

Proposal: 1625 Potential FR Actions to Support Interbank Settlement of Faster Payments

Description:

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Proposal: 1625 Potential FR Actions to Support Interbank Settlement of Faster Payments

Subject: OP-1625 -Potential Federal Reserve Actions to Support Interbank Settlement of Faster Payments

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Comments:

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Ladies and Gentlemen

Modernising financial system, introducing instant payment, is necessary to be in line with e-commerce, but also to make financial system safer and more stable, eliminate counterparty risk, etc.

Instant Financial Market Infrastructure (FMI) only works if fully automated. And that requires automated, instant back-up system in case of disruptions. Technical failure, human mistake, cyber crime or force majeure, there are plenty of potential triggers.

For market participants at the end or beginning of a value chain disruptions result in delayed payments and higher costs. For market participants in the middle of a value chain, in general corporations, disruptions pose a liquidity risk and potentially default.

I would like to introduce Project KLF, establish corporate liquidity back-up insurance market. KLF was developed following experiences during GFC and introduction of Basel III. Before GFC, corporations especially in continental Europe relied on Bank guarantees and irrevocable credit lines. Today, based on BIS data, corporations around the world have accumulated enormous amounts of non-operational liquid assets. This strategy is highly expensive, poses new risks (interest rate, currency, counterparty risk) and usually does not support instant FMI.

Going forward, KLF will provide insured corporations instant access to liquid assets as per BIS definition at ex ante defined terms & conditions. During stable market environment, insured corporations will have to pay periodic fee. KLF market will be electronic platform based, is part of digitization of corporate treasury. For additional information please check: <https://www.mewconsul.de/en/project-klf>.

KLF insurance structure has been evaluated by among others various regulatory authorities, central banks, rating agencies. For Bank of England of particular interest dual functionality: (1) general corporate financing, and (2) collateral for derivative transactions (variation margin). Countercyclical structure acts like a circuit breaker in case of volatility spikes.

Currently, execution of Project KLF is delayed due to FMI providers deferring access. Due to inquiries by competition authorities in UK and

Switzerland about artificial barriers to entry and potential banking cartel, the issue will hopefully be addressed shortly.

Combination of instant FMI (payment, settlement, collateral management) and KLF liquidity back-up insurance will create a safer and more stable financial market infrastructure (FMI).

I would be delighted to present Project KLF, establish corporate liquidity back-up insurance market, to Federal Reserve as well.

Kind regards

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Founder & CEO

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