



21st ISSA Symposium

10 to 12 May 2023

Breakout Session 1: Digital Asset Custody in Securities Services - Outcome



Digital Asset Custody in Securities Services - Hypothesis

The impact of a major innovation (such as the discovery of electricity or the creation of the internal combustion engine, the telephone and the internet) is generally overestimated in the short term, yet under estimated over the long term. As an industry we can observe and learn from the history of these innovations and recognize the opportunity for evolution and transformation.

Digital assets is one such area where many feel there is a real opportunity to transform. Digital assets are a fundamental building block of Web 3.0. For some, Web 3.0 is viewed as being at the top of the hype curve, yet others believe that it could lead to a fundamental shift in how humanity operates.

ISSA has explored a number of different areas over the years where Digital Assets are key. Some prominent examples of Digital Asset innovation include:

- CBDCs (Central Bank Digital Currencies)
- SDX (SIX Digital Exchange, Switzerland's first fully regulated FMI for digital assets)
- HQLAx (Distributed ledger for Securities Finance and Repo)
- DTCC's Project Whitney (Platform to digitalize and modernize private markets)
- TDX (the Thai Digital Exchange, a subsidiary of the Thai Stock Exchange)
- Bitcoin and the (stable) coin universe

Digital Asset Custody in Securities Services - Hypothesis

In ISSA's upcoming Digital Asset Custody paper (a synopsis of which is enclosed for pre-reading), ISSA and GDF explore the attributes of Digital Asset Custody and suggest a number of actions to help transform this market.

The objective of the Breakout Session will therefore be to debate this theme, consider if there are areas that the ISSA membership feel resonate and, where that is the case, agree whether these actions – or others – should be pursued and if ISSA should help create the best practices and standards for the future.

Digital Asset Custody – Ideas for Consideration

These areas are those identified in the ISSA paper as requiring solutions:

- Ensuring bankruptcy remoteness of assets through regulatory reform, where needed, and clearer information to investors about the implications
- Resolving regulatory uncertainty related to sanction risks in the context of DLT transaction fees (mining / validator fees)
- Allowing for de minimis principal Crypto asset holdings in support of digital custody activity
- Enabling technology neutral regulation for key management
- Preserving a clear delineation between the responsibilities of a digital custodian as compared to investors
- Working towards industry-wide wallet-matching solutions
- Recognizing shifts in risk when implementing digital asset solutions
- Developing skill and expertise operating in peer-to-peer network
- Rethinking traditional problems to capture opportunities from DLTs

Digital Asset Custody in Securities Services – Summary Observations on Hypothesis

- Already function in regulated world and clients come to custodians and CSDs to protect assets
- Investors expect the same level of protection with digital assets that currently exist with traditional assets
- Considerations to include:
 - Varying risk profiles
 - Native/Non-native crypto verses tokenized assets



Digital Asset Custody in Securities Services – Detailed Findings

- Issuance
 - Trusted third party to maintain golden record on behalf of issuer
- Minimum standards that custodians and/or ICSDs should adhere to in order to enable increased levels of liquidity, capital commitment/observability to improve investor participation in digital asset markets
 - Technology neutral regulation for key management - safeguarding of assets
- Ensure bankruptcy remoteness and common standards for client asset protection for digital assets



Digital Asset Custody in Securities Services – Proposed next steps

- Approach to Digital Issuance and Safekeeping Standards
- Purpose
 - Education
 - Common questionnaire
 - Engage non-ISSA Members