

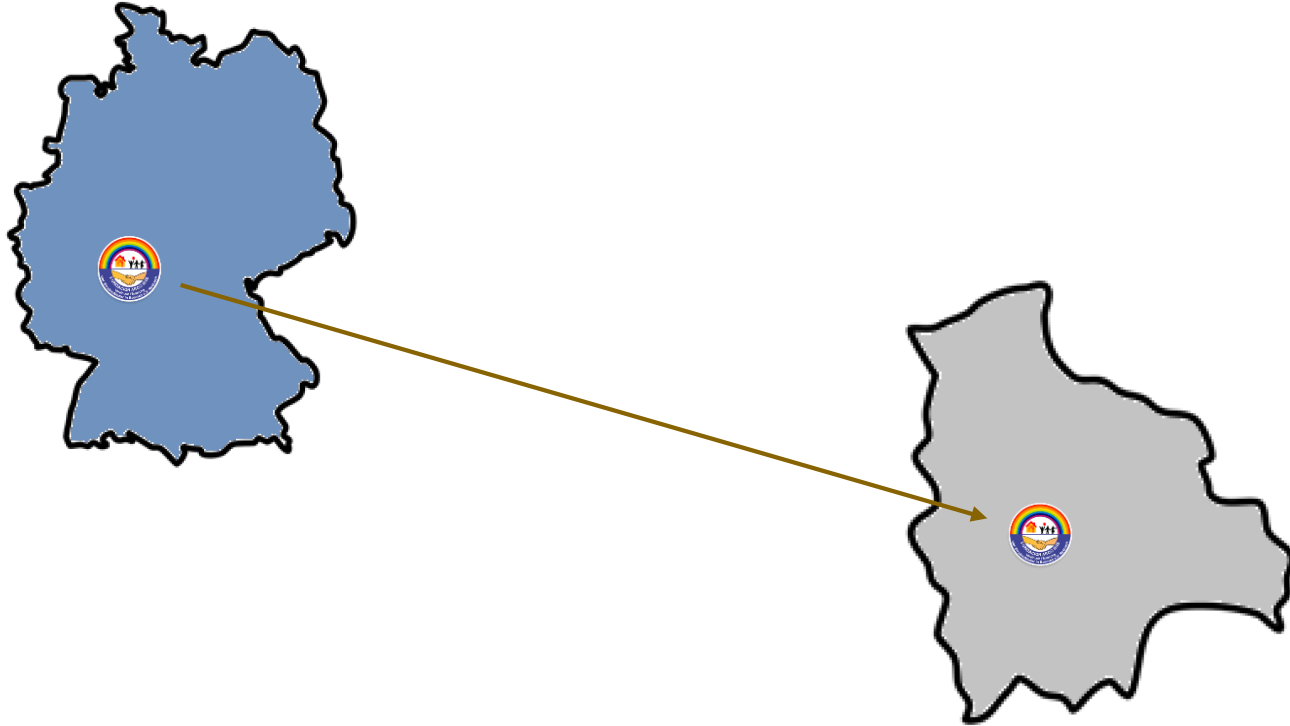
Think Globally, Settle Locally? Multilateral Platforms for Cross-Border Payments based on DLT

Constantin Drott, Deutsche Bundesbank

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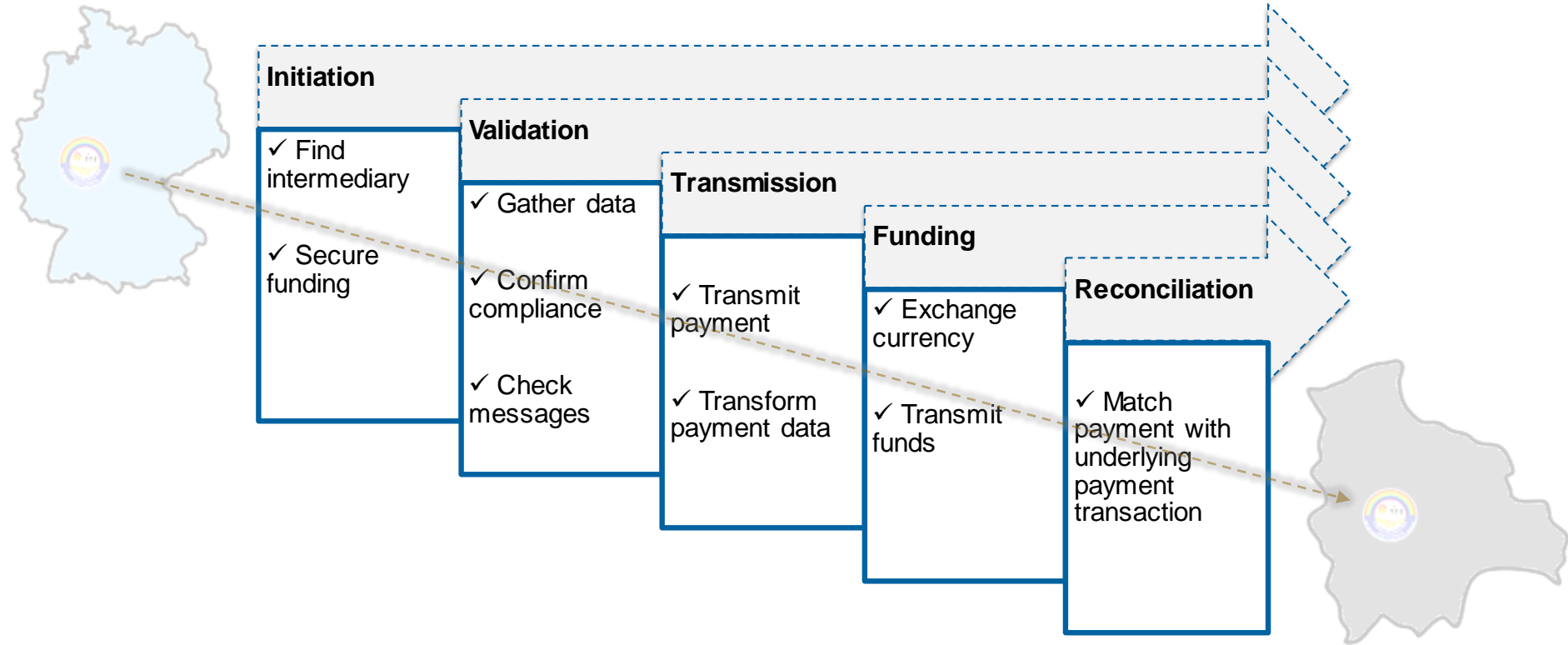
Research Question

Simplifying International Payments through New Technologies?



Cross-Border Payments

Status Quo



Distributed Ledger Technology (DLT)

New Technology, New Functions

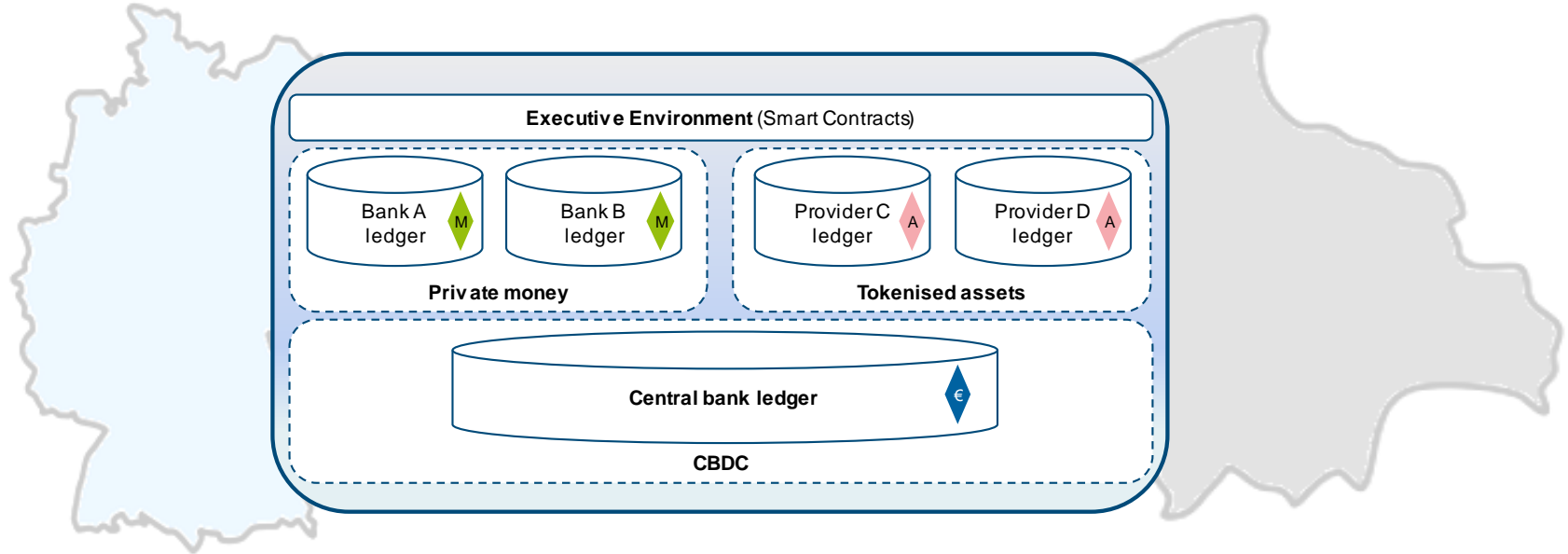
- DLT can help creating a smart economy
 - Redundancy of reconciliation
 - Automation through smart contracts
 - Settlement of complex transactions
 - The payment method should be part of the overall process of settlement.
- In a smart economy a synchronized flow of goods, money and information should be facilitated to the largest extent possible without foregoing stability!



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Multilateral Platforms based on DLT

Vision



- G20 Roadmap: multilateral platforms as a solution to reduce frictions in cross-border payments
- DLT offers opportunities: distributed ledgers, smart contracts, digital money & atomic settlement

Multilateral Platforms

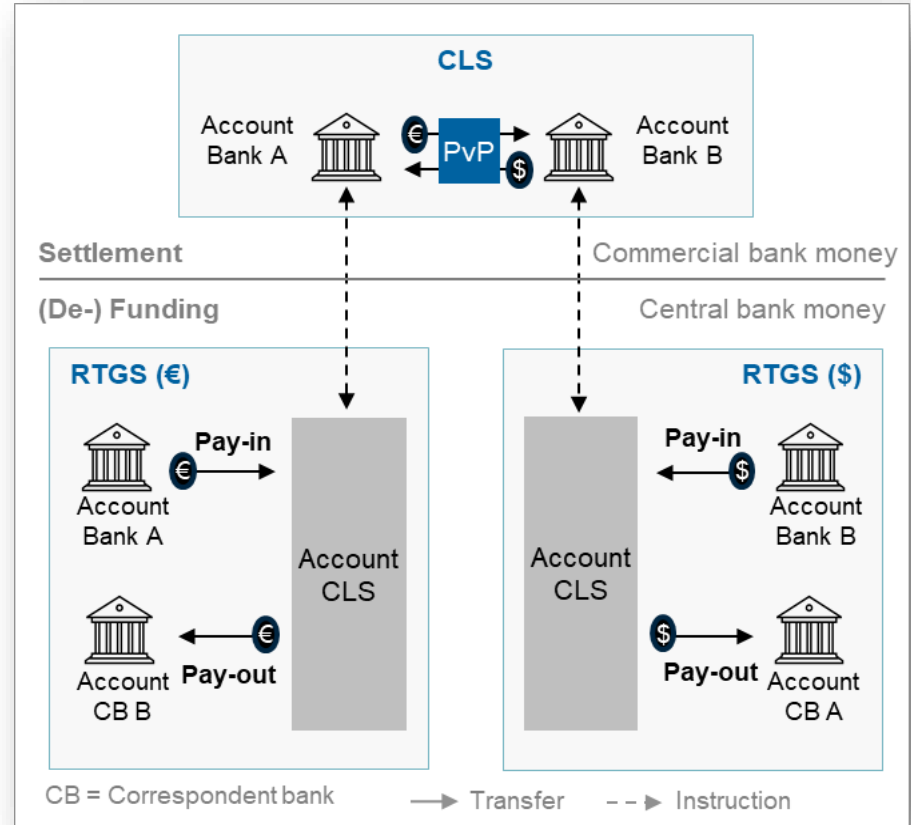
Opportunities & Challenges

- Friction reduction through multilateral platforms in general
- Transparency and reduction in complexity through distributed ledgers
- Standardisation and automation through smart contracts
- Seamless integration of digital money
- Risk reduction through atomic settlement
- Limited participation and inclusion
- Uncertainty regarding efficient governance

Risk Reduction Through Atomic Settlement

Continuous Linked Settlement (CLS)

- 50 % of all foreign exchange transactions
- Funding/ defunding in central bank money
- Settlement across CLS Bank during the day in commercial bank money
- Available in only 18 different currencies
 - Requirements on currencies
 - Participation criteria



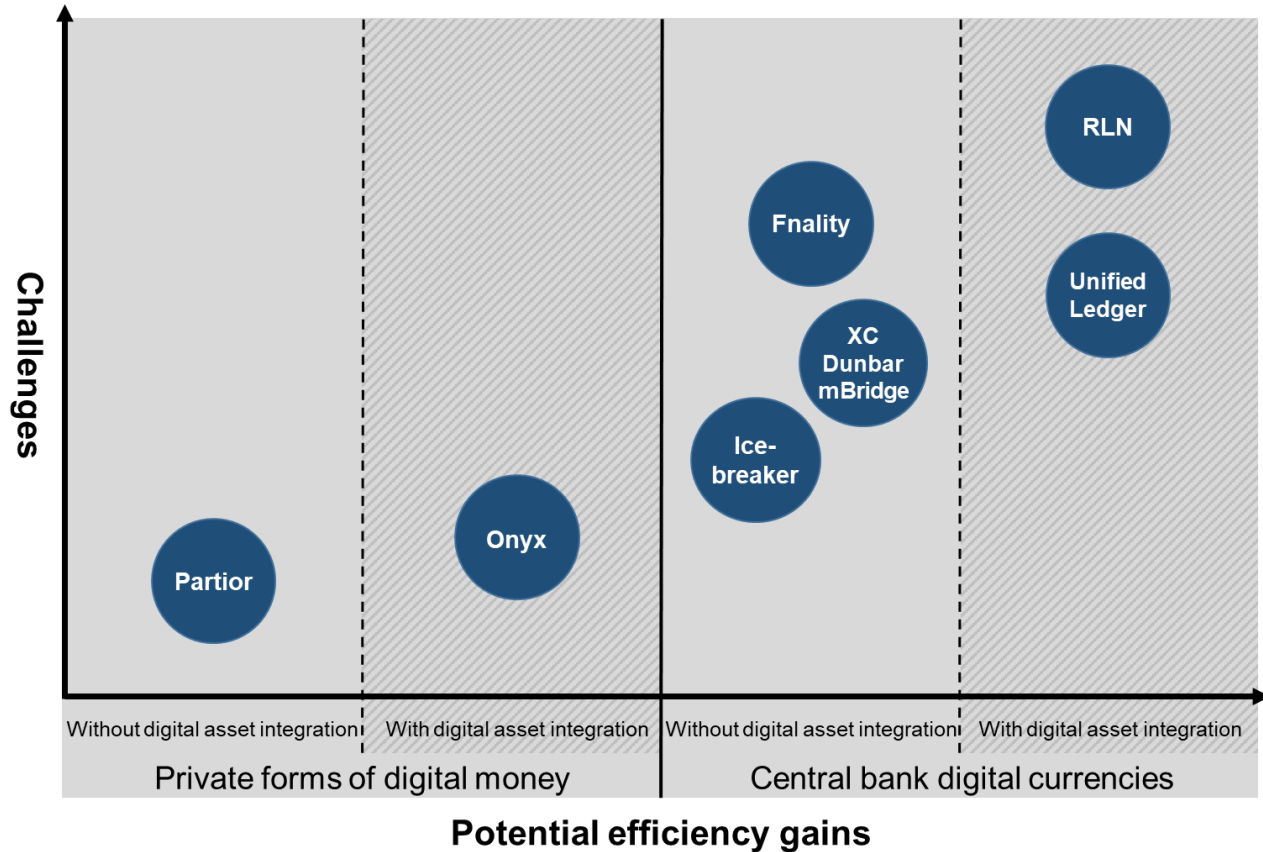
Multilateral Platforms

Opportunities & Challenges

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- **Uncertainty regarding efficient governance**

Multilateral Platform Concepts

Evaluation of Examples



Conclusion

Think Globally, Settle Locally!

- Different, but quite similar concepts for enhancing cross-border payments
- Greatest potential for currency areas without connection to multi-currency systems like CLS
 - But: higher legal and financial risks associated with those currencies
- Governance and regulatory harmonization as main challenges
- Technology itself cannot overcome fundamental challenges
- Concepts need to provide significant added value compared with existing infrastructures
- Implementation of a multilateral platform requires a coordinated effort

- In our view, the realization of a global platform is likely to be rather unrealistic.
- Instead: Develop regional solutions and promote interoperability.

Think Globally, Settle Locally?

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Think Globally, Settle Locally?

Discussion and Questions



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