

World Bank Financial Infrastructure Conference
The Role of Liquidity in Payment and Settlement Systems
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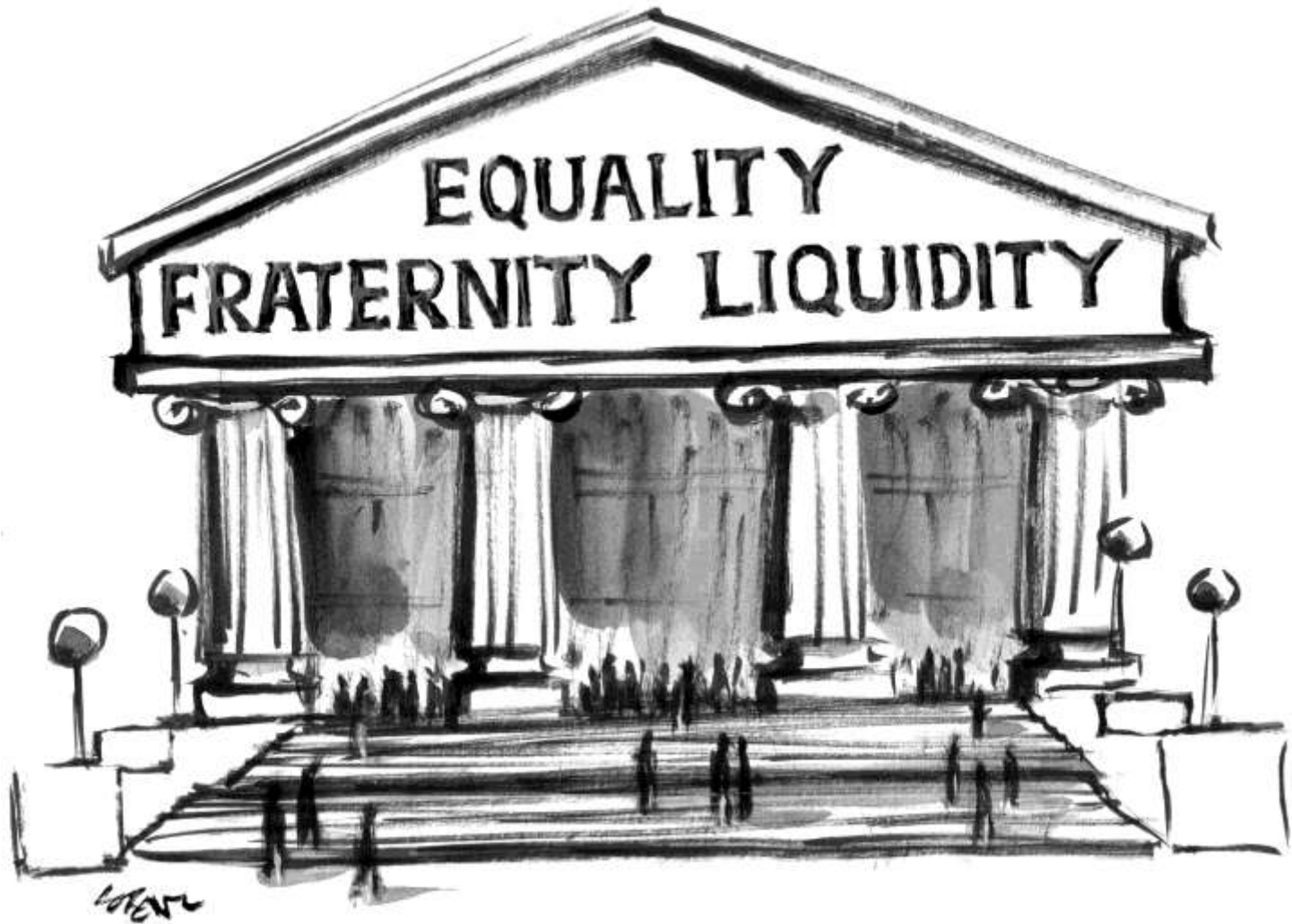
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Liquidity – A Societal Virtue



Liquidity – Virtuous Behaviors

- Measure, monitor, and manage liquidity risk well
- Maintain liquidity to meet intra-day settlement obligations at scheduled times, in designated locations, and in contracted currencies
- Test to validate that liquidity is sufficient to meet settlement obligations when markets are under financial stress
- Diversify market sources of liquidity and, where appropriate, rely on official central bank sources of liquidity

Market Participants Expected to Practice Virtuous Behaviors

- Commercial banks
- Investment banks
- Broker/dealers
- Insurance companies
- Pension funds
- Mutual funds
- Other

Settlement Institutions Expected to Practice Virtuous Behaviors

- Payment systems
- Securities settlement systems
- Central securities depositories
- Central counterparties

Principal Types of Liquid Resources

- Cash at central bank(s) of issue
- Cash at commercial banks
- Highly marketable collateral held in custody
- Investments convertible into cash same-day
- Prearranged funding (committed lines, FX swaps, repos, pledges)
- Etc.

Liquidity Panel Themes

- Collateral eligibility, consistency of acceptance, and ease of movement between systems in support of global liquidity management
- New approaches to modeling and specifying liquidity needs under stress conditions
- Changed views about reliance on central bank account, credit, and RTGS services by market participants and settlement institutions
- Changed expectations for liquidity as a result of lessons learned from the financial crisis, and from newly emerging international standards
 - Viability of just-in-time liquidity practices