

## ICMA response to ECB questionnaire on a wholesale digital euro

**F** On 28 June 2022, ICMA submitted its response to the ECB questionnaire on financial market stakeholders' potential interest in the Eurosystem providing EUR central bank money settlement of wholesale transactions in the payments, securities settlement and collateral management domains using new technologies such as Distributed Ledger Technology (DLT).

ICMA's [response](#) to the questionnaire is based on views shared by members of its [Blockchain Bonds Working Group](#) and other ICMA constituencies, representing issuers, banks, investors, market infrastructures, and law firms.

ICMA considers a digital central bank money made available as a native digital asset issued by the Eurosystem, referred to hereafter as "wholesale digital euro", to be a cornerstone to support wholesale payments, securities settlement and collateral management in a DLT environment. This will enable next-generation automation and innovation through smart contracts, reduce friction and would also further support the EU's Capital Markets Union.

In conjunction with DLT-based securities, a wholesale digital euro is considered to offer the following key benefits compared to the existing TARGET platform:

- (i) *Programmability*: the ability to pre-programme and automate hitherto manual and inefficient processes during the lifecycle of a security, provided a set of defined conditions are met. For example, cash movements for settlement, coupon payments, and other corporate actions.
- (ii) *Efficiency and consistency*: Processing of both securities and cash transfer within an integrated DLT-based infrastructure is expected to increase both operational and capital efficiency, ensure settlement finality, reduce settlement fails and ultimately reduce funding costs, notably from a cross-border perspective.
- (iii) *Reducing fragmentation*: A single, EU-wide, digital infrastructure for payments to support securities settlement and collateral management is expected to reduce market fragmentation, which persists despite the development of TARGET Services, thereby increasing attractiveness of the EU capital markets to international investors.
- (iv) *Accessibility*: EUR central bank money is currently defined by its existence in TARGET accounts, linking it to a single, closed network operated by the Eurosystem. While the availability of a wholesale digital euro (a native digital asset, ie in the form of a "DLT token") for use on different DLT networks would expand the euro's reach, it would require appropriate governance arrangements, notably in relation to distribution, risk management and oversight, amongst others.
- (v) *Competitiveness*: Future-proofing the role of EUR central bank money in light of the proliferation of private digital cash such as stablecoins, which may give rise to further fragmentation in wholesale payments, securities settlement and collateral management.

ICMA views a wholesale digital euro as a key requirement and end state in the long term (more than five years). Its development should be analysed, prepared, and resourced accordingly in the short term to pave the way for the digital transformation of capital markets. A "trigger solution" for wholesale payments through TARGET Services for DLT-based securities settlement and collateral management is not deemed a suitable alternative by many ICMA members, in particular from an investor's perspective. A key concern is that costs for an interim "trigger solution" will adversely impact funding of a wholesale digital euro.

The potential risks and ramifications of a wholesale digital euro across the financial system warrant further investigation, including:

- (i) Design and characteristics of a wholesale digital euro, implications for bank funding, market functioning, monetary policy transmission, financial stability, privacy and data protection, as well as scalability and environmental aspects of DLT validation mechanisms.
- (ii) Interoperability between a wholesale digital euro and retail digital euro, private and public blockchains, fungibility with conventional central bank money and interoperability with non-euro currencies, including potential lessons from cross-border initiatives such as the multiple CBDC bridge (mCBDC) project involving the BIS and other central banks.
- (iii) Cross-border consistency: ICMA notes that central banks globally have adopted different definitions of central bank digital currency, for example, the use of DLT being a criterion for some but not for others. ICMA would welcome a consistent approach, in particular from a cross-border capital markets perspective.
- (iv) Technology risks and mitigation of single point of failure scenarios, including an implementation roadmap to deploy a wholesale digital euro into capital markets safely, effectively and without causing disruption.
- (v) Legal and regulatory aspects which affect directly (eg settlement finality) or indirectly (eg regulatory treatment of digital (DLT-based) securities across EU Member States the use of a wholesale digital euro for payments, securities settlement and collateral management.

Governance will be critical to the success of a wholesale digital euro. ICMA recommends the creation of a dedicated working group, bringing together ECB and market participants across the spectrum of capital markets, to develop a roadmap, provide technical input into design considerations and the operating model of a wholesale digital euro.

In light of the rapid evolution of technology and emergence of stablecoins, ICMA members strongly advocate for the ECB to reach a decision on next steps as a matter of urgency to enable the industry to allocate resources accordingly. While ICMA understands that making a final decision may require more time, any clarity on the avenues that may not be considered at this stage would equally be welcome in the interim.



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