

Press statement

6 April 2022

Launch of the Project Khokha 2 report

The South African Reserve Bank (SARB), in collaboration with the Intergovernmental Fintech Working Group (IFWG), announced the launched the [Project Khokha 2 \(PK2\) report](#) today, following the conclusion of the technical proof-of-concept (PoC).

PK2 built on the SARB's experimentation with distributed ledger technology (DLT), trialling DLT for interbank payments settlement. It also explored tokenisation.

The report provides further insight into the PoC, the design principles adopted for the project, and the prototypes built to support the project's overall objectives.

PK2 was launched in February 2021 as an initiative under the IFWG's Innovation Accelerator and was driven by the SARB's Fintech Unit. 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.

PK2 being a collaborative initiative, numerous other stakeholders were also consulted on the project.

PK2 aimed to issue, clear and settle SARB debentures (a debt security) 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. The one network, Khokha Hub, served as a token trading platform and enabled the issuance of, and

trade in, debenture tokens. The other network, wCBDC Zone, enabled the issuance of wCBDC 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.

As an experimental research project, PK2 followed an exploratory approach in the design and development of the prototypes built in the PoC. The objective of the technical trial was to highlight the policy and/or regulatory implications of the application of DLT in the financial markets.

PK2 does not support any specific technology, nor does it imply a policy shift in either the financial markets or the national payment system.

PK2 has demonstrated that building a platform for a tokenised security 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.

The report highlights several legal, regulatory and policy implications that need to be carefully considered in the application of DLT to financial markets. PK2 also underscores how interoperability can be achieved between different DLT networks in the case of a multiple-DLT network design in the future.

PK2 has added valuable insights on the application of DLT in financial markets and the use of central bank money for wholesale settlement on DLT. The learnings from PK2 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.

The report has been published on the following websites:

- SARB: www.resbank.co.za
- IFWG: www.ifwg.co.za

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