

Discussion of

# Does SIC need a pacemaker?

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# Outline of the discussion

- Scope of the paper
- Summary
- Comment & Questions

# Scope of the paper

- Paper assesses current SIC algorithm and compares it with 4 alternatives with the purpose of minimizing settlement delays
  - Assuming release behavior and levels of liquidity of the participants remain constant
- It measures the change in settlement delay using transactions from February 2007, covering 15 business days and an average daily number of 1.2 million transactions
- The paper supports the efficiency of SIC's current algorithm in time with the ongoing discussion on a reform of SIC's algorithm.

# Summary of the paper

- Description of SIC algorithm:

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## Participant level:

- Order of priority as determined by participant.
- In case of same order of Priority: FIFO applies

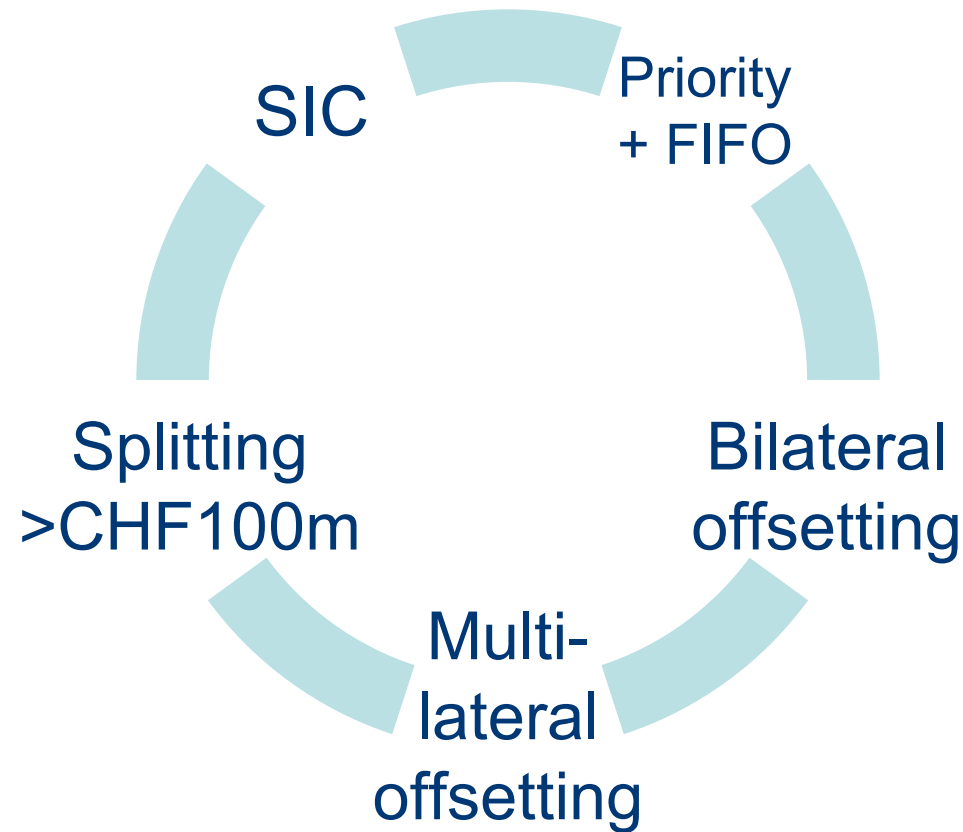
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## System level:

If several participants have queued payments:

- SIC follows FIFO order irrespective of priority
- For reasons of efficiency: SIC settles several consecutive payments in the same queue (if all payments have been settled or if there is insufficient cover, then FIFO applies)

# Summary of the paper



Main differences with SIC refer to:

- Selection of queue
- Packet building
- Gridlock resolution mechanism

Algorithm	Average delay indicator
SIC - No unsettled payments	0.155
Priority + FIFO -Similar to SIC → with unsettled payments at the end of the day	0.153
Bilateral offsetting -On average delay indicator of Bilateral offsetting $\leq$ SIC	0.135
Full multilateral netting every 60 minutes -Does not further reduce delays	0.135
Splitting transactions > CHF 100 million: -Leaves 10 payments unsettled at the end of the day	0.151

# Comments & Questions

Many of my comments and questions are not specific to the paper, but in general to the literature

- 1) SIC's settlement delay indicator present minimum and maximum values of the study, implying greater fluctuations of the indicator:
  - What would this trade-off mean from a policy perspective?  
→ Stable indicator Vs Volatile indicator
- 2) It is mentioned that reducing settlement delay is important but not an exclusive criteria when evaluating alternative settlement algorithms:
  - What other elements would you consider and how would you integrate them in the analysis (method)?
  - What would be other alternatives to speed up transactions and minimize settlements delays ?