

## OUTCOME

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

15 November 2023 (09:30 - 14:30 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.

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

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## 1. General business cases for DLT

### Background:

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

The Eurosystem reiterated that inviting members or external experts to report on general business cases aims at information and idea sharing among members and the interested public. Following members' feedback on the first round of presentations in the September meeting, in this meeting the presentations covered were more specific and included concrete examples of business cases. 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 business cases and share key takeaways

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

### Background documentation:

Presentations by BNP Paribas, Deutsche Börse, DZ Bank, Intesa Sanpaolo, SG Forge, KfW (guest)

**Outcome:**

- Market participants were reminded that information sharing about the usefulness of DLT is the main purpose of this agenda item. Hence, similar cases are being grouped whenever possible to enable additional insights and a better understanding thereof (e.g., differences/similarities). The Chairperson reminded that he would advise members to stick to more conceptual presentations whenever possible. Brands or specific partners would in his view not be mentioned. Should members, however, deem it essential for the presentation to provide more details or even names, he would anyway expect members to ensure that their presentations do not contain any confidential information and to respect competition and antitrust rules.
- After the presentations, some members exchanged views on the following topics:
  - More insight into asset tradability and liquidity of assets issued on DLT could be gained via more practical experience, such as with the presented business cases on security token issuance;
  - By testing DLT platform technologies with different functionalities (e.g., treatment of data, privacy, network access), more insight could be gained into how interoperability between different (non-)DLT platforms could be best achieved (e.g., in terms of connectivity, standardisation);
  - No consensus existed among market participants on how to address risks in permissioned versus permissionless DLT networks. For permissionless, some members underscored the need to have clear responsibilities in place with stringent business continuity plans, whereas permissioned networks allow for stricter control on user access. Members will be invited to come up with proposals on how to manage risks of a permissioned/permissionless DLT network and how to structure a discussion on this topic for a future meeting.

**Action points:**

Invite members to

- report on general or more specific business cases for future NTW-CG meetings
- share proposals on how to manage risks of permissioned/permissionless DLT networks

## 2. Interoperability standards between different DLT platforms

### 2.1 Proposals for interoperability standardisation

**Background:**

In previous NTW-CG meetings and via written consultations, members repeatedly raised the importance of standardisation when using different DLT platforms for wholesale financial transactions settled in central bank money. In a joint presentation, four members shared their views and proposals on the need for standardisation (e.g., for interoperability between different DLT and non-DLT platforms, of protocols, data) and how this could be achieved.

**Members were invited to:**

Share their views on the need for standardisation

Suggest proposals on what aspects should be standardised and how this could be achieved

**Background documentation:**

Joint presentation from ICMA, ING, Fnality, SWIFT

**Outcome:**

- Most members expect that different DLT platforms will emerge, which would increase the need for standardisation of various elements (e.g., interface protocols, data formats, smart contracts for cash and assets) in order to ensure interoperability between DLT platforms.
- When using different DLT platforms for wholesale financial transactions, most members shared the view that there should be common definitions of the assets (e.g., data elements and structures), standardised functions orchestrating the flow of asset lifecycle events, and technology agnostic standards in place to facilitate interoperability between different DLT platforms.
- Following the presentation, three discussion themes emerged:
  - Some members shared their views on standardised DvP/PvP protocols and what this means for atomic settlement when having cash and assets on different DLT platforms;
  - Some members suggested that standardisation discussions should determine the trade-off between (re-)using existing standards (e.g., ISO20022, PFMI) and adopting modified or new standards. To the extent that different versions of a standard exist (e.g. ISO15022 or ISO20022), some participants argued that it might be useful to use the one with the broadest application. Others argued instead that the newest standard should be implemented. Not being able to fully exploit the features of the new standard would already mean an inefficient use of current technology. In their view, applying an old standard to a new technology might lead to inefficiencies, if not to the failure of the introduction of the new technology;
  - Most members agreed that new technology, such as DLT, does not make existing standardisation frameworks unusable. Though, if DLT adoption would further increase, standards might need to evolve (e.g., new/changed business processes).
- Most members highlighted that practical experience with real cases, in line with the Eurosystem exploratory work objectives, contributes to obtaining a better view on where gaps exist and improvements would benefit efficiency (e.g., updates of existing standards or new standards).
- Members emphasised that for achieving interoperability and avoiding market fragmentation, collaboration with all relevant stakeholders is key when defining the different levels of standardisation.
- As a closing remark to the discussion, the Chairperson invited members to forward proposals on how to enhance such collaboration.

**Action point:**

Invite members to forward proposals on how to enhance collaboration between different actors for determining and defining interoperability standards between different DLT platforms.

**2.2 Smart contract standardisation****Background:**

Two financial market associations presented the objectives and deliverables of a project for smart contract standardisation, which focuses on standardising templates for smart contracts for different sets of financial assets. This industry-wide initiative involves various financial institutions from different jurisdictions.

**Members were invited to:**

Share their views on the presented initiative and on its relevance for the Eurosystem exploratory work

**Background documentation:**

Presentation from AFME & GFMA (guest)

**Outcome:**

- The presentation and follow-up discussion acknowledged that bringing together public and private stakeholders is key when working on standardisation. This would be especially the case for exploiting the full potential if DLT would become more prominent in the wholesale financial market.
- It was also raised that often the most challenging is the conflation of different elements (e.g., format, structure of data and processes) before reaching a level of standardisation. The intention should not aim at differentiation, e.g., standardised templates should not depend on permissioned or permissionless networks, but rather have compatible and reusable standards independent of the underlying technology.

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*Section B: Purpose of the exploratory work phase*

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### **3. Update on the learning objectives of the Eurosystem exploratory work**

**Background:**

Following the written consultation on the learning objectives of the Eurosystem exploratory work, the ECB discussed the outcome and feedback received.

**Members were invited to:**

Take note of the updated learning objectives and provide feedback

**Outcome:**

- The Eurosystem thanked the members for their input and provided an overview of the overall feedback received, raising the following key points:
  - The Eurosystem exploratory work would help to provide more clarity on certain topics on which no common market view came forward in the written consultation, e.g., risk of fragmentation and need for instant settlement;
  - Metrics will take into account that the exploratory work does not reflect any real-life production state (e.g., escrow mechanism), which means that certain dimensions (e.g., scalability) would be possibly more relevant to consider at a future stage;
  - The learning objectives specifically focused on the practical aspects of trials and experiments. Other topics on governance and policy questions as raised by members could be covered later.
- Members were informed that in the next meeting on 25 January 2024 the Eurosystem will discuss the key performance indicators which will be measured during the exploratory work.

## 4. Q&A

### **Background:**

NTW-CG members were invited to raise questions if there were other remaining points that had not been covered in the previous presentations and discussions.

### **Outcome:**

- The Eurosystem will not provide a list of market DLT platform operators for participation in exploratory work, since at this stage it would not be clear if a certain operator would be eligible to participate. Nevertheless, the Eurosystem is currently analysing if and how this could potentially be facilitated in the future.
- The Chairperson thanked the NTW-CG members for having replied to the [survey](#) on Eurosystem plans for trials and experiments on new technologies for wholesale central bank money settlement. More than 70 individual institutions replied, the responses of whom are currently being analysed. The number of institutions that responded does not reflect the future number of participants in the Eurosystem exploratory work. On the one side, eventual participation will be determined by the defined eligibility criteria. On the other side, responding to the survey was not a pre-requisite for participating in the Eurosystem's exploratory work. Respondents' questions will be clarified via a Q&A document.
- The call for interest is planned to be published before the end of the year, accompanied by a focus session<sup>1</sup>, explaining the overall scope, objectives, operational and legal frameworks, technical setup of the different interoperability solutions of the exploratory work, and how to participate. Both the call for interest and the information session are targeted to the wider market audience beyond the NTW-CG.

## 5. AOB, closing remarks and upcoming meetings

### **Background & outcome:**

Members were informed on the draft NTW-CG meeting dates for 2024 and were asked to flag agenda conflicts, if any.

Without any other business items raised by members, the Chairperson concluded the meeting and confirmed that the next meeting will take place on 25 January 2024 in online format.

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<sup>1</sup> Focus session on the potential use of new technology for wholesale central bank money settlement on 15 December 2023, 9:00-14:00 CET. You can find more details on the event and how to register via this [link](#).