

Banks Invest In Developing A Digital Blockchain Settlement System

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Late last month, several of the world's largest banks invested \$50 million in a digital cash settlement project with the aim of developing a more efficient clearing and settlement system. The new technology, referred to as the 'utility settlement coin' (**USC**), has been a work in progress since 2015, after Swiss bank UBS Group and London-based technology startup Clearmatics announced to the market that they had commenced working on the project.

The USC seeks to utilise distributed ledger technology to create a digital cash equivalent of a central-bank backed currency, such as the dollar or euro, which would be fully backed by cash held at a central bank. If widely adopted, the USC will drastically change both the way that international inter-bank payments and domestic retail payments are made. The project has already gained the support of banks such as Banco Santander, Barclays PLC and Credit Suisse, however, the Reserve Bank of Australia last year confirmed that it is not "actively pursuing" any form of digital currency.

The introduction of a digital fiat currency has been met with some scepticism, with Bundesbank President Jens Weidmann citing concerns that the digital currencies could potentially undermine the stability of the financial system in times of economic crisis. Weidmann, who is also a member of the European Central Bank's Governing Council, has said that instant access to digital money could exacerbate the outward flow of funds during a crisis, and would also significantly alter the underlying business model of banks.

The European Central Bank's Crypto-Asset Task Force (**ECBCAT**) has also voiced its apprehensions, arguing that there is currently no real need for the USC, particularly in the retail payments space. Like Weidmann, the ECBCAT also addresses the potential for the USC to produce unforeseen impacts on traditional monetary policy mechanisms.

At this stage, it is unclear how regulators will respond to the USC, however, international cryptoasset regulation has been flagged as an area for discussion at the [upcoming G20 Summit](#).

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