

OUTCOME

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

21 JUNE 2023 (09:30 - 16:30) VIA WEBEX

0. Opening remarks by the Chairperson

Background:

The Chairperson welcomed the NTW-CG members and initiated the first NTW-CG meeting by explaining the logistics of the NTW-CG meetings and presented the agenda.

Outcome:

Members adopted the agenda without any changes.

1. Introduction to NTW-CG

1.1 Purpose of the NTW-CG

Background:

The ECB recalled the purpose of the NTW-CG and how NTW-CG members are expected to contribute. Specifically, members were expected to be prepared for answering questions flagged for each agenda item ("Members will be asked to: ").

Outcome:

The ECB recalled the purpose of the NTW-CG to facilitate an active dialogue between the Eurosystem and financial market stakeholders in the context of new technologies for wholesale settlement: (i) to consolidate the members' feedback and further develop the ongoing work of Eurosystem central banks in this area, and (ii) gain insight into how different solutions could facilitate interaction between TARGET Services and DLT platforms. Via this forum, market stakeholders can articulate the needs of the market, share information on DLT initiatives and provide their views on the Eurosystem exploratory work. As such, the importance of receiving input from the market participants was emphasised, for which the

approach to motivate interactions among the members was explained: among others this could include written questionnaires between meetings and the use of a survey tool during meetings to get responses from many members and to focus discussions in the meeting – rather than to replace them. An excerpt of results received via the survey tool is included in the annex, other responses might be reflected e.g. indirectly in the meeting outcome.

1.2 Presentation of composition

Background:

The ECB presented the composition of the group, including the degree of DLT-experience based on the outcome of the nomination survey.

Background documentation:

- NTW-CG Terms of Reference
- Presentation on the purpose and composition of the NTW-CG

Outcome:

Members took note of the purpose of the NTW-CG and of the composition (i.e. representation by a broad variety of institution types, by members from different countries and different fields of expertise available). Four fifth of the members confirmed having direct expertise in DLT.

2. Background and scope of exploratory work

Background:

The ECB presented the objectives of the Eurosystem exploratory work and outlined the scope by introducing the envisaged “trials” (i.e. real transactions in central bank money) and “experiments” (i.e. mock transactions in central bank money) for both DvP and PvP. Furthermore, high-level questions to be answered through trials and experiments were presented. The NTW-CG provided feedback and suggestions on potential additional questions for exploration and were asked to identify relevant uses cases. In addition, the ECB presented various approaches to make central bank money available in the context of new technologies¹ and explained the focus of the exploratory work.

¹ More detail is available in the presentation on the scope and background of the Eurosystem exploratory work (including the central bank money settlement solutions).

The three interoperability-type solutions², based on which exploratory work would be pursued initially, were explained at a high level and will be presented in more detail at the next meeting.

Members were asked to:

- Provide feedback on high-level questions and make suggestions to complement them;
- Share insights on market demand for the trials and experiments and factors that can be expected to drive the demand for trials and experiments.

Background documentation:

- Presentation on the scope and background of the Eurosystem exploratory work (including the central bank money settlement solutions)

Outcome:

When presenting the conceptual solutions, the ECB clarified that these are high-level concepts and that these could potentially be combined or modified.

While the Eurosystem is aware of alternative set-ups for the settlement of central bank money, it announced that it would start with a clear focus on the interoperability-type solutions (Trigger, TIPS Hash-Link and Full-DLT Interoperability solution – all based on the approaches 1 and 2 presented). The ECB also made clear that there has been no decision to integrate any of the solutions into TARGET Services. Whether any solution would be implemented later, how it would look like and to which of the four concepts it would correspond, would depend in particular on developments and findings (e.g. overall market demand for DLT, results of exploratory work).

The ECB provided context in the presentation why these interoperability-type solutions are in scope of the current phase of exploratory work (i.e. easier to develop, to test different technologies, interoperability might more easily fit into an environment in which multiple asset DLTs are present). For these solutions, Eurosystem-external DLTs (for tokenised assets or non-euro currencies) could connect to the three Eurosystem solutions for central bank money settlement. The ECB also provided further background and scope of the Eurosystem exploratory work, which includes trials with actual settlement in central bank money and experiments with mock settlement in central bank money both for DvP and PvP transactions.

Members highlighted that the key reasons for the market to participate to the Eurosystem exploratory work would be to gain practical insights and for learning opportunities: to keep abreast of developments,

² Interoperability-type solutions focused on for the current phase of the exploratory work:

- Trigger solution of Deutsche Bundesbank ([link 1](#); [link 2](#))
- TIPS Hash-Link solution of Banca d'Italia ([link](#))
- Full-DLT Interoperability solution of Banque de France ([link](#))

to explore new business models, to better understand the benefits of DLT in the wholesale domain, to improve current (DvP) transactions. When using DLT, members showed a strong interest for DvP and PvP transactions to settle in central bank money, and shared examples of other use cases (see figure 1 in annex). Members highlighted that they see most relevance in focusing on DvP for exploratory work (examples given: to improve the transaction flow and settlement efficiency, to reduce the costs of reconciliation).

Based on the questions to be investigated via exploratory work, members of the Contact Group echoed the relevance of the presented topics and suggested other key aspects to assess, such as evaluating the entire asset lifecycle and to what extent standardisation would be useful, e.g. a data taxonomy. This could improve efficiency of any solution but also reduce the risk of a refragmentation of the (capital) market, which members would regret. The two most prominent themes which members emphasised to investigate when exploring interoperability-type solutions during exploratory work, were interoperability of different platforms and the risk of fragmentation of the market and liquidity. For interoperability, members referred to analyse how connectivity between (new and existing) DLT platforms could function and be improved. Understanding how finality of all transactions over different platforms could be ensured was deemed important as well. For market fragmentation, some suggested to analyse the possible consequences of a potential disintermediation, and for liquidity fragmentation members highlighted the need to ensure the reusability of liquidity, if not the existence of a single liquidity pool. Members took note that, for example as regards to liquidity pools and finality, the setup for trials might not meet the expectations for steady-state solutions.

The feedback received under agenda item 2 was consistent with the overall purpose of the Eurosystem exploratory work: to gain practical experience on the technology and different solutions for both DvP and PvP use cases, and to have a better view to which extent market needs would be met.

Action point for next meeting:

More detailed presentations will be given on the interoperability-type solutions in the next meeting.

3. Trials and experiments – envisaged approach

Background:

The ECB gave a high-level overview of the Eurosystem approach for conducting trials and experiments.

Members were asked to:

- Take note of the key features of the envisaged organisation of trials and experiments

Background documentation:

- Presentation on the envisaged approach for trials and experiments

Outcome:

The ECB presented the high-level Eurosystem approach for conducting trials and experiments. Members were informed that a legal framework is being established and that there would be a contractual requirement with the central bank solution providers, e.g. to clarify responsibilities and liabilities in this novel field. On top of that, the Eurosystem explained its expectations that participants to the Eurosystem trials and experiments would share their experience and findings of the exploratory work with the Eurosystem to facilitate a meaningful evaluation of the results. It was also emphasised that the future explorations will take place on the basis of existing rules for access to central bank money, that explorations will be limited in capacity and time and that necessary legal and regulatory pre-conditions will apply (e.g. consistency with the DLT Pilot Regime Regulation or national frameworks).

Members expressed interest in obtaining more information on the approach for Eurosystem exploratory work at the next meetings.

4. Factors determining demand and timelines of market participation

Background:

The trials and experiments would benefit from interplay of various actors like central banks, banks, issuers, CSDs, exchanges. The Contact Group was asked to provide feedback on how to measure, also on a structural basis, the general market demand for tokenised assets and factors that influence market participants' readiness to participate in the trials and contribute to the exploratory work in a meaningful way.

Members were asked to:

- Share feedback on the factors driving the demand and timeline for participation in exploratory work
- Share information regarding developments in the field of DLT

Outcome:

The ECB clarified that the envisioned start of exploratory work is in 2024. In this context, the ECB raised specific questions to obtain insights into the market participants' readiness timelines and perceived required pace to participate in trials and experiments. As planned, there will be detailed

presentations given on the specifications of the interoperability-type solutions, which was highlighted by members as necessary to be able to participate in exploratory work in 2024.

The two main factors that were highlighted by the members as most challenging prior to being able to participate in exploratory work, are freeing budget and mobilising resources (see figure 2 in annex). Market participants stated that this was because budget and resources have been fully allocated for 2023.

In terms of readiness for participating in exploratory work, market participants conveyed the message that this year they would need to develop a concrete idea of a business case and obtain internal approval for the 2024 cycle, to then be able to initiate preparatory work as of 2024 and be capable to potentially launch trials or experiments later in 2024.

Members acknowledged that identifying and developing a potential new and useful solution for central bank money settlement takes time. At the same time, the European financial sector should be ready when the need for a potential new solution would take up (e.g. competitiveness with other non-European financial markets).

To be ready for trials, market participants raised the need for more clarity on some legal considerations including settlement finality and (technical) specifications. For experiments, market participants would like to also have a better view on the scope and goals.

To conclude the discussion under this agenda item, members shared an indicative view on their interest in participating in both trials and experiments (see figure 3 in annex). At the same time, market participants expressed the importance of receiving soon more clarity on the scope of trials and experiments, legal aspects, and the specifications of the interoperability-type solutions to be ready for exploratory work in 2024.

The Chairperson confirmed that the national central bank solution providers would provide more information on their solutions and that there would be more general information on specificities of the trials. He moreover pointed out that the existing publications mentioned in the presentations (and in this summary) are likely to answer many questions of contact group members, while some replies will require more investigations.

Action point for the next meeting:

As input for the presentations in the next meeting, members are invited to indicate what information they need on the specifications of trials and experiments, and on legal aspects.

5. Q&A

Background:

NTW-CG members were invited to ask questions or make suggestions on topics that require more attention for discussion or new topics to be discussed in future NTW-CG meetings.

Outcome:

The Chairperson took note of procedural proposals (e.g. receiving questions earlier to allow internal discussions) and suggestions regarding topics to be discussed in future meetings (e.g. detailed description of transaction flows between the different models, scope of exploratory work, requirements for participation in trials and experiments).

Action point for the next meeting:

In addition to the action points mentioned under agenda items 2 and 4, members are invited to indicate questions which they have regarding the onboarding process for exploratory work.

6. Closing remarks and upcoming meetings

Background:

The members were invited to give suggestions on the meeting frequency during summer. This was also based on feedback received under agenda item 4. The placeholder for the next online meeting was confirmed and is scheduled for **18 July 2023**.

Members were informed that the **07 September** NTW-CG meeting will be a physical meeting.

Outcome:

Based on the feedback received from members under agenda item 4 (i.e. need to receive more information on solutions, trials and experiments, and legal aspects) it was agreed to hold the next online meeting on 18 July 2023 and to have meetings every other month, complemented with shorter online ad-hoc meetings in between, if need be. Members were also informed that a physical meeting is scheduled for 07 September 2023 on the ECB premises.

The Chairperson expressed his gratitude for the productive meeting and concluded that the NTW-CG is an important channel for input from the market to the Eurosystem, which can support fine-tuning the joint exploratory work.

ANNEX: Examples of results from survey tool

Figure 1:

For what transactions would the market like to use central bank money settlement using DLT? (1 “no interest”, 5 “highest interest”)

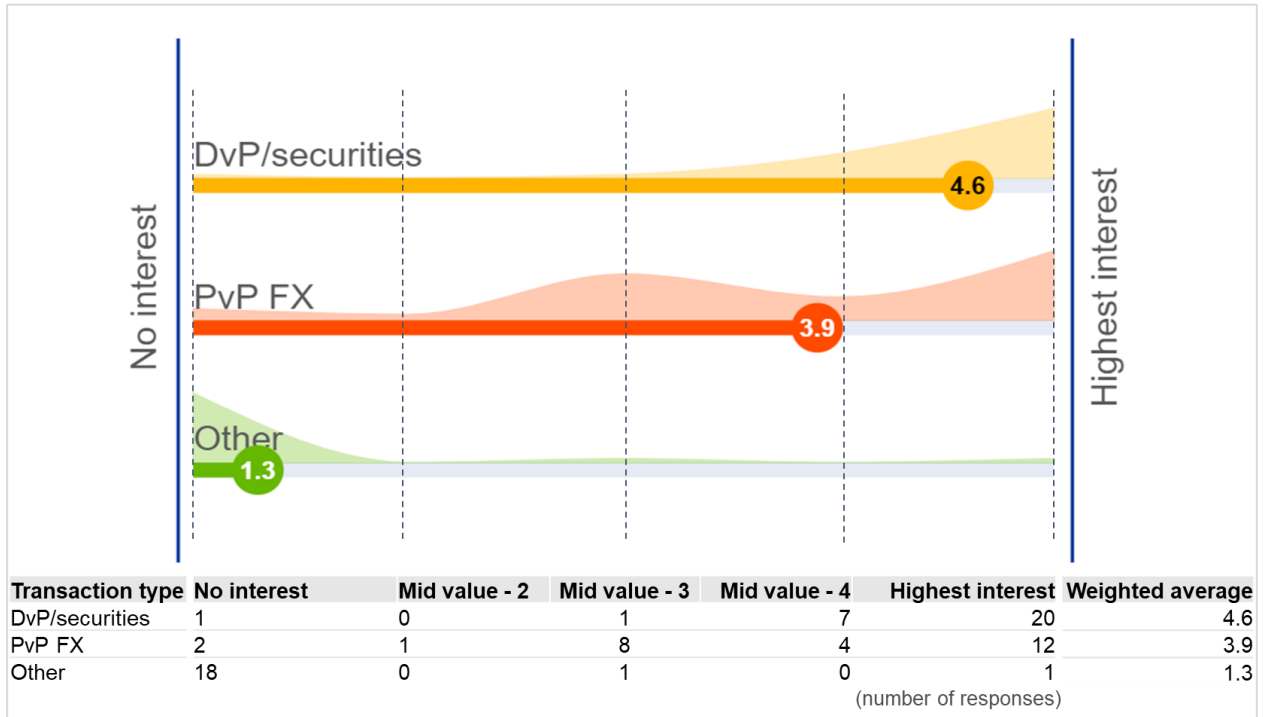


Figure 2:

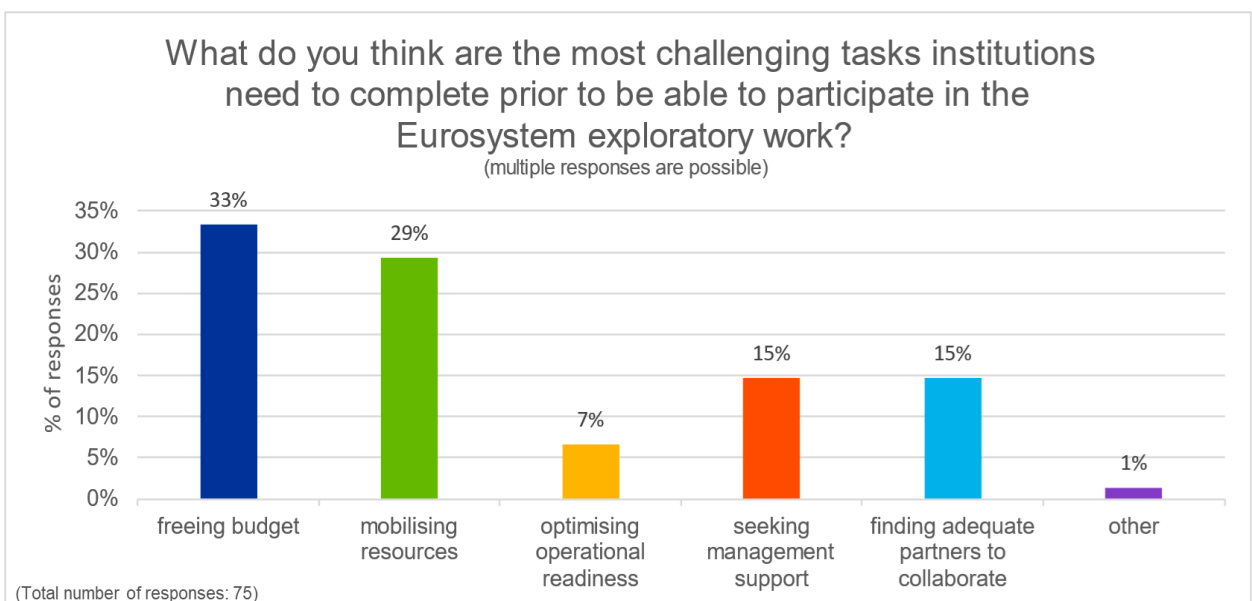


Figure 3:

Would your institution be interested in participating in Eurosystem exploratory work? (1 “not interested”, 3 “no opinion yet”, 5 “definitely interested”)

