

Market Reaction to Multi-CBDC Announcements: Evidence from France and Italy

Shaliza Alwi and Herwina Rosnan prepared this case solely as a basis for classroom discussion. This case is not intended to serve as an endorsement, source of primary data, or illustration of either effective or ineffective managerial decision-making. Certain names and other identifying details have been disguised to protect confidentiality

The Digital Transformation of Cross-Border Financial Infrastructure

By the mid-2020s, the global financial system was undergoing a profound structural transition driven by digitization, regulatory innovation, and financial technology integration. Cross-border payment systems, long reliant on correspondent banking networks, had become increasingly misaligned with the speed and efficiency demands of modern financial markets. Settlement cycles remained lengthy, transaction costs were elevated, and operational fragmentation persisted across jurisdictions. Against this backdrop, central banks began exploring digital currency architectures capable of modernizing wholesale financial infrastructure.

Central Bank Digital Currency (CBDC) refers to a digital form of sovereign currency issued and regulated by a nation's central bank, representing a direct liability of the monetary authority. Unlike private cryptocurrencies, CBDCs are designed to preserve monetary stability while leveraging digital payment efficiencies. Their importance lies in their potential to modernize financial market infrastructure, enhance payment system resilience, and support programmable settlement mechanisms. In cross-border contexts, wholesale CBDCs are particularly significant because they enable real-time interbank settlement, reduce reliance on correspondent banking intermediaries, and lower transaction costs associated with foreign exchange conversion. As global trade and capital flows accelerate, CBDCs are increasingly viewed by policymakers as foundational infrastructure capable of enhancing transparency, liquidity mobility, and systemic payment efficiency across jurisdictions.¹

The Bank for International Settlements (BIS), often described as the "central bank for central banks," emerged as a coordinating force in this transformation. Through its Innovation Hub, the BIS spearheaded collaborative initiatives aimed at redesigning global payment systems using distributed ledger technology. As BIS General Manager Agustín Carstens noted, "Central bank digital currencies could be a foundational element in the future monetary and financial system."² This institutional perspective framed CBDC development not as incremental reform but as infrastructure reinvention.

Institutional Collaboration and the Emergence of Project Rialto

Project Rialto is a multi-central bank research initiative led by the Bank for International Settlements Innovation Hub aimed at exploring the operational feasibility of interoperable wholesale CBDC platforms for cross-border settlement. The collaboration brings together the central banks of France, Italy, Malaysia, and Singapore to design and test a distributed ledger-based infrastructure capable of enabling real-time multi-currency transactions between participating financial institutions. The project focuses on institutional payment layers rather than retail usage, examining how tokenised sovereign currencies can be issued, exchanged, and settled across jurisdictions within a unified technological environment. By simulating cross-border liquidity corridors and automated foreign exchange

conversion mechanisms, Project Rialto seeks to provide a proof-of-concept framework for next-generation international payment systems.⁴

The initiative's collaborative structure reflected the recognition that cross-border settlement modernization required institutional interoperability rather than unilateral national experimentation. A BIS Innovation Hub policy report emphasized that *"multi-CBDC platforms have the potential to improve the speed, cost, transparency and accessibility of cross-border payments."*⁵ For participating central banks, the initiative represented both a technological experiment and a policy signal regarding the future direction of monetary infrastructure.

Project Rialto: Architecture of a Multi-CBDC Settlement System

At the core of Project Rialto's design was a distributed ledger infrastructure enabling tokenised wholesale CBDC issuance. Tokenisation refers to the digital representation of sovereign currency units on programmable ledger systems, allowing central bank money to circulate within secure institutional networks. Participating financial institutions could hold and transfer these tokenised assets for settlement purposes, ensuring that transactions remained backed by central bank liabilities.

The platform incorporated smart contract functionality to automate settlement processes. Smart contracts, self-executing code embedded within the ledger, enabled conditional payment execution, liquidity synchronization, and foreign exchange conversion within a single transaction environment. This programmable architecture supported atomic settlement, whereby currency exchange and asset transfer occurred simultaneously, eliminating settlement lag and counterparty risk exposure.

Interoperability rails formed the third architectural pillar. These technological corridors connected national CBDC ledgers, allowing cross-jurisdictional transactions without reliance on correspondent banking intermediaries. By integrating tokenisation, smart contract automation, and interoperable settlement layers, Project Rialto represented a prototype for next-generation global payment infrastructure (see Exhibit 1).³ A senior BIS Innovation Hub official described the initiative as *"a step toward building the next generation of financial market infrastructure."* The implications extended beyond payment efficiency to institutional liquidity management and capital allocation dynamics

Global Momentum in Central Bank Digital Currency Development

By 2025, CBDC experimentation had accelerated globally. More than one hundred central banks were engaged in research or pilot testing, driven by payment modernization, financial inclusion, and monetary sovereignty considerations. Cross-border settlement represented one of the most complex and strategically significant dimensions of this evolution.

Traditional settlement frameworks relied on layered correspondent banking relationships, introducing operational risk and transaction delays. m-CBDC platforms promised atomic settlement, simultaneous exchange of currency and assets, reducing counterparty exposure. As one BIS policy paper noted, *"CBDCs could form the backbone of a more efficient and inclusive international payment system."*⁶

Policy Announcements as Market Signals

Financial markets began closely tracking Project Rialto as it advanced from conceptual modelling to technical validation. Two policy announcements in 2025 served as critical informational inflection points.

The first occurred on February 13, 2025, when the BIS released its Interim Report. The publication confirmed the technical feasibility of multi-currency settlement across participating central banks and

presented proof-of-concept results. Markets interpreted the report as validation that wholesale CBDC interoperability was operationally viable.

The second milestone emerged on December 10, 2025, with the release of the Technical Report. This document extended beyond feasibility, outlining architectural specifications, governance protocols, and settlement mechanisms. By moving the initiative closer to implementation reality, the technical report carried significant signalling weight for institutional investors.

Market Reaction and Investor Interpretation

Equity markets responded measurably to both announcements. Institutional trading volumes increased as investors reassessed fintech infrastructure exposure across banking and payment sectors. France's CAC40 and Italy's FTSEMIB indices exhibited abnormal return patterns within defined announcement windows (see Exhibit 2).

Following the Interim Report release, both markets generated positive abnormal returns, signalling favourable investor sentiment. Italy's FTSEMIB displayed particularly strong cumulative gains, suggesting heightened market sensitivity to cross-border settlement modernization.

Market reactions to the Technical Report were initially cautious. Both indices recorded brief negative abnormal returns on the announcement day, reflecting concerns regarding implementation risk, regulatory harmonization, and technological integration costs. However, the downturn proved temporary. Within days, both markets rebounded, generating statistically significant cumulative abnormal returns.

Comparative Market Trends Prior to m-CBDC Policy Announcements

Viewed comparatively, Exhibits 2 and 3 reveal broadly consistent pre-event performance dynamics across the French and Italian equity markets in the period leading up to the 13 February 2025 m-CBDC policy announcement. Both the CAC40 and FTSEMIB exhibited gradual upward trajectories, reflecting strengthening investor sentiment across major Eurozone markets prior to the policy release. However, the magnitude and slope of appreciation differed between the two indices. While the CAC40 advanced steadily from the mid-7,600 range toward the upper-7,900 band, the FTSEMIB recorded a more pronounced ascent, rising from approximately 30,500 to above 32,500 within the same estimation window.

From a statistical standpoint, both markets generated positive mean daily returns ahead of the 13 February 2025 announcement, reinforcing the presence of bullish baseline conditions prior to the event window. Volatility levels remained moderate, though return dispersion appeared marginally higher within the FTSEMIB. This pattern likely reflects the index's heavier weighting toward banking and financial sector equities, industries more directly exposed to cross-border settlement innovation and digital currency infrastructure developments. Trend slope estimation further supports this divergence, with the FTSEMIB displaying a steeper positive gradient relative to the CAC40, suggesting stronger momentum accumulation in the Italian market before the policy signal.

Institutional and Strategic Implications

The announcements triggered strategic reassessment across financial institutions. Banks began exploring tokenised liquidity corridors and CBDC settlement integration. Payment processors evaluated blockchain clearing infrastructure, while fintech firms accelerated investment in distributed settlement platforms.

The evolving ecosystem suggested that CBDC infrastructure would reshape correspondent banking, foreign exchange settlement, and institutional liquidity management. Financial institutions positioned early in digital settlement networks could secure structural competitive advantage.

Decision Point

As institutional investors evaluated the implications of Project Rialto, interpretive uncertainty persisted. Were abnormal returns merely short-term trading signals triggered by policy announcements? Or did they reflect deeper structural transformation in global financial infrastructure?

Portfolio allocation decisions now depended on that interpretation. Equity strategists faced three interconnected questions:

Should m-CBDC announcements be interpreted as short-term trading opportunities or long-term structural signals?

Do fintech policy innovations materially affect firm valuation in developed markets?

How should financial institutions strategically position themselves in anticipation of CBDC integration?

The answers would shape investment strategies and determine how markets priced the digital transformation of money itself.

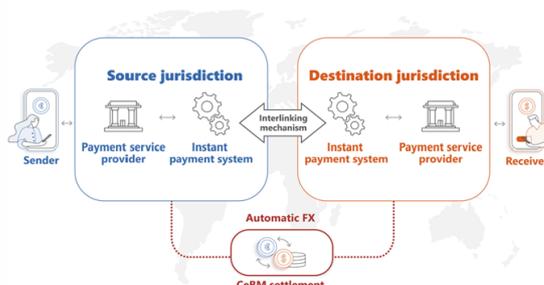
Footnote (References)

1. Bank for International Settlements. Central Bank Digital Currencies: Foundational Principles and Core Features. BIS, 2020.
2. Carstens, Agustín. BIS Annual Economic Report Speech on CBDCs, 2021.
3. Bank for International Settlements. 2025. “Project Rialto: Improving Instant Cross-Border Payments Using Central Bank Money Settlement.” BIS Innovation Hub. <https://www.bis.org/about/bisih/topics/cbdc/rialto.htm>
4. BIS Innovation Hub. Multi-CBDC Platforms for Cross-Border Payments.
5. Committee on Payments and Market Infrastructures, BIS. Enhancing Cross-Border Payments.
6. Auer, Cornelli & Frost. “Rise of the Central Bank Digital Currencies.” BIS Quarterly Review.

Exhibit 1 Project Rialto Cross-Border CBDC Settlement Architecture

Project Rialto aims to demonstrate the technical feasibility of retail cross-border payments using...

- Interlinked instant payment systems
- An automatic FX conversion layer using tokenised central bank money as a safe settlement asset
- A cross-border DLT network for existing FIMs and next generation tokenised asset systems



Source: BIS Innovation Hub

Exhibit 2 Historical Index Levels of CAC40 (Jan–Feb 2024)

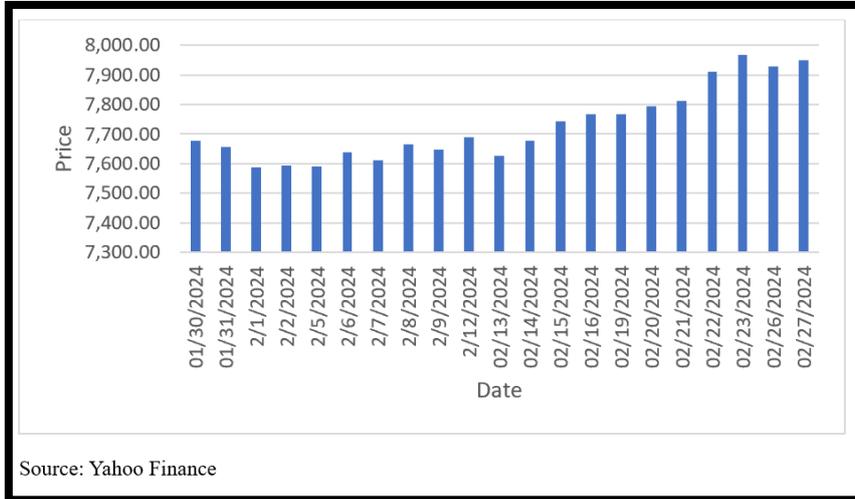


Exhibit 3 Historical Index Levels of FTSEMIB (Jan–Feb 2024)

