

Discussion of the presentation: What goes to the LVTS central queue?

by Lindsay Cheung and Ben Fung

Patrick Papsdorf
Helsinki, 25 August 2011

Liquidity efficiency in LVPS as central issue

- **Purpose** → Examine a main feature in LVTS, the **central queue**
→ Analyse its usage, characteristics of queued payments

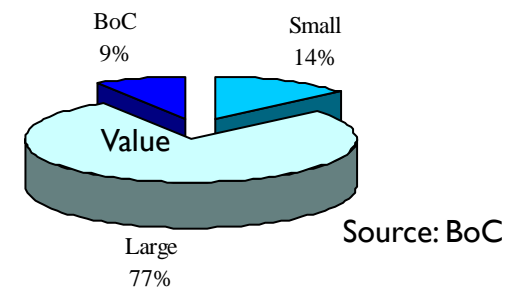
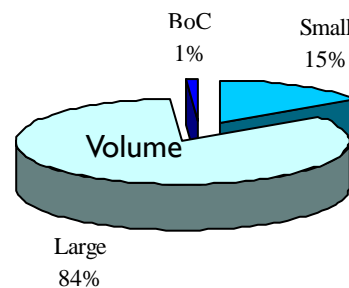
Canadian LVTS

Owned and operated: Canadian Payment Association (CPA)

Settlement: - real-time net settlement, intraday finality

- EoD settlement on BoC accounts, BoC guarantee

Participant structure: → Eight small → Six large → BoC



Source: BoC

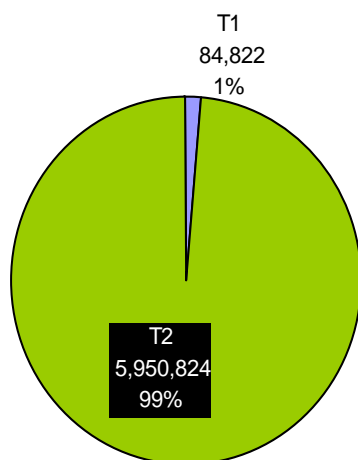
Participants can choose between processing a payment in

Tranche 1 (T1)

Sender provides collateral to cover its sent payments (multilateral net debit cap)

NDC self determined, liquidity intensive

“Defaulter pays”



or

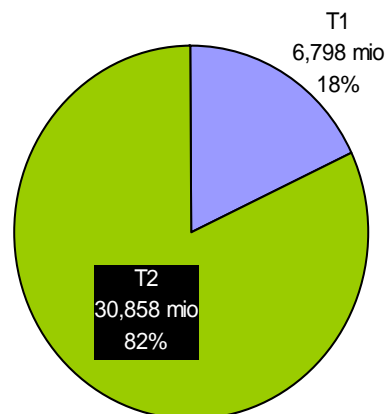
Tranche 2 (T2)

Receivers set **bilateral credit (overdraft) limit**

“(…) how much credit it is willing to extend to every other participant in the form of a net credit line (…)” and provide further collateral

Sum of extended bilateral credit limits * system wide factor = **multilateral net debit cap** for sender

“Survivor pays”



A to B BCL 20'

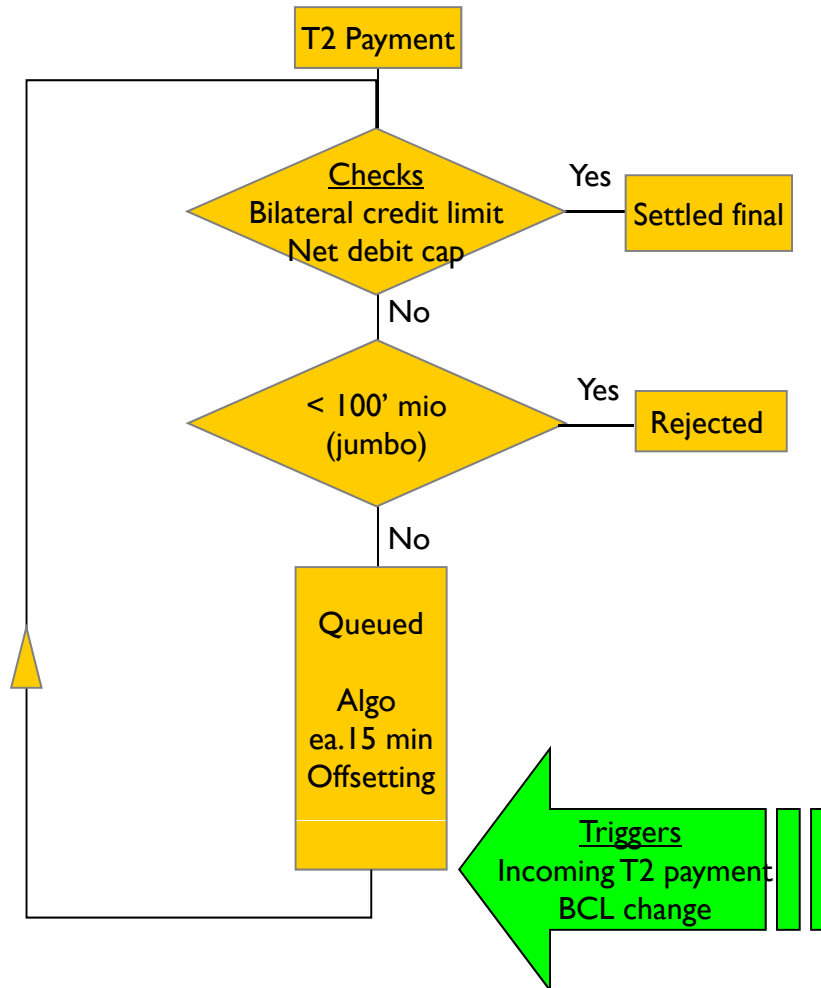
C to B BCL 15'

D to B BCL 25'

B's NDC = 60' * x%

T2 payments processing

ECB-UNRESTRICTED



Entry to queue:

Failed BCL 48% Failed NDC 31%

S2S: 93% BCL S2L: 52% BCL 38% both → small: limit exposure

L2S: 65% BCL **L2L: 52% NDC** → large: higher exposure

Jumbos:

Of all jumbos 2% volume, 4% value queued → large jumbos queued, smaller senders used queue more intensively

E.g. set low bilateral limits, jumbos get queued, await incoming funds, release without BCL change nor T1

REJECTION RATE?

Queue release:

2% BCL increase **41% Algo** 57% Incoming T2

S2S: **89% Algo** S2L: **79% Algo** L2S: **53% Algo**, 45% T2 L2L: **83% T2**

→ large with continuous payment flows and shorter delay, BCL change takes longest, algo resolution high

INTRADAY PATTERN?

Adequacy of queue for liquidity efficiency

- *Ease restriction?*
- *Parameters of the central queue (e.g. 100 mio, FIFO bypass)*
- *Timing of algorithm (e.g. entry disposition, frequency)*

Recommendations to participants for liquidity efficiency

- *How to use system best? (Small, Large, queue visibility)*

Adequacy in a liquidity crisis

- *Implications on tranches, limits, queue*

Thank you