

Title: Reverse Repos Hit 2 Trillion Yesterday. Its Time for You to Understand Them
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Good evening Apes,

In honor of Reverse Repos breaking the \$2 trillion barrier, ~~and my wife's boyfriend going on vacation~~, I think it's time we all make the conscious effort to understand the ****RRP**** Market a little better. Let's go through a couple basic definitions:

****RRP**** \- Reverse Repurchase Agreement - The NY Fed's Trading Desk sells treasury securities to an ****eligible counterparty**** with an agreement to buy it back at a specified price (Currently offering 0.8%) at a specified time (usually very short-term like overnight.)

Who are these ****Eligible Counterparties****? - First you've got 25 [Primary Dealers](<https://www.newyorkfed.org/markets/primarydealers#primary-dealers>) (BofA Securities, Citigroup, Credit Suisse etc.). Then you've got [RRP Counterparties](https://www.newyorkfed.org/markets/rfp_counterparties) (Original I know.) This list includes 15 Banks, 15 Government Sponsored Entities, and 104 Money Market Funds. In total 159 eligible counterparties.

Each of these counterparties are able to request to receive up to \$160 billion.

Now I know what you're thinking, \$160 billion x 159 counterparties = \$25.44 Trillion

This would be the theoretical max. However, it's also limited by the amount of treasury securities in the ****SOMA****.

****SOMA**** \- System Open Market Account - This is the NY Fed's Trading Desk's account for conduction open market operations under the direction of the FOMC (Federal Open Market Committee.)

So how much is in the ****SOMA**** account Dan? Well as of [May 18, 2022](<https://www.newyorkfed.org/markets/soma-holdings>) there's 5.682 Trillion.

Now that we've covered the basics...What's really going on here?

The process of RRP is the Fed's way of pushing reserve assets into the system.

Why do we need reserve assets in the system?

In the fallout of the 2008 financial crisis the Basel III Accord was formed which instituted an international [minimum capital requirement](<https://www.investopedia.com/ask/answers/062515/what-minimum-capital-adequacy-ratio-must-be-attained-under-basel-iii.asp#:~:text=Under%20Basel%20III%2C%20the%20minimum,to%20its%20risk%2Dweighted%20assets>) for banks. Banks must maintain 8% capital in relation to its risk-weighted assets. This capital can be in the form of cash or treasury securities. I think you see where I'm going with this.

The RRP market helps these counterparties meet their capital adequacy requirements.

Here's where things get weird:

When the counterparties receive their treasury securities from the NY fed, they are immediately added to their balance sheet.

Makes sense. And so they leave the NY Fed's balance sheet until they get it back right? Nope.

Because it's a short-term agreement to be repurchased it NEVER LEAVES THE FEDS BALANCE SHEET.

It's kind of like double counting the money in the system and then using that double money to meet your reserve requirements to keep everyone safe.

Let's look into the rapid rate of increase in these RRP's

[This Chart was a snapshot taken Aug 2, 2021](<https://preview.redd.it/mofhg94wzi191.png?width=1690&format=png&auto;=webp&s;=fa94db5c5304bb4150400ea24eec1e11273c76bb>)

Prior to 2014 these transactions were miniscule. Now let's add in the last 9 months.

[Snapshot taken May 24, 2022](<https://preview.redd.it/c2d1c91yzi191.png?width=2336&format=png&auto;=webp&s;=1e8ff75836a13a9ef60c963637b0007c7d338c9f>)

Feel free to play around with the graph [here](<https://fred.stlouisfed.org/series/RRPONTSYD>).

Am I getting through here? Pumping money into the system to fudge reserve requirements, counting it twice on the books and it increasing at a historically unprecedented rate. Yet, no one outside of this community seems to notice or care.

I want to open this up for discussion here and I'll be making edits to the post. If you made it this far, you're now a wrinkly ape when it comes to RRP's! Tell a friend about it. It's the best way to educate the public and help you better understand. u/danbren out.

Edit: Sorry to the early gang. Had to make a correction to the title. RRP's hitting 2 million isn't much of a headline.

Edit 2: Can an Ape with more wrinkles than me clarify whether Treasury Bills, Treasury Notes/Bonds, Treasury Floating Rate Notes, and Treasury Inflation-Protected Securities in the SOMA account should all be counted toward "treasury securities available for use in RRP operations." I had included them all in my calculation.

Edit 3: Appreciate the overwhelming support. I love seeing so much conversation and discussion around the topic. Thanks to everyone who provided insightful edits and corrections.