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## Digital Assets, Crypto Currencies & CBDC Impacts on Securities Services

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### CONTEXT

Digital Assets are certainly part of the future as we heard yesterday. Central Bank Digital Currencies have moved from an outlandish theory to pilots at a speed that has rarely been seen from Central Banks previously. Crypto Currency trading is no longer niche and clients want the custody grade storage at a retail level and need it at an institutional level. Stablecoins are being issued by banks as well as a number of unregulated entities. Kaiko holds data on over 100,000 individual DLT instruments on over 100 DLT exchanges.

ISSA has issued a number of papers on DLT over the last 3 years. Those papers have developed as the market has developed and have articulated the considerations that providers should think about but crucially have avoided the question about the services that Securities Servicers should provide nor have they addressed the operating models that could be deployed to service this growing market.

This debate today is to see whether these are now questions that the ISSA membership feels can and/or should be debated or whether the market is still too nascent to create the best practices and standards which will need to come.

### A SAMPLE OF QUESTIONS FOR DISCUSSION

In defining Custody within a DLT asset world we can consider two elements:

1. Custody of the private keys that allow access to wallets
2. Custody of the underlying assets

If we take the first element:

- a. Do you consider Custody of the private keys to the same functionality irrespective of the assets held in that wallet? Please expand on the variations
- b. Are there DLT networks where you would not be willing to hold the private keys and what are the defining attributes or missing controls that you would want to see in place before you would do so? Are there a minimum set of standards (or size of client demand) which you would need to see before you would be willing to hold these private keys?
- c. If ISSA would take a position on Private Key custody what do you think it should be?

Looking at the second element there are three scenarios 1. Tokenised versions of existing assets (non-native tokens), 2. Digitally Native assets (we are purposely ignoring non-fungible tokens in this discussion), and 3. Crypto Currencies and CBDC.

If we take the assets as our next subject:

1. Do you look at the two types of underlying assets as being the same or distinct?

# Breakouts

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2. It is possible to foresee multiple trading ledgers supported by a single settlement ledger, akin to a CSD settling securities traded on multiple trading venues in the securities markets of today. It is also possible to envisage multiple settlement ledgers competing with each other for the business of multiple trading ledgers trading different Securities Tokens, and settling them in the same Payment Tokens, or settling the same Securities Tokens in different Payment Tokens. Which world do you think it the most likely (or hybrid)?
3. How do you see the custody of the underlying asset working at the custodian or CSD? Should the provider run omnibus accounts, omnibus per DLT network, segregated accounts per client and logically by client and DLT network?
4. Interoperability has been promoted in ISSA's papers but is not widely implemented. Would you refuse to take assets form a bespoke DLT network?
5. Presently token settlement need pre-funding how do you envisage:
  - a) Managing funding across multiple networks?
  - b) Charging the client for prefunding?
  - c) Conversion from fiat to the appropriate ledger coin?
  - d) Risk managing the potential ledger coin volatility
    - i) Do you see the use of a CBDC being a better option for your firm rather than a ledger coin?
    - ii) Would you prefer a bank issued stable coin or a DLT platform stable coin if no CBDC.
    - iii) Would a Crypto Currency used on a DLT platform be acceptable
- 6) Are all DLT asset tokens acceptable to hold and what would the defining features be to hold or not a particular token?
- 7) What are the top 5/7/10 risks that you see as a securities servicer with holding DLT tokens?
- 8) How do you envision Corporate Actions working in your chosen approach? Please discuss the situation for dividends and complex corporate actions.
- 9) How do you see the development of Network Management in a world of multiple networks holding DLT assets?
- 10) Clients are demanding from custodians more than just safekeeping and there are a number of value-added services, which are increasingly in demand. Which area in particular do you see growing the most in the future?
- 11) How does the increasing need for cross-chain connectivity impact custodian roles?

Finally Crypto Currency and CBDC - the wild west of DLT with everything from true retail CBDC to outright fraud.

It is ISSA's assertion that CBDC is better than stablecoin and the latter is better than unregulated crypto coins. Do you agree with this principle?

Wholesale CBDC appear to be issued in a 2 to 10 year time horizon, stablecoins are live (although limited in volume and use cases) and Crypto Currencies are used significantly. Do these time horizons change your view on the above principle?

If every exchange with tokenised assets has a different stablecoin or Crypto Currency how would you manage the funding needs?

# Breakouts

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