“Tit for Tat in Payment Systems”

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Discussion Notes

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Motivation

- Assess the impact of a major participant default in TOP
- 22 days’ transactions
- 3 scenarios
  – S1: Vary the default time of day
  – S2: Vary the reaction time
  – S3: Vary the exposure-driven reaction time

Results

S1: Vary the default time of day

As time of default nears the end of day…

- Indirect effect (unsettled payments) ↓
- Defaulter's end of day balance (trapped liq.) ↓

Results

S2: Vary the reaction time

As the reaction time increases…

- Indirect effect is same or ↑
- Additional liquidity costs may ↓ or ↑

Results

S3: Vary the exposure-driven reaction time

As the exposure limit increases…

- Indirect effect ↑
- Additional liquidity costs ↑

Some Comments…

- Operational failure default (analyzed here)
- How would reactions vary if default due to insolvency?
- Participants’ reactions supported by empirical or anecdotal evidence?
  - Operational events databases
  - Consultations with participants (internal controls in place)

Some Comments…

- Expand sample size
- Alternative measures of severity of impact
  - Indirect effect averages may be biased
- Other payments statistics
  - Credit position at time of default
  - Benchmark payment flows to and from the affected participant