



AmiSeCo LSG*

Digital Assets and wholesale CBDC

28/03/2023 – Luxembourg - Virtual

Disclaimer: The views expressed in this presentation are solely those of the presenters and not necessarily those of the BCL, the Eurosystem or the CSSF



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AmiSeCo LSG

Digital Assets and wholesale CBDC

LIST OF PARTICIPANTS

ABBL
Banque et Caisse d'Epargne de l'Etat
BCL
BGL BNP Paribas S.A.
BIL S.A.
Clearstream Fund Centre S.A (CFCL)
Clearstream International SA
CSSF
Goldman Sachs Bank Europe SE, Luxembourg Branch
HQLAx
HSBC Continental Europe, Luxembourg
LuxCSD
Luxembourg Blockchain Lab
Luxembourg State Treasury
Luxembourg Stock Exchange
Montis Digital S.A.
Neofacto
Société Générale Bank & Trust S.A.

AmiSeCo LSG Governance aspects

AMI-SeCo

The [Advisory Group on Market Infrastructures for Securities and Collateral](#) (AMI-SeCo) facilitates an active dialogue with market participants on issues related to the clearing and settlement of securities and to collateral management.

Source: ECB website

AmiSeCo LSG (Luxembourg Stakeholder group):

- Same objective as AmiSeCo but at local level
- More local voices and views
- Key objectives:
 - Harmonisation of post-trading (EU→local)
 - Views on post-trading (local→EU)

ntwCBDC/ taskforce (new technology wholesale CBDC)

Explores the **need** and **means** of a delivery to CeBM settlement asset using new technology

Today:

- AmiSeCo LSG meeting
- Information from ntwCBDC taskforce → LU market participants
- Stocktake of LU market participants → EU fora



Opening remarks

EU
Fragmented
post-trading



T2S

2008

DLT (Bitcoin)



2015

DeFi (Ethereum)



2020

Digital assets new
laws for traditional
finance

What consequences ?

- Towards a new regulatory phase ?**
- T2S answered a need, provides level playing field, and set of regulations like CSD-R provides a clear framework for CSDs
 - New DLT digital asset set of laws offer new opportunities, re-open a very regulated sector. What consequences in terms of **fragmentation** ?
 - Question of the CBDC to be used as a safe settlement asset.

T2S Achievements

T2S revolutionized securities settlement in Europe because it brought an **end to complex cross-border settlement procedures** and the problems caused by **different settlement practices among countries**. Instead with **T2S** we have a **common platform** on which securities and cash can be transferred between investors

This **harmonization** encouraged by T2S,

- makes it **easier for investors** to buy securities in other EU countries,
- **reduced the cost of cross-border** securities settlement,
- **increased competition** among providers of post-trade services (i.e. clearing and settlement services) in Europe,
- **pooled collateral and liquidity**, meaning that banks no longer need to keep these in various locations and can quickly move them to where they are needed,
- **reduced settlement risk** and increasing financial stability by using central bank money for transactions on the platform.

Source: ECB website

New regulatory framework

In parallel to T2S' world, **new regulatory frameworks** have popped up in some countries (e.g. Luxembourg, Germany, France), taking the form of **national laws**, often usable across Europe, allowing CSDs and custodian banks to issue digital assets natively or in a tokenized form, on DLT infrastructures, with their existing CSD or banking license.

In addition, the EU commission has worked on the so called “**DLT Pilot Regime**” to allow a similar EU framework in a more restrictive perimeter.

Wholesale CBDC Definition

- Wholesale CBDC refers to the **settlement of interbank transfers** and related wholesale transactions in central bank reserves.
- There is a widespread misconception that wholesale CBDC does not yet exist. In fact, central bank money has been **available** in digital form **for wholesale transactions** between banks **for decades**.
- This misconception is fuelled by the commonly held assumption that wholesale CBDC needs to be operated using DLT. But wholesale CBDC is not synonymous with DLT, as **it can be based on any digital technology**. In the euro area, the Eurosystem offers banks the possibility of settling wholesale digital transactions through its TARGET Services using a **centralised ledger** (F. Panetta-ECB)
- Wholesale CBDC is different from retail CBDC (retail digital euro).
- Do we need a new form of wholesale CBDC ? (see questionnaire answer)



24 years of Market Infrastructures

Over the past two decades, the Eurosystem has made significant progress in integrating and modernising wholesale payment systems enabling the rapid and reliable settlement of euro payments in central bank money.

- 1999: National real-time gross settlement systems migration to **TARGET**
- 2007: Migration to **TARGET2**
- 2015: TARGET2-Securities (**T2S**)
- 2018: **TIPS** (Pan European instant payments)
- 2023: **Target Services** (Consolidated platform)
- 2024: **ECMS**
- **What's next ?**



Eurosystem work

- MIPC* Eurochain Hackathons (2018-2020)
 - BCL - technical paper
- NCBs own experiments (2021-2022)
- MIPC NtwCBDC Task force (2022-2023)
- Governing Council (2023-03)
- Next - Eurosystem coordinated approach

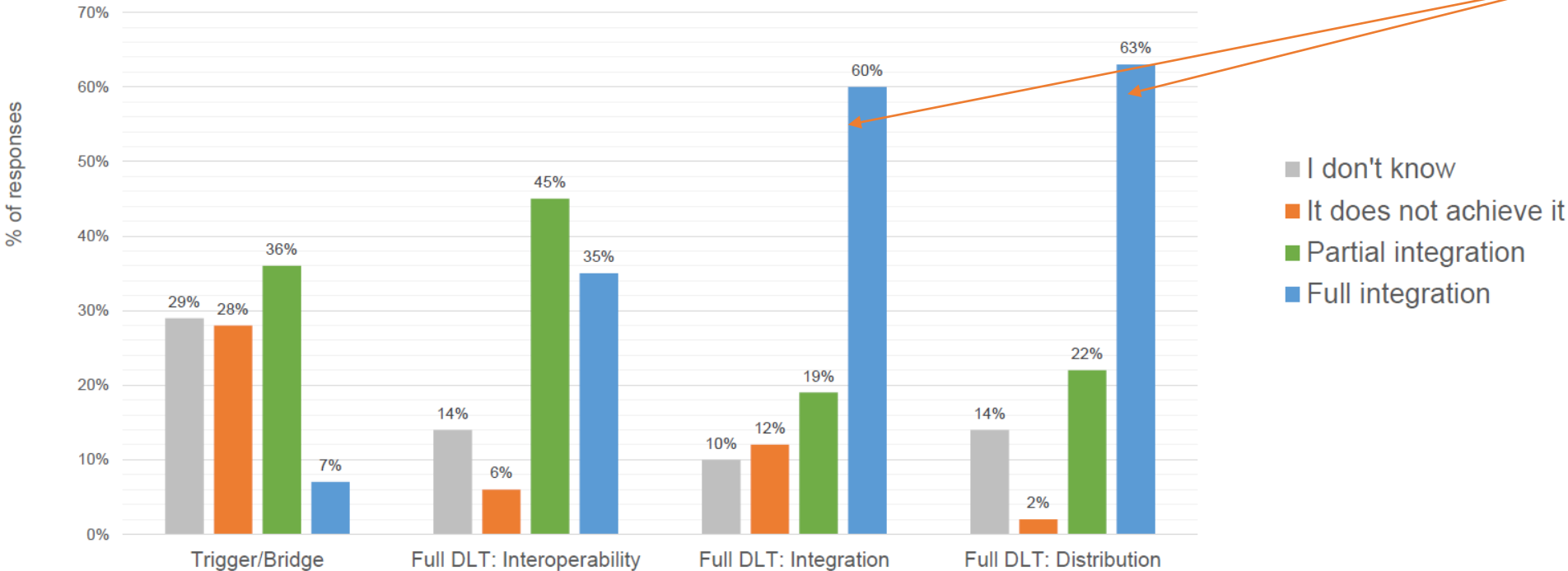


Technological approaches ECB survey (September 2022)

EU Feedback

Key takeaways from multilateral meeting with market stakeholders(2/2)

To what extent does each technological approach achieve integrated settlement for DvP and PvP?



Cash leg and securities leg on the same environment

Technological approaches

- Trigger solution
- Bridge model (API)
- Full DLT model
 - Interoperability
 - Integration
 - Distribution

Technological approaches

- Based on the literature review, two theoretical approaches have been identified, and were discussed in the September multilateral stakeholder meeting, for potentially providing wholesale central bank money settlement using new technologies:
 - 1) **Trigger/bridge approaches**
CeBM settlement of the cash leg of DLT-based wholesale transactions in existing – non-DLT – infrastructures
 - 2) **Full DLT approaches (DLT-based wholesale CBDC)**
Central bank money settlement of wholesale transactions on DLT platforms with DLT-based central bank money



	Euro cash leg	Asset/foreign currency leg
Interoperability	On Eurosystem DLT	On external DLT
Integration	On Eurosystem DLT	On Eurosystem DLT
Distribution	On external DLT	On external DLT

<https://www.ecb.europa.eu/paym/groups/shared/docs/1d2fa-joint-ami-pay-ami-seco-2022-12-02-item-3-update-on-ntwcbdc-market-outreach.pdf>

2023 BCL Questionnaire results

General considerations

Challenges

- All LU participants agreed with proposed list of challenges:
 - Settlement Finality,
 - digital asset eligibility in Eurosystem credit operations,
 - asset liquidity and potential fragmentation,
 - interoperability between environments,
 - harmonisation of processes and standardisation,
 - liquidity management and
 - risks of liquidity pots
- Main challenge: Settlement Finality
- Additional points:
 - transition period between existing systems to digital asset based systems,
 - navigating the evolving roles and risks in the industry,
 - intraday liquidity & its remuneration, Liquidity on-chain,
 - processing repo under LU Law, re-usability of collateral
 - Establishment of trusted digital asset custodians
 - New liabilities across the issuance & asset servicing chain arising out of the DLT usage (e.g. smart contracts)

2023 BCL Questionnaire results

General considerations

- LU Market expectations (quotes from respondents)
 - LU ecosystem to gather the critical mass of key players (issuers, arranging banks, trading venue, custody banks, central bank, regulators)
 - We expect the ecosystem to be ready and up to date in order to enable fully digitalised bond issuance.
 - Working together to progress as a financial place in Luxembourg
 - Creation of a trusted interoperable LU ecosystem environment for the execution of decentralised finance/payments protocols through a common layer of independent trust anchors.
 - Proactively facilitate engagement with industry participants including through discussion forums such as this one, public consultations etc to gather intelligence, better understand direction, identify concerns and pain-points and work in partnership.
 - We expect from the LU ecosystem to be flexible and allowing us to process transactions in the most efficient way with the possibility to innovate quickly (ex: repo)

- Have a clear regulation, Compliance, Risk view on these activities
- Provide the right regulatory regime and engagement forum to promote technological innovation for capital markets
- CSDR regulation might evolve over time (there are limitations for CSDs to offer public chain propositions under CSDR)
- Continue to help provide legal and regulatory certainty, and continue to support innovation in this space.

- Reducing fees and faster settlement for end-clients. BCL could be a driver of this initiative.
- Strike the balance between being innovative yet controlled.
- Private blockchains bear the risk of fragmentation of liquidity due to many private blockchains as isolated solutions that are not connected to each other and missing interoperability between various private blockchains.
- 46% of the country's gross domestic product depends on its role as a financial centre. DLT, stable coin and CBDC will disrupt the old style fund service business as usual.



Wrap up

The Eurosystem global demand and need still unclear

The new legal framework varied and untested

Responses to the LU questionnaire show a clear interest in wholesale CBDC for digital assets market

LU interest in this stocktake → Eurosystem study and exploration

Contacts

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BCL Press releases

https://www.bcl.lu/fr/Recherche/publications/technicalpapers/2020_BCL_Technical-Paper_DCB-Services.pdf

https://www.bcl.lu/fr/media_actualites/communiqués/2022/11/central-bank-digital-currency-initiative/index.html

ECB Press release

Eurosystem to explore new technologies for wholesale central bank money settlement

<https://www.ecb.europa.eu/press/pr/date/2023/html/ecb.pr230428~6a59f44e41.en.html>