

# SA's central bank to launch digital monetary unit?

By  Katja Hamilton

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The South African Reserve Bank (Sarb), in collaboration with the Intergovernmental Fintech Working Group (IFWG), has released the Project Khokha 2 (PK2) [report](#).



Source: [Fxabay](#)

Project Khokha 2 explores the use of tokenised money, blockchains and digital currency for local use in South Africa, while this most recent report provides insight into the proof-of-concept, the design principles adopted for the project, and the prototypes built to support the project's overall objectives.

The initiative was founded on the South African Reserve Bank's experimentation with distributed ledger technology (DLT).

A distributed ledger is a digital record of transactions and contracts maintained in a decentralised form across different locations. This is the technology that forms the backbone to most cryptocurrencies.

To this end, Sarb has been trialing DLT for interbank payment settlements, with the objective of the technical trial being to highlight the policy and regulatory implications of the application of DLT in the financial markets.

The Project Khokha 2 report follows the conclusion of the technical proof-of-concept (PoC), and highlights several legal-, regulatory- and policy implications that need to be carefully considered in the application of DLT to financial markets.

## Two forms of tokenised money to allow for settlement

The Project Khokha 2 trial aimed to issue, clear and settle Sarb debentures (a medium to long-term debt instrument used by large companies to borrow money) on DLT using two settlement options:

- a wholesale central bank digital currency (wCBDC) as a form of central bank money, and
- a wholesale settlement token (wToken) as a form of private money issued by commercial banks.

Two DLT networks were created for the debenture token market:

- Khokha Hub, served as a token trading platform and enabled the issuance of, and trade in, debenture tokens.
- wCBDC Zone, enabled the issuance of a wholesale central bank digital currency on a private platform owned and operated by the Sarb.

Industry participants set up nodes to the relevant DLT networks to purchase Sarb debentures.

The wCBDC was used to purchase Sarb debentures in the primary market and the wToken was used to purchase Sarb debentures on a peer-to-peer basis in the secondary market.

## Khokha's early beginnings

In 2016 financial regulators in the industry, the Financial Intelligence Centre (FIC), Financial Sector Conduct Authority (FSCA), National Treasury and Sarb established the Intergovernmental Fintech Working Group (IFWG) to understand the growing role of fintech firms and to understand how the regulators can proactively assess the risks and opportunities of the rapidly growing digital financial-services innovation.

In August 2017 the Sarb formally established the fintech unit to look at how fintech innovation will impact the policy and regulatory environment. Through its work the Khokha project came about in 2018.

Project Khokha 1 kicked off its work and involved South African banks as well as technical and support partners. Project Khokha 2 built on Project Khokha 1 (PK1). It was launched in February 2021 as an initiative under the IFWG's Innovation Accelerator and was driven by Sarb's fintech unit.

The aim of the project was to develop a proof of concept (PoC) wholesale payment system for interbank settlement using a tokenised South African rand on distributed ledger technology.

Industry participants who participated in the technical PoC were Absa, FirstRand, JSE Limited, Nedbank and Standard Bank as well as technical and support service providers.

Being a collaborative initiative, Project Khokha 2 also saw numerous other stakeholders consulting on the project.

The project had a settlement of 70,000 processed payments within two hours of initiation. This was achieved in real time.

## Insights gained through practical exploration

"The PK2 report is the subsequent contributor to broader discussions surrounding the regulatory treatment of crypto-assets and financial market innovation," Sarb governor Kganyago Lesetja said. "We hope it provides meaningful insight to the discussions taking place between policymakers and regulators as they continue to consider the most appropriate way to amend the existing domestic legal and regulatory frameworks."

"We recognise that digital currency innovation cannot be explored in isolation. Sarb draws on the insights from various initiatives including but not limited to our ongoing study into the feasibility and appropriateness of a retail central bank digital currency and this is meant to enrich our understanding of digital-currency implication."

Lesetja said Project Khokha 2 has added valuable insights on the application of DLT in financial markets and the use of central bank money for wholesale settlement on DLT.

"Project Khokha 2 has demonstrated that if we were to build a platform for a tokenised security it would impact on the existing participants in the financial market ecosystem, as several functions currently being performed by separately licensed market infrastructures could be carried out on a single shared platform. This has the potential to reduce both costs and complexity."

"Project Khokha 2 also underscores how interoperability can be achieved between different DLT networks in the case of a multiple-DLT network design in the future."

## Collaboration for maximum learning over the long run

Sarb went on to say that the learnings from Project Khokha 2 provide a solid basis for further analysis and collaboration to unpack the future of trading, clearing and settling in a way that leverages the benefits of technology and maintains the safety, integrity and stability of South Africa's financial markets.

Lesetja reiterated, however, that Project Khokha 2 does not signal support for any specific technology, nor does it imply a policy shift in either the financial markets or the national payment system.

"Since DLT-based innovation is still quite new it is quite difficult to reach definitive conclusions on its potential implications. In this way practical experimentation helps to improve our thinking about different scenarios which may arise in the future."

"PK2 was an experimental research project."

For Sarb Governor Kganyago Lesetja's full speech at the launch of Project Khokha 2 go [here](#).

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Katja is the Finance, Property and Healthcare Editor at Bizcommunity.

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