

Press release

AFME sets out vision for future DLT-based architecture for European capital markets

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The Association for Financial Markets in Europe (AFME) has today published a new paper setting out a vision for the future architecture of distributed-ledger-technology (DLT)-based European capital markets, alongside recommendations to policy makers on the policy and infrastructure actions and changes needed to support this transition.

These recommendations come as the ECB launches its 'Appia' initiative to discuss and develop the future of DLT-based capital markets in Europe and the UK announces a Digital Champion to help drive coordination and delivery across government, regulators and industry.

AFME envisages an architecture that fully enables the benefits of DLT, moving towards a regulated but network-based market and settlement infrastructure to overcome the shortcomings and inefficiencies of the current centralised yet fragmented nature of European capital markets

Coen ter Wal, Managing Director and Head of Technology and Operations at AFME said: *"Europe has a real opportunity to leap forward in how its capital markets operate. To unlock the full benefits of DLT and overcome the shortcomings of the existing capital markets architecture, we need to move towards an architecture built on private-sector innovation, widespread access and a network logic. Such a 'Distributed Finance' model would see different regulated entities come together to operate DLT settlement architecture in a more efficient, innovative, connected and resilient manner. The current ECB and UK discussions can play a key role in turning this vision into reality."*

In particular, AFME's foresees a DLT-based architecture that is built on:

- Network-based DLT capital market platforms, operated by different regulated financial entities and based on automation that DLT and smart contracts can provide.
- Public-permissioned ledger models, providing broad but regulated access for market participants and calibrated to different asset classes and market needs;
- A multi-chain ecosystem, connected through common interoperability standards at asset, token and protocol level, allowing assets and liquidity to move efficiently across networks;

To achieve such a scaled, network-based DLT architecture, AFME recommends that European policy makers and the Eurosystem in particular, focus their work on the following policy priorities:

1. Speedy operationalisation of central-bank money connectivity through the Pontes initiative, to provide certainty and boost momentum for DLT-based issuance and transaction.
2. Operationalising collateral eligibility for all DLT-based securities, key to creating more liquid markets for secondary trading for DLT securities.
3. Prioritise work on creating interoperability standards, especially in the protocol layer, to enable secure and certain transfers of assets across distributed ledgers. This is key to avoiding undue fragmentation and enabling scaling and resultant benefits to materialise.
4. Help build out a two-tier banking system on DLT, in particular by working with the private sector to bring commercial bank money 'on-chain'. This is vital to enable settlement for asset managers and corporates.
5. Promote a legal and regulatory framework that allows for development of at-scale, network-based DLT platforms by updating and streamlining national securities laws and making it possible to scale 'Settlement Schemes' proposed by the European Commission under the revised DLT Pilot Regime.

While AFME sees a role for public-private collaboration in the creation of ledgers for central and commercial bank money, it cautions against the development of public-sector operated 'unified' ledgers as the basis for DLT-based capital markets: the development and operation of DLT platforms for financial assets such as securities should be left to the private sector, to ensure sufficient agility, efficiency and innovation. A role for public-sector cash ledgers,

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including DLT-based central bank money, is to interoperate with market-run asset ledgers while avoiding fragmentation of cash liquidity.

With the right policy foundations, focused on building a network-based, market-driven and interoperable DLT market architecture, DLT can help create more efficient, resilient and competitive European capital markets, while fully preserving financial stability.

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Notes:

1. The Association for Financial Markets in Europe (AFME) is the voice of the leading banks in Europe's financial markets, providing expertise across a broad range of regulatory and capital markets issues. We represent over 150 leading global and European banks and other significant market players. Our members play a vital role in Europe's financial ecosystem, underwriting around 90% of European corporate and sovereign debt, and 85% of European listed equity capital issuances. Importantly, AFME members are market makers, providing liquidity, which is essential for ensuring financial markets can function efficiently. We also represent law firms and other associate members which advise market participants and support AFME's legal and regulatory initiatives. For more information please visit the AFME website: www.afme.eu
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