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Content

Executive Summary 03
Calibration 04
Collaboration 05
Clarity 06

Collaborator 07

References 08

Executive Summary

While commerce has gone digital, the payment infrastructure underneath it is decidedly analog. Much of the developed markets deal with T+2 day settlement time or more (not including weekends and holidays) and the experience in emerging markets is even more dire. Why does it still take days for merchants to receive payments from their customers?

"The cross-border payment infrastructure hasn't changed since the 1970s," says one of the participants at the standing-room-only Digital assets: Foundational infrastructure to unlock the internet of value roundtable held at the Japan FinTech Festival in March.

Discussants honed in on the transformative potential at the intersection of blockchain innovation and regulatory framework. Delayed settlement time puts sands in the gear of global commerce. Hundreds of millions of small- and medium-sized businesses transact with billions of customers globally, accounting for over $17 trillion of cross-border transactions annually. BCG estimated that the tokenisation of real world assets could reach 10% of global GDP by 2030—in a conservative scenario.

While participants didn't agree on everything, there was general consensus on the path forward with digital assets. No longer was it a debate about whether blockchain-based finance is real or not; it decidedly is. There was no debate about central bank digital currencies (CBDCs) versus tokenised deposits versus stablecoins; we need them all and users will pick different ones for different use cases.

One participant summarised the next steps as the 3 Cs calibration, collaboration, and clarity.

Calibration

Given the importance of the financial system, it isn't possible to change everything overnight, but it doesn't mean change shouldn't be welcomed. There's responsibility by all stakeholders to make changes to—or in other words, calibrate—the existing system.

Discussants agreed that changes to regulation should be technology-neutral and risk-based. Rules must allow firms to upgrade the technology stack without being penalised. Oftentimes, critics focused on the risks of the new technology without recognising a similar or greater risk of the status quo.

As an example, participants noted that banks may face additional capital requirements for holding tokens held on a public blockchain or for building projects on a public blockchain compared to "traditional" financial instruments. This is akin to charging more capital for recording the holding on an electronic database instead of paper.

Collaboration

Finance is a team sport. Participants not only recognised the benefits of platforms like Elevandi Insights as an opportunity to collaborate, but also public-private partnerships such as Project Guardian.

Discussants highlighted two areas for stakeholders to consider:

The first is a unified ledger. There are several efforts underway to explore the creation of a unified ledger with the support of regulators. Conceptually, this could unlock several challenges, such as regulatory concerns over banks deploying on public blockchains.

For the concept to be successful, it would need to overcome hurdles including interoperability across existing forms of digital assets such as trusted fiat-reference stablecoins with future forms of assets such as wholesale CBDCs and tokenised deposits.

A trusted and privacy-preserving digital identity was the second area for further collaboration. Any public ledger retains information on wallet holders with privacy considerations. Cryptographic keys have long been used for authentication. Advancements in cryptography, such as zero-knowledge proofs, can offer innovative solutions for confirming attributes of a wallet or token holder (i.e. is the entity on a sanctions list?) without sharing the underlying private data (i.e. name of the entity). These advancements not only improve the integrity of digital finance, but traditional finance as well.

Clarity

Finally, participants highlighted the need for clarity. Many regulators have started providing regulatory clarity for digital assets such as stablecoins. Europe and several Asia-based economies - notably Japan, Singapore, and Hong Kong - either have regulations in place or are advanced in their efforts. As rules come into place, the coming challenge is clarity of regulatory interoperability.

Without interoperability, businesses won't be able to use well-regulated digital assets and take advantage of their internet-scale technologies to lower their operating and payment costs.

Technical interoperability is equally critical, especially if the promise of unified ledger is to be realised. The ability for wholesale CBDCs to interoperate with tokenised deposits and well-regulated stablecoins provides merchants and users with optionality and programmability to meet their needs.

In the end, if the promise of blockchain-based digital payments is realised, the terms won't matter. Businesses and users won't refer to money as X CBDC, bank Y tokenised deposit, or issuer Z stablecoin. Instead, it'd just be sending money, like we send emails today.

(Roundtable conducted under Chatham House rules and so comments are unattributed. The opinions expressed herein are the personal views of the Roundtable participants and do not necessarily reflect the official views of the hosts and their respective organisations.)

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References

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