

## OUTCOME

### Third meeting of the New Technologies for Wholesale settlement Contact Group (NTW-CG)

07 September 2023 (09:00 - 16:30 CEST)

ECB Eurotower, Frankfurt am Main

## 0. Opening remarks by the Chair

### Background & outcome:

The Chairperson welcomed the NTW-CG members to the first physical meeting. He emphasised the importance of members' (or exceptionally their alternates') active participation in the meetings, given the Contact Group's responsibility for exchanging views on the organisation and direction of the Eurosystem's exploratory work on new technologies for wholesale central bank money settlement.

Members adopted the agenda without any changes.

## 1. General business cases for DLT

### Background:

As part of a new recurring agenda item, members were invited to report on business cases in the payments, securities, and collateral management domains where DLT could make a difference compared to non-DLT settlement systems. In line with the purpose of the Eurosystem exploratory work, members were asked to preferably report on business cases relevant for wholesale payments and financial market transactions that are related to central bank money settlement. Members were invited to bring forward business cases in which their institutions were directly involved or publicly known cases by third parties that members considered relevant to discuss.

With the NTW-CG's purpose of acting as a sounding board, such information sharing helped giving a better understanding of cases in which DLT specifically makes a difference, what the merits of DLT are and illustrating business cases that could be relevant for trials/experiments. The Eurosystem reiterated that inviting members to report on general business cases aims at information and idea sharing among members and with the interested public. The invitation does not constitute an endorsement by the Eurosystem.

### Members were invited to:

- Report on selected business cases and share key takeaways
- Share their views on the presented business cases

**Background documentation:**

- Presentations by NTW-CG members (Deutsche Börse, Fidelity, Goldman Sachs, HSBC, HQLAx, Onyx by J.P. Morgan)

**Outcome:**

- Members welcomed the initiative and considered the information sharing useful to discuss the use of DLT for wholesale financial markets, but also to better understand what elements could be taken into consideration for the Eurosystem's exploratory work.
- Following the presentations, members exchanged views on the differences between currently existing solutions and using DLT instead, how DLT could potentially improve mobility/tradability of assets, liquidity management, the need for interoperability to connect different (DLT) platforms, regulatory implications (e.g., KYC in a multijurisdictional approach), the role of commercial bank money in conjunction with central bank money, the possible role of a trusted third party for structuring and organising the exchange also in a DLT environment, the implications of DLT on the financial ecosystem (e.g., how all actors could benefit from efficiency in the financial market).
- As an interim conclusion to the agenda item, members pointed out that it would be insightful to better understand certain trade-offs such as between existing non-DLT and new DLT platforms. Similarly, further discussions on and what (technological) elements contribute to competitive differentiation in a new DLT environment and what this would imply for the use, or not, of shared or uniform ledgers (see also agenda item 4) would be useful. Members also highlighted the need to explore the future possibilities and needs for standardisation and interoperability.

**Action points:**

- For this recurring agenda item, members are invited to report on general business cases for the next meeting.
- In the 15 November NTW-CG meeting some members will present their proposals on standardisation.

## 2. Updates on high-level and operational planning for exploratory work phase

**Background:**

While taking into account input from the NTW-CG, the Eurosystem exploratory work is further being established, which allows the ECB to present those aspects that have sufficiently advanced for discussion in the NTW-CG meetings.

In this meeting, the ECB presented a draft proposal for the operational timeline during the period of trials and experiments. In addition, updates were given on the setup of the exploratory work.

**Members were invited to:**

- Take note of the updates on the operational planning and raise questions, if any

**Background documentation:**

- Presentation on updates on high-level and operational planning for exploratory work phase

**Outcome:**

- The ECB
  - highlighted the proposed timeline for exploratory work to be conducted in two waves in 2024. The ECB clarified that participants to the second wave would conduct exploratory work in a shorter timeframe;
  - explained that the mandatory testing activities aim to test the necessary technical connections and operational procedures for conducting trials and experiments with the interoperability-type solutions. Those activities would have to be conducted prior to the start of trials and experiments during the two testing windows;
  - pointed out that further details on exploratory work will be published in October, including eligibility criteria to participate in exploratory work and timeline. In this context the ECB reminded that the operational and legal framework of exploratory work, including the eligibility criteria, are still subject to final ECB Governing Council approval before start of the exploratory phase. This approach of communicating early about the planned modalities is consistent with feedback from the NTW-CG: it facilitates planning on the side of market participants and conducting the trials and experiments in 2024;
  - recalled that the NTW-CG will act as a sounding board on the Eurosystem's learning objectives for trials and experiments and the related metrics and the interpretation of future findings.
- When reflecting on the draft timeline, some members highlighted that the internal budgeting exercises have played and will play a crucial role on market participants ability to participate. The necessary workload might also be a factor determining the participation in trials and/or experiments. Testing at the end of year might create additional challenges. Members expressed an interest to receive more targeted dates and information on the proposed activities when available.
- While the ECB had not provided an update on eligibility criteria, one member pointed out that – to the extent national frameworks and licenses would be required – the speed with which licenses would be granted would be outside of the control of the requesting entity.
- Members remarked that, when taking into consideration the Eurosystem exploratory work focuses on the three interoperability-type solutions while also integration and/or distribution models might be possible, the results of the Eurosystem exploratory work will be very relevant but could, by design, only reflect an interim conclusion.

**Action points:**

Members were asked to share their observations, e.g., on the draft timeline, with the Eurosystem also after the meeting.

The Eurosystem will provide further information during the 20 October or 15 November meeting on its learning objectives for trials and experiments as well as the content of the mandatory testing activities.

### 3. Ideas and proposals for PvP transaction settlement for Eurosystem exploratory work

**Background:**

To advance the setup for PvP transaction settlement for Eurosystem exploratory work, a written procedure was launched after the second NTW-CG meeting, asking members to share ideas and proposals for PvP. Members presented the key points of the written procedure outcome. Similar as for the presentations under agenda item 1, inviting members to present did not constitute an endorsement by the Eurosystem.

**Members were invited to:**

- Elaborate on their submitted ideas for PvP
- Share their views on why the proposals would be important to try out via trials and/or experiments
- React to proposals of other members

**Background documentation:**

- Presentations by NTW-CG members (Goldman Sachs, ING, Intesa Sanpaolo, Onyx by J.P. Morgan, SWIFT)

**Outcome:**

- Members shared their reflections on (i) the need for interoperability between different DLT platforms holding different currencies, (ii) whether and to what extent DLT would be able to overcome the frictions currently existing in the FX market, (iii) why existing infrastructures would (not) be able to address challenges, and (iv) the complexity of the legal, regulatory and geopolitical landscape.
- Members highlighted the need to add value to users (i.e., both in the financial sector and its clients in the non-financial sector). This might necessitate being able to combine e.g., DvP transactions for securities transactions and related PvP FX transactions – or transactions in commercial bank money. Members agreed that implications for the settlement processes as well as the functioning of the underlying markets would still need to be better understood.
- In the absence of a common view if and how DLT would address frictions existing today related to PvP transaction settlement (examples of frictions raised by members: operating hours across time zones, liquidity, 24/7 settlement, FX settlement risk), some members reflected as a final point to this agenda item that interoperability, in line with the setup of the Eurosystem exploratory work focusing on the interoperability-type solutions, could be a first step to explore whether and to what extent challenges could be addressed for PvP in the wholesale financial markets. After having gained useful insights and observations, the market could consider analysing the need to gradually advance on what else could be potentially improved in the field.

### 4. Eurosystem exploratory work put in perspective

**Background:**

The Eurosystem provided further context on its decision to focus on the interoperability-type solutions for the exploratory work in 2024. This agenda item aimed at establishing a first discussion with the members on the bigger picture of using new technologies for the purpose of wholesale settlement in

central bank money. The Eurosystem clarified the focus on interoperability in relation to other approaches and explained to what extent these are taken into consideration.

**Members were invited to:**

- Share their views on and experience, if any, with other approaches

**Background documentation:**

- New technologies for wholesale central bank money settlement – the wider context

**Outcome:**

- When asked how members estimate how easy it would be for the global financial system to agree on the use of a common or unified/shared ledger(s), a majority assessed this as rather complicated: the main argument would be that the global financial market is fragmented, and an agreement would consequently be at least time-consuming to achieve.
- Most members who spoke agreed that some type of interoperability solutions would hence be needed over the next years. Therefore, gaining experience on interoperability solutions in the exploratory phase would be very useful. It was also suggested by members to try out potential extensions of the interoperability-type solutions to explore additional possibilities/functionalities (e.g., for the Full DLT-Interoperability solution to allow selected counterparts to also deploy smart contracts for the asset on the same DLT as where the exploratory cash token will be held). This would be outside of the scope of the current Eurosystem exploratory work phase, but could be analysed for future consideration.
- At the same time, members highlighted the importance of considering also other approaches and to identify whether these provided more value than interoperability solutions. In that case, members argued, such solutions could also be considered for implementation in the long term.

## 5. Q&A

**Background & outcome:**

For each agenda item, NTW-CG members were invited to ask questions and to reach out after the meeting if they would have remaining questions related to the topics covered in the meeting.

## 6. AOB, closing remarks and upcoming meetings

**Background & outcome:**

The Chairperson invited the members to send further thoughts or proposals on the business case for DLT and related aspects, after the meeting.

Members were reminded of the upcoming meetings scheduled for 2023:

Meeting dates for 2023	Time (CEST)	Format
<i>Friday 20 October</i>	<i>9:30-13:00</i>	<i>Blocker for possible online ad-hoc meeting</i>
Wednesday 15 November	9:30-16:30	Online meeting
<i>Wednesday 06 December</i>	<i>9:30-13:00</i>	<i>Blocker for possible online ad-hoc meeting</i>

The Chairperson informed the members to maintain the foreseen date and timeslot for the possible online ad-hoc meeting on 20 October 2023. The NTW-CG Secretariat will reach out to members whether the meeting will take place.

The Chairperson concluded the meeting by thanking the members for their contributions and reminded that the remaining meetings for this year will be virtual.