

Closing the Regulatory Gaps for a Scalable DLT-based Financial Market in Europe

The digitalization of financial markets continues to accelerate, driven by the increasing implementation of Distributed Ledger Technology (**DLT**) and tokenization. These technologies offer the potential to fundamentally transform financial systems by improving efficiency, transparency, and resilience. While substantial progress has been made in recent years, several key challenges must still be addressed to enable the widespread, scalable adoption of DLT and tokenized financial instruments.

In our view, the most important elements – on which we will focus below – are:

- **Availability of DLT-based central bank money;**
- **Integration of DLT-based financial instruments into monetary policy operations, particularly regarding central bank eligibility:** DLT-based financial instruments must be included in the monetary policy framework of the Eurosystem;
- **Capital requirements for cryptoassets (Basel);**
- **Extension and further development of the DLT Pilot Regime (DLT PR),** including removal limits regarding volume and scope.

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We will focus our analysis mainly on “DLT-based financial instruments” as defined under Art. 4(1) no. 15 of MiFID (including crypto-securities as defined under the German Electronic Securities Act, **eWpG**, and tokenized financial instruments).

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1 Measures by the Eurosystem

1.1 Availability of DLT-based Central Bank Money

Access to central bank money via DLT is essential, as Delivery-versus-Payment (DvP) settlement in central bank money is not feasible without it. **The lack of linkage to the cash leg remains the primary bottleneck** for scalable settlement of DLT-based financial instruments in central bank money.

A seamless, regulated access to central bank money is foundational for investor trust, risk reduction, and settlement finality. DLT-based transactions must be technically and operationally integrated with

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existing systems such as T2 and T2S to unlock potential efficiency gains, such as real-time settlement and automation.

Together with the German Banking Industry Committee (**DK**), we expressly welcome the Eurosystem's two-track approach (see [position paper dated 10 April 2025](#)). In this context, the following actions are necessary:

- **Enable connection to central bank infrastructure**

In our view, it is crucial that the technical and operational connection between financial instruments and cash sides is designed in such a way that secure, efficient, and scalable settlement in central bank money is made possible. Only then can the market maturity of digital, DLT-based financial instruments be broadly achieved.

The ECB is pursuing a pragmatic path toward integrating DLT into payments with its two-track approach via Pontes and Appia (see [ECB press release of 1 July 2025](#)). In the short term, interoperability solutions should enable DLT platforms to connect to existing payment infrastructures such as T2 or TIPS. In the medium term, the establishment of a more deeply integrated DLT-based infrastructure going beyond purely settlement will be examined.

Access to central bank money via DLT must be secure, open, and in principle available to all who meet certain predefined conditions.

- **Avoid fragmentation**

Interoperability between DLT platforms is essential. Regulatory authorities should mandate common technical data standards for DLTs used in the settlement of transactions in central bank money. The technical implementation of the connection to this DLT infrastructure should remain up to the individual market participant, but multiple proprietary interfaces increase fragmentation. Therefore, technology-neutral and interoperable architecture should be politically prioritized. Binding technical standards – such as the Berlin Group standard – are also needed to make data flows between DLT systems and traditional banking/market systems efficient. These promote interoperability and reduce integration costs for new market participants.

- **Legal and operational clarity**

Short-term solutions should, like long-term ones, be accompanied by regulatory support and made accessible across the market. This includes, among other things, clarifications regarding settlement finality and equivalence with existing procedures.

1.2 Integration of DLT-based financial instruments into monetary policy

A level playing field between DLT-based and traditional financial instruments is essential. Where risks and characteristics are comparable, identical regulatory treatment should apply. Differences should only arise where justified by underlying divergences.

Creating a level playing field between DLT-based and traditional financial instruments increases attractiveness for investors and issuers, for example by enabling central bank eligibility and access to the repo market. The question of whether DLT-based financial instruments are accepted as collateral significantly influences the development of these markets. The ability to use a security as collateral enhances its utility and liquidity – a key aspect for investors. Therefore, **a phased approach to the recognition of DLT-based financial instruments as eligible collateral is advisable**. Gradual integration into the monetary policy framework will enhance demand, pricing transparency, and market stability.

Currently, the Eurosystem requires eligible collateral to be held in an authorized securities settlement system with a Central Securities Depository (**CSD**) and traded on regulated markets. These criteria are not fully compatible with DLT-based systems under existing legislation. Considering on the one hand the Eurosystem's overarching objectives and on the other hand the desired use of DLT-based financial instruments as collateral, regulatory adjustments will be necessary. Since existing laws and guidelines are not tailored to DLT-based financial instruments, they must be reviewed and adapted to cater for DLT-specific characteristics while ensuring risk mitigation.

The existing regulatory framework for securities settlement systems, particularly the Central Securities Depositories Regulation (**CSDR**), requires for securities traded on a trading venue to be recorded in book-entry form in a CSD. These criteria are not fully compatible with DLT-based systems. To address this, the regulatory framework, particularly the CSDR, must be adapted to include technology-neutral conditions that ensure risk mitigation without discriminating against DLT-settlement models.

It should be acknowledged that the Eurosystem is actively examining how DLT-based financial instruments can be integrated into its monetary policy operations. As demonstrated in recent exploratory trials, the ECB is evaluating under which conditions these instruments might become eligible collateral. A technology-neutral adjustment of current criteria, especially regarding settlement systems, would be a critical enabler.

2 Regulatory measures by the European Commission

2.1 Capital requirements for cryptoassets

The [Basel SCO60 standard, effective from 2026](#), proposes a risk weight of up to 1,250% for certain cryptoassets - equivalent to a full (100%) capital deduction. Classification under this standard may depend, among other things, on whether a permissioned ("private") or permissionless ("public") ledger is used, with the latter generally assumed to carry higher risk. The EU is currently incorporating this standard into its supervisory framework (see [EBA consultation dated 8 January 2025](#) and Art. 501d CRR). It remains unclear though how granular the future classification of cryptoassets in the EU will be and according to which – including the type of the respective ledger – criteria a differentiated, risk-appropriate capital backing should be ensured including the type of the respective ledger.

The assumption underlying the Basel standards - that (private) permissioned ledgers are inherently less risky than permissionless ones is, in our view, overly simplistic. While access control may limit

certain risks, it often entails reduced decentralization, limited transparency, and greater dependency on a few dominant actors. Hence, for regulatory purposes – especially regarding capital requirements –, **permissionless ledgers should not be penalized by default**. A differentiated, risk-base and innovation-friendly approach is needed, that focuses on the actual risks such as volatility, technical security, liquidity, and custody, regardless of the ledger type.

In addition, the classification of cryptoassets into the categories provided in the SCO60 standard is not clear-cut. Particularly, the classification of tokenized assets or digital securities (e.g. crypto securities as per German Electronic Securities Act, eWpG) shall be assessed on a case-by-case basis. Therefore, it may be advisable to make the entry into force of the standard dependent on the development of a unified taxonomy.

2.2 Further development of the DLT PR

The DLT PR presents a significant opportunity to improve secondary market liquidity for DLT-based financial instruments. For broader market adoption, a long-term perspective is crucial (see also [ESMA Report on the Functioning and Review of the DLT PR, 25 June 2025](#)).

Potential enhancements include:

- Removing current limits on transaction volume and total issuance size;
- Extending the scope of eligible asset classes (e.g. to derivatives);
- Simplifying licensing requirements, e.g. by allowing non-CSDs to operate as DLT-based settlement systems.

At the national level, the interplay between the eWpG and the DLT PR must be clarified, especially in relation to the exemptions under Article 3(2) of CSDR in the context of the DLT PR.

The Association of German Public Banks (Bundesverband Öffentlicher Banken Deutschlands, VÖB) is a leading association within the German banking sector. It represents the interests of 64 banks, including the Landesbanken (the head institutions of the German Savings Banks Finance Group), as well as the promotional and development banks owned by the Federal Republic of Germany or the individual German federal states. With total assets of some 3,029 billion euros, VÖB's member institutions cover approximately one quarter of the German banking market. Public-sector banks honour their responsibility towards SMEs, other enterprises, the public sector, and retail customers; they are deeply rooted in their respective home regions, all over Germany. With a 57 percent market share, ordinary VÖB member banks are market leaders in local authority financing; in addition, they provide some 22 percent of all corporate lending in Germany. In 2024, development and promotional banks at federal and state level provided 60 billion euros in new development and promotional loans. VÖB is the only German banking association exercising the functions of an employer association for its member institutions: the Public-Sector Banks' Employer Association (Tarifgemeinschaft Öffentlicher Banken), which comprises VÖB member institutions with a total of 60,000 employees (as at financial year 2024) and which performs collective bargaining duties. More information is available at www.voeb.de.