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Task Force*

DLT-TF report and potential follow up actions

AMI-SeCo meeting

4 July 2017

- 1. Background on DLT-TF activities**
- 2. Draft report and main findings**
- 3. Potential follow up activities**

1. Background on DLT-TF activity

Mandate of the TF

- **From the mandate:**

*“Analysis of the **potential impact of DLT on the existing or upcoming T2S harmonisation activities** [and] on further post trade harmonisation initiatives in view of the **wider EU integration agenda.**”*

*“**Proposals for potential actions.**”*



1. Background on DLT-TF activity

Action plan endorsed by the HSG

- Report was expected one year after first meeting (i.e. September 2017)
- **HSG endorsed the report** in June
- Potential **follow-up actions have been identified**
- Expiry date of the DLT-TF: 31 December 2017



2. Draft report and main findings

Structure of the report and topics addressed

- Introduction: Main **features** of DLTs
- Part I: DLTs and some **founding elements** of post trade
 - Accounts and account structures; Issuance of securities; DvP and availability of cash on distributed ledgers
- Part II: DLTs in **settlement** and related services
 - Settlement finality for securities settlement; Settlement Discipline Regime; Settlement day schedule and settlement cycles; Collateral management; Asset Servicing; Reporting
- Part III: DLTs **beyond transaction** processing
 - Cyber resilience; Digital identity on DLT; Data Protection and Professional Secrecy; Interoperability
- Conclusions: Potential **impact** of DLTs on harmonisation

2. Draft report and main findings

General assessment

- Many elements of a DLT-enabled financial market have to be designed and put together before DLT adoption can be considered a **realistic possibility**
- DLT technologies cannot bring substantial benefits without **interoperability** across distributed ledgers as well as between DLT and non-DLT systems
- T2S community of stakeholders has an interest in maintaining currently agreed **standards** or even considering introduction of new ones, if required



2. Draft report and main findings

Impact on T2S harmonisation

n.1 – T2S ISO 20022 messages

Functionalities of DLT systems connected to T2S (e.g. smart contracts) may require messages beyond current standard

n.2 – T2S matching fields

Risk of duplication of standard settlement instructions if assets are held in DLT and non-DLT enabled systems

n.3 – Interaction with T2S for registration procedures

No impact on standard. (Efficiency gains beyond T2S?)

n.4 – Interaction with T2S for tax info requirements

No impact on standard. (Efficiency gains beyond T2S?)

n.5 – Settlement day and a single calendar

Propensity towards 24/7. (DLT nodes would need a standard)



2. Draft report and main findings

Impact on T2S harmonisation (continued)

n.6 and 18 – (T2S and market corporate action standards)

Potentially unaffected. (Beyond T2S, more detailed standards are likely necessary for advertised automation)

n.7, 8 and 9 – Settlement finality

Highly dependent on DLT model. Concern for interoperability

n.11 Settlement discipline regime

Settlement models may be affected making DLT and non-DLT systems subject to different constraints under same rules

n.12 – Settlement cycles

T2S is agnostic to shorter cycles. Hype on shorter cycles?

n.13 and 14 – (Omnibus accounts availability and restric.)

Potentially unaffected



2. Draft report and main findings

Impact on T2S harmonisation (continued)

n.15 and n.16 – Securities and Cash account numbers

Use of public keys is not compatible with T2S standards

n.20 – Withholding tax procedures

Potentially unaffected. (Beyond T2S, traceability could help)

n.21 – Cross-border shareholder transparency and registration procedures

Shared data may help developing decentralised solution

n.23 – Securities amount data

Potentially unaffected

n.24 – Portfolio transfers

Simplified if “account” is at the level of end investor’s wallet



2. Draft report and main findings

Impact on wider EU integration

ISO20022 standard

Needs extension into smart contract initiation and coding

Shareholder identification

Key potential. It becomes a barrier if fragmented among markets

Interoperability needed, not simple coexistence

Global effort difficult but standard setting bodies may help

Golden copy for corporate events

Potentially produced by issuer and available across all markets

Governance for KYC, cyber, data protection

Common framework needed for restricted networks (beyond DLTs)

Reporting Needs standards and interfacing among systems

3. Potential follow up actions

I. DLT use cases

1. Possible **use cases of DLT networks for information sharing** (not settlement related) to be assessed:
 - a) *Streamlining and standardization of communication in **corporate events** to ensure a single “golden copy”*
 - b) *Pan-European DLT solution for **shareholder registration and transparency**, as well as **voting***
 - c) *DLT based solutions for **tax processing**, particularly for **capital gains tax** and **pro-rata temporis** calculations.*

3. Potential follow up actions

II. Standards and governance

2. Contribute to creation of **standards** for use of and interoperability among DLTs is needed

- Timing of standardisation is a key issue and it shall be general and descriptive until a technology reaches maturity

3. Contribute to reflections on **governance** in restricted networks of financial institutions

- To ensure that responsibilities over data handling are clear and that an adequate cyber resilience framework can be adopted

3. Potential follow up actions

III. Wider implications

4. Assess what **DvP solutions** would be preferable in the current environment, both in commercial bank (CoBM) as in central bank money (CeBM)
5. Analyse the pros and cons of **shorter settlement cycles** in a scenario with seamless communications between parties involved in post trade activities

The HSG invites AMI-SeCo members to:

1. Approve the attached **draft report for publication** as a contribution to industry discussions, and
2. Approve and provide guidance on the five potential **follow-up actions** identified in the analysis

