

Mid Term Award Report

Name: Professor Giancarlo Corsetti

Email: giancarlo.corsetti@gmail.com

Faculty/Department: Faculty of Economics

Project Title: Dealer intermediation strategies and implications for market liquidity

Project start date	January 2018
Project end date	November 2018

Project Abstract:

Abstract of the project worded so that a non-specialist can understand it (max 100 words)

This project considers the recent evolution of dealer intermediation strategies in financial markets and implications for market liquidity in light of concerns about regulatory changes raising intermediation costs for large financial institutions. Using newly available transaction-level data tracking individual participants in US corporate bond markets, we characterize dealer intermediation strategies by quantifying inventory holdings and trading patterns for various securities. We assess whether the evolution of trading strategies post-crisis suggests that regulation has permanently or temporarily increased the cost of market-making, and implications for liquidity supply, customer trading costs, and vulnerability to shocks.

Activities and Achievement A 300 word (maximum) and 100 word (minimum) summary of the main research results, in non-technical language, should be provided below. It should cover the aims and objectives of the project, main research results and significant academic achievements, dissemination activities and potential or actual impacts on policy and practice.

This project aims to use a newly available dataset to assess how the nature of intermediation in illiquid financial markets has evolved since the Financial Crisis. The Academic TRACE data set from FINRA was made available starting in 2017 and allows for tracking the behaviour of individual market participants over time, unlike the previously available Historic TRACE data sets. Consequently, using this dataset we are able to for the first time construct an empirical assessment of how regulatory reforms implemented since

the financial crisis may have affected the capacity of dealers to hold large inventories required to intermediate and the willingness of dealers to take risk to make markets during episodes of volatility. The changing nature of intermediation by large dealers has been a principal concern for policymakers in relation to financial stability in recent years. This project is at an early stage. Currently we are in the process of obtaining access to this data set. Once we obtain the data, we will assess empirically how large intermediaries have changed inventory holding patterns and trading models – including types and sizes of trades, but also the willingness to supply liquidity during times of volatility – in recent years.

Dissemination A. Please outline any specific plans you have for further publication and/or other means of dissemination of the outcomes and results of the research. B. Discuss any potential or actual impacts on policy and practice that your work may have.

Once we have completed the empirical analysis described above, we aim to publish the results first in a working paper, and eventually in a journal. We will also present the results at relevant conferences and workshops, including CERF events. The paper addresses a current pressing concern of policymakers: whether and how intermediation in financial markets has changed as a result of recent changes in financial regulations. Consequently the project can inform policy decisions about whether adjustments to regulation may be needed to reduce strain on market function.

Outputs Please give full details of the outputs which should accompany this report. For each research paper, please, provide: a) the title b) an abstract c) web link where the paper can be downloaded d) bibliographical reference in case the paper is accepted for publication e) details regarding conferences or seminars where the paper has been presented For other outputs (such as software, datasets), please, provide a description of the output and a web link through which the output can be downloaded. If a web link is not available then provide an electronic copy with this report.

No research papers or other publishable outputs have yet been produced at this early stage of the project.

Major Difficulties and Any Other Issues Major difficulties Please detail below any major difficulties, scientific or administrative/logistical, encountered during your research and comment on any consequent impact on the project. Provide details including any advice you might have for resolving such problems in future projects. Other issues and unexpected outcomes Please describe any outcomes of your research, beneficial or otherwise that were not expected at the outset or other issues which were important to the research. If there are none, please state so.

The process of obtaining access to the data is taking longer than anticipated; this is because process by which the University of Cambridge reviews and signs the data agreement

(including the confidentiality clause) has taken longer than initially expected. Once these administrative issues are resolved we expect the analysis to proceed smoothly.

Web Links Please insert here any web links to relevant outputs and web pages. If there are none, please state so.

No links to relevant outputs available yet.

Optional - detailed findings and output Optional - if you would like to provide a more detailed report containing the information you have provided to us, please attach a Word document here.

Additional Information This section can be used to provide any additional information that may be relevant

Declaration The CERF Database is a publicly available online research database, containing summary details of all CERF research projects and their associated publications and outputs. Please select one of the statements below.

- Details of relevant outputs of this award have been submitted to the CERF Database and details of any ensuing outputs will be submitted in due course.
- This award has not yet produced any relevant outputs, but details of any future publications will be submitted to the CERF database as soon as they become available.

Signature - Main Award Holder This Report is an accurate statement of the objectives, conduct, results and outputs (to date) of the research project funded by CERF.

