



ISSA

International Securities Services Association

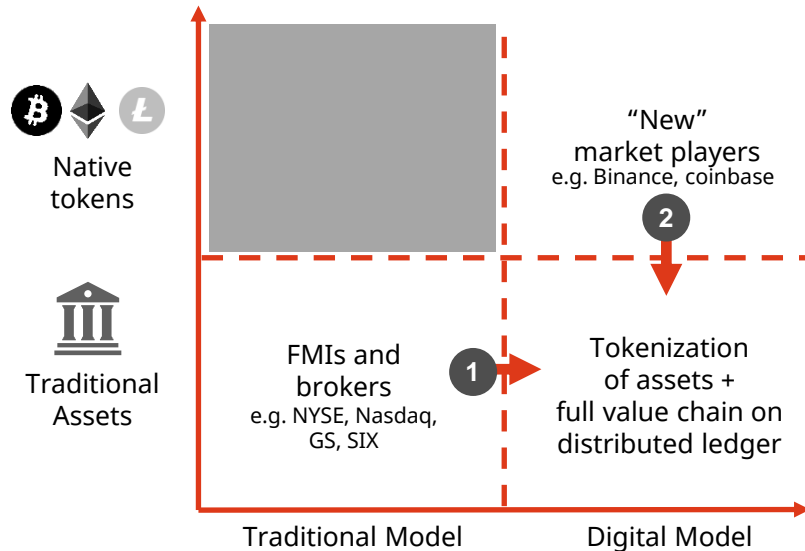
ISSA DLT Working Group

Crypto Assets - Moving from theory to practice

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Observations on DLT developments



1 Incumbents (FMI & brokers, etc.) moves

- Bringing traditional market activity onto distributed ledgers
- Starting tokenization of assets and payments
- Aiming to achieve resource efficiencies and increased transparency and simplicity along the value chain

2 "New" market player moves

- Bringing public-blockchain assets to the traditional universe of investors
- Leveraging their digital market infrastructure and services for the traditional asset space threatening/disintermediating of incumbents business models

A lot is happening



Why an ISSA DLT Working Group?

2016

- Concerns about disintermediation
- Which part of the value change will disappear
- Will CSD's still be needed

2019

- Disruption is less likely to occur through the disintermediation of existing roles
- Existing intermediaries will have to evolve and adapt
- New roles will arise:
 - DLT network governors and/or operators
 - Smart contract verifiers/guarantors
 - Bespoke service packages by specialist providers

Focus of the ISSA report

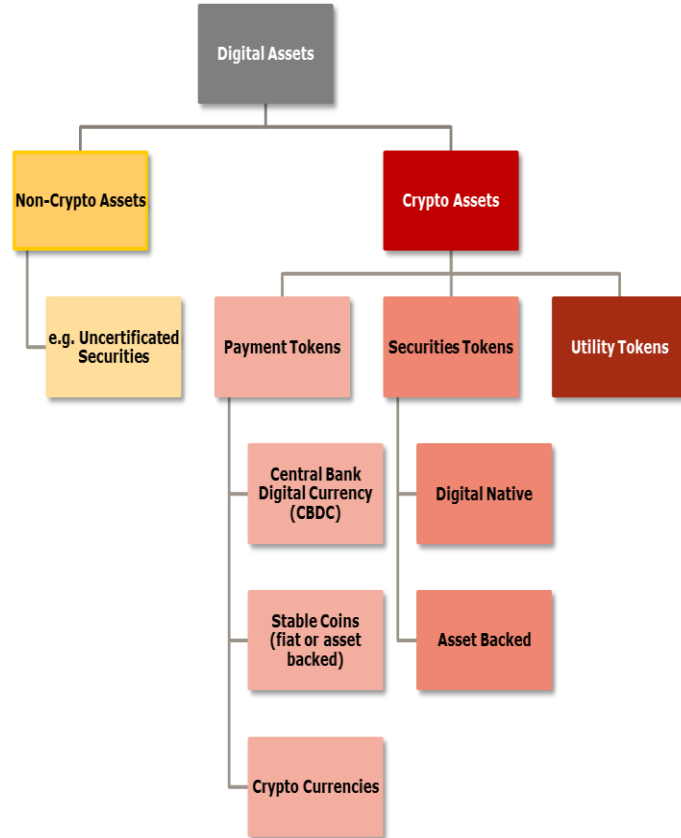
Lifecycle of Crypto Assets

- Issuance
- Settlement
- Asset Servicing
- Safekeeping

and added

- Law and Regulation
- Interoperability and Standards

Crypto Assets



- Legal qualifications not yet clear
- This lack is an inhibitor to a faster adoption of crypto assets in the market place

Recommendations / Best Practice Considerations

- Potential to transform primary market origination, syndication, closing and signing processes
- Easier access to non-bankable assets (currently held out of network)
- Entities hosting Crypto Assets, specifically Securities Tokens, must ensure they have, for DVP/DvT processes, the relevant regulatory qualification to provide finality of settlement
- New roles could emerge e.g. smart contract verification services, but the exact form and regulatory ambit of such roles is yet to be determined

Recommendations / Best Practice Considerations

- Immediate settlement holds many promises but the mandate to pre-fund eliminates large benefits of the current environment; Netting, Market Making, Block Trades etc.
 - Research on this topic is needed
- “Hard” and “soft” forks management is not comparable with the management of corporate actions
 - right to decline to support future forks

Recommendations / Best Practice Considerations

- The distinction between the safekeeping of private keys and the safekeeping of the Crypto Asset itself needs clarification, on legal and practical grounds
- The work of the International Organisation of Securities Commissions (IOSCO) in harmonising Crypto Asset trading platforms should be extended to encompass post-trade services
- Standards and inter-operability are essential to encourage adoption of Crypto Assets by issuers and investors

Conclusions in the ISSA report

- Crypto assets are here to stay and have the potential to disrupt the incumbents in the post-trade area
- Rapid transition is unlikely to occur



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