ECB Money Market Contact Group

Meeting on 24 June 2026

Internal summary of the discussion

A) Main developments in money markets

Mr. Sébastien Figué (BNP Paribas) presented the latest money market developments since March, after which the group discussed the key findings.

Members highlighted that markets were gradually moving back to fundamentals following recent geopolitical conflicts and inflationary pressures. Inflation remained a dominant concern, with fears of it becoming entrenched. Members emphasised the importance of clear and coherent central bank communication, noting that the ECB's consistent rhetoric had been critical to maintaining stability in money markets and ensuring the smooth transmission of policy measures.

Overall liquidity conditions in the euro area remained stable, with money markets functioning well - a dynamic reflected in the smooth pass-through of the latest ECB rate hike. Nevertheless, rising competition for liquidity drove a gradual, orderly widening of funding spreads across repo and unsecured markets. Very short-term funding continued to trade below the ECB's standard refinancing rate, however, keeping overall recourse limited. Members flagged once more that instant payment buffers and Liquidity Coverage Ratio requirements continue to underpin liquidity demand.

The repo market remained very active with higher volumes, rising rates, and slightly longer tenors. Members noted increasing market participation, including renewed activity from previously dormant clients interested in tri-party repo setups and greater involvement of non-bank financial institutions (NBFIs). Interest in repo against equity and other non-HQLA collateral also remained strong, reflecting the continued broadening of repo market activity.

B) Insights from the Eurosystem ad hoc questionnaire on tokenised finance

Ms. Angelica Ghiselli (ECB) presented findings from a Eurosystem ad-hoc questionnaire on tokenised finance, covering adoption trends, barriers, and future prospects. The questionnaire showed a market at an early but active stage: most institutions are developing or deploying tokenised solutions, yet broader adoption remains gradual, held back by a combination of structural, regulatory, and market challenges. The subsequent discussion highlighted the following key themes:

Regulatory clarity and legal certainty emerged as fundamental prerequisites for progress. Participants noted that while the EU had made meaningful progress, important gaps remained in the legal frameworks governing digital securities - covering settlement finality, legal recognition of tokenised assets, and tax treatment - creating uncertainty for both issuers and investors. Regulatory arbitrage across jurisdictions was flagged as a concern, with differing national interpretations of EU-level instruments risking fragmentation within the euro area.

Technology and infrastructure present a second set of hurdles. DLT adoption carries high upfront costs, putting smaller institutions at a disadvantage, particularly as legacy and DLT infrastructures may need to coexist for some time. While tokenisation could deliver efficiency gains such as faster settlement, liquidity optimisation through smart contracts, and reduced counterparty risk, the current ecosystem remains fragmented. Interoperability is a critical priority, and several participants stressed the need for common standards to avoid replicating existing fragmentation in a new technological layer. Views differed on the liquidity implications of atomic settlements, while eliminating settlement risk, it may introduce new challenges such as heightened intraday liquidity pressures and make liquidity management more time-sensitive, others argued that bringing cash and securities onto the same platform could reduce frictions and that the benefits may outweigh the loss of netting.

Liquidity in secondary markets remained structurally weak. Most investors held tokenised assets to maturity, leaving little room for active trading. The lack of immediate economic value and liquidity means widespread adoption remained on the horizon, with participants projecting a timeline of five to ten years. At the same time, some argued that adoption may not be linear: once one or two products deliver at scale, a snowball effect could emerge. Specific use cases such as intraday repo and commercial paper were highlighted as promising entry points to build momentum.

Central bank digital money was seen as the missing link as without a wholesale digital settlement asset, the tokenised ecosystem lacked a critical foundation. The ECB's Pontes and Appia initiatives were welcomed as important catalysts, though participants were clear that the private sector - issuers, investors, and intermediaries - must step up as well.

Despite these challenges, participants broadly expect tokenisation to become the dominant model, even if it may take a while. The eligibility of DLT securities as collateral for Eurosystem operations was welcomed as a positive signal. However, the transition from legacy systems will require sustained investment in infrastructure, continued regulatory harmonisation, and stronger awareness and buy-in at senior management level within institutions.

C) The future of euro repo markets under T+1 Settlement:

Ms. Maria Cristina Lege (Intesa Sanpaolo) and Mr. Frank Odendall (Eurex) led the final session, looking at the operational and liquidity management implications of the EU's upcoming transition to T+1 settlement for cash markets, due to take effect in October 2027. While securities financing transactions (SFTs) were formally exempt from the new settlement cycle, participants agreed that repo markets would be indirectly affected, given their central role in funding and collateral markets.

The discussion highlighted the significant operational adjustments that T+1 would require across the industry. Compressed processing timelines, the need for greater automation, and higher intraday liquidity buffers were identified as key challenges. Participants noted that non-bank financial institutions face particular pressure, given their reliance on custodians to manage collateral flows. Views were mixed on whether settlement fails will rise - some saw this as likely, while others pointed to the industry's capacity to adapt through process improvements and new settlement practices, e.g. shaping, partialing, gating. A related structural consequence discussed was the potential concentration of repo activity in shorter tenors. With less time available to source and deploy liquidity, participants expected greater clustering of transactions in overnight and tom/next contracts, as counterparties gravitate toward the shortest tenors to maintain flexibility and minimise settlement risk exposure under the compressed cycle.

A recurring theme was that the European transition is more complex than equivalent shifts in other jurisdictions, reflecting the region's diverse market infrastructure. Liquidity management was seen as requiring careful recalibration across the industry, with robust contingency planning considered essential. Looking further ahead, participants raised the question of how T+1 readiness investments related to the longer-term infrastructure changes e.g. the adoption of tokenised finance. Despite the scale of the operational challenge, the broader case for the transition was acknowledged - reduced counterparty risk, improved market efficiency, and closer alignment with global settlement standards.