



## *Finance Recruiting Seminar*

Alberta School of Business  
Department of Finance

Presents:

**Dmitry Chebotarev**  
INSEAD

Topic:

### **The Paradox of Conservative Haircuts**

Monday, January 24, 2022  
1:00pm – 2:30pm

Zoom details located in the calendar invite.

If you are not a member of the Finance department and would like to attend, please contact Beth Boison ([boison@ualberta.ca](mailto:boison@ualberta.ca)) for the Zoom meeting details.

### **ABSTRACT**

Collateral requirements affect counterparty selection. I show empirically that conservative Central Counterparty (CCP) repo haircuts push low-risk borrowers away from the CCP and into the over-the-counter (OTC) repo market. When a CCP increases repo haircuts, its policy change applies to all participants uniformly but most strongly affects borrowers whose funding constraints are binding. Affected borrowers with high credit ratings are more likely to switch to borrowing over the counter due to the risk preferences of OTC repo lenders. As a result, conservatively high haircuts induce negative selection in the CCP repo market, potentially threatening its stability.