Comments on Martin Diehl & Uwe Schollmeyer "*Liquidity-Saving Mechanisms: Quantifying the Benefits in TARGET2*"

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Study in Nutshell (1)

◆ **Focus:** "Importance of Liquidity-Saving Mechanism (LSM) in RTGS"

◆ **Method:** application of existing models of LSM to quantify the welfare benefits of LSM in TARGET2

◆ **Background models:** Martin & McAndrews (2008), *Jurgilas & Martin (2010)* and *Atalay et al. (2010)*

Study in Nutshell (2)

Results for T2:

♦ **Atalay et al. -type "fee-based model":** savings 45 000 - 58 000 EUR per day (c.f. Atalay et al. original model for Fedwire 500 000 USD)

♦ **Jurgilas & Martin collateral-based model:** savings per day from 138 882 – 292 326 EUR

Authors' conclusions:

♦ Jurgilas & Martin model seems more applicable to T2

♦ Effects of LSM are quite significant also in T2

Comments (1)

- Authors' basic idea (to use existing models and calibrate them with T2-data) is reasonable

   => comparisons between different LVPS/RTGS-systems are possible in general level

- Even the current results clearly demonstrate the differences in the effects of LSM in fee-based and collateral-based LVPS

- Most reasonable comparison using the Jurgilas & Martin –model; comparisons using Atalay et al. model more problematic

Comments (2)

The main merits of the study:

♦ sheds light on the empirical magnitudes of the interesting parameters in the applied models in T2-environment

♦ Cost of delay, cost of borrowing intraday funds from the CB, proportion of time-critical payments etc.

The potential problems in quantification:

♦ Size and probability of liquidity shock: in real-life likely to be asymmetric among banks (which are themselves also very heterogeneous)

   => Theory-world symmetry vs. Real-world asymmetry!

Comments (3)

Some "philosophical" thoughts:

- The exact definition of Liquidity-Saving Mechanism (LSM); "Is it more than only queing?"

- Quantification of delay cost vs. collateral cost; "How to make them comparable?"

- "How to select the time critical payments?"

- "How to reduce the inherent homogeneity of the background theoretical models to match with the heterogeneous real-life"?

Comments (4)

Some suggestions for the forthcoming paper:

♦ Comparisons of your **T2-results** against *Jurgilas & Martin (2010)* and *Atalay et al. (2010)*

♦ Comprehensive discussion on differences; what are the key driving forces behind them (T2 vs. CHAPS vs. Fedwire)?

♦ In paper's conclusion: spell out what (European) overseers' and payment system policy makers can learn from your T2-results ("**most policy-relevant results!**")

=> ideally, action point proposals for European payment system stakeholders incl. WGO, PSPWG, PSSC!

Comments (5)

Robustness of your results under different potential future scenarios:

♦ E.g. availability & price of liquidity in "normal times" vs. "crises period"

=> effect on your parameter calibrations

Background philosophical challenge:

♦ *How to respond to "Lucas' critique" and potential induced behavioral changes?*