



DLT, Tokenisation, Digital Assets

Thoughts on 'where-from-here'

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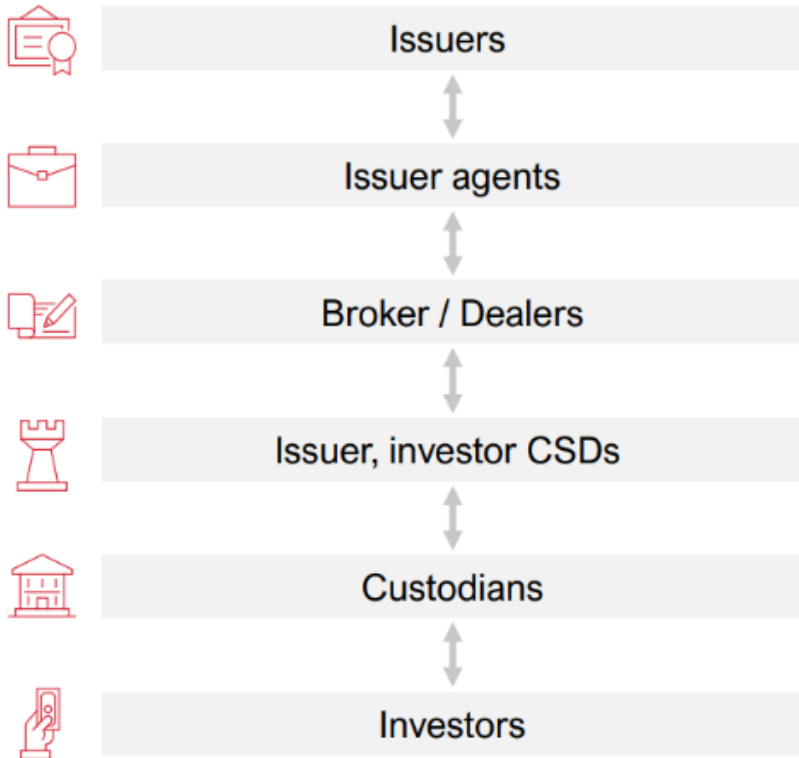
Agenda

- 01** THE DIGITAL JOURNEY
- 02** DIGITAL SECURITIES ISSUANCE, A USE CASE
- 03** SOME EXAMPLES IN INDIA

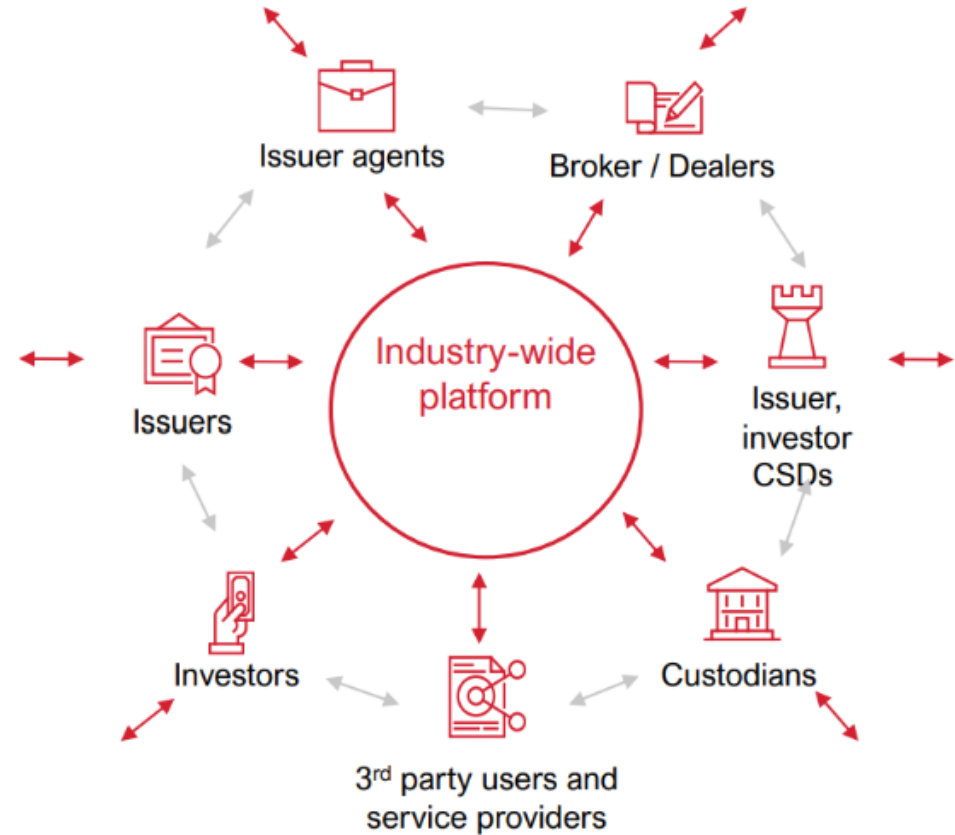


There is an opportunity to make a major leap forward

FROM a sequential value chain, where data is duplicated across multiple layers



TO an open shared platform providing a catalogue of data-enabled services available to all market players and complemented by 3rd parties





For “DLT”, we are at the intersection of market, regulatory and technology readiness to make the next move!



The Market is Transforming with rapid development of services across the value chain



Central banks and regulators are massively experimenting with CBDC and there are Pilot regimes emerging to increase even more the opportunities for DLT for traditional players and new entrants



Availability of market lessons. Getting the second mover advantage



What to do and how? A possible path.



The market is developing new services across the value chain

As the value proposition of DLT becomes clearer, capital market institutions are pursuing dedicated initiatives – both incumbents and new actors.

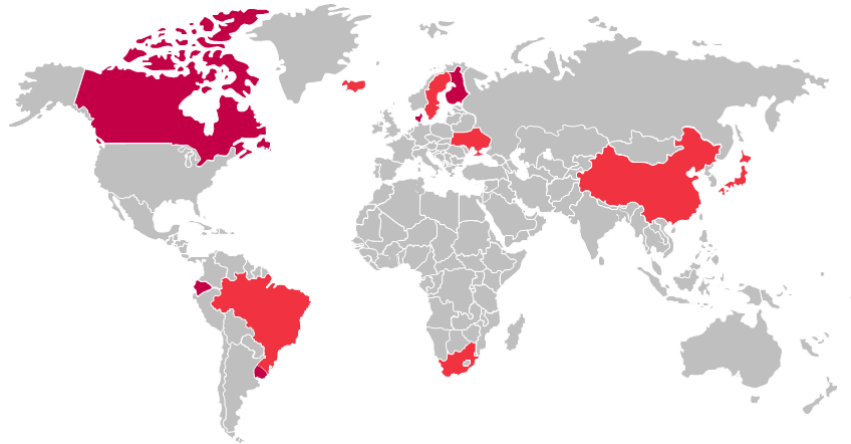
Pre-Issuance	Issuance Platforms	Custody & Asset Servicing	Secondary Markets	Clearing & Settlement	Payment Service Providers
<ul style="list-style-type: none"> Simplifies the current fragmented processes around pre-issuance. Platform to automate and integrate workflows across different market participants until deal-closing. Digital information-gathering during pre-issuance enhances the process of tokenised securities issuance. 	<ul style="list-style-type: none"> Issuance Platforms facilitate the creation of security tokens. They are aimed at the tokenization of liquid and illiquid assets. Use cases include (debt) issuance, FX trading or securities lending. 	<ul style="list-style-type: none"> A secure custody solution allows for the storage of tokens. Custody is the foundation to support the future of tokenised digital assets from origination, to trading, and safe storage. DLT and smart contracts can modernize current corporate actions processes. Digital asset custodians provide secure ways to execute, transact, and store digital assets. 	<ul style="list-style-type: none"> Investors can trade tokens they own in a secondary market. Prices in a primary market are fixed and in a secondary market they are dependent on demand and supply. Some issuance platforms also provide and digital exchanges for secondary markets. Reduction of counterparty risk, margin, collateral, and liquidity requirements. 	<ul style="list-style-type: none"> Creation of digital collateral records to enable near instant ownership transfers of security baskets Accelerated DvP settlement of digital security and cash tokens Simultaneous exchange of cash and securities through tokenised reserve accounts reducing settlement times. 	<ul style="list-style-type: none"> Tokenised payments are transactions performed with digital tokens. The tokens can be the asset itself or a digital representation of the asset.



Central banks have increased CBDC initiatives

Central banks are actively experimenting or implementing DLT (CBDC) solutions – arising from the desire to improve international payments as well as geo-political considerations around reserve currencies.

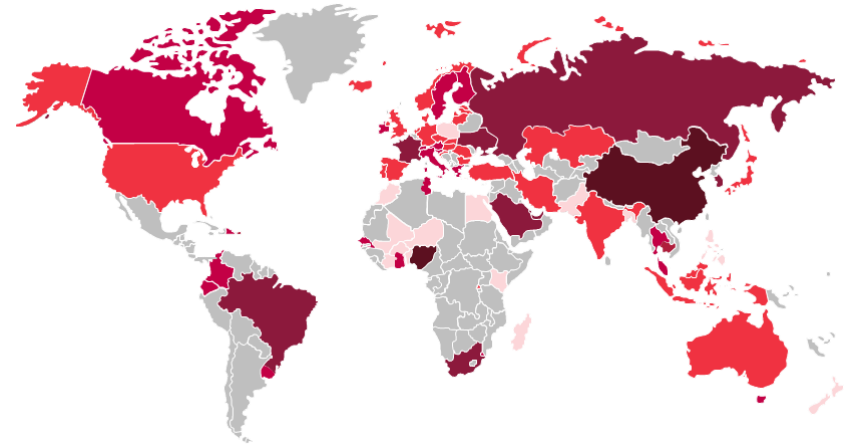
Jan 2018



CBDC Initiatives (Jan 2018)

0	Interest	Countries declaring interest and initial research to explore CBDC feasibility
10	Research	Countries that published CBDC research reports and/or conducted early PoCs
6	Experimentation	Countries experimenting and piloting CBDC with limited number of parties
0	Implementation	Countries preparing their CBDC for a full-scale launch
0	Launched	Countries that officially launched a CBDC

Jan 2022



CBDC Initiatives (Jan 2022)

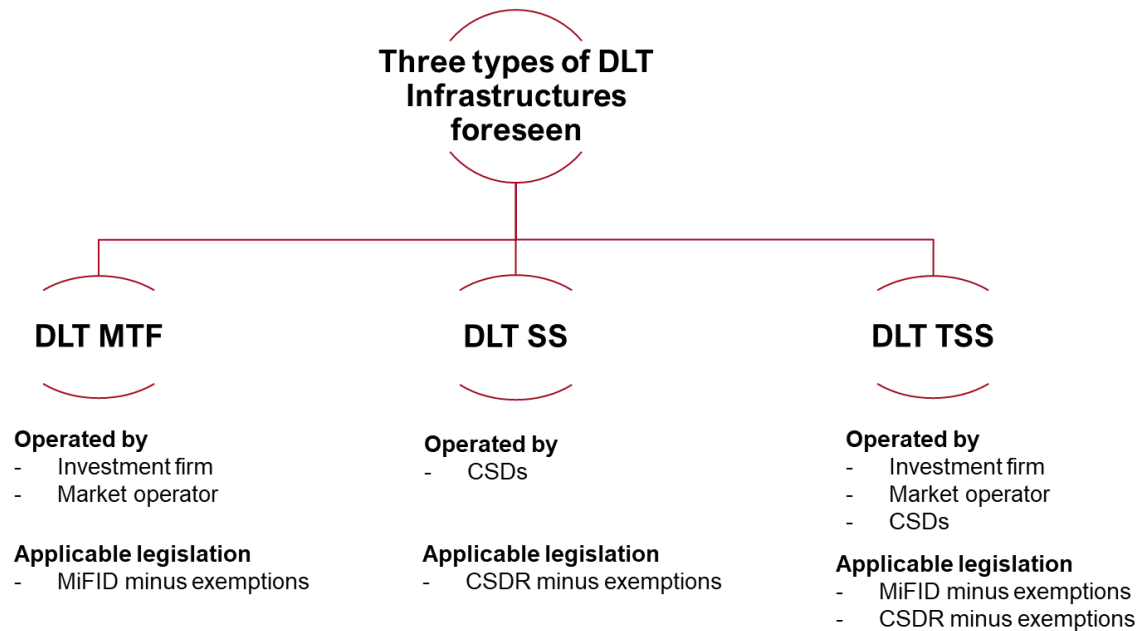
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Sources: Bohem Tech, CBDC Tracker



Regulators took a regulatory sandbox approach to allow the development of trading and settlement services in DLT

The DLT Pilot Regime is a pan-EU testing environment where DLT market infrastructures receive regulatory exemptions from MiFID and CSDR to facilitate the settlement of tokenized financial instruments using DLT.



Effective dates

EU Pilot Regime came into force on March 23, 2023, for an initial period of 3 years

Single licence

Allows the combination of trading and settlement within one single entity

Notary

Allows the distribution of core CSD services

Desintermediation

Accept retail participants

Stablecoin

Allows settlement in commercial bank money without CSDR banking requirement



The 4 main lessons learned from the market

Market Readiness

General readiness of the market to adopt the solution is often a major challenge. The underlying causes can vary, but often boil down to lack of incentives for the broader ecosystem to make the investment to adopt a new solution.

Misusing the Technology

DLT is not a silver bullet – it needs to be applied where it is fit-for-purpose. During the peak of the hype cycle, many organizations applied the technology to a variety of use cases where other technologies were better suited.

Insufficient Governance

Governance of both the solution and the ecosystem participants is crucial. DLT governance requires consensus between the participants and requires an operating model that ensures mutual benefits. At the same time, the governance must be sufficiently strong to be able to maintain business agility and to address the exponential growth of some value cases.

Lack of Regulatory Clarity

As with many innovations, regulation often lacks. In the early years, many DLT solutions were deployed in a regulatory vacuum. This often led to risk-adverse potential customers not adoption the value proposition.



A DLT strategy guided by some key principles...



Market Optimization

DLT allows to reduce pain points and identify operational efficiencies to unlock trapped value and provide new value propositions for the market.



Business Value Creation

Identify and prioritize the use cases that are most applicable and feasible to add tangible business value.



Market Collaboration

Coordinate with key market players and regulators to co-create optimal workflows and ensure alignment across all parties.



Ecosystem Value Driven

Redefine interrelationships, reposition market entities, and rework roles and responsibilities to ensure inclusivity for all market players.



Strategy Alignment

Ensure the north star evolves to support key stakeholders' overall business strategy



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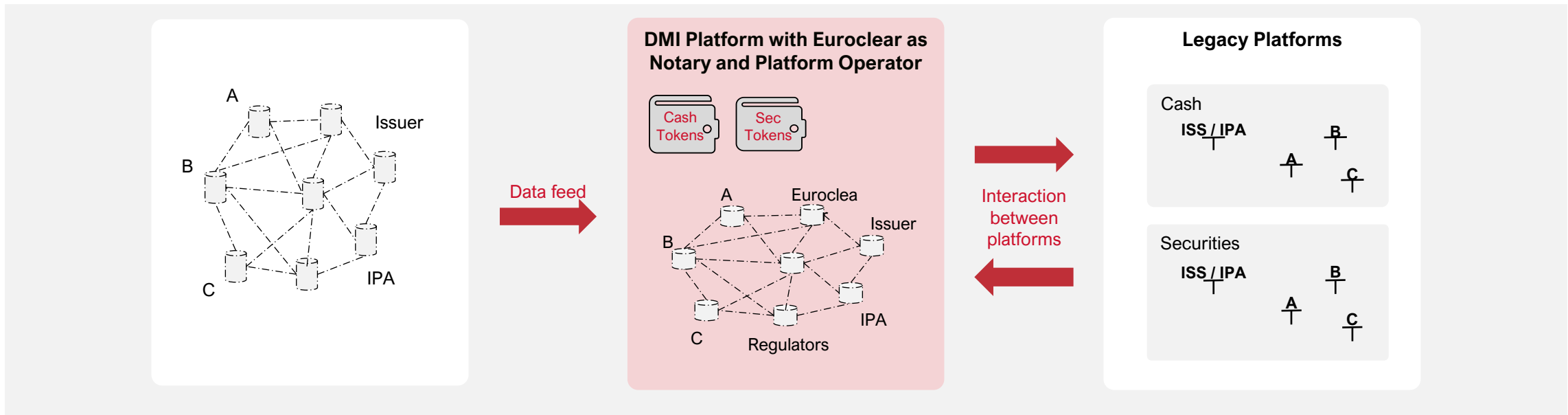
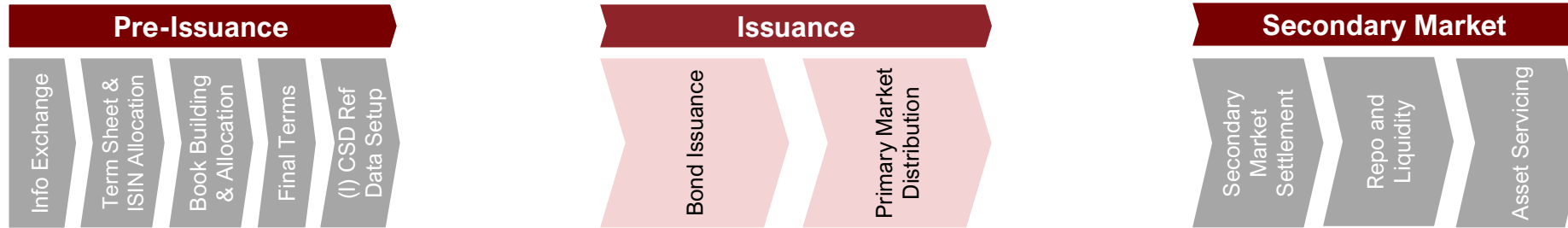
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Digital Bonds Issuance MVP

The issuance MVP is the first step to getting securities reference data on the platform and achieving the short-term objectives





Interoperability is key

DFMI

- Onboarding
- Program & Securities Acceptance
- Primary distribution functionalities

Optimal liquidity and availability at all times

- The legacy connection ensures that the digital bond is immediately and seamlessly accessible to the full international investor base. Hence, issuers of digital bonds are not penalized in terms of price or size due to a lack of liquidity or other limitations
- Secondary market transactions will take place in the legacy environment



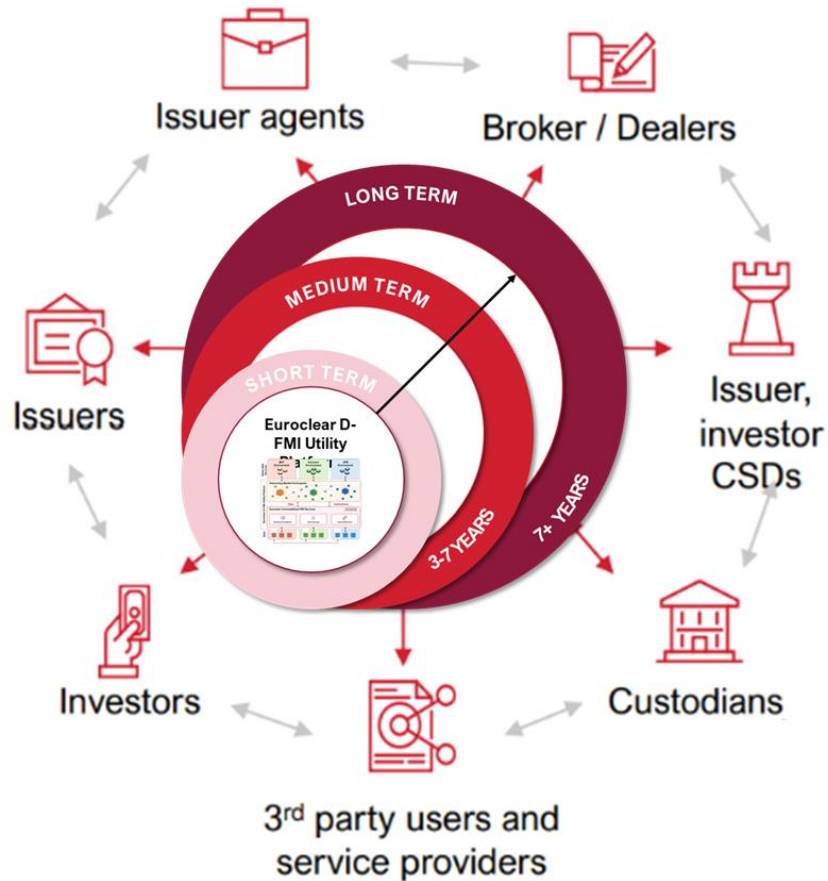
Standard and platform-agnostic APIs (ISIN allocation, Security Acceptance and Final Terms) to obtain/provide automated bond data feeds from/to (pre)-issuance sources

Legacy bridge to allow all DSI-issued bonds to be held, settled, serviced, traded and used as collateral by anyone in the Euroclear ecosystem



With a phased approach...

The value of the platform will evolve with its capabilities and the eco-system adaptation



SHORT TERM

Establish the foundations & apply them to create win-win situations for all involved actors

MEDIUM TERM

Expand foundations. Broaden the offering of value-added services.

LONG TERM

Expand further to offer services to a bigger capital markets ecosystem



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Blockchain Trends in India

- Market Regulator SEBI had mandated all the depositories in India to roll out Distributed Ledger Technology (DLT) blockchain platform for debenture covenant monitoring to ensure transparency.
- Digitized issuance of securities in a permissioned private blockchain network involving stakeholders and enabling automation of key asset lifecycle events
- Launch of a Wholesale CBDC solution for the settlement of money market and fixed income securities
- Launch of a Retail CBDC solution for enabling digital payments complimenting the existing digital payment infrastructure of UPI
- State Government of Andhra Pradesh had introduced Blockchain Technology to register land titles to enable a transparent process in the purchase and transfer of property deeds
- State Government of Maharashtra had introduced Blockchain Technology to issue diploma certificates on blockchain
- A Private commercial bank had digitized the Letter of Credit (LC) using the Blockchain Technology
- Issuer, Beneficiary and the requestor are all connected in a blockchain network thus enabling a transparent ecosystem for the Letter of Credit (LC) to be transferred thus reducing forgery and the time taken for issuance and redemption



