SWIFT Institute

CALL FOR PROPOSALS

Payments Tokens: a route to optimising liquidity management?

The SWIFT Institute invites proposals for research on the **Payments Tokens** to understand how they could unlock value and free liquidity.

As the landscape of digital transactions continues to grow, it is important to understand the different digital payment options and their impact on functionality of the payment system. For example, new regulated payment tokens and Central Bank Digital Currencies (CBDCs) are seeking to shape the future of finance. CBDCs are digital versions of a fiat currency backed by the issuing government whilst a regulated payment token is a tokenised form of a bank or central bank liability designed to have a value for use in financial transactions. A CBDC may or may not be a payment token – and vice-versa.

In typical payment flows, Nostro accounts use credit lines to fund accounts. With the adoption of blockchain based transactions through payment tokens, there could be a material reduction in the time to process and complete payments and therefore liquidity costs could also be reduced through lower duration of holding liquidity and so borrowing from those credit lines. In a similar vein, the need to hold FX reserves could also be reduced. A countervailing factor however could be the potential fragmentation of liquidity between existing forms of fiat currencies and payment tokens / CBDCs, depending on level of fungibility. Furthermore, faster transaction speed combined with gross settlement could reduce the efficiency of liquidity management if netting mechanisms were not available for payment token / CBDC transactions. The overall net impact of payment tokens and CBDCs on the efficiency of liquidity management is therefore as yet unclear.

Research proposals can be theoretical or empirical. The focus of the research could look at the following (other suggestions are welcome):

- How could payment tokens unlock value and free trapped liquidity?

- What could be the overall net impact of payment tokens and CBDCs on liquidity?

- Demonstrate findings using agent-based simulations

- Looking more broadly, as we move to payment tokens and CDBCs with instantaneous movement of money, what are the benefits/disadvantages as the money moves faster? – what are the trade offs?

Grant & Working Paper

A grant of EUR 20,000 will be awarded to the author of the selected proposal. 50% will be paid immediately; the remaining 50% will be paid on acceptance of a final working paper and a two-page executive summary.

The paper's intended audience is the financial services industry, it must be written in a clear concise manner and provide clear thought leadership for use by the decision makers of this industry. It should be no more than 25 pages, including the Abstract and Table of Contents. The paper is expected to be completed and ready for publication in 3 months.

The SWIFT Institute will publish the working paper and summary to the global financial industry. The author is free to submit the paper (or variation thereof) for publication in academic journals and other publication outlets of their choice.

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The author will / may be invited to present their findings at a SWIFT Institute event related to the theme of the research.

Proposal Submission

Please submit your research proposal as follows:

1. CV / bio including education, work history, research experience, publications, etc.
2. Description of your research project (2,500 words maximum) to include the following:
    - Objective of your research
    - Methods by which you intend to undertake your research
    - Timeframe by which you intend to complete your research
3. By email in MS Word / Excel / PowerPoint format and / or pdf.

Deadline: Proposals must be submitted no later than 13 April 2023 **Email**: Send submissions to: Nancy.Murphy@SWIFT.com