

Examining the changing landscape of digital assets with R3

 Tue, Oct 22, 2024 11:01AM  29:24

SUMMARY KEYWORDS

digital asset ecosystem, financial institutions, capital markets, r3 evolution, corda platform, digital currencies, tokenization, financial market systems, open permission DLT, regulatory requirements, proof of concepts, interoperability, network of networks, public-private collaboration, future payments



00:00

You're listening to the OMFIF podcast, the show that explores the latest insights and discussions on Global Finance, Economics and Policy. For people who love staying informed about the rapidly evolving landscape of the financial world. Join us as we break down complex topics, interview key thought leaders and provide essential insights to keep you informed about the evolving world of finance.



00:25

Hello and welcome to the OMFIF podcast. My name is Lewis McLellan. I'm the editor of the digital monetary Institute here at OMFIF, and I'm delighted to be joined today by Kate Karimson from r3



00:36

Hi Lewis. Thanks for having me. It's



00:38

a pleasure. So today we're going to be discussing the digital asset ecosystem, how that's evolving, how it might change some of the operations for financial institutions and capital markets. And there's some, I guess, competing visions of what that might look like evolving. So we're going to dive into that a little bit today. But Kate, can you start off? Tell us a little bit about yourself, what you do at r3 where you come from, and yeah, and r3



01:01

itself. yeah. of course. So yes. thank you again for having me. So I'm Kate Harrison. Chief

been, yeah, of course. So yes, thank you again for having me. So I'm Kate Harrison, Chief Commercial Officer here at r3. I'm responsible for running all products, sales, marketing and partnerships, and I've been here for nine months now and absolutely loving the new role and the new challenge that really much faces me, about thinking about how we can really, you know, make sure financial and capital markets can benefit from this new technology. And from my perspective, it's very much fits into what I've done previously. I've always lived and breathed capital markets. Prior to this, I was Chief Commercial Officer at a company called ledger edge, which was all about, again, thinking about how digital assets and digital ledger technology can really enhance the corporate bond ecosystem. Prior to that, I've had various different roles, primarily always thinking about how can technology enhance and progress financial markets. So prior to ledger edge, for example, I was a global head of repo at broker tech, which is part of the CME Group, again, very much thinking about progressing financial markets.



02:04

Fantastic. All right, and let's hear a little bit about our three now, that's a company that anyone involved in the digital assets space and for capital markets will have heard, but I feel like you guys have undergone a bit of an evolution over the past few years. So can you talk a little bit about what r3 does and how that's really evolved. Yeah,



02:24

of course, r3 was founded, actually back in 2015 and has a incredible and significant legacy within the digital assets and digital currency space. So you know, very proud to be here, and very round, feeding from the front. And r3 has always been a leader, very much thinking about digital currencies, tokenization and financial market systems overall and solutions from our three's mission perspective, it's all about progressing markets in a way, be it that thinking about how can better markets benefit from this evolving technology, and we work very closely with central banks, corporates and FMIS, to really create future proof solutions for them, for really strengthening, again, how they can engage with their customers and financial markets. That's great.



03:11

And I think anyone who's heard about our three will have heard about the corda platform that underpins it. Can you tell us a little bit about what that is and what it's for?



03:20

Yeah, of course. So corda is our open permission DLT platform, which powers all the digitalizations, be it assets or currencies for government, central banks and regulated institutions, and who we serve as a firm. And it's very much a very established platform. It's very easy to build on. We use Java and cord is very much AVM compatible. So again, it's very much focused on having a platform which can be easily built on, but also, very importantly, is appropriate for the market that we're serving. So from our perspective, if you look at our you know, look at the market we're serving, they have to care about things like regulation. They

have to care about scalability, and that's also various jurisdiction to jurisdiction for those requirements. So again, it's also about controlling the network and controlling very key elements which financial market firms have to serve every single day, be it privacy, security and compliance.



04:18

Excellent. Yeah, I think that's been a really interesting thing to watch over the past few years, right? Like, I think a lot of just the sort of simple settlement part of exchanging assets was not that complicated to solve, and compared to making it fit with the regulatory requirements for institutions.



04:39

Yeah, exactly. That was a really, really key point, and I should add that quarter and r3 was actually about banks and participants who needed to solve that balance, coming together and trying to think, hey, we want to really benefit from this technology, but how do we also adhere to be it the frameworks that they need to adhere to to operate their businesses? Yeah?



04:57

Yeah, absolutely. So. Yeah, our three has been around for a while now, but I think DLT platforms for capital markets have you know, that's not a new idea, but it's really having a quite a an exciting time at the moment. It seems to be on the lips of a lot of policy makers, right? Like we've seen the Augustine Carstens at the BIS publishing his paper on the internet. With this, the regulated liability network, there's project ago with doing tokenized deposits. It seems like, it seems like this is a technology that the official sector is throwing a lot of weight behind. Can you talk about, you know, why that is, why what's changed? Is it a technical jump or just an awareness change?



05:40

Yeah. So I think that there's a few driving factors as to why we are seeing, I would say, a tipping point within financial markets when it comes to appetite and openness and ultimately adoption of this technology, because that's what it's all about. The end of the day, I don't think that I would be alone in saying, firstly, that adoption of this technology has taken longer than the many participants expected. And if you reflect on why that is or was, I would say, primary drivers of that were, say, a level of education, really understanding the technology, how can it be applied to markets and to problems. And secondly, regulation, of course, is hugely important to the digital market ecosystem that ultimately we need to serve and and then ultimately, you know, resources, time and focus. It's been an interesting few years. If you take a step back and think about what we've all been through the last five to nine years. So all of those things have come together. There's also been a significant amount of what we would refer to, proof of concepts in the market. I would now say there is a level of proof of concept fatigue. It's often a phrase used in the market right now. So it's a lot more focused about, how do we make this real? How do we come together as different institutions, as different services, to really have a

clear path to production, and certainly from an r3 perspective, we have been fortunate enough to be involved in many pioneering production grade, regulated platforms and solutions. And I will answer your question in a second there. Lewis, I just felt like that backdrop is pretty important just to thinking about, yes, it's been slower, but actually this industry has come a really, really long way. We here have over 60 solutions in production. Many of those are actually regulated. So to get into your point, a little bit more detail, yes, you're right. If you look at what's going on in the market right now, here in the UK, we have had the UK RM initiative, which has made great progress, and we are very proud to be part of that ourselves.



07:40

That's the regulated liability network, if you're looking for something to Google. Yes, sorry,



07:45

guys, I forget. There's a lot of acronyms in this industry. And sorry, I'm being a bit guilty there using some So, yes, the regulated liability network, which was, which is, I should say, really, you know, the first of many phases which we expect that project to go on. And as I said, very proud to be part of that. And then also, to your point, Lewis, yes, there's project agora on the horizon. There's also the global layer one paper as well, on the horizon. And if you think about what's really driving these, I think it's just an indicator of people understand there is huge value in thinking about things differently, efficiencies and capabilities that we're happy with. You know, those of us who I said, of you know, like myself, who do live and breathe within these financial markets, there's so much room for progress, and that's certainly what drives us as a firm, and actually, me as an individual, looking at these, be it how payments are made, how assets are transferred, how you know how payments or payments are actually settled, how you know anything? If you think about financial markets right now, there's so many areas which I just feel like we can do better. And I feel there's been now enough regulatory appetite and change. There's been enough proof of concepts which we've observed in the market to now actually bring people together to say, Now let's think bigger. Let's think about how you bring, be it jurisdictions together or and importantly, how you really think about moving these initiatives into production as well. So I would say it's lots of different factors coming together to really say the moment is now for digital assets and digital currencies.



09:19

Yeah, absolutely, it does seem like it has been harder, in some respects than than people expected. I want to talk a little bit about how that, how thinking has evolved. I think I remember early on people talking about blockchain instruments. There was there was this idea of disintermediation being very important. People thought you might be connecting issuers directly to investors and things like that. But, you know, as soon as the financial professionals got involved, there was a realization that they're actually providing a service that you can't entirely dispense with, just just with a new settlement system. And I think, another change that people are. Getting on board with and I'd be interested in your perspective on this is that it seemed like a few years ago, the conversation was about bringing everything onto 111, blockchain to unite everything. And that would be the only way you'd get the benefits of atomic

settlement was by having everything on the same network, or the same the same universal ledger. It's that doesn't seem like the way people are working, what people are working towards at the moment. Can you talk about why that is? And, yeah, what that means?



10:31

Yes, of course. So, you know, first year, you're picking all of the hot topics there, and this is a really important one. So from our perspective, at r3 even, even our thinking hands has evolved. And I really do want to comment that's a very healthy, healthy perspective for us to have. And we we've had a privileged position in this market now for nine years. So a lot of lessons have been learned. Mistakes have also been made. And so it's super important as as any company or corporate or business, to constantly reflect and where and where needed to think about actually, what should we be doing differently? How should we be thinking differently? And so what I would say is there has been a shift very much away from this focus on like an actual single, universal ledger, to embracing more of a network of networks, model where this would be a model where multiple ledgers and multiple networks can coexist and interact, which, you know also could be not just DLT networks, but also traditional networks as well. I think that's also an important, important fact to really highlight, and a big part of that driver, so a big part of that change, I should say it is a couple of different key facts, which, when you say them out loud, sound perhaps quite obvious, but aren't always directly obvious when you're in within the moment itself. So firstly, there's a real importance of maintaining sovereignty over be it, we're talking about central banks here. We're talking about large FMIS. They need to be able to protect and maintain level of sovereignty. So they need to be able to choose solutions that enable them to retain control of what they're looking to do and also progress and innovate and be competitive, whilst also enabling kind of cross ledger communication. So from our perspective, we very much believe in networks and network model. We are very pro interoperability. Again, when I say interoperability, I'm not just talking about between different types of ledger, but also different types of network themselves as well. And we, we think that's going to be crucial to us all being able to benefit from this technology in the way that we all should be thinking about benefiting. And interoperability is one of those topics which is, again, rightly so, growing in in focus from the market. Because from our side, you know, we believe, depending on sometimes I think, Louis, we get way too stuck in, like in the technology. And, yeah, yes, I, I am reasonably a techie person, but I'm actually a business person. And I'm actually here about the business value this technology can drive. So we always must keep the focus on that lens. So if you think about the business value this technology can drive, then lots of these questions actually come out a lot easier to answer, is what I would say. So from our side, yes, the business value can drive, then we should drive a technology choice, and that technology choice will be driven off, be it capabilities, requirements, non functional requirements, which will then spit out what's what's appropriate for what you're looking to do. And the answer to that question wouldn't necessarily always be, you know, what used to be referred to as a private, permissioned ledger, albeit, I would say again that term has sometimes led to unfair connotations about their capabilities, because private, I guess naturally draws kind of a closed off which, which isn't the case at all when it comes to quarter. So that's why, you know, we're very much now open permissions, and that's what we believe in. So again, when we take a few steps back, all I would say is, a few years ago, there was this view that perhaps would be like one one ledger to rule them all, you know, a little bit more akin to, if you think about, you know, Ethereum and Ethereum main net as only one chain. But then if you bring it back to the world which we operate in, which is financial, financial markets and capital markets, that model just is not a copy and paste model, but we still want to benefit from the technology that it brings. So that's why we very much believe in network of networks model, where you'll

see interoperability between networks, and then also the different drivers of choosing that technology will ultimately mean there'll be different technologies underpinning different use cases and different solutions.



14:54

I see, yeah, no, that makes sense. I want to dive into the public. Private, permissioned, permissionless question a little bit more, because obviously, you guys are, are very well placed to have a have a perspective on on that, and it's, it's still an area, I think, where thinking is very much evolving. You get people on you get very smart people very deeply entrenched in the industry, who have really opposing views on this. So I think it's a particularly, particularly fertile area for discussion at the moment. Can you just give us a quick sort of summation of the different types of ledger, I guess, and, and where you where? Where are three kind of positions itself,



15:40

yeah, of course. And you're right, Lois, I again being in this industry now for, you know, nine or so months, I have found that people are surprisingly religious, sometimes about their choice of technology. And I can't think of a parallel unless I guess perhaps you're going to get into people who you know, it's their kind of Apple until they die, where it would be the same kind of religion when they think about it. Yeah,



16:08

there's almost an ethical philosophy this framework, which is ultimately like database management. It's like, it's quite an unusual thing for people to get philosophical about in the



16:20

way that they do, yeah, exactly. And I'm sure those those true believers, would probably have something to say about that, but I genuinely believe the market needs to move away from having this very sometimes an overly rigid view, and I and I hope that some of the progress which we're seeing with interoperability, will actually enable that, but, but I guess, you know, let's see. But, you know, I do want to start by saying that again. I think we need to really come back to thinking about the use cases and business needs. And often this debate between public and private, permission and permissionless, is stemming from these specific use cases and business needs. So if you think about public, permissionless networks, they tend to be favored in environments where transparency and openness are more critical, such as decentralized finance or certain consumer facing applications. These networks, they need to provide broad access and enable trustless interactions, ultimately between unknown parties, whereas if you compare and contrast that to this private permission networks, they genuinely tend to be very much favored and preferred by regulated industries, be that their financial services where privacy compliance and control are absolutely paramount, and you just can't get away from that fact at its core. And so these networks allow institutions to maintain confidentiality of transactions, for example, while still benefiting from the efficiency of DLT. And so, you know, a

private permission network, which, though control be it by designated entities, is not closed off. I do want to stress that point, and so that really has been this kind of common misconception. It's very much pro open standards and innovation and can interact with other platforms. But ultimately it's just be it countries or jurisdictions or firms making a priority call because of their business case, the business value, which they need to be promote or protect, it needs to think about privacy, compliance and control.



18:30

I see, yeah, so. And I guess once you open up away from just thinking of one unified ledger, one universal ledger for everything, it gives people a lot of flexibility, as long as the the interoperability component is in place. It gives people the flexibility to choose the version that works for them. I want to, I want to shift gears very slightly and talk a little bit about you mentioned proof of concept fatigue and kind of moving to the next page, I think the in the UK, we've got the digital security sandbox, which launched a week or two ago, and, you know, in the EU, there was a blockchain pilot regime which launched 18 months ago, and nobody really used it. Would be, I'd be interested in your perspective on what, I guess, the role of the public sector is in moving us to that next development. I obviously, you know, there's some pretty low caps on how much you can do at first, so it does feel like people are going to be a little bit frustrated by having to do more proofs of concept for the satisfaction of the regulator. But I guess that is maybe an inevitable stage.



19:39

Yeah, of course, there needs to be a level of pragmatism and realism when, again, we're talking about a fundamental shift of the technology which underpins our financial markets. You know, not seen for the last. Depending what parallel you want to draw, some people draw when we all move to the cloud. Other people talk about API. So we are talking big topics here. So we have seen a, you know, different approaches from different jurisdictions. I guess one thing I would actually call out, just thinking about it now, is, if you look at Project agora, that is a coming together of the public and private sector, which I do think is, is a really important, important point to focus on. And again, it's thinking about, how do we all work together? How do we all connect together? And I think that's when you're going to see that the best outcomes where you see this cross collaboration between public and private sectors. Here at our three we spend a lot of time talking to regulators, and that was actually one of the things which almost surprised me the most. It the most, in a really positive way, but how involved and how much these regulators are leaning in to this technology. They want to understand it. They want to think about how they can use it to progress and sometimes protect financial markets in a way that couldn't be done before. But as we know, there is often a distinctive lag of getting this up to speed, thinking about it, and actually implementation of bit new regulations, which then might enable things to go into production more so I would say the regulators are are extremely involved. But again, I do think that this nice balance when you see proper, proper collaboration across the industry is the most powerful, although I'm thinking most, did I actually answer your question then or not? Yeah, I



21:28

think so. No, I think that yeah, is the collaboration is going to be very important, yeah. And

that's another thing I wanted to ask. You know, we've just talked about Project ago a little bit, and I think that's dealing with the payment side. And then we've got various other projects looking at the asset side. There's tokenization of funds, there's blockchain bonds, collateral, mobility. We're getting a lot of different elements of the financial market infrastructure undergoing independent development trajectories. And I think that's, you know, that makes sense. You've got to kind of break things up to make things simple and manageable. But at some stage, if we're going to have a coherent, a coherent market infrastructure that's sufficient, there's going to these bits are going to have to talk to each other, and there's going to have to be coordination between a lot of different independent projects with different stakeholders, and I think that's going to be a big part of the story for the next few years. And interested in where you guys see yourselves in that and what that process is going to look like.



22:33

Yeah, and you are right. It's the industry is going through again. This, this inflection, this, this quite fundamental point in time of lots of different initiatives going on, not always with the same philosophies, not always with the same target states. And so it's a really interesting time. What I think, firstly, what I would say about these different initiatives, be it within sometimes the same sectors, but also sometimes focus on assets versus currencies. It's all really important. We have got so much learning to do as an industry that that learning is in is important, albeit very much we should keep an eye on on the focus of that path to production, and making sure that these learnings and education is meaningful, but ultimately, to your point in a world where we have all of these pockets of, you know, digital initiatives, or perhaps liquidity popping up again, it comes back to the great thing is, with a network, networks model that works really well, that can happen. You can have these pockets of innovation, of creation, of progress coming up, be it in different jurisdictions, be it in different use cases, be it in different whatever else it works. Because then as long as they can interoperate and connect to each other through ideally open standards and open protocols, then we can have this spectrum of progression, you know, if a reflect of, you know, different customers we, you know, we serve and interact with on a daily basis. There's a huge spectrum there of understanding, education, a spectrum of appetite, spectrum of budgets, a spectrum of visions. How do you solve for all that? Well, you know, you solve for it by allowing, you know, allowing different again, be it central banks or corporate banks, to be able to learn at their own pace, but we can still see a world where they can all come together. And that's really important. You know, when you try and have a one size fits all policy or strategy, that's ultimately how things are going to be left behind and or you're actually going to suppress the ability to to see innovation and progress if you try, and, you know, solve for everyone at the same time. So again, from, from our point of a big, big reflection, again, which we've had, and obviously the benefit of of hindsight being 2020, here. Is, you know, to really be able to facilitate that we are we know what we bring to the table. We know we bring a huge amount of expertise in in our, you know, within our area. But in order for the industry to move forward together this there has to be a balance between collaboration and competition. And ultimately, you know, we really believe that having this interoperability strategy and openness allows everyone to benefit from technology at the pace that they wish to benefit from, and also for the different use cases that they do as well. So, you know, it's this has to be, the time has to be now. It really does, actually does. Because, you know, lots of people in this industry are at the point of if they are really wanting to see the benefits, but I think that to your point, the next 1218, months and some big decisions need to

be made as well. And what does this all mean? How do we all come together? And there's some really exciting initiatives, which I think we'll see that really come out as learnings or lessons, as I said, probably within next 12 months. Now, I think about it, yeah,



26:06

I'm sure you're right. And as you say, I think, as you said at the start, this has taken a lot longer than people were expecting. You know, I started covering blockchain bonds in 2017 with the World Bank doing Bondi, the blockchain operated new debt instrument, and there was an EIB one as well. And it seemed like, you know, 2021, everything would be by then we'd all be looking at blockchain bonds as the norm. But it's been much more complicated, I think, than people anticipated. But it does seem like we're, we are getting to that inflection point, that turning point, as you say. So, a very exciting time, and, yeah, much too much to look forward to. And be very exciting to see exactly how, how the next phase of implementation proceeds. You know, who ends up sharing infrastructure, sharing technical infrastructure that they compete on, but they operate together. And, you know, I think it'll be interesting to see if that's if that the shared infrastructure happens with geographic reasons. You know, if there's a European block, that's something that Emmanuel as one from the Bank of France talked about at one of our events recently, or maybe it'll be asset classes, and, you know, people from, you know, the whole bond market will, will, will share a particular infrastructure. But yeah, I think those sorts of things will be, will be coming, be becoming clear over the next year or so, as you say,



27:29

yeah, for sure. And I think, as I said, it's a really nice moment in time. It's a lot of eyes on this space and a lot of a lot of motivation right now, it's time, time for action. I think definitely, as a firm r3 has been more action, sometimes on words, and perhaps we don't shout loud enough about all the things which our three has been through and learned. And now we're really excited that we are seeing all that experience and expertise really being harnessed and being able to be utilized in this market, which is a super exciting time. Excellent.



28:05

Well, time for action. Good note to end it on. Thanks very much, Kate. It's been great to have you, and I'm sure we'll be we'll have many more of these discussions as as



28:14

the rubber hits the road. Yeah, brilliant. Thanks again, those for having me, and yes, very happy to be back anytime.



28:20

And thank you to our listeners for tuning in today. Make sure you check out our website for any of our upcoming events, many of which will be on the sorts of themes we've been talking about

of our upcoming events, many of which will be on the sorts of themes we've been talking about today, and our digital assets report, which will be available there, in which our three offered some thought leadership on some of the themes Kate's discussed today. And yeah, look out for our upcoming future payments report, which we published at the end of November, that'll be discussing project agora that we mentioned today, among other things, other trends and cross border payments. Make sure you follow us on social media that'll keep you up to date with everything that we're up to. Thank you for listening again. Goodbye.



28:55

Thank you for joining us for this edition of the OMFIF podcast. If you found today's conversation engaging, make sure to stay tuned for additional thought provoking discussions on artificial intelligence, Central Bank, digital currencies and digitalization of finance by subscribing to our channel, stay connected of the latest developments by following us on our LinkedIn page, OMFIF, digital monetary Institute.