

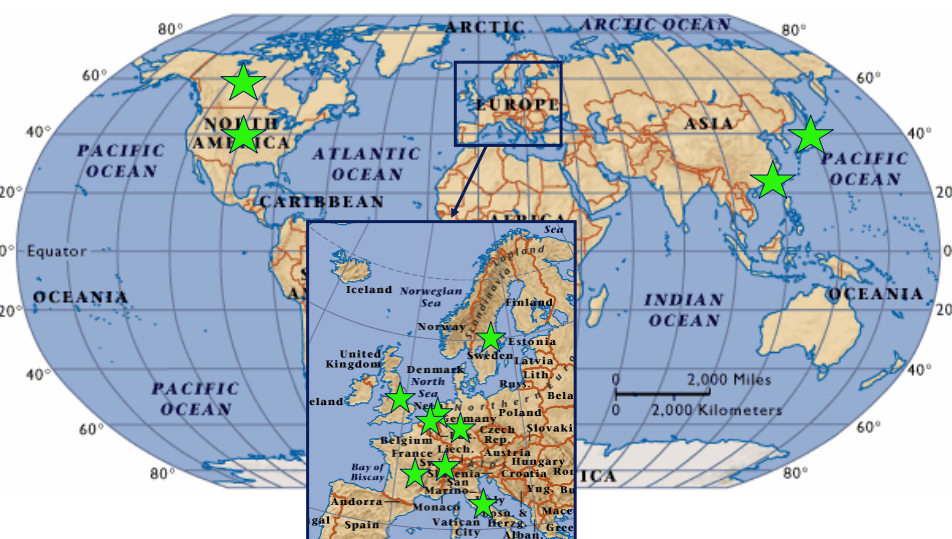
CPSS Report: New Developments in Large-Value Payment Systems

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Semana de Pagos 2005, Madrid
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Time schedule of report

- ◆ 1997 - *Report on Real-Time Gross Settlement Systems*
- ◆ July 03 - Mandate of Committee on Payment and Settlement Systems (CPSS) to analyze new developments in large-value payment systems
- ◆ Sept. 03 - First meeting of working group
- ◆ May 05 - Publication of report on New Developments in Large-Value Payment Systems
www.bis.org/publ/cps67.htm

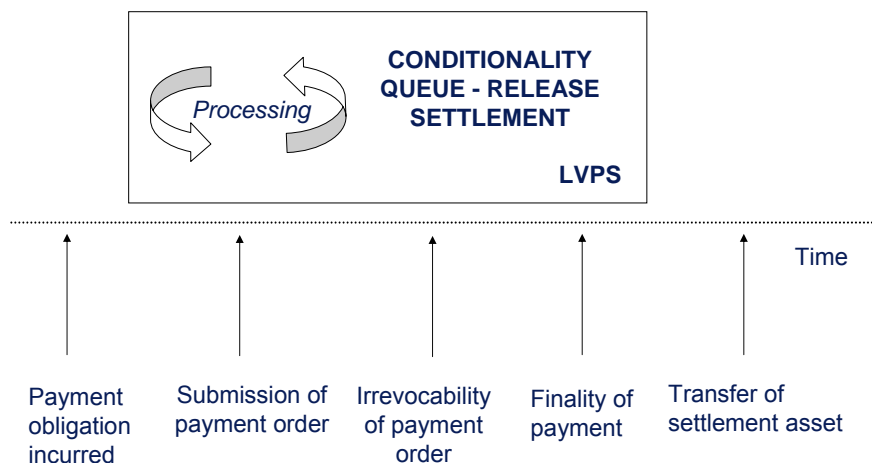
New Developments in Large-Value Payment Systems	SCHWEIZERISCHE NATIONALBANK BANQUE NATIONALE SUISSE BANCA NAZIONALE SVIZZERA BANKA NAZIONALE SVIZZERA
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<h2 style="margin: 0;">Working group members</h2> 	

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<h2 style="margin: 0;">Structure of the report</h2> <ol style="list-style-type: none"> 1. Elements of large-value payment system (LVPS) design 2. External influences on LVPS 3. Risk and costs in LVPS 4. Implications of new developments in LVPS 5. Possible future developments <p>Annexes</p> <ul style="list-style-type: none"> - Comparative tables on selected LVPS - The LVPS efficient frontier - Framework for cost accounting 	

New LVPS since 1997

- ◆ European Union: TARGET, EURO 1
- ◆ France: TBF, PNS
- ◆ Germany: RTGS^{plus}
- ◆ Hong Kong: HKD CHATS, USD CHATS, EUR CHATS
- ◆ Singapore: MEPS
- ◆ Sweden: E-RIX
- ◆ United Kingdom: CHAPS Euro
- ◆ United States: NewCHIPS
- ◆ Switzerland: euroSIC
- ◆ International: CLS

The life cycle of a payment

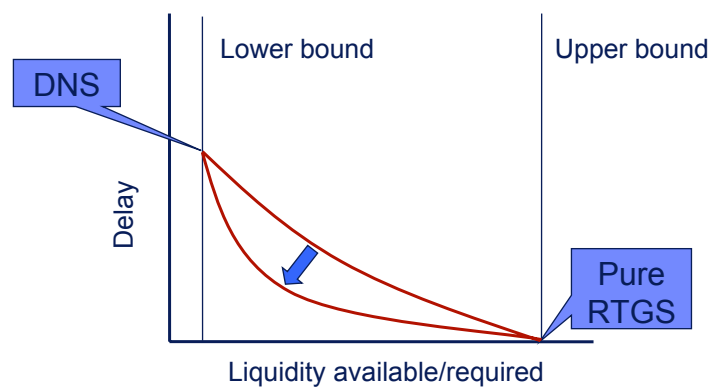


Identified trends in LVPS

- ◆ Achieving intraday finality without RTGS
- ◆ Offsetting of queued payments in RTGS
- ◆ More real-time information
- ◆ Interactive control measures
- ◆ Liquidity control measures
- ◆ Extension of eligible collateral
- ◆ Implementation of CLS
- ◆ New arrangements in correspondent banking
- ◆ Increased reliance on SWIFT

Mixing RTGS and netting features

- ◆ DNS systems adopt RTGS features → NewCHIPS, PNS
- ◆ RTGS systems adopt DNS features → RTGS^{plus}



Advantages of new features

- ◆ Former DNS systems: New CHIPS and PNS
 - Now achieve intraday finality and have therefore become
 - safer than DNS systems
 - but probably more costly

- ◆ Former traditional RTGS system: RTGS^{plus}
 - Now provides continuous offsetting and is therefore
 - as safe as RTGS
 - and probably less costly in terms of liquidity

Disadvantages of new features

- ◆ High development costs
- ◆ Less transparency
- ◆ Is liquidity really a problem?
 - There is not one optimal design for all LVPS
 - The report does not recommend any specific design

Risks in LVPS

- ◆ Settlement risk can be influenced by LVPS design
- ◆ Settlement conditions
- ◆ Settlement delay

Risks and settlement delay

- ◆ Depends on participants behavior
- ◆ The earlier payments are settled, the earlier settlement risk is eliminated
 - Incentive to delay payments in order to use incoming funds
 - Could cause slowdown or even gridlock
- ◆ System designs to reduce settlement delay
 - Throughput requirements
 - Sender limits
 - Time-dependent transaction fees
 - Offsetting algorithms
 - Non-binding behavioral conventions or implicit contracts

Possible future developments

- ◆ Continuing technological advancement
 - Increase of processing power
 - for sophisticated settlement algorithms
 - for settlement of low-value payments
 - Expansion of range of feasible business continuity arrangements
- ◆ Changes in financial market structure
 - Increase of time-critical payments
 - Demand for cross-border and multi-currency settlement services (TARGET2)
 - Competition from large correspondent banks

Conclusions

- ◆ Diversity in LVPS landscape persists
 - no universally optimal LVPS design
- ◆ Overall positive assessment of new developments in large-value payment systems
 - Reduction of settlement delay
 - Reduction of liquidity needs and costs
 - Better control by participants over the settlement process