Review of: "An Empirical Examination of Collateralization in Financial Markets"

Mesias Alfeus[1]

1 University of Stellenbosch

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This paper delves into a crucial and complex aspect of the financial industry: the collateralization of financial derivatives and repos. The author begins by highlighting the pivotal role of collateralization in the financial system, emphasizing its significance in reducing economic capital and credit risk, freeing up lines of credit, and expanding the range of counterparties. The paper argues that collateralization has become one of the most important credit risk mitigation techniques, particularly due to the "safe harbor" provisions in the Bankruptcy Code, which exempt certain contracts from the "automatic stay" in bankruptcy. The introduction also distinguishes between different types of financial derivatives and outlines their categorization.

The paper's key contribution is its focus on the quantitative and empirical analysis of collateralization, a domain that has been underexplored in existing literature. The paper addresses several essential questions concerning the posting of collateral, the effects of collateralization on asset prices, and the differences in pricing impacts across different markets. Additionally, the paper strives to empirically verify its theoretical model, and this empirical analysis provides a valuable contribution to the field.

A notable strength of the paper is its comprehensive analysis of collateralization, which goes beyond theoretical modeling to empirically investigate its impact on asset prices. This empirical approach adds credibility to the paper's claims and allows for a better understanding of how collateralization influences financial markets.

Furthermore, the paper acknowledges and addresses the complexities of quantifying collateralization, an area that previous studies have often avoided. The paper's clear identification of the differences between cleared and OTC markets, especially in terms of over-collateralization and the legal framework governing collateral, adds depth to the discussion.

Despite its strengths, the paper could benefit from a more concise and structured presentation. The introduction contains a wealth of information, and at times, it can be overwhelming for the reader. It might be useful to break down the information into sections that are clearly labeled and focused on specific aspects of the topic. Additionally, some technical terms and concepts are introduced without adequate explanation, which may pose challenges for readers not well-versed in financial derivatives and collateralization. Some equations are not well explained. In Section 2.1 there are some typos, e.g., writing T.

In summary, the paper addresses a critical aspect of the financial industry and offers valuable insights into the impact of collateralization on asset prices. The empirical approach to verify the theoretical model is commendable. However, the

paper would benefit from improved organization and clarity in presenting complex concepts to a broader audience.

Overall, the paper makes a noteworthy contribution to the field of collateralization in financial markets.