The economics of large-value payments and settlement: Theory and policy issues for central banks
Contents

List of Figures xii
List of Tables xiv
List of Boxes xv
List of Contributors xvii

Introduction 1
1 Money, banking and payments: historical evolution and the role of the central bank 2
2 Sources of systemic risk in payments and settlement 5
3 Governance and regulation of payment and settlement systems 9
4 Future policy challenges for central banks 11

Part I: Money, banking and payments: historical evolution and the role of the central bank 15
1 The foundations of money and payments 17
  1.1 The origins of money and payments 17
  1.2 The emergence of banks, including the early central banks 22
2 Payments and monetary and financial stability 30
  2.1 Central-bank money as the ultimate settlement asset 31
  2.2 Payments and monetary stability 32
  2.3 Payments and financial stability 34
  2.4 The value of payment systems to the real economy 36
  2.5 The broadening and deepening of financial market infrastructure and implications for central banks' financial stability objectives 41
Contents

Part II: Sources of systemic risk in payment and settlement systems 47

3 System design and sources of credit risk in large-value payment and settlement systems 51
  3.1 Deferred net settlement in large-value payment systems 51
  3.2 Managing credit risk in DNS systems 58
  3.3 Real-time gross settlement in large-value payment systems 62
  3.4 The choice of settlement model: drivers of the widespread adoption of RTGS in large-value payment systems 64

4 Liquidity risk in large-value payment systems 68
  4.1 Liquidity and the incentive to delay payments 69
  4.2 Central banks' provision of liquidity in payment systems: the theory 79
  4.3 Central banks' intraday credit policies in practice 84
  4.4 Reducing the opportunity cost of collateralized intraday credit 88
  4.5 Mechanisms to promote efficient recycling of liquidity 90
  4.6 Hybrid payment-system design 91
  4.7 Optimal channelling of payments 98

5 Managing systemic risk in the clearance and settlement of foreign-exchange, securities and derivatives transactions 102
  5.1 Foreign-exchange settlement risk 103
  5.2 Settlement risk in securities settlement systems 108
  5.3 Management of replacement risk in clearinghouses 113

6 Other sources of systemic risk: operational and business risk 122
  6.1 Operational risk 122
  6.2 Business risk 134

Part III: Public-policy intervention in payment and settlement systems 137

7 Market failures in payment and settlement systems 139
  7.1 Market failures: implications for systemic risk 139
  7.2 Market failures: implications for efficiency 141

8 Ownership, governance and regulation of payment systems 143
  8.1 Public ownership and subsidization of payment systems 144
  8.2 Targeted intervention ('oversight') 147