The effects of settlement methods on liquidity needs
Discussion

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Summary

- The effects on liquidity needs caused by the shift from DNS to RTGS in Japan are quantified

- Several figures are calculated in order to measure the liquidity needs: Liquidity transferred for settlement, liquidity (not) used for settlement

- The effects of two special features of the RTGS are also quantified:

  - The liquidity savings features (LSF)

  - The fact, that liquidity efficiency is enhanced by settling several types of transactions (Money market payments, FXYCS foreign exchange transactions and large value retail payments) in one system and on one single account

- The picture is complemented by the quantification of the reduced collateral requirements in the DNS system, that are necessary for a comprehensive assessment of the costs and benefits of that shift

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Comments

- The paper is an important contribution to the discussion on the trade-off between safety of payments and liquidity needs
- Its unique value consists in adding detailed empirical evidence to this important topic
- Trend is towards RTGS systems – introduction of such systems can be used as „real world experiments" in order to backtest the theoretical predictions on the differences between DNS and RTGS systems
- Calculation of liquidity needs could be used also in other contexts
- The paper provides an easy and quick way to compute interesting figures
- Many aspects are covered by the paper: Liquidity, periodical patterns, intraday timing, LSF
- Study of the liquidity needs in an environment with abundant liquidity is challenging, but analyses will have to deal with this environment probably for some time

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Questions

- Calculation of „liquidity used for settlement" with the aggregate of peak value of net outgoing payments when they are settled: Do queued payments that are not immediately settled lead to an underestimation of liquidity needed? When is liquidity really needed?

- Are there any options to differentiate between the effects of queuing and offsetting?

- Could the analysis be extended to more granular figures, i.e. the differences in the liquidity needs of single participant: Is abundant liquidity a general feature or are there heterogeneities?