



EUROPEAN CENTRAL BANK

EUROSYSTEM

NTW-CG SECRETARIAT

NTW-CGSecretariat@ecb.europa.eu

8 July 2024

OUTCOME

8th meeting of the New Technologies for Wholesale settlement Contact Group (NTW-CG)

18 June 2024 (09:30 - 16:00 CEST)

ECB premises, Frankfurt am Main

0. Opening remarks by the Chair

Background & outcome:

The Chairperson welcomed the NTW-CG members to the second physical meeting. The members of the CG have been informed on the changes in the standing membership of a member and a National Central Bank. The agenda was adopted by the members.

Section A: Execution phase of the Eurosystem's exploratory work

1. Participation in the Eurosystem's exploratory work

Background:

Financial market stakeholders expressed their interest to participate in the Eurosystem exploratory work in the first and second wave. The ECB provided an overview of the use cases and participants. Members were asked to reflect on the market's interest in the current exploratory work and on a possible interest to continue exploring new technologies for settlement of wholesale financial transactions in central bank money also in the future (e.g. rationale, motivation, possible objectives). To elaborate on their answers the members were asked via a questionnaire that was shared prior to the meeting.

Members were invited to:

- Share their understanding on the market's interest to participate in the Eurosystem's exploratory work

Background documentation:

- Presentation on the use cases explored in the Eurosystem exploratory work

Outcome:

- The ECB
 - provided an indication about the high interest received for participation in the second wave,¹ about the type of use cases proposed by the participants to be conducted via trials and experiments, and the work that is done in parallel.
 - Took note of the request from some CG members to receive more detailed information on the number of parties interested in conducting experiments and trials with each of the interoperability-type solutions as well as in the use cases proposed.
 - Informed the members that, because of the strong overall demand, a limited flexibility of preparing the trials and experiments was agreed, while the deadline for eligible market participants and eligible market DLT operators to complete their proposed trials and experiments remains end-November 2024. The Eurosystem might seek volunteers among wave 1 and wave 2 participants for additional Eurosystem experiments on scalability and throughput. Because of the high demand for wave 2, these experiments would take place only after the end of November.

- The members of the CG received an overview of the feedback given by some of the members in response to the questionnaire, including:
 - The work already carried out by the Eurosystem to provide central bank money (CeBM) settlement in the context of new technologies, such as DLT, is appreciated.
 - The majority of the CG members who spoke highlighted the importance of central bank money settlement for the successful move towards a token-based financial market and the introduction of DLT. The presence of the central bank solution would have the potential to unlock investment budgets and obtain commitment from, for example, issuers and investors. In the absence of such a solution, the market might not make the necessary steps towards implementation despite the expected long-term gains.
 - Investments would also require planning certainty, i.e. once central bank money settlement for DLT-related transactions was introduced, it should remain available continuously.
 - The members would welcome an outlook from the Eurosystem, ideally providing a path with a clear timeline, milestones and guidance on the Eurosystem's plans in the field of new technologies for wholesale CeBM settlement in the short and longer term. In case a solution was introduced, e.g. with a limited scope, volumes and technical functionalities, it would facilitate the planning of all actors if this would be clearly presented as an interim solution that could change and develop over time in an efficient way. The clearer the direction and speed of travel were, the easier it would be for market participants to plan their investments and commitments.
 - Members provided mixed feedback on whether significant volumes might be generated with a CeBM settlement solution in the context of new technologies in the short term. Some argued that their partners from the Eurosystem's exploratory work had shown an interest in conducting further transactions. Others conceded that, in order to scale, they and their potential partners needed sufficient time to plan their budgets, and resourcing, go thoroughly through their legal documentation and funding plans, set up and automate new processes. These members acknowledged that until these efforts will have been accomplished, they would use any Eurosystem solution only sporadically.

¹ To note: The detailed list of entities participating to the Eurosystem exploratory work in wave 2, as approved by the ECB Governing Council was published after the meeting and can be found [here](#).

- Members flagged also that some legal and regulatory aspects related to the use of new technologies (DLT) would still have to be further assessed. They did not preclude that authorities might have to clarify and possibly amend applicable rules in order to have an efficient ecosystem. They also suggested that the Eurosystem would analyse different implementation approaches (namely Distribution and Integration).
- The ECB updated the members of the CG on:
 - the current status of the Project Agorá,
 - the project, brought forward by the Eurosystem and the London centre of the BIS Innovation Hub, Meridian FX,
 - the communication approach chosen by the ECB. The ECB also presented some communication guidelines on the Eurosystem exploration work to be taken into account for communication prepared by the participating financial market stakeholders.

Action point

To better understand the market needs and to structure further discussions on possible useful steps after the current exploratory work, the ECB will request the members of the CG to answer an additional set of questions in writing.

Section B: Eurosystem's exploratory work put in perspective

2. Implications of new technologies for settlement and liquidity management

2.1. PvP settlement models

Background

The ECB presented a stylised simple PvP (FX) settlement model using the interoperability solutions. This presentation served as an introduction to the discussion foreseen under agenda item 2.2.

Members have been invited to:

- Raise questions, if any

Background documentation:

- Presentation on PvP (FX) settlement model using the interoperability solutions

Outcome:

- The ECB
 - Presented a conceptual view on the setup for settlement in the Eurosystem exploratory work with the interoperability-type solutions and explained how this setup is used to explore also foreign exchange (FX) settlement on a payment-versus-payment basis (i) in experiments with a non-euro area central bank that applied to conduct an experiment with one of the Eurosystem interoperability-type solutions and (ii) in the context of project Meridian FX, which will conduct experiments with all three solutions.

2.2 Follow-up discussion with market participants

Background

Prior to the meeting and as preparation for this agenda item, members received a set of questions asking what their views are on the implications of new technologies, such as DLT, for settlement, liquidity management, harmonisation and risk of fragmentation.

Members have been invited to:

- Share their views on the implications of new technologies, such as DLT, for settlement, liquidity management, harmonisation and risk of fragmentation (by elaborating on answers given and respond to follow-up questions raised in the meeting)

Background documentation:

- Questions to prepare the meeting discussion

Outcome:

- The members of the CG exchanged views on the support of the financial market to move to t+0 or even instant gross settlement of wholesale transactions and highlighted that this would impact the liquidity management, e.g. would lead to an increased liquidity requirement. A member also highlighted that the current settlement cycle is determined by market practices, legal and back-office procedures, rather than technical limitations: the current platforms, such as TARGET Services, can already settle within the same day.
- Some members argued that the option to use a settlement solution with shortened settlement cycles in addition to the traditional market infrastructures would be beneficial. It might not be valuable for all asset classes to move to shorter settlement cycles. A careful assessment of the advantages of shorter settlement cycles should be made. This would ideally include an assessment on the benefits of intraday-netting cycles.
- The members discussed if there would be a case for harmonising practices between markets and to what extent DLT would mitigate / exacerbate the risk of re-fragmentation of the market or the emergence of diverging standards. One member acknowledged the fragmentation in the current market and flagged that also the introduction of DLT networks can lead to actors/venues that are specialised on certain assets. Some members spoke in favour of a single platform for cash and assets to maximise the potential benefits of DLT while others argued that also a single platform was not a guarantee for an added value for the economy or the absence of fragmentation. Standardisation, as mentioned by several members, on technical aspects (e.g. usage of smart contracts in DLT environments) and legal ones, is needed to reduce fragmentation risks, both in case a single DLT platform or multiple DLT platforms would emerge.

Section C: Topics of interest by market participants related to new technologies for settlement of wholesale financial transactions in central bank money

3. Members' presentations on topics related to new technologies for settlement of wholesale financial transactions in central banks money

Background:

In line with the NTW-CG's purpose of information sharing and following interest expressed by some members to discuss certain themes, members were invited to present useful topics related to new technologies for settlement of wholesale financial transactions in central bank money.

Members have been invited:

- To raise questions, if any

Background documentation:

- Clearstream and Euroclear: Digital Asset Securities Control Principles
- Credit Agricole: On-chain deposit accounts using wCBDC for settlement
- SWIAT: Governance and risk at DLT infrastructures
- SWIFT: Interoperability findings from Digital Assets experimentation

Outcome:

- Members who presented:
 - highlighted the need for common standards and fostering of harmonisation to prevent a fragmentation of the market while moving to DLT and to support the adoption of DLT.
 - Saw an increasing investor demand for the usage of and access to DLT networks. While the co-existence of several networks is likely, it is argued that the connection between those has to be secure and cost efficient and the connection to existing infrastructures should be enabled.
 - Proposed an alternative setup for the settlement in a tokenised economy which includes legacy systems on a shared platform.
 - Discussed the need for clear risk assessment and risk governance framework when scaling DLT infrastructures, and a potential approach towards these objectives.

Section D: Wrapping up the meeting

4. AOB, closing remarks and upcoming meetings

Background & outcome:

The Chairperson reminded the NTW-CG members on the ongoing membership review of the group, which takes place on annual basis as is usual for market contact groups of the ECB. Members were reminded of the next meeting of the NTW-CG, which will be also an in-person meeting, on 25 September 2024. The meeting was closed by the Chairperson.