

Discussion of Simulating the Fedwire Service

By **Bech, Johnson and Soramäki**

**Payment and Settlement Simulation Seminar
26 August 2004**

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Realistic job preview of role

1. You'll get **none** of the papers in advance.
2. At the session there will be **no time left** for you to make your comments.
3. If there is time left, you'll be introduced as the person who will **pull all** of this **together**.
4. The **audience wants** you to sit down so they can **ask their questions**.

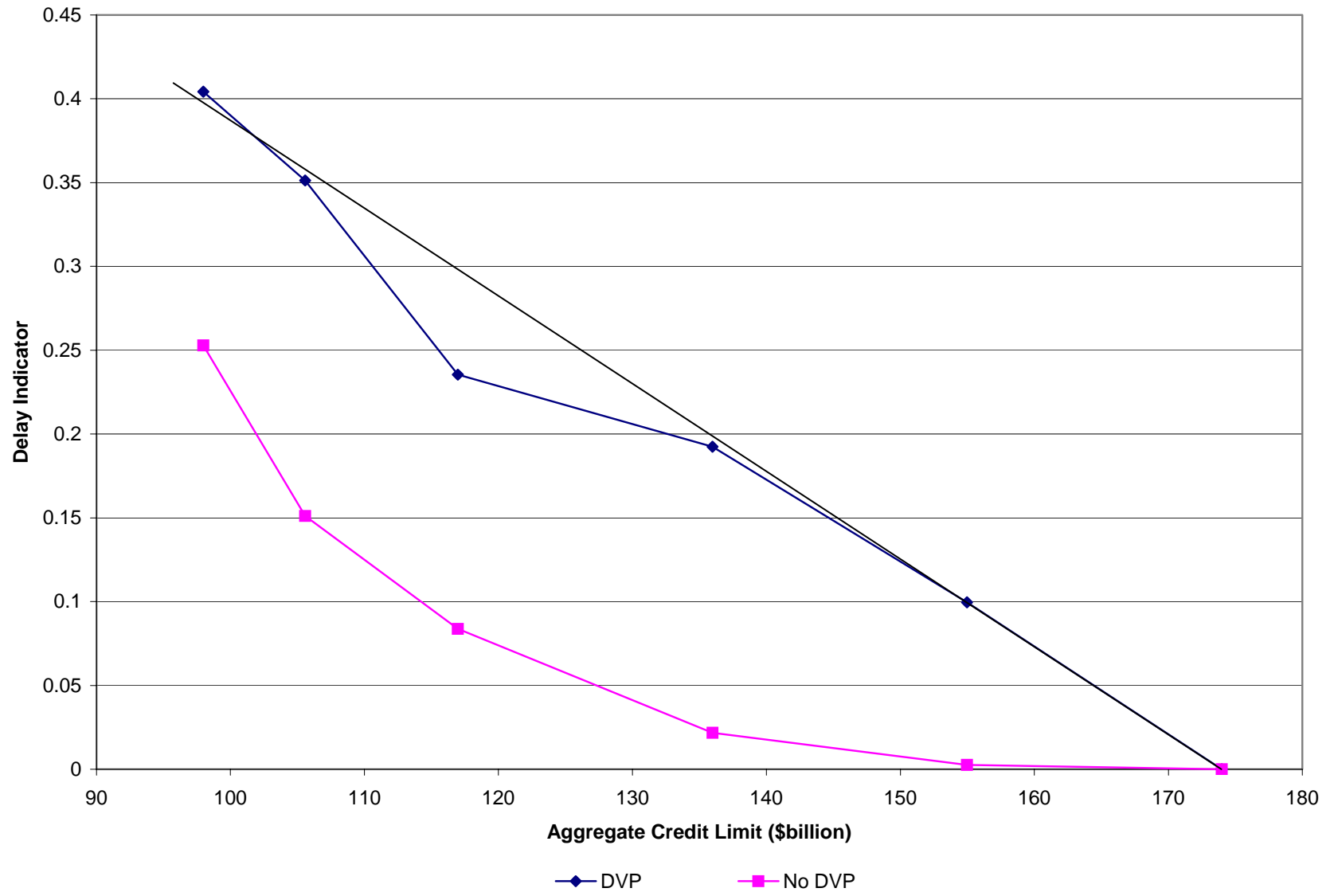
By Karl E. Weick, University of Michigan (*Presented at Workshop on "How To Make AoM Sessions Exciting", Aug. 8, 1999, Chicago, Illinois*)

Core ideas of the paper

- Quantifying a **convex trade-off between liquidity available and settlement delay**
- Results in payment systems as a point of comparison
- Presence of **multiple assets and DvP**
 - Central argument: still need for understanding the structural fundament
 - Central definition:
settlement delay

$$\rho_i = \frac{\sum_{s=1}^T \sum_{k=1}^{d_i} a_{i,k} I(p_{i,k} \in Q(s))}{\sum_{s=1}^T \sum_{k=1}^{d_i} a_{i,k} I(t_{i,k} < s)}$$

By Bech and Soramäki 2001



By Bech et al 2004

Reactions – that is

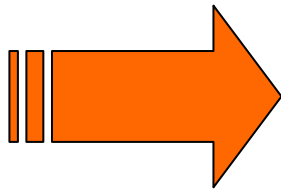
- Analysing post-trading infrastructure with simulation modelling is new!
- Organisation of the paper
 - logical as such
 - more weight should be put on describing data and method
 - reorganise the market overview section so that it more accurately reflects the logic of the argument

Critics

- Whose liquidity effects do we really measure?
- Lot of assumptions;
 - clarify the flows in more detail
 - Simplifying of the **account structures** may reduce relevance of the findings
 - » segregation of funds
 - » linking of individual transactions
 - Does the May 17 provide relevant results?

Road map for research in this

- **Two clearing banks - internalisation**
 - **DvP considerations**; how is DvP defined here?
 - What is really the share* that is settled in **CB money**?



Consider evaluating the risk and roots of exposures outside the scope of the current paper

*of settled transactions (volume and value)

US markets – policy

- Important global custodians not important in the US market?
 - **Free entry** concerning the most interesting markets in the world?
 - Regulatory **protection**?
 - Does the banking supervisor (Fed) **supervise custodian functions** of the banks as a **separate** entity / source of risk?

Thanks

- Hope that **the audience** is satisfied and the paper was interpreted in the context of the road map I gave you
- Hope that **the authors** got meaningful and constructive feedback
- Hope that **I** did not talk too much about my own research