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Board of Governors of the Federal Reserve System  
20th Street and Constitution Avenue, N. W.

Washington, DC 20551, USA

**Via Email:** [regs.comments@federalreserve.gov](mailto:regs.comments@federalreserve.gov)

## **Docket No. OP-1749**

Ladies and Gentlemen,

Banco Popular Español, S. A. was the 6th largest banking group in Spain before it was bought as part of a rescue package by Banco Santander S. A. in June 2017.

Shortly before Banco Popular Español S. A. successfully passed ECB stress test, incl. liquidity. For unknown reasons an institutional (corporate) bank-run was triggered, and it took less than one week for the bank to topple.

According to Bank of England, with digitised financial system and transformation to instant payment, bank-runs could be as short as 30 minutes. That sounds reasonable, even with limited volume of single transactions, if more and more institutional/corporate payments are algorithm driven and automatically executed.

As to current “Potential Modifications to the Federal Reserve Policy System Risk to Expand Access to Collateralized Intraday Credits, Clarify Access to Uncollateralised Credits, and Support the Development of the FedNow service” (Docket No. OP-1749) two general lessons appear central:

1. Credit situation of Financial Institutions can change so fast going forward, real or perceived, counterparty risk management via collateralization should be a central pillar.
2. Collateralization boosts cyclicity. One has to be careful not to built protection against 1<sup>st</sup> round counterparty risk, only to be hit by considerably bigger financial system risk following 2<sup>nd</sup>, 3<sup>rd</sup>, or 4<sup>th</sup> round effect. It is reasonable to assume, that demand for intraday credit and other financial system volatility events will be highly correlated, and collateral during such periods is already in high demand. The result would be further squeeze, causing additional market volatility.

We believe, with instant payment broadly applied intraday liquidity risk, pre-settlement counterparty risk and short-term risk in general will increase significantly. Without concurrent adoption of an automatic stabiliser, private capital based, acting countercyclical and automatically/instantaneous, collateralisation of intraday credit will actually increase Federal Reserve Bank risk, and not reduce as intended.

Additional side benefit of automatic/instantaneous stabiliser, it is real time stress radar for real economy and financial system.

In summary, instead of trying to reduce risk directly, it might be better to divide it into (1) liquidity and (2) default risk, and channel each part to where it is managed best: (1) central bank and (2) private sector.

Best Regards

Manfred E. Will  
Founder & CEO