



EUROPEAN CENTRAL BANK

EUROSYSTEM

Exploratory work on new technologies for wholesale settlement of transactions in central bank money

Joint AMI-PAY AMI-SeCo

07 December 2023



Claudine O'Connor & Paul Gardin
ECB – DG MIP/Market Innovation and Integration

Recap

Eurosystem is investigating **how central bank money settlement in euro could take place in the presence of new technologies** such as Distributed Ledger Technologies (DLT).
Dedicated [market contact group](#) set up to continue dialogue with the market.

Objectives

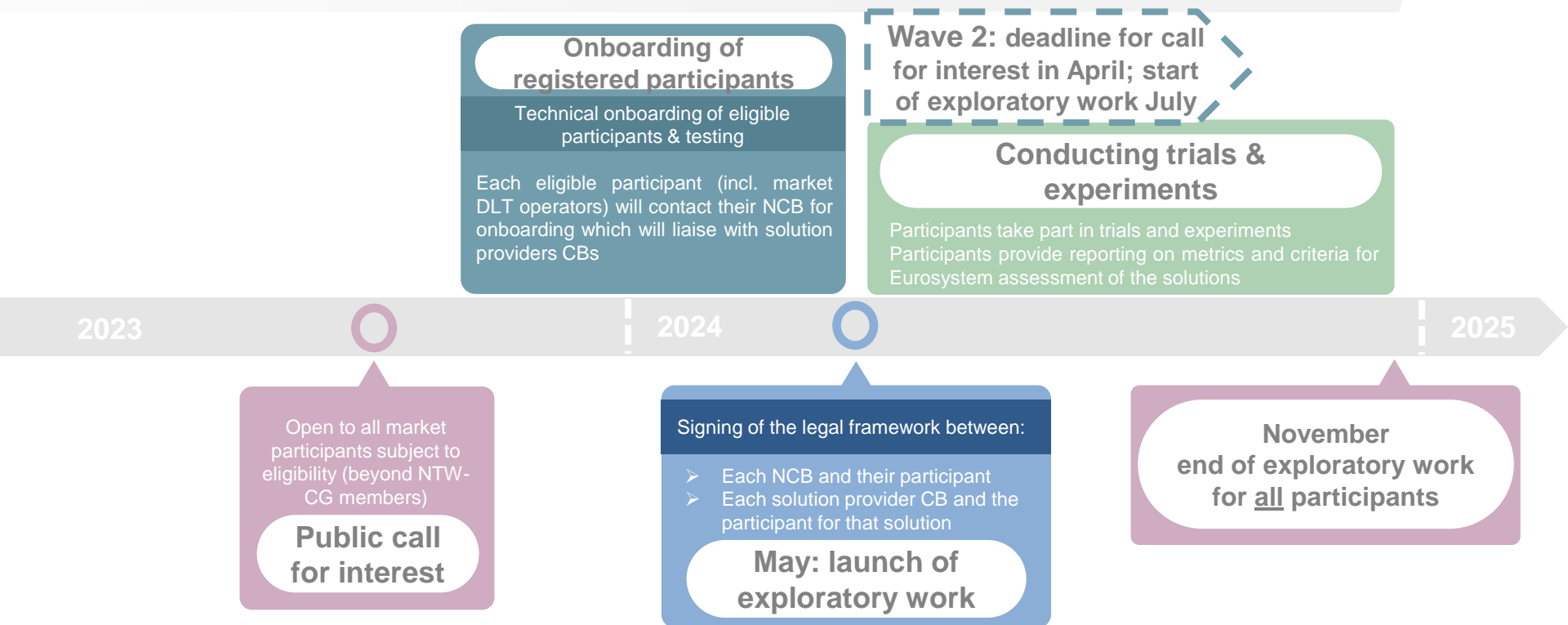
- (i) consolidate and **further develop the ongoing work** of Eurosystem central banks in this area,
- (ii) gain insight into how different solutions could **facilitate interaction** between TARGET services and DLT platforms, and
- (iii) meet **market demand** for central bank money settlement during their own pilots under **DLT Pilot Regime** for example

The exploratory work is **part of the Eurosystem's broader efforts** to:



- contribute to digital innovation in payments and securities settlement
- ensure central bank money to remain monetary anchor supporting stability, integration and efficiency of the European financial system

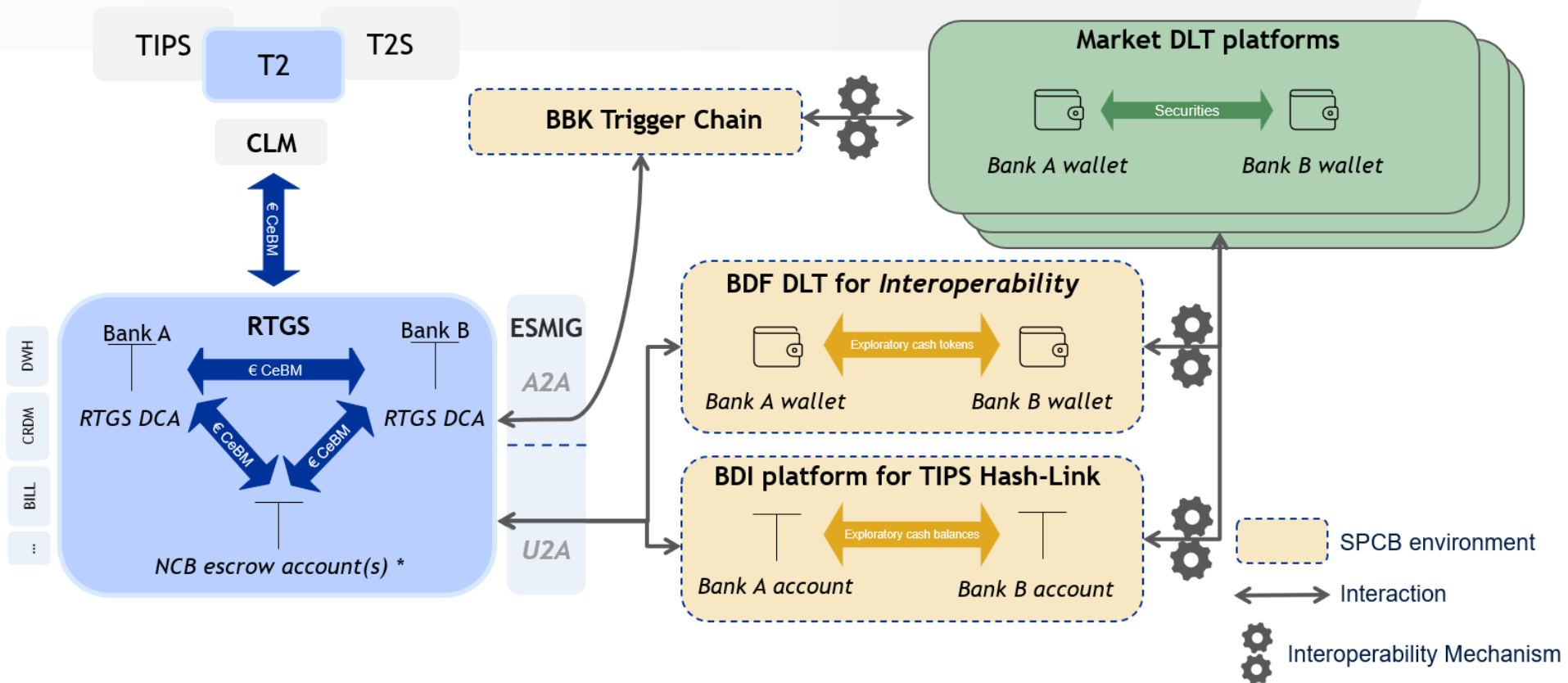
Envisioned timeline for 2024 exploratory work



Solutions in scope for exploratory work

- The Eurosystem will set up **practical work to explore different solutions** for cash leg settlement in CeBM of DLT transactions, planned from **May to November 2024**, focused on the three **Interoperability-type solutions**:
 - **Trigger Solution** by Deutsche Bundesbank,
 - **TIPS Hash Link** by Banca d'Italia
 - **Full-DLT Interoperability** by Banque de France.
- The Eurosystem will conduct, jointly with the market, **trials** (settlement of transactions with real CeBM) and **experiments** (settlement of mock transactions).
- The Eurosystem will host a (virtual) **information session on 15 December** to coincide with the launch of the formal call for **expressions of interest**

Interoperability solutions in trial design



* RTGS Dedicated Cash Accounts (RTGS DCAs) and/or RTGS Central Bank Accounts (RTGS CB Accounts)

Envisioned use cases

Main focus on DVP use cases: securities settlement & lifecycle management - market DLT platforms can connect to the SPCB solutions for settlement of financial instruments available on those DLT platforms

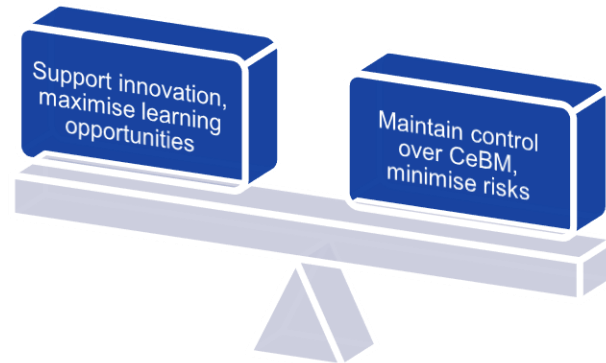
- **Type of transactions** envisioned: DVP for **primary and secondary market operations**, other payments related to securities lifecycle e.g. coupon or dividend payments
- **Type of assets** envisioned: both **listed or unlisted** financial instruments available in market DLT platforms as either **native digital assets or tokenised assets** (e.g. representation of existing assets)

PVP and single payment use cases: cross-currency and cross-border payments in CeBM as well as automated single interbank payments in CeBM - exact setup will depend on other partners (e.g. other central banks) and will be subject to an assessment by the Eurosystem

- Expectation that **participants will propose use cases** that explore the opportunities and benefits of new technologies **and set up the necessary partnerships**, e.g. for native DLT assets, requires that market participants find issuers during trials

Eligibility for Eurosystem trials and experiments

- The **policy for accessing central bank money will not change** nor will it be modified for the purposes of the exploratory work.
- The eligibility criteria are for the purposes of the Eurosystem's exploratory work only and do not in any way pre-empt the formation of a new category of actor that could access TARGET Services in the future.
- The Eurosystem will follow to the extent possible **an open participation approach**, within operational capacity constraints.
- Without prejudice to existing access rules to the TARGET Services and for the duration of Eurosystem trials and experiments, there are **two types of participating actors** foreseen:
 - eligible market participants and
 - market DLT operators



Eligibility criteria*

1. **Eligible market participants** for participation in the Eurosystem's exploratory work would be any of the entities with access to TARGET2, within the meaning of Articles 4 and Article 7, Annex 1 Part I of the TARGET Guideline.
2. **Market DLT operators** could be:
 - a) Central Securities Depositories (CSDs), authorised under the **CSDR**, operating a Securities Settlement System based on DLT / operating a DLT platform (including T2S CSDs subject to a derogation of the contractual and regulatory framework of T2S);
 - b) Operators of a DLT settlement system or a DLT trading and settlement system as authorised under the **DLT Pilot Regime Regulation** (Regulation 2022/858);
 - c) Investment firms and market operators and other licensed financial institutions (e.g. credit institutions) operating a DLT platform, as duly licensed under the national law transposing CRD IV, MiFID II or under other **relevant national legal frameworks** subject to an assessment.
 - The Eligible Market DLT Operator is an entity that, for the purpose of the Eurosystem's exploratory work, is responsible and liable towards Eligible Market Participants for the activities occurring on the Eligible Market DLT Platforms that they operate.
 - To note: for all categories, partnerships may be set up to jointly provide a DLT platform and related services to their participants. Outsourcing of provision of services, technical infrastructure and any of its operator responsibilities to third parties will be assessed by the national competent authorities

**subject to formal approval by the Governing Council*

Onboarding and testing phase

Following **registration and an assessment of interested market participants' eligibility**,* the onboarding process will commence:



- December – April: **mandatory testing activities phase 1** (i.e. connectivity, operational and functional tests) prior to the start of trials and experiments with the Eurosystem for the chosen solution(s)



- February – April: **mandatory testing activities phase 2** (i.e. full trial day rehearsal) and **signing of the legal framework** between eligible market participants, eligible market DLT operator and the Eurosystem



- May: **start of exploratory work** for wave 1



- June-July: **additional onboarding window** for participants to the second wave

**Registration process to express interest to participate to trials and experiments will be detailed via the call for expressions of interest*

Further information

For more information, please visit the ECB's NTW contact group [webpage](#)

Contact points:

➤ Eurosystem Team: ntwCeBM@ecb.europa.eu

Solution providing central banks:

➤ Deutsche Bundesbank for the Trigger Solution: triggersolution@bundesbank.de

➤ Banca d'Italia for the TIPS Hash-Link: target.service@bancaditalia.it

➤ Banque de France for the Full-DLT Interoperability: monnaie-innovation@banque-france.fr