

# Discussion of “The impacts of defaults in LVTS” by Darcey McVanel

Seminar and workshop on “Simulating payment  
and settlement systems”

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# The paper

Background:

- LVTS as a system designed to be robust to defaults, **how about individual participants?**

The research question is addressed as follows:

1. Identify worst-possible defaults based on actual LVTS data (N.B. defaults are assumed to be unanticipated)
2. Estimate the impact of the defaults on surviving participants

# Main findings

- Defaults generated induce shortfalls that are frequent and small in general, but variance found across participants and days
- Relative assessment of risk: more risk borne by smaller participants
- Conclusion: **“No instances of systemic risk”**  
*Individual participants are found to be robust to defaults and are able to withstand their loss allocations.*

# Merits of the study

- Deepens knowledge of potential “micro / participant” –level risk exposures in LVTS
- Long data set (170 days): potential exceptional days also included => more robust results
- The organisation of the paper is logic and the results obtained are presented in a clear way: both in absolute and relative terms

# Some observations

- The use of actual LVTS data is justified because assuming **unanticipated defaults**
- The analysis is based on the **worst-case default scenarios** => “**upper bound**” for potential risk
- Results indicate **relatively modest effects** of the worst-case defaults on participants, real-life effects expected to be even smaller  
=> good news for Canadian overseers!

# Potential further research

- Effects of anticipated default in LVTS:  
*How could the likely change of participants' behaviour be included?*
- Effects of simultaneous default of two or three participants  
*Need for modifications in the research set-up*