

Digital Asset Forum | Briefing Note

Building today for a high-speed future

July 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 July 18, 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.

Digital asset platforms must focus on interoperability to prevent trapped value

The digital asset space is seeing a proliferation of platforms as financial institutions develop their own DLT-based systems and public sector entities pursue public-private collaborations to build networks. Though not all of these experiments will survive in their current forms, exploration is important for the growth of the industry. Attention has turned to interoperability between different networks, but no widely adopted bridging solution has emerged. Ongoing projects largely experiment with short-term assets, which may reflect industry hesitancy to invest in placing long-term assets on chain before a clear path forward on network development and adoption emerges.

A two-tier monetary system enhances interoperability and settlement

Industry seeks to maintain the advantages of a two-tier monetary system; broad private money use by financial institutions and settlement in public money will continue. Domestically, current RTGS systems help provide settlement finality, but can create a single point of technology failure. In the complex world of cross-border payments, this dynamic asserts itself in settlement at the local level, reflecting the underlying reality that each jurisdiction is inevitably exposed to its local currency and central bank policies. Projects at the Bank for International Settlement (BIS) and in industry consortia are exploring how to integrate the two-tier system with DLT technologies.

Banks must modernize backend systems to match front-end technologies

The mismatch between advanced consumer frontend offerings and lagging backend systems presents challenges. Consumers have the ability to move money quickly, but balance sheet management for banks has not kept pace. Fully digital, programmable balance sheets that are always on, potentially supported by artificial intelligence-assisted liquidity management and real-time flows, are the future some are building toward. Implementing safeguards is critical, and the role of human oversight in highly automated systems remains key. Many emphasized that the importance of experienced judgment, holistic risk management, and expert oversight will remain relevant no matter the technology system supporting future financial services.

Optimal settlement speed balances efficiency with liquidity management needs

Participants raised questions about whether optimal and as-fast-as-possible settlement speeds differ. While atomic settlement supports near-instantaneous transactions, it eliminates the netting benefits that are crucial for liquidity management. Industry already operates across multiple speeds where instant settlement is not always necessary. However, the option for quick asset movement is increasingly valuable. Smart contracts have emerged as a potential solution for conditional and tailored settlements, offering flexibility based on counterparty and market conditions. The design of and connection to existing financial infrastructures that operate at different speeds remains crucial.