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Discussant slides

Comments for the presentation "A Compression-Style Liquidity Saving Mechanism: Decreasing Liquidity Requirements and Participant Liquidity Management Needs with a Position Netting Service" by Robert Hofmeister and Argyris Kahros

Brief summary of the presentation

- The presentation proposes liquidity savings mechanism which allows the transfer of internal payment queues to central queue for netting
    - This enables large proportion of payments to be netted/settled with only a small fraction of liquidity
    - Should also enable payments to be settled earlier
- The presentation also considers what happens with the remaining payments that are not netted

Few comments, questions and suggestions (1/2)

- A system which has the following characteristics:
    - Pools payments and nets them (in cycles)
    - Has limits
    - Takes place before TARGET2 / early on in the morning
    - Settles netted positions in TARGET2

    Can be called STEP2
    - Data
    - Behavior

- Perhaps a significant part of the benefits could be potentially achieved with increased transparency alone
    - What is the added benefit of the netting & early settlement?
    - How about transparency of payments + finality?

Few comments, questions and suggestions (2/2)

- The mechanism includes only a subset of the transactions, the rest are rejected.
    - by observing the transactions settled and not those rejected one might get a slightly biased view (rest of the day values decrease)
    - Would one rather have small payments netted against each other or one large payments netted against many small payments?
- Does this mechanism actually incentivize early payment, why? Who would use it?
- Most importantly, why are we using gross settlement instead of netting?