

ISSA – Digitisation Working Group (WG)

Minutes of Call 3 November 2021, 13:00 – 14:00 CET

Participants	Samir	Pandiri	Broadridge Financial Solutions Ltd
	Michael	McPolin	Broadridge
	Hanan	Alshehri	Saudi Depository Center "Edaaa"
	Nicolas	Devion	The Mauritius Commercial Bank Ltd.
	Alex	Dockx	JP Morgan
	William M.	Hodash	DTCC
	Georg	Imboden	SIX Securities & Exchanges
	Zhu Kuang	Lee	HSBC
	Kéry	Orsolya	UniCredit Bank Hungary Zrt.
	Richard	Sampaio	Zürcher Kantonalbank
	Ankush	Zutshi	IHS Markit

Excused	Jack	Parker	JPMorgan
	Jennifer	Peve	DTCC
	Simon	Shepherd	Myriad Group Technologies Ltd

Agenda

- Welcome and Introductions
- Discussion
- Next Steps and AOB

Welcome and Introductions

Michael welcomed the participants and thanked them for joining. He reminded everyone that “Digitisation” is a huge topic, as can be seen from the ToR, and to execute the agenda we have broken the problem into bite-sized parts and will pursue an agile approach to the whole topic. Private Markets (PM) have been selected as the initial focus after input from the membership in the September and May open workshops.

Michael then invited the attendees to introduce themselves which they did.

Discussion

Using the initial deck (attached) as the starting point a debate was had about whether the group recognized the problem statements and agreed with the approach to addressing the statement. There was consensus that although many of the issues were taken from the DTCCs research on the US markets that they did not really differ across borders at the macro level.

The point was made that in many jurisdictions there are concurrent projects to digitize traded Equity and FI instruments but PM has been left behind.

A question was raised about whether the output should be forward looking or about the present state? The agreement was that the group would need to understand and describe the picture today, but the objective of the paper would be what the WG wanted the future state to be. This future state may be achieved by some tactical recommendations/enhancements as well as a vision for the future state.

What do we mean by PM and what does it cover? Scope is the WG's to define but definitively should cover PM Equity and debt, probably placement, and maybe Private Equity Funds and general/limited partnerships & venture capital funds if we find the requirement. These are recognized as also being fairly inefficient.

It was agreed that having a good use case from the US as base line it is only one example and we should identify more. It was stated that one of the learning from the DTCC was given the lower volumes within PM there was the opportunity to utilize revolutionary technology in this case DLT as there is a large degree of inefficiency in the PM.

The group was also cognizant of the jurisdictional impact on the markets. In Europe PM can be held within CSDs and therefore the solutions may not be the same, does CMU cover PM, and the legal framework is key. Even in Europe no one in the WG thought that the problems had been solved.

An additional example of the challenges under various regulation is that in the US there is a need to know the final end investor and for CSDs this has been historically hard and moves from nominee structures to direct access. This is particularly true as there maybe restrictions placed on accounts and how and when PM assets can be sold or transferred.

There was an agreement that there is an ESG challenge as there is an intrinsic policy conflict between some of the stated aims of governments – ensuring a level playing field for access to the world's fastest growing companies versus investor protection (societal good) and only selling PM products to “accredited investors” (investor protection). In addition;

1. Transaction costs are prohibitively high and PM may trade in a size that normal individuals cannot be able to afford, i.e. a million USD subscription. The cost and effort required in the present market structure is a quoted rationale to maintain the high ticket size.
2. Rules like SEC rule G12 limit the number of shareholders that a PM company can have (roughly 2000) but SPV's may have more owners behind.

Some solutions had looked at public blockchains but these do not have the same attributes as private permissioned when it comes to such things as technology policies (access, security etc.) or standards.

As yet the DTCC is not looking at transfer agents as they are not required in the US market context but over time they may look at LLPs and General Partnerships.

The problem with manual transfers of ownership are recognized with one member remembering that paper ledgers are/were in use....

In the European market (which is much smaller but growing) the problem of PM is relative off radar on the list of regulators priorities. Is that partly because PM can be held at CSDs in Europe?

ACTION: All WG members to research their local market (your decision whether you consider your local market to be country or region specific i.e. Georg and Richard could take Switzerland or Europe, Hanan could take Saudi Arabia or Middle East).

Output to be a set of process flows for the market(s) from execution to settlement, including suitability and employee constraints. All observations on the good, the bad and the opportunity for change and improvement are needed. Please also consider the other considerations page of the deck in your responses.

It was observed that there has been (in the US at least) a rise in Capital Table providers (similar to transfer agents) who are creating SaaS for making registers of PM owners, including employee shares. These are being created in gated silos/walled gardens and now in some cases offer silos from Exchange to Register which itself may not address the real needs of investors and issuers, but rather potentially act as unregulated sandboxes. This could be described as a technology led approach. The creation of the Open Cap Table Coalition may allow for more open standards and the ability to move between Cap table firms.

[Editor's note: the website <https://captablecoalition.com/> suggests that their prime aim is "Our Mission: The Coalition is made up of high-growth startups, VC firms, and emerging fund managers who want to work to close the racial wealth gap. The Cap Table Coalition was inspired by the Act One Diversity Rider for VCs and Finix's unique fundraising efforts to diversify startup cap tables. The Coalition's goal is to make it as easy as possible for all companies and firms to join the movement.]

Do PM need transfer agents and a different level of control on the register?

Switzerland's new regulation on ledger based solutions allows for fintech as well as CSDs to play many of the same roles and certificates of holdings can be equally held at banks or fintechs.

Next steps & AOB

- The WG agrees with the problem statement and will work on the action above by 3rd Dec.
- In two weeks a reminder will be sent to the team 18th November.
- Colin to set up call 8th Dec.

Volunteer required for Co-Chair position to help Michael.

Summary of Follow-Up Actions

No.	Action Description	Responsibility	Deadline	Revised status
1	<p>All WG members to research their local market (your decision whether you consider your local market to be country or region specific i.e. Georg and Richard could take Switzerland or Europe, Hanan could take Saudi Arabia or Middle East).</p> <p>Output to be a set of process flows for the market(s) from execution to settlement, including suitability and employee constraints. All observations on the good, the bad and the opportunity for change and improvement are needed. Please also consider the other considerations page of the deck in your responses.</p>	WG participants	3rd Dec	
2	Colin to set up call	Colin	Next week	
3	Let Michael know if you would like to Co-Chair	WG participants	Next week	

Colin Parry, ISSA CEO Office, 4 November 2021

Working Class	Salutation	First Name	Last Name	Contact's Legal Entity Name	Email	Attendee
Executive	Mr.	Samir	Pandiri	Broadridge Financial Solutions Ltd	samir.pandiri@broadridge.com	Yes
Chair	Mr.	Michael	McPolin	Broadridge	michael.mcpolin@broadridge.com	Yes
Member	Ms.	Hanan	Alshehri	Saudi Depository Center "Edaaa"	hanan.shehri@edaa.com.sa	Yes
	Mr.	Nicolas	Devion	The Mauritius Commercial Bank Ltd.	nicolas.devion@mcb.mu	Yes
	Mr.	Alex	Dockx	JP Morgan	alex.x.dockx@jpmorgan.com	Yes
	Mr.	William M.	Hodash	DTCC	whodash@dtcc.com	Yes
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	Mr.	Zhu Kuang	Lee	HSBC	zhu.kuang.lee@hsbc.com.sg	Yes
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	Mr.	Jack	Parker	JPMorgan	jack.parker@jpmorgan.com	Apologies
	Ms.	Jennifer	Peve	DTCC	jpeve@dtcc.com	Apologies
	Mr.	Richard	Sampaio	Zürcher Kantonalbank	richard.sampaio@zkb.ch	Yes
	Mr.	Simon	Shepherd	Myriad Group Technologies Ltd	simon.shepherd@myriadgt.com	Apologies
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