

OUTCOME

6th meeting of the New Technologies for Wholesale settlement Contact Group (NTW-CG)

25 January 2024 (09:30 – 15:00 CEST)

MS Teams

0. Opening remarks by the Chairperson

Background & outcome:

The Chairperson welcomed the NTW-CG members. Members adopted the agenda without any changes.

Section A: Usefulness of DLT in the field of payments, securities, and collateral management

1. General cases for DLT

Background:

As part of this recurring agenda item (firstly introduced in the 7 September 2023 meeting), members were invited to report on business and use cases in the payments, securities and collateral management domains where DLT makes a difference compared to non-DLT settlement systems.

The Eurosystem reiterated that with the NTW-CG's purpose of acting as a sounding board, such information sharing helps giving a better understanding of cases in which (only) DLT makes a difference in general, what the merits of DLT are and illustrating cases that could be relevant for trials/experiments. Additionally, this could create inspiration to other market participants to further build on these examples. By no means does the invitation to report on business cases constitute an endorsement by the Eurosystem.

Members were invited to:

(Those who presented) report on selected cases and share key takeaways;

Share their views on the presented cases (e.g., from their own experience, relevance for trials/experiments).

Background documentation:

Presentations by Associazione Bancaria Italiana, AXA Investment Managers & Union Investment (guest), DZ Bank, Onyx by J.P. Morgan, SWIAT & DekaBank (guest) & LBBW (guest).

Outcome:

- The ECB reminded members that the Eurosystem encourages market stakeholders to explore with the three interoperability-type solutions to maximise the learnings. In line with the Eurosystem exploratory work objectives, practical experience with new technologies, such as DLT, in the domain of wholesale central bank money settlement contributes to the better understanding of what the merits could be of such new technology.
- Following the presentations, some members exchanged views on the following topics:
 - The presenters highlighted the relevance of technical neutrality of the different cases to allow for a comparison across different technologies (e.g., alternative technologies to DLT) and technological functionalities (e.g., permissionless/permissioned DLT platforms);
 - DLT could also have a beneficial impact for entities and end users which have no direct access to central bank money for the settlement of wholesale financial transactions. From an asset manager perspective, examples given were higher level of automation of securities management processes, improved customer accessibility by having both assets and cash on a DLT platform, and higher level of transparency through real-time access to one “source of single truth”;
 - By illustration of a case in which DLT could facilitate the automation of certain processes which are currently experienced as manual and complex, it was raised that collaboration, e.g., consortium of banks, could facilitate a more standardised and smoother governance process for e.g., change requests of certain settlement processes such as reconciliation;
 - Some members reflected on technicalities (e.g., valuation model) of how smart contracts could smoothen post-trade processing for OTC derivatives on a DLT platform and what the impact would be on different aspects of risk (e.g., counterparty, settlement risk);
 - Some members shared the view that deposit tokens and interlinking them with wholesale central bank money could create advantages not only for banks but also for their clients (e.g., for securities-related transactions) and unlock benefits from the use of DLT (e.g., automation) across the transaction chain. The implications on certain aspects such as credit risk, Know-Your-Customer procedures, fungibility of deposit tokens remain currently unclear. In addition, questions were raised on the scalability of similar models and which considerations to take in terms of existing regulations.
 - Many cases focus on issuance, whereas DLT experience in secondary market trading remains limited. Some market participants expect that with gaining more experience in cases on issuances, this will further expand to other areas.

Action point:

Invite members to report on general or more specific business cases for future NTW-CG meetings.

2. Key Performance Indicators of the Eurosystem exploratory work

Background:

Following the presentation and written procedure on the high-level learning objectives of the Eurosystem exploratory work in the 20 October 2023 NTW-CG meeting, the ECB presented the detailed Key Performance Indicators (KPIs) and approach for the assessment of the findings.

Members were invited to:

Take note of the KPIs and provide initial feedback;

Take note that a written procedure on the detailed KPIs was launched prior to the NTW-CG meeting, for feedback by 8 February 2024.

Background documentation:

Presentation and note on proposed learning objectives for the Eurosystem exploratory work and KPIs for the assessment of the findings.

Outcome:

- The ECB clarified that the quantitative and qualitative KPIs are designed to allow for comparative analysis across the three interoperability-type solutions. Even if certain parameters (e.g., cost elements, ESG) might be less straightforward to measure, qualitative and/or range indications on these contribute to the Eurosystem's learning objectives. Also, not all KPIs are applicable to all solutions but aim at providing also insights per individual solution.
- The ECB repeated that the Eurosystem exploratory work has the objective to improve the Eurosystem's, as well as the market's knowledge and understanding of the three different interoperability-type solutions, without committing to the short-, or long-term implementation of any solution.

3. Preparatory activities for participation in the Eurosystem exploratory work

Background:

The [call for expression of interest](#) (available until 31 January 2024 on the ECB's website) had the purpose of inviting financial market stakeholders to express their formal interest in participating in the planned Eurosystem exploratory work on new technologies for wholesale central bank money settlement taking place this year.

Members were invited to:

Raise questions and provide feedback on the registration process for participation in the Eurosystem exploratory work;

Share useful tips or highlight any challenges encountered while preparing for their participation in the first wave, if any.

Outcome:

- The ECB reiterated that it does not intend to publish a list of participants, taking into account also the different interests of some market stakeholders.
- Anonymised or aggregated findings of the exploratory work will be shared with NTW-CG members. This will support transparency as NTW-CG documents are published, and for the Eurosystem to gauge feedback to better understand certain developments or improve the processes for the exploratory work.
- The exploratory work is a European initiative involving all Eurosystem NCBs, constructed with the view of maximising learning opportunities for the Eurosystem on the potential use of new technology for wholesale central bank money settlement. In addition to this work, also other initiatives in collaboration with other stakeholders will contribute to this purpose.

Section D: Wrapping up the meeting

4. AOB, closing remarks and upcoming meetings

Background & outcome:

- The Chairperson informed the members on an upcoming review of the NTW-CG Terms of Reference (ToR) including updates on its functioning and an annual membership review. Interested market participants would be invited to express their interest via an application process. At all times, the Eurosystem will strive for keeping a balance of the group's broad representativeness and added value to the discussions.
- Members were also informed on the confirmed meeting dates for 2024 and early 2025. In 2024 there will be quarterly meetings taking place. Ad hoc calls could be organised should the need arise. The next meeting of the NTW-CG will take place still in its current composition on 18 June and will be in person, at the ECB's premises in Frankfurt am Main. Following the ToR review, the NTW-CG will meet on 19 September in its new composition.
 - Next meetings: Tuesday 18 June (in person), Thursday 19 September, Tuesday 26 November, Thursday 30 January 2025.
- To identify potential improvements on the NTW-CG's organisation, functioning and agenda items that have been discussed, members will be invited to share feedback. The Secretariat will provide the members with a feedback form.
- Without any other business items raised by members, the Chairperson concluded the meeting encouraging members to forward proposals for discussion topics in the next NTW-CG meeting.

Action point:

Invite members to forward proposals for topics they would find relevant to discuss in the 18 June in-person NTW-CG meeting and in light of the trials and experiments starting in May.