



Discussion of
Contagion of failures in a netting system
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The paper

Question	Result
Qty of systemic risk eliminated through RTGS?	Not huge - prob. of systemic impact low



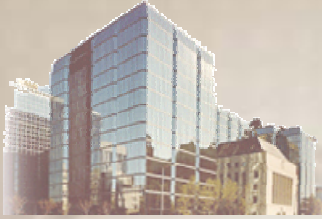
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Multiple defaulters cause greater systemic consequences?	Difference not huge



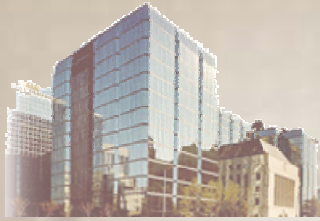
Assumptions



Effect of assumptions

1. Use of Fedwire data in hypothetical unsecured DNS system

- Participants react to type of system
- Anticipate payments would be different in actual unsecured DNS system
- Timing different in DNS system



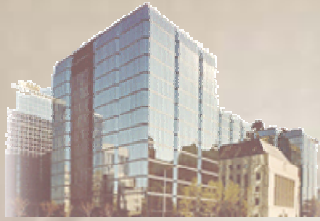
Effect of the assumptions

2. Unexpected default

If default were anticipated, we would expect the market to react in advance:

- Deterioration of capital position(s)
- Outflow of payments
- Reaction of other participants

Important question, but not trivial



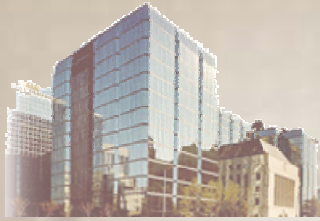
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3. Unwind rule

Two possible unwind rules:

- Full unwind: all payments to and from defaulter unwound
- Partial unwind: only payments from defaulter unwound

Systemic consequences and distribution of losses different.



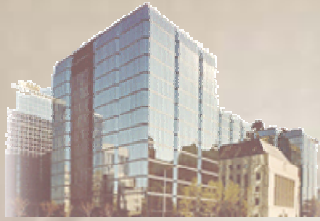
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4. Full provisional credit granted, nothing can be recovered from customers' accts

Provisional credit:

- Assume banks charge, only some customers need & thus will pay for it
- Banks likely to be able to recover portion after default

Assuming less than full provisional credit will lead to fewer knock-on defaults.



Effect of the assumptions

5. Ability to withstand default

Tier 1 capital times capital scaling factor

- Tier 1 capital – available capital
- Capital scaling factor:
 - Only some capital can be impaired before a participant is shut down



Suggested extensions

- Analysis of normal vs. extreme state
- Tell story of impact on the market through size of defaulters
- The tough stuff: behaviour given anticipated default, defaults on subsequent days