Title: OTC Intermediaries

Authors: Andrea L. Eisfeldt, Bernard Herskovic, Emil Siriwardane, Sriram Rajan
Abstract:
How do network frictions in OTC derivatives markets affect equilibrium prices and risk-sharing? This paper provides quantitative answers, with a particular focus on the role of central dealers. We develop an equilibrium model of an OTC derivatives market. Detailed data provided to the Office of Financial Research (OFR) by the Depository Trust & Clearing Corporation (DTCC), along with the structural pricing and allocation equations from our model, allow us to estimate the model's key parameters. Using our model at estimated parameters, along with the empirical core-periphery network structure, we provide quantitative estimates of: (1) The effect of network frictions on the level of OTC derivatives prices (2) The key determinants of cross sectional dispersion in bilateral prices; (3) The effects of the elimination of a central dealer on prices and risk reallocation.