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# DLT still not mature enough says ECB

12 April 2017 | 16694 views | 2



The European Central Bank (ECB) has stated that blockchain technology lacks the necessary maturity to be part of its market infrastructure.

The statement was made within a special report titled *Technological innovation: Distributed Ledger Technology (DLT) – challenges and opportunities for financial market infrastructures* that was published alongside its annual report this week.

In the report the ECB acknowledges the various benefits of DLT, such as the ability to lower back office costs and improve reconciliations by enabling automatic updates of records as well as shortening settlement cycles and therefore reducing collateral requirements.

Yet the technology does not yet meet the ECB's standards for safety and efficiency, says the report. "The ECB is open to considering new ways to enhance its market infrastructure. However, any technology-based innovation would have to meet high requirements in terms of safety and efficiency ... At this stage of its development, [distributed ledger technology (DLT)] is not mature enough and therefore cannot be used in the Eurosystem's market infrastructure. As DLT-based solutions are constantly evolving, the ECB will continue to monitor developments in this field and explore practical uses for DLT."

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ROBERT BELL  
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The report's tone is in keeping with the ECB's cautious approach to DLT and mirrors previous statements made by bank executives such as Yves Mersch who highlighted similar concerns over security in a speech in December, and a November briefing note that also pointed to issues around governance and privacy and operational risks such as scalability and interoperability.

This is not to say that the ECB is dismissing the technology. The report states that DLT could play an important role in the administration of Target2Securities, its pan-European securities settlement platform, as well as helping to achieve its overall aim of "deeper integration of financial markets".

To this end, the ECB has created a DLT Task Force to "bring together market experts on financial innovation and cyber security. Its objective is to avoid any negative consequences of technological innovation regarding the harmonisation and integration of post-trade markets in Europe and to explore the potential of DLT to help remove some of the remaining barriers to a fully integrated post-trade market in Europe".

The ECB has also launched a joint research project with the Bank of Japan to study the possible use of DLT for market infrastructure services. "This international collaboration aims to bring greater clarity regarding the impact of new technologies on the global financial ecosystem, as well as to ensure that central banks are adequately prepared" it states.

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Shlomo Cohen - AxiomSL - Jerusalem


| 13 April, 2017, 08:39

Not surprising; on the long term DLT is a threat to the very existence of central banks and to all institutions that get their value by acting as any type of central repository. Two problems: Central repositories are not failsafe, as witnessed by numerous security breaches. And the rent levied by those which have the key surpasses their economic value; in other words it is too expensive. Not surprising then that ECB and other Financial Institutions will never find DLT up to the task :)

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Report




Ketharaman Swaminathan - GTM360 Marketing Solutions - Pune

| 13 April, 2017, 16:07

Bet Blockbuster would've found Netflix immature if it had the power to decide whether Netflix should enter the market or not! But Blockbuster didn't and Netflix did.


But ECB does and DLT doesn't.



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And it's not as though the rent seeker's oligopoly hasn't been challenged. Nonbanks have tried to disrupt incumbents in payments infra e.g. MNO (ISIS), Retail (MCX), Dwolla (Fintech). But, for whatever reason, they haven't taken off. So, we're where we are.

Forerunners of 2FA for online payments like India's banking regulator have slowly realized the pitfalls of the security technology and have permitted the launch of frictionless alternatives like UPI and mobile wallets to drive greater offtake of digital payments in India. USA has outright rejected 2FA as a conversion killer. You'd think ECB wouldn't touch 2FA with a 40-foot bargepole. But, no, going by its recent mandate for EUROzone, ECB has just found 2FA to be mature!

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