

Q&A

Question and answer document

Following the survey on Eurosystem plans for trials and experiments in new technologies for wholesale central bank money settlement

General overview

The following document answers questions received via the [survey on Eurosystem plans for trials and experiments on new technologies for wholesale central bank money](#). The answers provided represent the Eurosystem's state of thinking. They must not be understood as pre-empting a Eurosystem policy stance. More detailed information will be included in the call for expression of interest and its accompanying documents which the Eurosystem plans to publish in December 2023 and at the occasion of a [Eurosystem Focus Session on the potential use of new technology for wholesale central bank money settlement](#) on 15 December 2023.

1 What is the status of the Eurosystem's exploratory work?

The Eurosystem continues with the preparatory steps to start exploratory work with the market in 2024. In order to support interested market participants to proceed with their internal decision-making process, the Eurosystem published further preliminary information on the exploratory work, e.g. the scope of exploratory work and envisaged eligibility criteria with the survey on Eurosystem plans for trials and experiments on new technologies for wholesale central bank money settlement [\[Link\]](#).

2 What is the planned scope of the Eurosystem's exploratory work?

The Eurosystem's exploratory work would consist of trials (real settlement) and experiments (mock settlement), run in parallel. There would be no changes to current rules for access to central bank money neither in trials nor in experiments, and the Eurosystem would minimise any potential impact of the exploratory work on the TARGET services. Please find more information in the presentation given in the second NTW-Contact Group meeting [\[Link\]](#).

3 **What are the planned eligibility criteria for participation in the Eurosystem's exploratory work?**

A first indication of what could be the eligibility criteria can be found in the document accompanying the survey on Eurosystem plans for trials and experiments on new technologies for wholesale central bank money settlement [\[Link\]](#). Eligible market participants could be those entities with access to TARGET, while DLT operators could be either (i) authorised CSDs, (ii) entities authorised under the DLT Pilot Regime Regulation, or be (iii) licensed under national law, and accepted by their respective National Central Bank.

4 **Does the Eurosystem intend to publish information about stakeholders that might be interested or have shown interest in the Eurosystem's exploratory work?**

No publication of a list with the interested stakeholders is foreseen. The Eurosystem encourages financial market stakeholders to make arrangements on their own.

5 **What are the participants' planned roles and responsibilities?**

The participants' planned roles and responsibilities are described in the fourth NTW contact group meeting [\[Link\]](#). Specifically, the participants would be expected to test use cases, to collaborate with other participants, and to share the results and the relevant findings of the trials and experiments with the Eurosystem. This would include regular reporting to the Eurosystem.

6 **What are the possible time and resource commitments of participants and DLT operators?**

Time and resource commitments might depend on different factors, for instance, the nature of the trials and experiments that market participants and DLT operators might participate in and their type of connection to the technical solutions. Participants would have the possibility to exit trials and experiments at their request, as participation would not be mandatory for the whole Eurosystem trial and experiment period (6 month maximum; see also question 7).

Exploration aims to demonstrate a variety of business cases, preferably those that incorporate multiple transactions, if possible. In terms of IT, operational and tech resources, participants would be expected to conduct the testing activities and connect to the solutions in compliance with the legal framework and the operational framework prepared and circulated by the Eurosystem as well as the functional specifications provided by the Solution Provider Central Banks. Participation would require regular reporting by participants on the progress of the exploratory work to the Eurosystem.

7 What are the planned timeline and milestones of the Eurosystem's exploratory work?

The Eurosystem exploratory work is planned to be conducted within a time window of six months between May 2024 and November 2024. This execution phase would consist of two waves:

- 1) a first wave of participants, ready to start exploratory work in May 2024, which could conduct exploratory work during the 6-month period, and
- 2) a second wave of participants, starting in July 2024, completing exploratory work at the same time as the first wave, in November 2024.

Prerequisite to participate in wave 1 of Eurosystem exploratory work is the response to the Eurosystem call for expression of interest at the latest by the end of January 2024, a subsequent positive outcome of an initial, preliminary eligibility assessment by the Eurosystem, and the successful execution and completion of the necessary onboarding and subsequent testing. The onboarding and subsequent testing phase should be successfully finalised by the end of April 2024.

Participants to the second wave have to (i) submit their response to the call for expression of interest no later than end of April 2024, and (ii) complete the onboarding and testing activities by the end of July 2024.

8 What is the planned duration of a possible T2S derogation?

The derogation is required to facilitate continued compliance of the T2S CSDs with the T2S Framework Agreement should they wish to participate in exploratory work. The envisaged derogation of the contractual and regulatory framework of T2S is expected for the duration of exploratory work only and would be subject to Governing Council approval.

9 What would happen if securities eligible for use in the Eurosystem's exploratory work had a longer tenor than the planned trial window?

The limited duration of the Eurosystem's exploratory work must be taken into account by the market participants. Participants would need to develop their own strategies.

10 **Could the Eurosystem provide more information on the legal framework (e.g. NDAs) under which the exploratory work would be conducted?**

A Eurosystem legal framework is planned to form the basis for the legal arrangements that would need to be established between the local National Central Bank and the financial market participants and market DLT platform operators respectively. The Eurosystem legal framework would be made available to the market stakeholders.

11 **What would the onboarding process look like?**

The onboarding process would consist of multiple steps. As part of the onboarding process, participants and DLT operators would have to perform certain testing activities. In addition, a legal arrangement would have to be signed with their local National Central Bank.

12 **Would the Eurosystem have more information on the planned operational details for trials (escrow account, DCA in the TARGET system, funding requirements, opening hours).**

More information on the operational details like the escrow account and the opening hours can be found in the presentation given in the second NTW Contact group meeting [\[Link\]](#).

13 **Could the Eurosystem provide the descriptions and specificities of infrastructure not provided by the Eurosystem?**

As part of the call for expression of interest, the three Solution Provider Central Banks – Deutsche Bundesbank for the Trigger Solution, Banca d'Italia for the TIPS Hash-Link Solution and Banque de France for the Full-DLT Interoperability Solution – would provide service descriptions and onboarding documentation with regard to their respective solution. Specifications of third-party infrastructure in the sense of non-Eurosystem infrastructures cannot be provided by the Eurosystem. Market participants interested in participation in Eurosystem trials and experiments would need to contact relevant parties in view of setting up cooperation arrangements with these parties.

14 **What additional clarity on requirements for experiments and trials could the Eurosystem give at this stage, e.g. what would be required for the integration by the participants and DLT market operators?**

The requirements of trials and experiments would be discussed with participants during the testing phase. This testing phase would aim at preparing for trials and experiments, including the necessary technical connectivity, static data configuration and explanations of the operational procedures for the execution phase. The content of testing was discussed in the fourth NTW Contact group meeting [[Link](#)].

15 **What could be the costs for market participants and DLT operators?**

The Eurosystem would not provide any remuneration for participation in the exploratory work. Participants and DLT operators would have to bear their own costs arising from participation. The standard pricing framework of TARGET Services for trial bookings in RTGS would apply. The Solution Provider Central Banks will not charge specific costs related to Eurosystem exploratory work.

16 **Would there be a pre-selection of DLT operators for the exploration phase that market participants can contact?**

The Eurosystem would make a preliminary eligibility assessment of market participants responding to the planned Eurosystem's call for expression of interest. The Eurosystem would in principle follow an open approach for exploratory work and would seek to accommodate all market participants that could become eligible. Should the need arise, the Eurosystem would prioritise participants that support the learning objectives of Eurosystem exploratory work. Consequently, there would be no pre-selection of DLT operators initially.

The Eurosystem does not foresee the publication of a list with market DLT operator candidates interested to participate in Eurosystem exploratory work (see also question 4).

17 **What types of assets would be included in the exploratory work?**

Currently it is envisaged that all types and categories of financial instruments, listed and unlisted alike, within the meaning of Article 4(1), point (15), of the MiFID and available on the eligible market DLT platforms could be settled in CeBM under trials and experiments during the Eurosystem's exploratory work.

18 **Could the Eurosystem provide the technical specifications of the three interoperability solutions?**

The presentation of the second NTW Contact Group meeting provides some detail on the three interoperability solutions [\[Link\]](#).

The technical and operational specificities are planned to be described in detail in the service descriptions of the solution providers. The service descriptions would be part of the documents that would be made available with the call for expression of interest.

19 **What are the differences between each solution in terms of transferability (esp. involved parties, contact persons in ECB/Eurosystem/national central bank sphere), i. e. could stakeholders "copy and paste" e. g. the German setup to the French or Italian one and if not, what would be the difference?**

In general, the respective National Central Bank would be the primary contact point for market participants and market DLT operators. In addition, at each Solution Provider Central Bank, there would be a central contact point as each Solution Provider Central Bank would be in charge of onboarding and operating their solutions and would be available for functional and technical questions regarding their respective solution. More information on these processes will be provided in the service descriptions by the solution providers, which are part of the call for expression of interest.

20 **Would it be possible to use own smart contracts?**

Technical specificities would be published with the service description documents/information given by each Solution Provider Central Bank.

21 **Would it be possible to apply to the Eurosystem's exploratory work with partners?**

The respective National Central Bank would enter into a legal arrangement with each eligible participant and DLT operator only. To assess the eligibility as a prerequisite to participate in the exploratory work, all interested market participants and interested market DLT operators would have to individually apply via the call for expression of interest.

22 Which participants would have access to wholesale central bank and how could they access it?

The envisaged eligibility criteria for Eurosystem trials and experiments were part of the public announcement published on 13 October 2023 on the website of the ECB [\[Link\]](#). Requirements related to central bank money and Eurosystem infrastructures access would not change in view of the exploratory work. Interested participants would need to comply with the TARGET access criteria.

23 Would there be the possibility to explore deposit tokens/tokenised deposits?

The Eurosystem briefly explained this use case in the presentation of the fourth NTW Contact Group meeting [\[Link\]](#). Deposit tokens/tokenised deposits could also be explored in the context of the Eurosystem's exploratory work, in particular in relation to linking settlement in CeBM with the Eurosystem solutions to transfers / settlement with tokenised deposits (interlinked CeBM / CoBM).

24 Where would cash be needed on the chain (Would it be deposit tokens? Would it be Commercial Bank Digital Currency? Would it be wholesale central bank money?)?

The focus of Eurosystem exploratory work would be to explore the potential merits of new technologies for central bank money settlement of wholesale financial transactions recorded on distributed ledger technology (DLT) platforms. For that, the Eurosystem would offer three interoperability-type solutions with final settlement in central bank money in the existing TARGET Services.

Market participants could provide commercial bank money facilities and test their interbank settlement in central bank money. However, the commercial bank money side, as well as other features outside of the perimeter of the Eurosystem exploratory work, would be the responsibility of the market (it is not provided by the Eurosystem).

25 What would be the Eurosystem's plans following the exploratory work?

The Eurosystem would carefully analyse and assess the results and experiences of exploratory work. Based on the results and learnings of the exploratory work, the Eurosystem would analyse potential future steps following the exploratory work.

26 Would National Central Banks plan to participate in this exploratory phase in addition to their role as manager of market infrastructure (repo counterparties for example)? Would DLT-based financial instruments be eligible for Eurosystem credit operations?

National Central Banks would have the option to participate in exploratory work as market participant or as market DLT operator. Monetary policy operations would be out of scope for trials. The scope of the exploratory work is described in the documentation of the second NTW contact group meeting [[Link](#)].