



EUROPEAN CENTRAL BANK

EUROSYSTEM

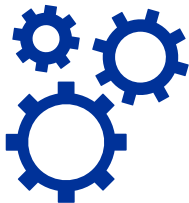
# Questionnaire on potential next steps

Agenda Item 1

25 September 2024



# About the following slides



The Eurosystem's exploratory work does not constitute a commitment by the Eurosystem to provide any steady-state solution(s) in the future or to make any DLT-related changes to its current infrastructure

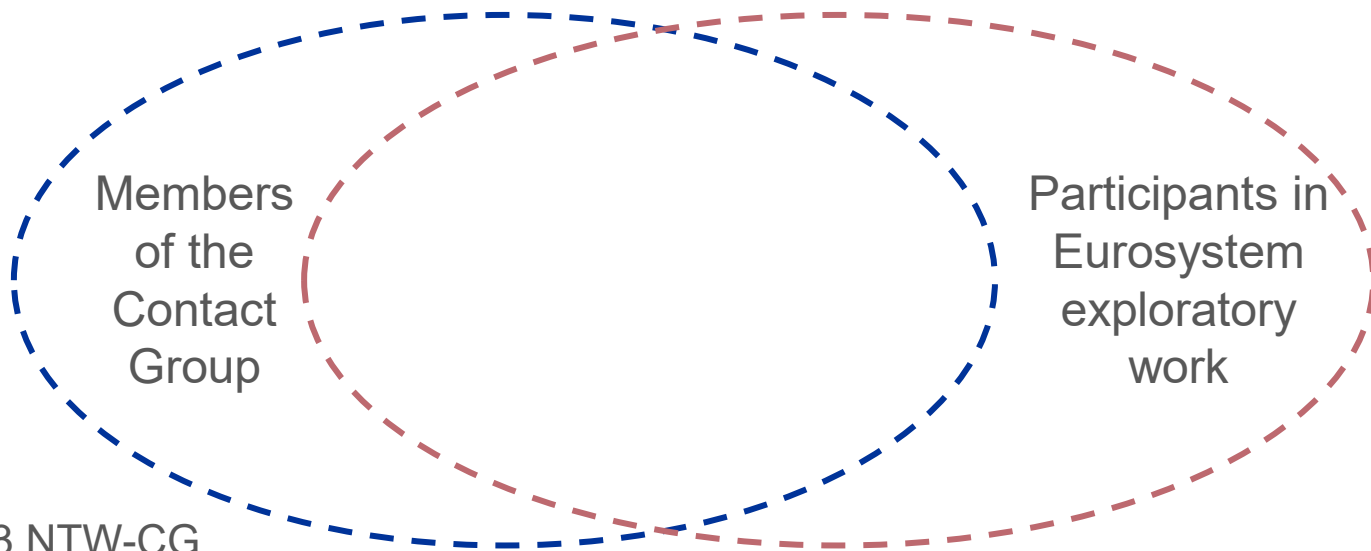
The Eurosystem is assessing the feedback received in the “Questionnaire on the next steps on new technologies for wholesale central bank money settlement” that has been shared with NTW-CG members and exploratory work participants during the summer.

The following slides present pertinent extracts of the feedback received and does not necessarily reflect any position of the Eurosystem.



# Thank you for your feedback

We received feedback from 55 financial market stakeholders



36 out of 53 NTW-CG  
members responded

# Thank you for your feedback

The ECB reminded that the Contact Group is not a comprehensive representation of the market and that it would hence not show the number of respondents favouring specific options. Any follow up would depend on various analyses and the central bank's own assessment. Hence, the presentation focused on the arguments Contact Group members had put forward rather than numbers.

# Part 1

Your views regarding the evolution of central bank money settlement in the context of new technologies and follow-up to Eurosystem exploratory work

# After the conclusion of the exploratory work, what should be the **Eurosystem's follow-up** in your view?

*Some responses that were given:*

Start with a plan for a gradual transition phase to a permanent solution

Continue trials (might be in extended version, e.g. more use cases or integration/distribution solution)

No need for further activities in short term.

Clear plan for fast implementation

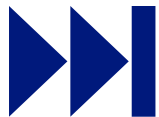
Adaptions in eligibility TARGET Services and adequate legal framework

# Suggestions for changes / improvements to the current **operational parameters** in the *short term*



Operation hours to be aligned with TARGET Services  
or to be extended to 24/7

Full integration into the TARGET Services to allow the use of  
the central liquidity management and for funding and defunding



Full end-to-end automation of processes;  
Interoperability with legacy systems and other DLT-platforms;  
No/high volumetric limits;

# Without a CeBM settlement solution, before the market becomes more mature ...



Would be a risk for delaying the further development / uptake of the technology and result in sunk costs for the industry

Would lead to a market movement towards:

- other jurisdictions, undermining European sovereignty
- the usage of privately issued settlement assets, e.g. stablecoins



Would increase the risks, e.g. due to evolving fragmentation



# Part 2

Your view on market  
readiness for business cases  
relying on DLT-based  
financial transactions

# Having a look at the use cases: DvP first, PvP second



Answers received in the questionnaire confirm earlier feedback from the market, which sees **securities-related** use cases as mature

**Payments-related** use cases have focus on FX PvP and automation of payments



With an increased volume and deeper secondary market for DLT-based securities, the **collateral management** would benefit.



Diverse expectation on the **timing** of the market update



# The successful scaling of DLT in financial markets is said to overcome several constraints

## Regulatory Clarity

National vs. Eurosystem-wide regulations  
Eligibility criteria for Eurosystem credit operations

## Market practices

Standardised practices on how to handle and settle tokenised assets  
Development of the secondary market

## Interoperability of networks

Interoperability between DLT systems is crucial to prevent fragmentation and ensure effective adoption

## Collaboration

Coordinated effort from regulatory bodies, industry consortia, central banks, and market participants

# Part 3

Your views on the general  
evolution of the ecosystem –  
long-term

# In the long-term what **solution** should the Eurosystem offer, if any? Why? Why none?

*Very diverging views:*

- More assessment needed for integration versus distribution versus interoperability before deciding
- Reasons for preferring
  - Interoperability: integration and distribution too complex – technical, legal and risk concerns could slow down / hamper market adoption of DLT if pursued;
  - Distribution: integration model could limit efficiency, innovation, speed of adoption, very large investment
  - Integration: Eurosystem role to bring to higher acceptance, stronger legal enforceability, certain finality, single European ecosystem
- Both a single ledger and interoperability to cater different needs / use cases / risks profiles
- Synergy and/or consistency with the global context

# If the long-term solution is different from the short-term solution, what are the main considerations for the **transition** to a long-term solution?

*Some responses that were given:*

- Long term should be (very) similar to short term
- Before investing (costs), clarity on whether it is in short- intermediate or long term and know the exact costs
- Step-by-step roadmap towards the targeted solution (gradual)
- During transition period, the short-term and long-term solution should both be available in parallel
- Short term solution may not be required (could be done via market), long term solution is required

# What **specifications**, technical **functionalities**, features should a long-term solution have?

Some answers were related to automation and integration with current Eurosystem offering:

- DLT solution that is interoperable with ESMIG,
- Solution with no separate liquidity pools (integrated with CLM),
- Availability of smart contracts

Others mentioned:

- 24/7 availability

# What main structural **changes** would be needed at the financial ecosystem's level to support a stable long-term solution?

*Some members mentioned:*

- A harmonised European legal and fiscal framework
  - Legal equality between traditional bonds/assets and DLT-based bonds/assets at the European level (also eligible as collateral)
  - Clarity on governance & service levels offered (which party is responsible for which risk)
- Technical standards harmonisation
- Ensuring the timely execution of license applications
- Treasury management will change drastically
- Interest rates will need to be defined on timestamp basis instead of per day





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# Data on participation in the Eurosystem's exploratory work

## Item 2



25 September 2024

# Our milestones (so far!)

**18 December 2023**

First transaction for internal  
Eurosysteem testing activity



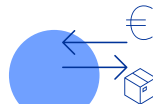
**11 April**

First market participant  
completely onboarded



**6 June**

Execution of the first  
trial transaction



**1 July**

Start of exploratory work  
wave 2



**3 April**

GovC approved list of  
participants for wave 1  
( [read more](#) )



**13 May**

Start of exploratory work  
wave 1 + execution of the  
first experiment transaction  
( [read more](#) )

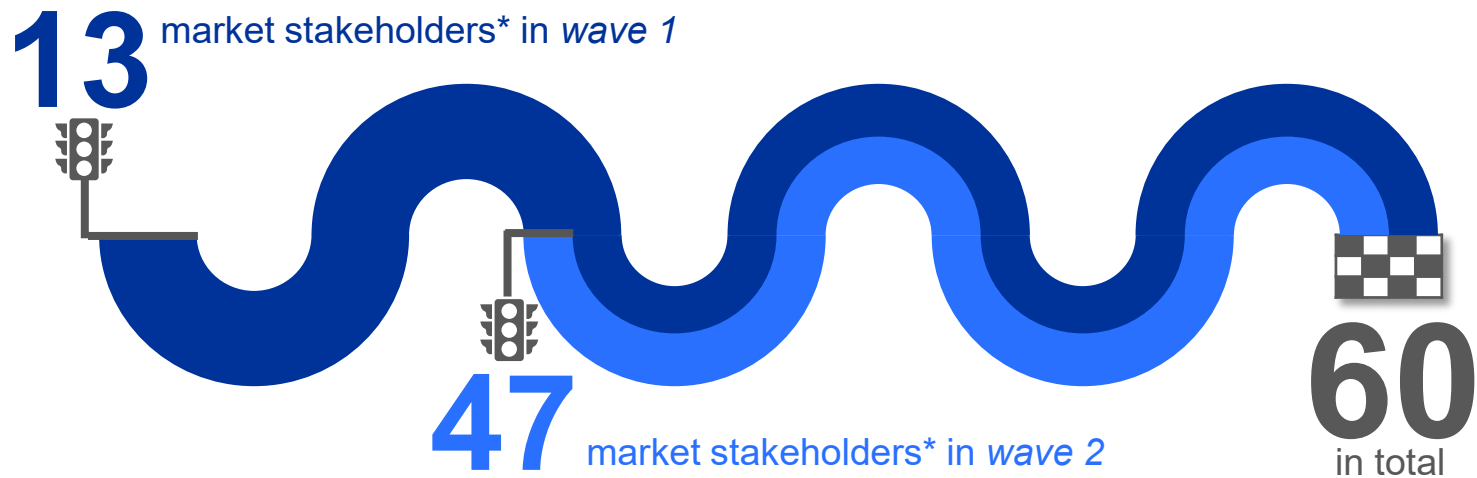


**21 June**

GovC approved list of  
participants for wave 2  
( [read more](#) )

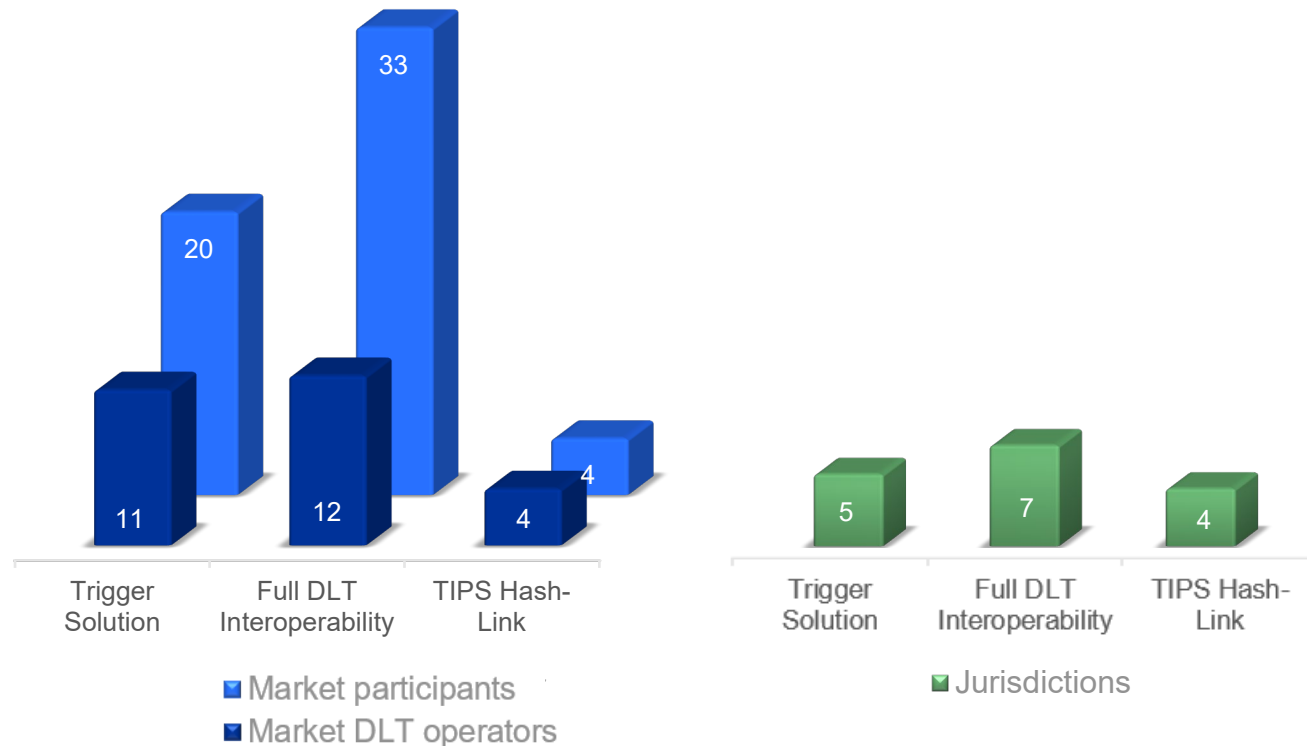


# Participation in waves



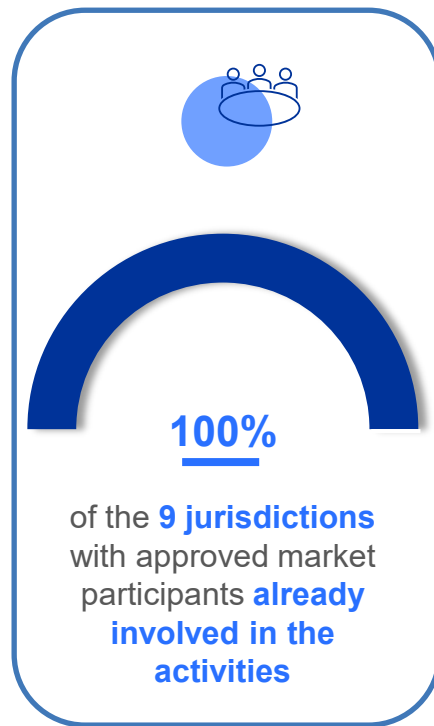
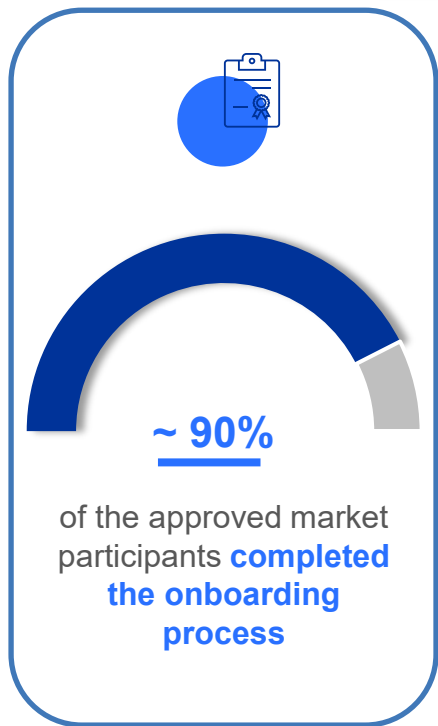
\* including market participants and market DLT operators

# Participation types from market stakeholders

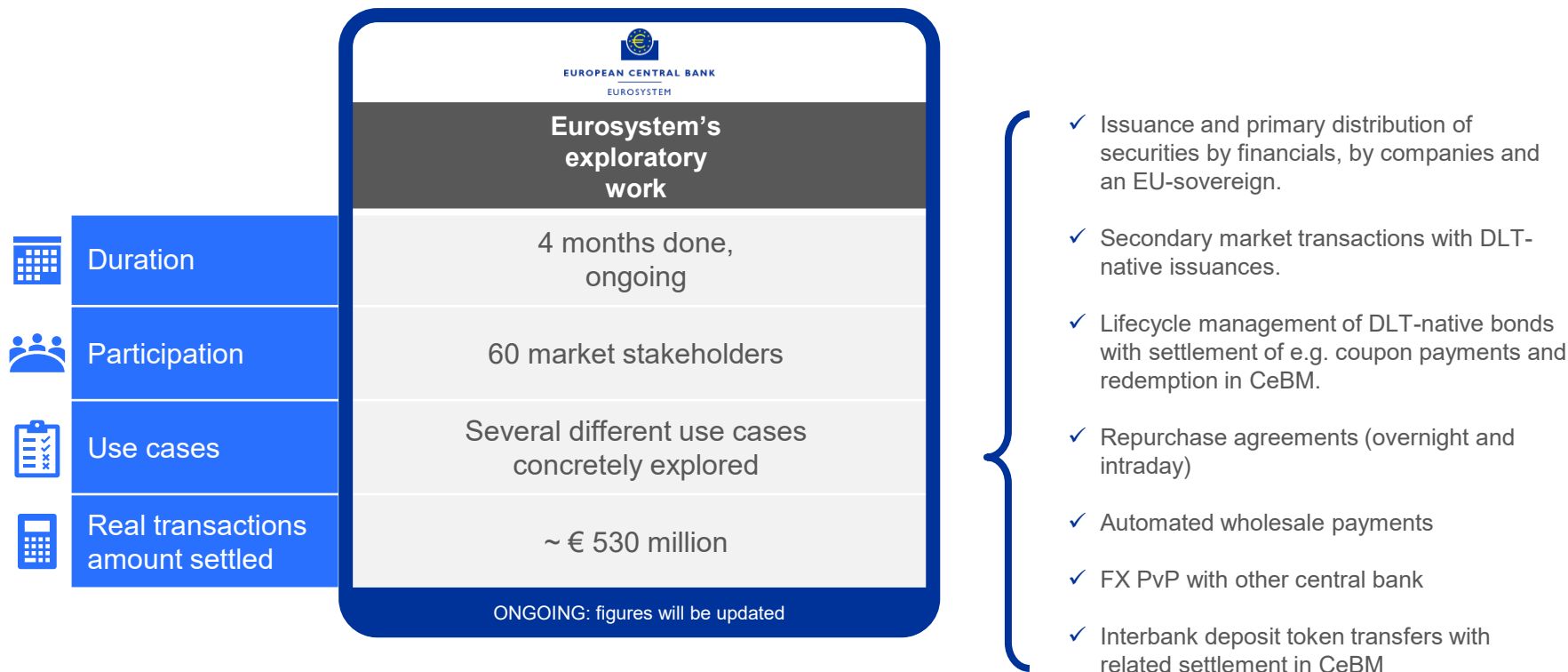


\* market stakeholder can participate with both the roles of market participant and market DLT operator

# Onboarding activities on track



# Figures of the ongoing activities



# Further information – regularly updated can be found on the ECB's website

On 23 September, the ECB published a [MIP news item](#) with further insights into the well progressing execution phase of the exploratory work

In this context, the [webpage for the Eurosystem's exploratory work](#) will be enhanced step-by-step to provide regular updated data and links to all relevant information

## MIP NEWS

Eurosystem's exploratory work on DLT platforms progressing

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*23 September 2024*

The Eurosystem's work to explore how wholesale financial transactions recorded on distributed ledger technology (DLT) platforms could be settled in central bank money is progressing well.