



**BANK OF ENGLAND**

# News release

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## **Collateral Posting Decisions in CHAPS Sterling**

The smooth functioning of payment systems, and in particular large-value payment systems, is important in maintaining financial stability. CHAPS Sterling is one such system. CHAPS Sterling appears likely to be robust in the event of operational incidents that temporarily prevent a member bank from making payments, because member banks post more collateral with the Bank of England than they generally need to support their payment activities. This article explores why member banks do this. If the cost of being unable to make a payment is high relative to the cost of posting collateral, one would expect banks to post collateral on the basis of possible peak demand and the cost of so doing not to play an important role in the decision. The empirical evidence presented in this article is consistent with this explanation.

### **Notes to Editors**

1. From today, the Bank will publish papers on financial stability themes on its website periodically. They will then be published in whole or part in the subsequent Financial Stability Review, which appears in paper form and on the website each six months. This article is the first for which these arrangements have been adopted.
2. The CHAPS Sterling system has also been discussed in two previous FSR articles: James (June 2003) and Bedford, Millard and Yang (June 2004).

### **Key Resources**

Collateral Posting Decisions in CHAPS Sterling

Kevin James and Matthew Willison

Market Infrastructure Division, Bank of England, 2 November 2004

<http://webarchive.nationalarchives.gov.uk/20100114080129/http://www.bankofengland.co.uk/publications/fsr/2004/fsr17art8.pdf>