

“No more Tears without Tiers? Impacts of Tiered Settlement in TARGET2”

Jan Paulick

Deutsche Bundesbank

Discussant: Constanza Martínez

Banco de la República (Central Bank of Colombia)

Summary

- This research empirically investigates the TARGET2, which is a tiered payment-system. In this type of systems, some participants have direct access (settlement entities), and the others send payments as customers of the settlement entities.
- The authors' interest consist in explaining the system's efficiency using two measures: the maximum liquidity needs and the cost of providing liquidity

Summary

- To this end, they used relative measures of the variables, and fixed-effects panel models.
- This subject is of interest, given that an efficient settlement system is desirable from financial stability point of view.

Comments

- Their results are particular to the system's payments network. Have you considered modifying the payments network?
- More degree of tiering could increase the efficiency in the liquidity usage, as the authors noted. But at the same time, it can also increase the risk.
- The results on 'Maximum liquidity needs' do not allow to make inferences on the estimated parameters, given that the $R^2 \rightarrow 0.01$.

Some suggestions to consider

- Comment about the institutional details about TARGET2 (such as the liquidity-savings-mechanisms).
- Increase the set of explanatory variables (delay of payments, or some network topology metrics).
- From a welfare perspective, what degree of tiering would be optimal? (Lasaosa and Tudela, 2008).