

From : DACSI

Re : **Reply to the ECB survey on new technologies in wholesale payments and securities settlement**

27 Jun 2022

What follows is DACSI's response to the questionnaire "New technologies in wholesale payments and securities settlement" (DACSI 22-2079), as submitted to the ECB through "Epsilon".

Introductory comments

DACSI – the Dutch Advisory Committee Securities Industry – welcomes the opportunity to express its view on the future use of new technologies in the area of central bank money.

Our orientation towards the subject is "post-trade securities"; hence, we focus on the custody, safekeeping and asset servicing of securities / financial instruments, and on the settlement of transactions in these instruments.

With regard to the individual questions, most of our answers are restricted to the settlement of the cash leg of financial transactions.

The preparation time for answering this questionnaire did not enable us to organise an in-debt consultation of our members. As a result, our reply reflects a consensus view and does not necessarily coincide with individual members' views, nor does it mention diverging views.

Section A

Identifying and understanding in general, from your financial market stakeholder's point of view, market / industry uptake for the settlement of wholesale transactions that uses new technologies, such as DLT.

Q 1 Do you in general expect a significant financial industry uptake regarding the use of new technologies, in particular distributed ledger technologies (DLT), for the purpose of settling wholesale financial transactions?

No.

The key driver for significant uptake of new technologies would not be "availability of technology" or "facilitation by newly adapted regulation", as broadly suggested in the public domain, but rather the recognition that new technology has the potential to solve issues markets are struggling with.

Within the realm of settling financial transactions, we do not see convincing examples of such issues.

Rebuilding the current infrastructure with the use of new (DLT) technology will probably be an extremely expensive exercise and will not deliver a solid business case. A full overhaul of the complete infrastructure is not realistic for many years to come. Using new technology in specific areas like withholding tax procedures, automated processing of corporate actions, or identifying shareholders could however still prove to be fruitful.

We also think that the length of the DLT pilot regime (3-6 years) is more in line with an evolutionary process rather than with a revolutionary change in the process of settling wholesale financial transactions. Furthermore, we think that a DLT- based settlement process is not necessarily fully fit for purpose in light of the current market infrastructure (e.g. the netting of transactions). Nevertheless, the new technology and its possible application in specific market niches or processes will still be followed with great interest.

Q 2 If "Yes", what might be the key drivers for that?

-

Q 3 What stages and time horizon do you generally anticipate for such uptake to happen?

When and if the majority of the consecutive primary processes in the value chain (from issuance to asset servicing) are based on the use of new technology (DLT), markets would have a need for the availability of CBDC (DLT € wCeBM).

We do not envisage such a situation within five years.

Q4 In your members' view, which type of market segments / assets / financial transactions / participants might be most affected by the use of new technologies, such as DLT?

Settling transactions in conventional securities by means of new technology does not add value or solve a problem that currently exists. So, as long as the majority of securities is represented by record-keeping in CSDs (and shares tend not to have a maturity), the mainstream preferred settlement of securities transactions will remain by conventional central bank money.

Any new technical structure needs to be fit for its purpose and to follow the structure of the market. The loss of netting effects when the use of DLT results in trade-for-trade settlements would be illustrative of "not fit for purpose".

Q5 In your members' view, which part(s) of the financial transaction value chain might be most affected by the use of new technologies, such as DLT? Please distinguish between payments and securities and elaborate on / substantiate your views and expectations.

....

Q6 If your members do not expect a significant financial industry uptake regarding the use of new technologies, in particular distributed ledger technologies (DLT), for the purpose of settling wholesale financial transactions, what could, in your view, be the key challenges and/or impediments and/or barriers for new technologies to take up, and why?

The introduction of any new technology (not restricted to DLT) will impose significant costs for individual organisations and for FMIs. Such costs can only be justified when the technology solves an issue, when it is inevitable from a harmonisation point of view, or when the existing technology has become obsolete.

Q7 In your members' view, would the provision of a dedicated settlement arrangement in EUR central bank money based on new technologies enhance the adoption of new use cases and help expand implementation efforts by your financial market stakeholders?

....

Section B

Identifying and understanding what is / might be your member's concrete interest in EUR central bank money settlement of financial transactions that uses new technologies, such as DLT, and what would be your members' concrete and potential new use cases.

Q8 What are the use cases / transaction types for which your members use EUR central bank money for settling the cash leg of financial transactions today? (cash leg of wholesale securities transactions, cash leg of wholesale FX transactions, cash leg of wholesale money market transactions, wholesale funding transactions / settlement of positions of ancillary large value or retail payment systems, settlement of wholesale clean payments, margin calls, etc.).

Our members use EUR central bank money for settling the cash leg of:

- All wholesale securities transactions (including corporate actions) settled in/through T2S
-
-

If and when it becomes necessary to settle the securities leg of a transaction with DLT, we envisage a preference for a DLT solution for the cash (in central bank money). So, we may need CBDC at such stage.

Q 9 What are the use cases for which your members do not use EUR central bank money for settling the cash leg of financial transactions today? Why is this so?

Today's exclusions apply to those parties who do not or cannot hold a (euro) account with the NCB (or another Eurozone central bank) (non-financial wholesale clients, retail clients, third-country parties, ...).

These exceptions are based on rules/policies and have no technical causes. Therefore, we do not expect that a technology change will alter this.

Q 10 If your members use settlement assets other than EUR central bank money for settling the cash leg of financial transactions today, what is your / your members' concrete level of interest in / need for settling these transactions in EUR central bank money at some point in the future?)?

n/a

Q 11 What is your members' concrete interest in / need for using new technologies for the settlement of your financial transactions in EUR central bank money? Do you distinguish between short-, medium- and long-term interest/need? Please elaborate on / substantiate your interest/needs.

When and if the majority of the consecutive primary processes in the value chain (from issuance to asset servicing) are based on the use of new technology (DLT), markets would have a need for the availability of CBDC (DLT € wCeBM). If such reconstruction of the chain has not materialised, there will be no need for the availability of CBDC.

We do not envisage such a situation within at least five years.

Q 12 What concrete and potential new use cases do your members perceive / expect emerging for EUR central bank money settlement due to market developments, in particular due to the potential uptake of the use of new technologies, such as DLT, in and by the market? Please, list these use cases and elaborate on them.

-

Q 13 Based on the concrete and potential new use cases your members expect emerging for EUR central bank money settlement that uses new technologies / DLT, would your members expect such new use cases to emerge independently of each other in different parts of the financial value chain (e.g. different solutions / DLT platforms for trading than for settlement) OR would you expect such use cases to rely on the same integrated infrastructure (e.g. trading, reconciliation / matching, clearing and settlement via a single DLT platform or protocol)?

We expect the latter: integrated, but restricted to native digital assets. The entire securities chain is closely connected conceptually from IPO to trading, clearing, settlement and asset servicing. This complex chain needs closely interconnected systems and processes.

Q 14 If your members consider using new technologies such as DLT for the settlement of financial transactions at some stage in the future, would you consider using other settlement assets (e.g. stable coins or commercial

bank money) for the cash leg in the absence of an appropriate dedicated settlement arrangement in EUR central bank money?

In the absence of a dedicated DLT € wCeBM arrangement, we would tend to stick to traditional central bank money arrangements. However, if evolving client preferences and trading practices require the use of stable coins, our members would consider facilitating that, pushing for really stable, i.e. well embedded “stable coins”.

Q 15 What market developments would make your members consider using a dedicated settlement arrangement in EUR central bank money based on new technologies for the settlement of financial transactions at some point in the future that are not settled in EUR central bank money today?

We do not envisage such developments: for those transactions not settled in EUR CBM today (non-financial wholesale clients, retail clients, third-country parties,, those without a central bank account), it will probably remain acceptable to settle in commercial bank money. Developing new technology solutions for those transactions only is unlikely to be economical. The most salient issues (e.g. pension funds without access to central bank money) are to be solved institutionally, not technically.

Section C

Identifying and understanding, from your financial market stakeholder’s point of view, the possible merits and potential challenges of using new technologies, such as DLT, for EUR central bank money settlement of existing and potential new use cases (as identified in B.) at some point in the future.

Q 16 In your members’ view, what might be the potential / possible benefits for (a) financial market stakeholders; and (b) the economy as a whole of using new technologies, such as DLT, for EUR central bank money settlement for existing and potential new use cases?

....

**Q 17 In your members’ view, what might be the potential / possible challenges resulting from the use of new technologies, such as DLT, for EUR central bank money settlement for existing and potential new use cases? For example, what might be challenges for the overall functioning of financial markets, liquidity management, financial market integration/harmonisation/standardisation, efficiency, others, if both DLT- and non-DLT-based solutions were used at the same time?
If your members’ answers differ depending on the use case, please elaborate on / substantiate your answers accordingly.**

Interoperability between conventional and “new tech” structures will anyhow come with costs and (operational and legal) complexities. As long as both co-exist, the settlement of wholesale transactions will be biased towards the “old” tool: conventional central bank money.

Q 18 In your members’ view, would your members think that it is possible (might not be possible) to achieve these benefits / overcome potential challenges with the architecture of the existing EUR central bank money ecosystem (TARGET Services and applicable interfaces) in the long term?

We are not pessimistic about the possibilities of Target and Target 2 Securities. The combination of its technique (although “old school”) and its governance make us think that hurdles can be overcome.

Challenges like T+1 or T+0 do not relate to the architecture of T2S, but do ask for organisational measures elsewhere in the chain.

Section D

Identifying and understanding, from your financial market stakeholder's point of view, the potential impact on the existing TARGET Services and other consequences, if new technologies, such as DLT, were used for the EUR central bank money settlement of existing and potential new use cases (as identified in B.) at some point in the future.

Q 19 In your members' view, what might be the potential impact (policy, operational, legal) on the existing ecosystem of EUR central bank money settlement (i.e. the way stakeholders today settle in EUR central bank money), if new technologies, such as DLT, were used for the EUR central bank money settlement in the concrete existing and potential new use cases at some point in the future?

....

Q 20 In your members' view, which existing and potential new use cases for EUR central bank money settlement of financial transactions might in the short- to medium-term benefit from using new technologies together with the existing TARGET Services, i.e. from using both the existing TARGET Services and a DLT-based mechanism that is connected to TARGET Services ('trigger solution')?

....

Q 21 In your members' view, what interface(s) would be required / warranted to enable a 'trigger solution' for the transfer of assets or processing of smart contracts in a DLT system to trigger the corresponding payment transaction in EUR central bank money in TARGET Services? If your members think that these interfaces would (need to) be different from the ones used for TARGET Services today, why do your members think so? Please, elaborate on / substantiate your views and expectations.

Answering this question needs substantial analysis, based on much more detailed proposals.

Q 22 In your members' view, for which existing and potential new use cases do you believe EUR central bank money settlement of financial transactions might benefit from a full DLT solution (DLT € wCeBM, i.e. central bank money made available as a native digital asset, i.e. in the form of a 'DLT token'), at some point in the future?

....

Q 23 In your members' view, would you think that a 'trigger solution' might bring the same benefits as a full DLT solution (DLT € wCeBM, i.e. central bank money made available as a native digital asset, i.e. in the form of a 'DLT token') in the medium-to-long-run?

....

Any additional comments

Is there anything in addition to what has already been covered in the questions that you would like to highlight?

The key hurdle in expressing adherence to the suggested development of DLT € wCeBM lies in the lack of "promises to solve issues". This explains our scepticism to a large degree.