



Discussion of « Congestion and Cascades  
in Interdependent Payment Systems »

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# Evaluation of the paper

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- Objective: studying the extent of liquidity and credit risks
- Context: two interbank payment systems linked through global banks, with or without the additional interdependence via PvP constraint
- Main result: PvP eliminates the credit risk but exacerbates the liquidity risk



## Evaluation of the paper

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- Intuition: By obliging the two legs of FX payments to be settled contemporaneously, the PvP constraint automatically eliminates the credit risk associated with delays in settling FX payments between the two systems. However, this also implies that the intersystem « cushion » in *queuing* that was associated with non-PvP is gone



# Suggestion 1

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- The model has a second(ary) result: if FX transactions are given priority over local payments, the inter-system credit risk can be substantially reduced.
- Then, isn't it possible to get « the best of the two worlds » by adopting a non-PvP but structured priority system?
- Moreover, the priority is a more delicate tool and can be further refined



## Suggestion 2

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- WHO GAINS?

- There is implicit redistribution of liquidity risk in case of PvP: the « less liquid » system reduces its risk, while the « more liquid » system's risk increases
- Thus, the « less liquid » is always better off under PvP, while the « more liquid » system has to weigh the costs of liquidity risk against the benefit of eliminating the credit risk
- Do these arguments enter into the debate about PvP adoption?



## Suggestion 3

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- The model overall is begging for a full-fledged welfare analysis, similar to the one in Martin and McAndrews (2008b)