

# Discussion on

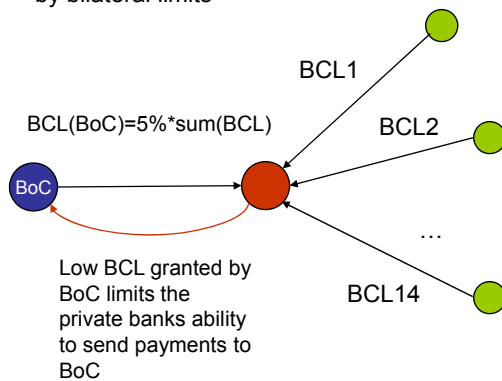
## Using Simulation Analysis to Evaluate the Proposed Increase to BCLs Provided by the Bank of Canada in the LVTS

by  
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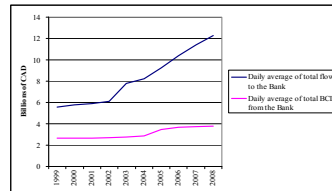
Kimmo Soramaki  
Helsinki Univ. of Technology  
7<sup>th</sup> Bank of Finland simulator seminar  
25 August 2009

## Issue

Settlement in T2 is limited by bilateral limits



Payments to BoC are increasing



-> Private banks have asked BoC to raise parameter from 5% to 10%

## Consequences

- More payments can be settled in T2
  - More payments to BoC due to higher BCL(BoC)
  - More payments to BoC (and between each other?) due to increase in multilateral limit  $T2NDC=30\%*\text{sum}(BCL)$
- Which means:
  - Possible collateral savings but higher delays - more T2 payments, less collateral needed for T1
  - Increased credit risk - higher probability of not having enough collateral (OCS), higher loss shares (ASO)
- Question: in which quantities?

## Discussion

- Text book example of a policy analysis project, very well executed and with relevant results to direct policy
- Finds that collateral needs are reduced (-12.5%), delays are increased (+50%) and risks are increased (OCS +25%, ASO +140%/+20%) – but still at a manageable level.
- Questions
  - What was the impact on liquidity recycling in T1, with less payments the netting ratio probably goes down?
  - Would banks actually reduce collateral holdings?
  - How much are the losses in relation to bank balance sheets?
  - What is the structural issue causing the uneven consequences? Would this go away with more days?