount outstanding and control for on-the-run and cheapest-to-deliver status. The sample consists of European sovereign bonds with a remaining maturity between 1 and 30 years. The sample period is March 2015 - December 2017. t-statistics based on clustered standard errors (dealer×time) are provided in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
Dependent variable:	ΔReuse Rate$_t$			$\Delta\log$(Reuse Amt.)$_t$		
Reuse computation:	Lower bound	Prop. measure	Upper bound	Lower bound	Prop. measure	Upper bound
Asset purchases$_t$ (%)	0.82***	0.89***	0.94***	0.15**	0.15**	0.15**
	(2.60)	(2.80)	(2.90)	(2.39)	(2.43)	(2.41)
Δ Amount outstanding$_t$	-0.10*	-0.10*	-0.08	-0.01	0.00	0.00
	(-1.93)	(-1.77)	(-1.51)	(-0.51)	(0.04)	(0.11)
Dummy: On the run$_t$	5.65***	5.90***	5.84***	0.78*	0.78**	0.77*
	(2.74)	(2.85)	(2.74)	(1.95)	(1.97)	(1.94)
Dummy: Cheapest-to-deliver$_t$	0.52	0.48	0.52	0.14	0.07	0.06
	(0.31)	(0.30)	(0.30)	(0.47)	(0.22)	(0.19)
Constant	-0.63*	-0.73**	-0.81**	-0.11*	-0.13*	-0.13*
	(-1.83)	(-2.12)	(-2.29)	(-1.71)	(-1.91)	(-1.91)
Fixed effects:						
dealer×time	yes	yes	yes	yes	yes	yes
dealer×bond	yes	yes	yes	yes	yes	yes
maturity bucket×country×time	yes	yes	yes	yes	yes	yes
R^2	.1442	.1484	.1498	.1308	.1382	.1383
N	35,026	35,026	35,026	35,026	35,026	35,026

Table IA.3:
Asset purchases and collateral reuse: intensive and extensive margin
Robustness check: Sensitivity of on-the-run bonds.

This table provides an extension to the analysis of Table 3 by estimating the sensitivity of on-the-run bonds to asset purchases. The table reports the results of a regression of changes in collateral reuse on asset purchases in a dealer-bond-time panel at monthly frequency. In addition to the specification of Table 3 we include an interaction term (Asset purchases$_t$ (%) $\times$ Dummy: On the run$_t$) that captures the additional sensitivity of on-the-run bonds to asset purchases. In specifications (1) and (4) the dependent variable is changes in reuse rate (ΔReuse Rate$_t$), and in specifications (2) and (5) changes in the logarithmic amount of incoming collateral ($\Delta\log(\text{Incoming})_t$). The dependent variable in specifications (3) and (6) is changes in logarithmic amount of collateral reused (Δlog Reuse$_t$). We account also for changes in the amount outstanding and control for on-the-run and cheapest-to-deliver status. The sample consists of European sovereign bonds in specifications (1) - (3), and of German sovereign bonds in specifications (4) - (6). The remaining maturity is between 1 and 30 years. The sample period is March 2015 - December 2017. t-statistics based on clustered standard errors (dealer×time) are provided in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)
	European collateral			German collateral		
Dependent variable:	ΔReuse Rate$_t$	$\Delta\log(\text{Incoming})_t$	$\Delta\log(\text{Reuse Amt.})_t$	ΔReuse Rate$_t$	$\Delta\log(\text{Incoming})_t$	$\Delta\log(\text{Reuse Amt.})_t$
Asset purchases$_t$ (%)	0.87**	0.07	0.14**	1.40**	0.10	0.21**
	(2.38)	(1.23)	(2.02)	(2.40)	(1.08)	(2.06)
Asset purchases$_t$ (%) $\times$ Dummy: On the run$_t$	0.04	0.10	0.03	-0.45	0.11	0.05
	(0.06)	(0.82)	(0.25)	(-0.45)	(0.58)	(0.27)
Δ Amount outstanding$_t$	-0.10*	0.02	-0.00	0.05	0.04***	0.03
	(-1.74)	(1.62)	(-0.01)	(0.64)	(2.79)	(1.61)
Dummy: On the run$_t$	5.82**	0.45	0.72	6.22	-0.33	0.33
	(2.36)	(1.04)	(1.52)	(1.31)	(-0.37)	(0.37)
Dummy: Cheapest-to-deliver$_t$	0.48	0.09	0.07	-0.89	-0.06	-0.11
	(0.30)	(0.33)	(0.22)	(-0.44)	(-0.19)	(-0.32)
Constant	-0.72*	-0.08	-0.12*	-1.22	-0.12	-0.19
	(-1.93)	(-1.28)	(-1.69)	(-1.64)	(-1.09)	(-1.48)
Fixed effects:						
dealer×time	yes	yes	yes	yes	yes	yes
dealer×bond	yes	yes	yes	yes	yes	yes
maturity bucket×country×time	yes	yes	yes	yes	yes	yes
R^2	.1484	.1074	.1382	.1698	.1129	.1681
N	35,026	35,026	35,026	10,054	10,054	10,054

Table IA.4:
Asset purchases and collateral reuse: intensive and extensive margin
Robustness check: Comparison across bond maturities.

This table provides an extension to the analysis of Table 3 by separating shorter- and longer-dated bonds in their sensitivity to asset purchases. The table reports the results of a regression of changes in collateral reuse on asset purchases in a dealer-bond-time panel at monthly frequency. The dependent variable is changes in reuse rate (ΔReuse Rate$_t$). Specifications (1) and (5) repeat specifications (1) and (4) of Table 3, respectively, for all bonds with a remaining maturity between 1 and 30 years. The sample consists of European sovereign bonds in specifications (1) - (4), and of German sovereign bonds in specifications (5) - (8). In specifications (2) and (6) the remaining maturity is between 1 and 5 years, while in specifications (3) and (7) it is between 5 and 10 years. The sample in specifications (4) and (8) is for bonds with a remaining maturity of between 10 and 30 years. We account also for changes in the amount outstanding and control for on-the-run and cheapest-to-deliver status. The sample period is March 2015 - December 2017. t-statistics based on clustered standard errors (dealer×time) are provided in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)
	European collateral				German collateral			
Remaining maturity:		$1-5$ years	$5-10$ years	10+ years		$1-5$ years	$5-10$ years	10+ years
Dependent variable:	ΔReuse Rate$_t$							
Asset purchases$_t$ (%)	0.89***	1.09*	0.78	1.01	1.25**	1.41*	1.62*	0.82
	(2.80)	(1.93)	(1.63)	(1.12)	(2.52)	(1.93)	(1.67)	(0.46)
Δ Amount outstanding$_t$	-0.10*	-0.01	-0.17*	-0.37**	0.05	0.19**	-0.06	1.59
	(-1.77)	(-0.10)	(-1.92)	(-2.50)	(0.60)	(2.12)	(-0.36)	(1.45)
Dummy: On the run$_t$	5.90***	3.84	5.95**	2.04	5.21	2.08	5.24	0.00
	(2.85)	(0.94)	(1.97)	(0.42)	(1.27)	(0.38)	(0.80)	(.)
Dummy: Cheapest-to-deliver$_t$	0.48	1.75	-0.68	-1.95	-0.86	-2.29	-0.30	-2.59
	(0.30)	(0.54)	(-0.30)	(-0.44)	(-0.42)	(-0.56)	(-0.10)	(-0.51)
Constant	-0.73**	-0.63	-0.58	-0.32	-1.10	-0.61	-1.61	-1.04
	(-2.12)	(-1.26)	(-0.91)	(-0.33)	(-1.59)	(-0.62)	(-1.12)	(-0.52)
Fixed effects:								
dealer×time	yes	yes	yes	yes	yes	yes	yes	yes
dealer×bond	yes	yes	yes	yes	yes	yes	yes	yes
maturity bucket×country×time	yes	yes	yes	yes	yes	yes	yes	yes
R^2	.1484	.1794	.1678	.1899	.1698	.1848	.2316	.336
N	35,026	13,992	12,643	8,043	10,054	4,343	3,440	2,078

Table IA.5:
Adjustment to reuse rates necessary to compensate supply reductions.
This table provides a robustness check to the analysis in Section 3.3 using a wide set of potential parameters. Taking into account a haircut HC that is applied each time that collateral is (re-)used, Equation (6)) becomes $\textit{effective amount} = \textit{base amount} \times (1 - HC) \times \sum_{n=0}^{\infty} (\textit{reuse rate} \times (1 - HC))^n = \textit{base amount} \times \frac{(1-HC)}{1-\textit{reuse rate} \times (1-HC)}$. Specifically we compute the reuse rate *reuse rate′* that is necessary to compensate for a reduction by one percent in collateral supply (*base amount*) given the initial *reuse rate* and haircut. Δ*reuse rate* gives the corresponding increase in the reuse rate in percentage points. The mean (median) haircut for our sample as reported in the ECB's eligible assets database is 2% (3.3%).

reuse rate (%)	haircut (%)	*reuse rate′* (%)	Δ*reuse rate* (%)
20.00	0.00	20.80	0.80
40.00	0.00	40.60	0.60
60.00	0.00	60.40	0.40
62.10	0.00	62.48	0.38
80.00	0.00	80.20	0.20
90.00	0.00	90.10	0.10
95.00	0.00	95.05	0.05
99.00	0.00	99.01	0.01
20.00	3.00	20.83	0.83
40.00	3.00	40.63	0.63
60.00	3.00	60.43	0.43
62.10	3.00	62.51	0.41
80.00	3.00	80.23	0.23
90.00	3.00	90.13	0.13
95.00	3.00	95.08	0.08
99.00	3.00	99.04	0.04
20.00	5.00	20.85	0.85
40.00	5.00	40.65	0.65
60.00	5.00	60.45	0.45
62.10	5.00	62.53	0.43
80.00	5.00	80.25	0.25
90.00	5.00	90.15	0.15
95.00	5.00	95.10	0.10
99.00	5.00	99.06	0.06

Table IA.6:
The Effect of asset purchases on Repo rates
Robustness check: Extended sample of bonds.

This table provides a robustness check to the analysis of Table 5 using a more general universe of bonds. We consider domestic and non-domestic sovereign bonds for which we observe a reuse activity comparably to domestic collateral. Specifically, we standardize the aggregate amount of collateral reuse of all dealers in our sample by dividing it through the total amount outstanding. For a bond to be included in the sample, we require it to be greater or equal to the 20th percentile of the domestic collateral distribution. The table reports the results of a regression of changes in repo rate (ΔRepo Rate$_t$) on asset purchases in a bond-time panel at monthly frequency. We account also for changes in the amount outstanding and control for on-the-run and cheapest-to-deliver status. In specification (2) we additionally account for the lagged level of collateral reuse normalized by outright ownership in the same bond, and its interaction with asset purchases, and idem in specification (3) for the lagged reuse rate. Both reuse measures are standardized to have unit variance. The full regression models is outlined in Equation (7). The remaining maturity of all bonds is between 1 and 30 years. The sample period is March 2015 - December 2017. t-statistics based on standard errors clustered at the bond level are provided in parentheses. *, **, and *** indicate significance at the 10%, 5%, and 1% levels, respectively.

	(1)	(2)	(3)
	Dependent variable: ΔRepo Rate$_t$		
Asset purchases$_t$ (%)	-0.94***	-1.01***	-0.88***
	(-2.83)	(-3.00)	(-2.95)
ΔRepo Rate$_{t-1}$	-0.44***	-0.45***	-0.44***
	(-20.91)	(-22.13)	(-19.25)
Δ Amount outstanding$_t$	0.40*	0.39	0.40*
	(1.79)	(1.62)	(1.75)
Dummy: On-the-run$_t$	-15.14	-15.38	-15.25
	(-1.46)	(-1.44)	(-1.43)
Dummy: Cheapest-to-deliver$_t$	-0.10	-0.19	-0.26
	(-0.12)	(-0.24)	(-0.29)
$\log(\mathit{Reuse/Outright\ ownership})_{i,t-1}$		1.35***	
		(2.85)	
Asset purchases$_t$ (%) $\times$ $\log(\mathit{Reuse/Outright\ ownership})_{i,t-1}$		-0.61**	
		(-2.31)	
Reuse rate$_{t-1}$			1.23**
			(2.43)
Asset purchases$_t$ (%) $\times$ *Reuse rate*$_{t-1}$			-0.47
			(-1.25)
Constant	-1.56***	-1.54***	-1.57***
	(-3.26)	(-3.19)	(-3.47)
Fixed effects:			
bond	yes	yes	yes
maturity bucket$\times$time	yes	yes	yes
R^2	.8437	.8458	.8444
N	1,775	1,731	1,775

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