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# 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

