

Digital Asset Forum | Briefing Note

Driving FX and Settlement Progress

April 2024

The Digital Asset Forum is a senior-level global network of financial institutions that meets periodically to discuss developments in digital assets and perspectives on enterprise-level implications for technology, business, and strategy. The IIF convenes the Digital Asset Forum with our knowledge partner, the Oliver Wyman Forum. This briefing note summarizes the discussion held on April 4, 2024 respecting that the forum is conducted under the Chatham House Rule and does not represent the official position of the IIF or its membership.

Improvement in payments will support improvement in the FX ecosystem

FX payments today rely on standardized processes deeply embedded within and across banks. New concepts for settlement and trading in this market, such as automated market makers (AMMs), raise multiple questions. AMMs could allow for trading without a counterparty by providing liquidity from a pool of assets, potentially accelerating trading in this 7.5Tn USD FX market. Participants noted the desire from corporate clients for funds to be stored in high-yielding locations and delivered just in time for use around the world 24/7. Blockchain-based FX networks would potentially lessen frictions in these transactions at scale. Yet, the importance, existing scale, and routine processing already established warrant some caution from the industry as experimentation progresses. Progress driven by client demand is shaping settlement strategies in payments.

Limitations of solutions are often not related to technology

Operational and regulatory challenges often pose larger challenges than technical ones. Within financial institutions, making change requires a cross-functional approach. Atomic transaction settlement may not offer many advantages when the back office operates on a T+2 basis. Compliance issues can also limit scaling of successful pilot projects, such as difficulty onboarding 5,000 additional counterparties on-chain via traditional processes, after a pilot with 50. Technological progress continues to draw industry attention, but crucial coordination efforts and enablers such as on-chain identity merit attention too.

Only time will tell how new technologies will alter business models

Technology is becoming a competitive advantage, slowly joining the ranks of capital and large balance sheets. There is significant financial innovation happening outside of regulated banks, altering activities that are traditionally part of bank business models. An e-commerce site can perform a credit assessment within seconds versus weeks for a bank. Many corporate clients often do not have a strong preference about which type of financial entity provides their financial services, they simply need financing at an affordable price at the time they want it. The question for banks is how to respond as technology-driven trends begin to scale.

Promising DLT experiments need coordination to develop cohesive solutions

DLT projects continue to proliferate, particularly in the payments space. As the number of projects grows, so does the risk of spreading resources too thin and building incompatible systems. Recent efforts to promote interoperability include trials by SWIFT of a multiple-CBDC network and various BIS Innovation Hub projects exploring digital currency payment platforms, and the launch of Project Agora. Industry efforts to architect DLT-based finance will require thoughtful approaches to whole-of-firm digitalization in order to facilitate greater asset mobilization and a more fluid and resilient financial ecosystem.