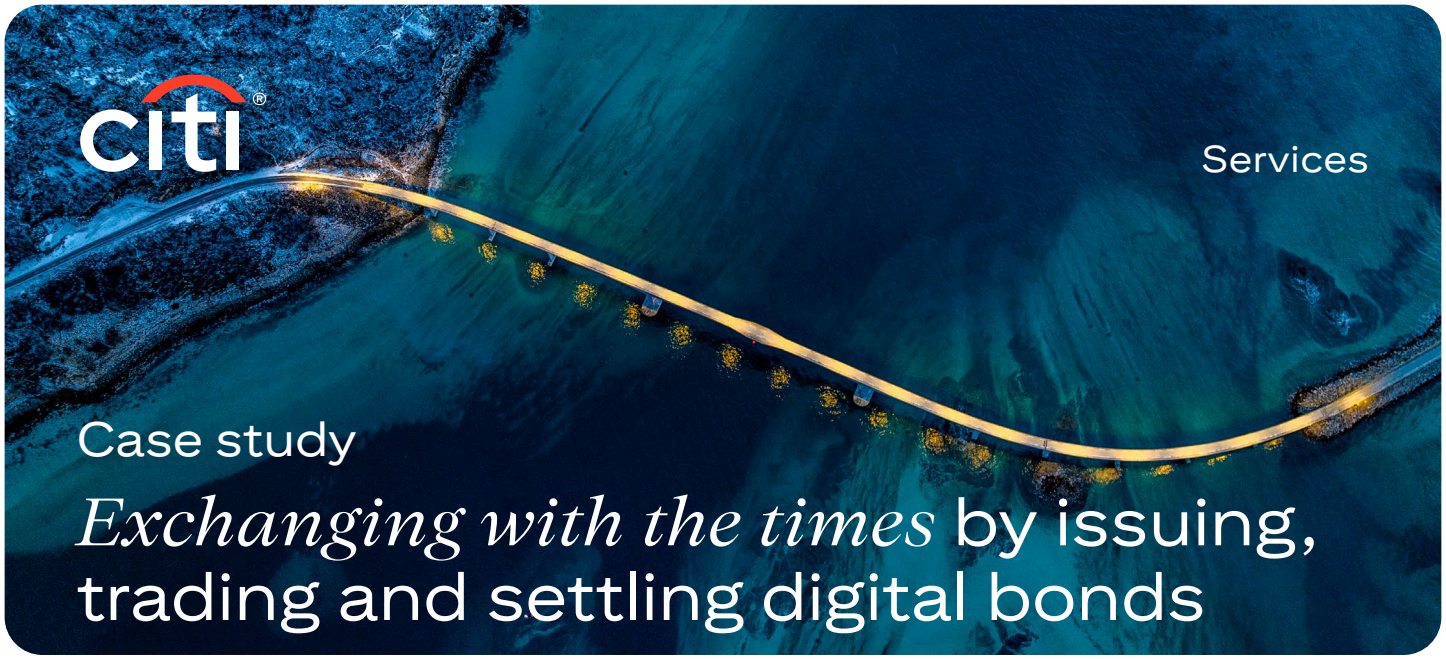


Services

Case study

Exchanging with the times by issuing, trading and settling digital bonds

For years, the financial services industry has explored how advances like distributed ledger technology (DLT) could help transform the capital markets. Transferring assets on a DLT infrastructure, like digitized bonds, is one example that promises to unlock significant market innovation. But what can a world-leading issuer bank offer to further the development of issuing, trading, and settling digital bonds?

Citi has been working closely with financial market infrastructures (FMIs) on their DLT strategies for years, participating in the inaugural issuance of a EUR 100 million bond via Euroclear Bank's digital financial market infrastructure (D-FMI), creating the first digitally native note (DNN) issued under English law for the World Bank -International Bank for Reconstruction and Development (IBRD). This was followed by a USD 300 million issuance by the Asian Infrastructure Investment Bank (AIIB) where Citi also acted as the Issuing and Paying Agent.*

Here's a look at Citi's role in helping our clients bring these digitized solutions to market.

Solution

Euroclear Bank – a major regulated central securities depository (CSD) – established its D-FMI under its existing license to support the issuance of DNNs into the primary debt market.

The D-FMI, a private permissioned DLT network with Euroclear Bank as the sole network operator, is focused on the initial issuance and primary distribution, with secondary market transfers and asset servicing occurring in the legacy infrastructure.

To facilitate the issuance of these DNNs into the D-FMI, and subsequently support asset servicing within the legacy infrastructure, Citi acted as the issuing and paying agent (IPA) on behalf of the IBRD and AIIB. This led to the creation of two seminal DNNs listed on the Luxembourg Stock Exchange: an EUR 100 million 3-year DNN and a USD 300 million DNN,* respectively.

The triple A-rated World Bank transaction was settled on a T+0 basis, representing a scalable foundation that would allow debt capital markets to adopt blockchain- or DLT-based issuances. The triple A-rated AIIB issuance marked the first digital issuance in USD for Euroclear Bank and the first such issuance by an Asia-based issuer on its platform, with the DNNs able to be held in Central Moneymarkets Unit (CMU) or SIX.

What's more, both issuances are technically and legally interoperable with the existing debt capital market ecosystem, removing some of the structural inefficiencies, potentially reducing issuance times and paving the way to new operating models.

What D-FMI does

Euroclear Bank's D-FMI is a new primary issuance functionality of the Euroclear system, supporting the initial issuance and primary distribution of DNNs.

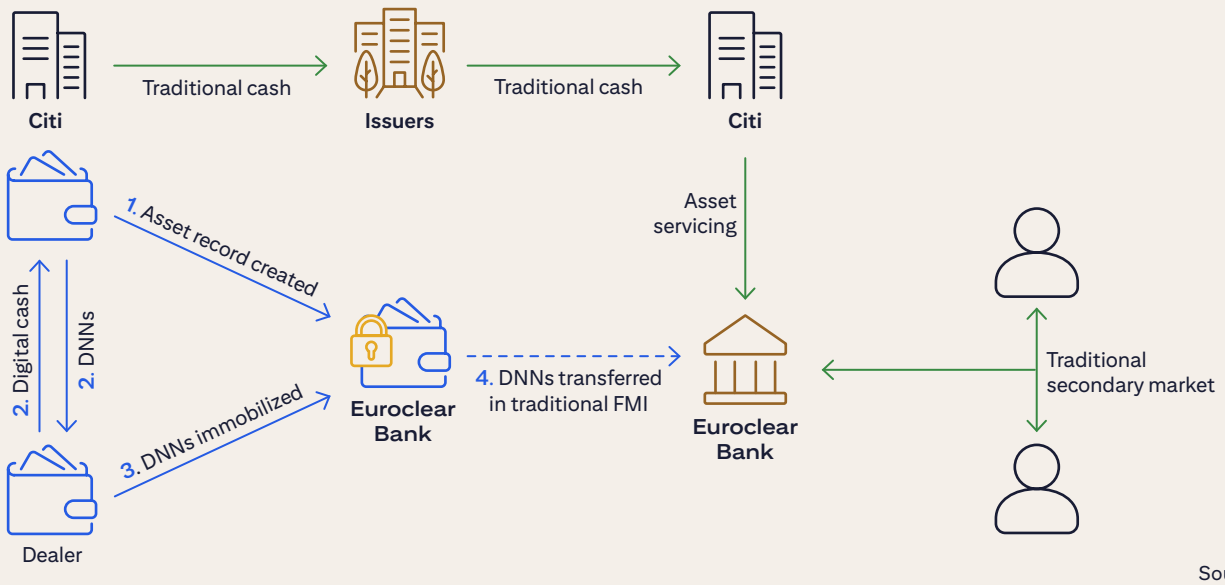
The D-FMI platform seamlessly integrates with Euroclear Bank's traditional settlement system, granting investors full access to trading venues and liquidity management facilities while ensuring compliance with CSDR.

DNNs are transferred post-issuance to the legacy infrastructure at Euroclear Bank, where they are available for secondary market transactions and asset servicing (e.g. coupon payments).

DNNs will stay on the D-FMI until maturity or redemption and are eligible to be listed and admitted for trading on regulated stock exchanges.

There are no changes to existing middle- or back-office processes for issuers and investors, which means no operational disruption to other trade participants.

*Following the initial issuance in August, AIIB completed a USD200 million tap issuance in October 2024, bringing the total outstanding issuance amount to USD500 million.



Source: Citi

Process

The foundational elements of Euroclear Bank's D-FMI include a cash and securities wallet for the digital representation of Euroclear Bank's participant accounts, digital cash (a digital representation of fiat cash), and DNNs, issued in dematerialized form and created on the D-FMI.

The issuance and settlement of a transaction is competed via a delivery-versus-payment trade on the D-FMI. The DNNs are credited to the securities wallet of the dealer participant with digital cash credited to the IPA's cash wallet.

The digital cash proceeds are transferred from the D-FMI and credited to the IPA's legacy participant account. Fiat cash is then transferred by the IPA to the issuer via a traditional bank transfer.

The DNNs are immobilized by Euroclear Bank and credited to the dealer participant's legacy account, where distribution to investors is completed.

Benefits

As an IPA, Citi is striving to create the next level of process efficiencies in the debt capital markets by removing structural inefficiencies. Citi provides critical data to Euroclear Bank's D-FMI, ensuring seamless connectivity between issuer clients and the D-FMI to facilitate a range of key benefits, such as allowing quicker issuance and settlement processes, single golden source of data, speedier communication, and data sharing.

Building smooth market take-up

The initial phase lays the foundations of the D-FMI on which subsequent functionalities can be built to bring a non-disruptive adoption of DNNs to market.

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