

Digital Asset Forum | Briefing Note

Industry explores programmability and controls

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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 September 05, 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.

Permissionless networks can support innovation but pose governance challenges

Participants are seeking to balance external access and internal capabilities. Permissionless networks can offer more participants the ability to develop functions and service offerings due to their open nature and high programmability, making them attractive for innovators, creating “bank-side programmability”. At the same time, they can also present greater governance and security challenges than permissioned networks for regulated financial institutions, particularly around regulation implementation and auditing. In contrast, closed systems rely on limited internal capabilities and APIs for access, resulting in purely “client-side programmability”.

Greater blockchain use drives greater on-chain offerings, and vice versa

The asset management industry’s adoption of tokenized money market funds (MMFs) and stablecoins offers valuable lessons for banks. Tokenizing high-quality liquid assets (HQLA) has been shown to improve collateral management and unlock new yield opportunities, while the speed of settlement with stablecoins highlights use cases for programmable payments. More digital payment instruments need to be brought on-chain to drive greater blockchain adoption, which would be supported by wider payment offerings on-chain—creating a chicken-and-egg dynamic for future industry adoption. Many firms still face significant regulatory hurdles entering this space.

Central banks approach DLT with caution, while industry favors more open systems

Central banks remain cautious about open permissionless systems, partly due to concerns over governance and accountability. Many industry players view open permissionless solutions as a way to support greater tokenization and programmability. The Eurosystem’s exploration of a permissioned DLT system that can interoperate with market DLTs reflects the public sector’s careful approach. A closed central bank system that bridges private networks is close to replicating the current system, potentially missing out on the broader benefits of tokenization. There is educating to be done on the extent to which open networks support unrestricted access, recognizing the existing controls many financial institutions have today for limiting and governing access, even in open systems.

Regulatory uncertainty continues to shape business planning in digital assets

Regulatory uncertainty remains a challenge. And with upcoming elections, digital assets are increasingly part of political debates. The lack of clarity affects business planning. In parallel, international financial governance, such as recent Basel Committee recommendations that will make permissionless chains more costly to use than permissioned, continue to push industry in one direction. Ongoing dialogue between regulators and industry remains important to the future of digital assets and could help create more informed policies as regulation for this space must clarify further.