



# ITFA FINTECH DAY: KEY INSIGHTS ON DIGITAL NEGOTIABLE INSTRUMENTS AND INTEROPERABILITY, July 2023

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ITFA Week, hosted in London from 11 – 13 July, brought together trade finance professionals for three consecutive days of knowledge sharing, networking and summer festivities. The first day showcased a comprehensive trade finance education course led by ITFA Board members and guest speakers, while day three was dedicated to the annual Northern European Regional Committee summer seminar and reception, which addressed important topics, including renminbi internationalisation and the role of UK Export Finance in short-term trade finance.

But for proponents of digital trade, in light of recent market developments – most notably the successful passage of the Electronic Trade Documents Bill (ETDB) – it was day two of ITFA Week that took centre stage. Featuring a dynamic Digital Negotiable Instruments (DNI) Initiative workshop hosted at SMBC, the event aimed to emphasise the importance of interoperability in the development and adoption of negotiable instruments that are compliant with the UN’s Model Law on Electronic Transferable Records (MLETR).

The programme profiled ITFA members that had joined the DNI Initiative over the last few years, who shared their experiences and learnings as pioneers in adopting MLETR-compliant instruments. Discussions also centred around the [DNI Initiative blueprint for interoperable negotiable instruments](#), underlining various value-added capabilities and opportunities.

This post-event report highlights the key takeaways from the workshop:

## **Interoperability as a core objective**

ITFA’s DNI Initiative, led by ITFA Board member and Chair of the Fintech Committee, André Casterman, was established in 2019 to align policy, legal and technology developments in support of electronic payment obligations and to foster partnerships amongst technology vendors.

To date, it has attracted close to 40 members and delivered the electronic Payment Undertaking (ePU), the dDOC specifications as well as various achievements, such as [Lloyds Bank’s first digital promissory note](#).

The ITFA Week workshop showcased several vendor members, including China Systems, Enigio, Surecomp, WaveBL, Mitigram and Kyriba, with each presenting their approaches to achieving interoperability – a theme central to the DNI Initiative. The goal was to expand the scope beyond [Enigio, which has enjoyed many successes](#) in facilitating paperless trade, and demonstrate different ways of attaining openness and compatibility among systems and platforms.

“Various players have made good progress around interoperability, and the conversation is broader than just the successes of one vendor, which is why we included a range of different use cases not tied to any particular product,” says Casterman, speaking on the sidelines of the event. “There are multiple vendors all working towards the same common goal of greater openness, and our objective was to profile these various strategies and approaches.”



During one session at the workshop, vendors Surecomp and WaveBL, which operate by establishing connections with bank back-office systems on an individual basis, outlined the ways in which their systems can interact with one another through proprietary links. In another session, Mitigram and China Systems demonstrated cross-platform compatibility through the use of common technology, in this case, as provided by Enigio.

“These different approaches emphasise the flexibility and adaptability of systems in achieving interoperability and meeting the specific needs of various stakeholders,” says Casterman.

### **Value-added capabilities and opportunities**

Although the initial phase of MLETR implementation involves digitising negotiable instruments, the workshop highlighted the need to explore value-added capabilities and opportunities enabled by digital records. These aspects were outlined in the 'DNI Initiative blueprint for interoperable negotiable instruments,' which was introduced earlier this year and presented by Casterman at the event.

“The DNI Initiative’s primary focus is to demonstrate a strong commitment to MLETR, which is the crucial first step towards achieving a seamless digital trade environment. The blueprint proposes that once that foundation has been established, the medium to long-term goal involves leveraging the capabilities of digital records to create added value,” Casterman explains.

Specifically, the blueprint underscores the need, firstly, to establish interoperable digital negotiable instrument policy and, secondly, to determine verifiable and freely transferable negotiable instrument technology. Once achieved, both banks and vendors can explore various avenues to add new value at a transactional level, including:

- Automated securitisation for the sale of assets to institutional investors: Leveraging the digital nature of negotiable instruments, the market can explore automated securitisation processes, allowing for easier and more efficient sale of assets to institutional investors.
- Programmable transaction-level carbon offsetting: By incorporating carbon offsetting capabilities into electronic records, participants in trade finance can contribute to sustainability efforts and promote environmentally friendly practices.
- Escrow payment and instant settlement: The digitisation of negotiable instruments enables the implementation of automated escrow payment systems and instant settlement processes, improving efficiency and reducing transactional risks.
- Double financing fraud prevention: Through distributed ledger technology and enhanced traceability, the market can develop mechanisms to prevent fraudulent activities related to double financing, providing greater security and trust in trade finance transactions.

“Indeed, there are many other opportunities,” says Casterman. “Ultimately it will be up to the market – and the regulators – to decide which ones will be relevant. The first step is simply digitising, but after that, there is much more work to be done.”

### **Next steps and future developments**

In his legal keynote at the workshop, ITFA Chair Sean Edwards not only delved into the details of MLETR but also provided an overview of the ETDB, which has since become an official act of law and will take effect in the coming months. Widely regarded as one of the most significant advancements in digital trade in recent times, the bill lays some of the essential groundwork for future developments on the journey toward fully digital trade.



“Completing this process and having the ETDB available is big news, and ITFA looks forward to progressing our industry work together with our members and the wider market now that it is over the line,” says Casterman.

The workshop sessions also detailed several other initiatives currently under development by the association's Fintech Committee.

In one project scheduled for the next few months, the DNI Initiative is producing a guidance paper to clarify the accounting treatment of digital negotiable instruments, as described in a presentation by Wayne Mills of Atom Advisory.

The paper will reinforce that the shift to electronic mediums does not change the fundamental accounting principles governing negotiable instruments. “We aim to provide clarity to banks and corporates to ensure consistency and facilitate smooth adoption. Rather than inventing something entirely new, we plan to introduce an electronic option to existing instruments,” adds Casterman.

DNI Initiative efforts will also focus on ramping up engagement with corporate platforms – those that operate in the large corporate space, including the likes of new member Kyriba, a global SaaS-based treasury management platform with 3,500 customers, as well as participants that focus on SMEs, such as Mercore, Trade Finance Global, TradeRiver and Vayana Network – so that they may leverage the industry's new legal framework and standardise their payment commitments with corporates.

Likewise, more banks and non-bank financial institutions will be encouraged to join the DNI Initiative to promote broader participation and engagement.

“As always, our key objectives will be to organise more pilot transactions to advance collaboration between industry stakeholders,” says Casterman. “Additionally, we'll continue to support technology providers in aligning their solutions with MLETR-related market developments, encouraging the adoption of standardised practices.”

Elsewhere on the Fintech Committee's agenda, its TFD Initiative, which aims to boost automation and transparency in trade asset and risk distribution, has published its own [blueprint](#) designed to assist banks in accessing capital markets, increasing net interest income, and enhancing transaction value by adapting to changing needs, such as incorporating credit insurance and ESG-related features. A [Trade Finance Investor Day](#) is being hosted in the UK in October.