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Banca d'Italia and Deutsche Bundesbank discuss initiatives for DLT-based asset settlement in central bank money

Banca d'Italia and Deutsche Bundesbank participated yesterday in a joint workshop to share experiences on the settlement in central bank money of assets exchanged on emerging and innovative market solutions based on Distributed Ledger Technology (DLT) using the programmable features available on DLT-based systems.

The initiative focused on the possibility of complementing established means of central bank money settlement with a programmable trigger mechanism connecting the DLT-based asset (i.e. a *tokenised* electronic security) and the cash to be settled by means of conventional payment systems, preserving the delivery-versus-payment mode of settlement, which minimises the counterparty risk for both the buyer and the seller.

This so-called “trigger” solution could serve as a technical bridge between the DLT-based settlement of tokenised assets and existing payment systems, e.g. TARGET2 or TIPS (the Eurosystem’s TARGET Instant Payment Settlement system). The business case was successfully tested in March 2021 by Deutsche Börse, Deutsche Bundesbank and Germany’s Finance Agency by simulating securities settlement using DLT and triggering the settlement of the cash leg in the Eurosystem’s TARGET2 payment system. Banca d'Italia has recently launched a simulation to test a “trigger” solution with settlement of the cash leg in TIPS.

A trigger solution would support the wholesale market and can be seen as complementary to the Digital Euro, which is currently under consideration by the Eurosystem and is more focused on retail payments.

Governor Visco remarked:

“Like other new technologies, DLT has the potential to usher in new products and services, generate additional revenue streams, reduce the cost of operations, and make organizational structures more efficient and effective. However, its possible adoption in the field of Eurosystem Market Infrastructures will require time because of the necessary in-depth investigations and cost and risk assessment; therefore, it seems wise to experiment with solutions that address the needs of the market by extending the scope of the existing infrastructures to interoperate with DLT.”

President Weidmann concluded:

“If market participants want to reap the benefits of new technologies like DLT for the settlement of tokenised assets, central banks should support that by enabling the settlement of the responding cash leg in secure central bank money. The tested trigger solution could well serve the market’s need and keep central bank money in the systems run by central banks. In comparison to creating wholesale central bank digital currency, a trigger solution could be operational in a much shorter time frame.”

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