

Bank of Japan Presentation and Panel Session at the FIN/SUM 2024
Executive Summary of "Future of Wholesale Payments"

Session 1: Wholesale payments: past, present and future

Session 1, entitled "Wholesale payments: past, present and future," began with an overview of wholesale payments and the framework of large-value payments using bank deposits, followed by an introduction of measures taken in line with development trends in Japan's payment systems in response to technological developments and expanding user needs. At the same time, various issues in current wholesale payments were raised, for example, high costs and low speed in cross-border payments as well as the complexities and inefficiencies of paper-based practices in trade payments.

Concrete examples were used to discuss how, in recent years, based on the development of technologies such as cloud computing and distributed ledger technology (DLT), new forms of private money including stablecoins and tokenized deposits were being explored further in response to the issues in current payments. Similarly, the enhancement of central bank money, also under consideration to respond to such forms of private money, was also discussed with illustrations.

Specifically, the following examples were provided: private-sector initiatives for the use of tokenized deposits, enhancement of central bank money such as issuing wholesale CBDC and upgrading real-time gross settlement (RTGS) systems through the use of new technologies, and international discussions about holding and settling different forms of money such as tokenized deposits and central bank money on a common platform (e.g., the unified ledger proposed by the Bank for International Settlements <BIS>).

Finally, the differences in characteristics between stablecoins and tokenized deposits were explained. For example, while stablecoins are prefunded, with their value based on a specific backing asset, tokenized deposits allow for credit creation and their value is backed by the entire balance sheet of a bank.

Session 2: Wholesale payments: challenges of the current practice

In Session 2 ("Wholesale payments: challenges of the current practice"), panelists with practical experiences discussed issues in the current practices of wholesale payments, efforts for improvement, and challenges that remain in proceeding with such efforts. In particular, they exchanged opinions on solutions with the use of new technologies such as DLT, the potential of new payment methods and platforms, and the importance of resolving issues in the surrounding areas of payments, which include commercial flow coupled with payments.

Some of the views expressed during the discussion are as follows.

[Trade payments]

- Challenges remain in the area of trade payments due to paper-based practices, and potential means of resolving these include utilizing DLT-based trade platforms that enable information sharing and realizing DVP with cash legs.
- There is a need for a digital currency with the credibility of central banks and private banks.

[Cross-border payments]

- With regard to cross-border payments, the current practice using correspondent banks imposes a heavy practical burden on the surrounding areas of fund transfers, such as Know Your Customer (KYC) and regulatory compliance, leading to slow and costly payments.
- As a possible response to this, it is essential to improve existing practices and build new practices in the industry as a whole. This includes the potential streamlining of verification work in the surrounding areas of payments and the standardization of messages (transition to ISO 20022).

[Standpoint of banks]

- From the standpoint of banks, while rational practices have been formed within the framework of existing practices in current wholesale payments, various issues exist nonetheless.
- If new technologies are utilized to alter the flow of data processing associated with transactions, the ways transactions and settlements are carried out could undergo a fundamental change.

[Unified ledger (BIS)]

- The importance of the idea of placing wholesale CBDC and tokenized deposits on a new platform, using DLT in a way that leverages the existing regulatory framework and two-tiered structure of the monetary system -- as in the unified ledger proposed by the BIS -- should be noted. It also implies the opportunities of various instant payments and programmability.

[Standpoint of technical experts]

- From the standpoint of technical experts, DLT is very promising for use in the settlement area, not limited to the ledger itself, such as potentially improving the transparency of cross-border payments and resolving the asymmetry of information.
- At the same time, this is not as simple as solving practical issues solely by utilizing DLT. Rather, it is important for technical experts and the business side to cooperate and utilize the technology in a way that is compatible with the practices and customs of financial institutions.
- The importance of governance and the need for trust anchors in utilizing public blockchains are worth noting.

Session 3: Future of wholesale payments

In Session 3 ("Future of wholesale payments"), discussions were held on the big picture of the future of wholesale payments from the perspectives of both practice and academia. Issues for discussion included what ought to be done to seek any improvements in the existing wholesale payment infrastructure in light of technological innovations and changes in the external environment, and how the overall landscape of wholesale payments should be envisioned when implementing a new technological infrastructure.

Some of the points raised during the discussion are as follows.

[Credit creation]

- A system that holds deposit currencies, equipped with credit creation functions, as settlement assets is a highly efficient mechanism, and will continue to function as the basis for wholesale payments.
- Whether the emergence of new payment instruments such as stablecoins would make it more difficult for banks to obtain payment information, leading to a decline in banks' credit capabilities, is a general cause for concern.

[Deposit currencies]

- The creation of payment instruments and a payment infrastructure utilizing new technologies may also be explored on the deposit currency side.
- In the long run, the idea of cross-border payments being made efficiently is plausible. This could involve, for example, placing wholesale CBDC and tokenized deposits on a common platform while maintaining a two-tiered structure of the monetary system centered on central bank money and bank deposits, as is the case with the unified ledger proposed by the BIS.

[Enhancement of wholesale payments from a broader perspective]

- In terms of the enhancement of wholesale payments from a broader perspective, there is potential to reduce settlement risk and improve payment efficiency through the tokenization of securities and real assets.
- Taking this into account, various options can be considered, for example, efficiently realizing DVP by holding and settling security tokens and other assets on a common platform of cash legs, or connecting each ledger to ensure interoperability on the assumption that funds and securities are settled on different ledgers.

- It is crucial to resolve the burden of surrounding areas of payments, such as AML/CFT and KYC.

[Division of roles between public and private sectors]

- Regarding the division of roles between the public and private sectors, regardless of how technology develops, the importance of central bank money will remain unchanged.
- In this context, ensuring interoperability and serving as anchors of value are anticipated roles of wholesale CBDC.
- While the private sector will basically be responsible for introducing and effectively utilizing safe, secure, and convenient payment methods, involvement of the public sector will be expected in areas where issues may arise in networking and reliability.