Discussion of "Faster Payments - one year on"

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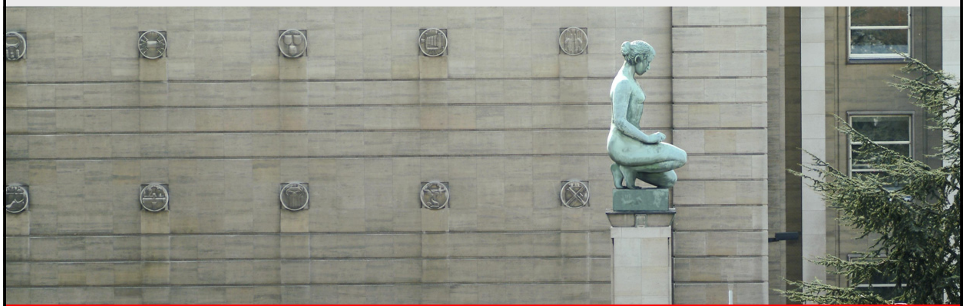

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Introduction

- Analysis of first year of operation of the Faster Payments System (FPS)
  - A deferred net settlement (DNS) system for retail payments (electronic and telephone payments)
  - main benefit: 'near real-time' payments for retail customers
- Main issue from financial stability perspective
  - **Net debit positions:** potential for built-up of large exposure due to the gap between 'near real-time' payments and deferred settlement

Risk mitigating instruments addressing net debit positions

- Intraday settlement cycles (ISC):
  - Global effect - set all net positions to zero
  - Optimal cycle length: amplification problem (payment patterns) and costs of liquidity
- Net sender caps (NSC):
  - Individual effect when members can post collateral to increase their NSC
  - Issues: may cause delays of payments by the system

Effectiveness of risk mitigating measures

- (Current?) scenario: banks do not delay payments
  - ISC effective, but costly: shorter cycles ('global measure')
  - NSC effective, at lower costs : adjustable NSC against collateral ('individual measure')
- (Future?) scenario: banks may delay payments
  - ISC ineffective: delay to last settlement cycle
  - adjustable NSC ineffective: delay to avoid posting collateral

Points of discussion

- Evolution of FPS
  - wholesale payments move from CHAPS to FPS?
  - payment pattern of members
- Key issue: scope for delay
  - Upper limits on transaction important instrument to position FPS as retail payment system?
  - limited scope for delay: micro-management with ISC and NSC. NSC preferred over ISC?
  - scope for delay: similar issue than in RTGS systems. Additional instruments to mitigate risk?