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Interest rate setting on the Swiss Franc repo market

| [Open access](#) | Published: 11 January 2009

| Volume 145, pages 351–377, (2009) [Cite this article](#)

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Sébastien Kraenzlin  ¹

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Summary

Repurchase agreements (repos) are secured money market transactions. The cash taker provides collateral in the form of securities and in return receives money from the cash provider. To ensure the continuous covering of the cash amount, the definition of eligible collateral, its handling and valuation play an important role. This is mainly because the collateral nearly eliminates credit risk. In Switzerland,

Swiss franc repos are almost exclusively conducted via the highly standardized repo platform, with four different pre-defined collateral baskets. Each basket comprises different security categories, such as government bonds or covered bonds. This paper analyzes the interest rate setting on the repo market with data from June 1999 to June 2005. It evaluates if the securities provided as collateral influenced the repo rate or not. A price differentiation with respect to the collateral provided is found.

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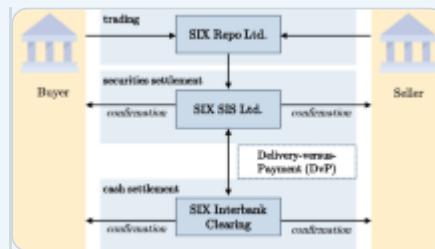
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Author information

Authors and Affiliations

Feierabendstrasse 12, 4051, Basel, Switzerland

Sébastien Kraenzlin

Corresponding author

Correspondence to [Sébastien Kraenzlin](#).

Additional information

The content of the publication is the sole responsibility of the author and does not necessarily reflect the views of the Swiss National Bank. The author would like to thank C. Ravara and U. Beeler for their support before and during the composition of the paper. Additionally I would like to thank P. Kugler from the University of Basel for giving me the opportunity to write my PhD Thesis at the department of monetary macroeconomics and for useful suggestions and ideas on this topic. I am also grateful to M. Arellano for his support concerning the econometric model specification, to K. Hug and M. Schlegel for useful comments. I am indebted to S. Ruckstuhl for providing me with the necessary data. Finally I would like to thank the anonymous referees at the Swiss Journal of Economics and Statistics.

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Cite this article

Kraenzlin, S. Interest rate setting on the Swiss Franc repo market. *Swiss J Economics Statistics* **145**, 351–377 (2009). <https://doi.org/10.1007/BF03399284>

Published
11 January 2009
DOI

Issue date
July 2009

JEL-Classification

[C23](#) [E43](#) [E52](#) [E58](#)

Keywords

[Repurchase Agreement](#) [Repo](#) [Monetary Policy](#) [Panel Data Econometrics](#) [Collateral](#)
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