# Discussion: Information Asymmetries and Spillover Risk in Settlement Systems, by Elizabeth Foote

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# Basic Ideas

- Spillover of bad events across payments systems because of an information friction.
- Policy Conclusions: better dissemination of information, liquidity-saving mechanisms.

# Model

- Two strategic players, bank A (participates in both systems) and bank D (participates only in one system)
- A is column player, D is row player
- Simplify the game: some of the details are irrelevant for the results
- $p =$ probability that A and D are playing the bad game
- $1 - p =$ probability that A and D are playing the good game
- A knows what game they are playing; D does not.

# Payoffs

Bad Game

| | E | L |
|---|---|---|
| E | $(-a, -b)$ | $(0, -d)$ |
| L | $(-d, -f)$ | $(-d, -d)$ |

Good Game

| | E | L |
|---|---|---|
| E | $(0, 0)$ | $(0, -d)$ |
| L | $(-d, 0)$ | $(-d, -d)$ |

Key Assumptions:

$$b < d$$

$$a > d$$

$$f > d$$

$$pa < d$$

# Results

- When A knows the state:
  - playing early is a dominant strategy in the good game.
  - mixed strategy equilibrium in the bad game.
- When A is uninformed:
  - A and D play early in both states.
- Conclusion: Information friction implies spillover, delay can be a good thing.

# Comments

- Could I reverse engineer the problem and issues from description of the game?
- Is it useful to think about payments systems and policy without:
  - asset prices
  - an explicit treatment of central banking and central bank intervention
  - an explicit treatment of the role played by collateral
  - an explicit description of the assets and liabilities of the actors in the model
  - an explicit description of actual payments