



Platinum Sponsors



Global Times Consulting



Gold Sponsors



Silver Sponsors



Bronze Sponsors



Contributor Sponsors



Contributor  
Sponsors  FS Club



Bronze  
Sponsors



FS Club



Silver  
Sponsors



FS Club



valcon



CL-CLOUDSOFT

Gold  
Sponsors



FS Club



Platinum  
Sponsors



FS Club



ABU DHABI  
GLOBAL MARKET







Platinum Sponsors



Global Times Consulting



Gold Sponsors



Silver Sponsors



Bronze Sponsors



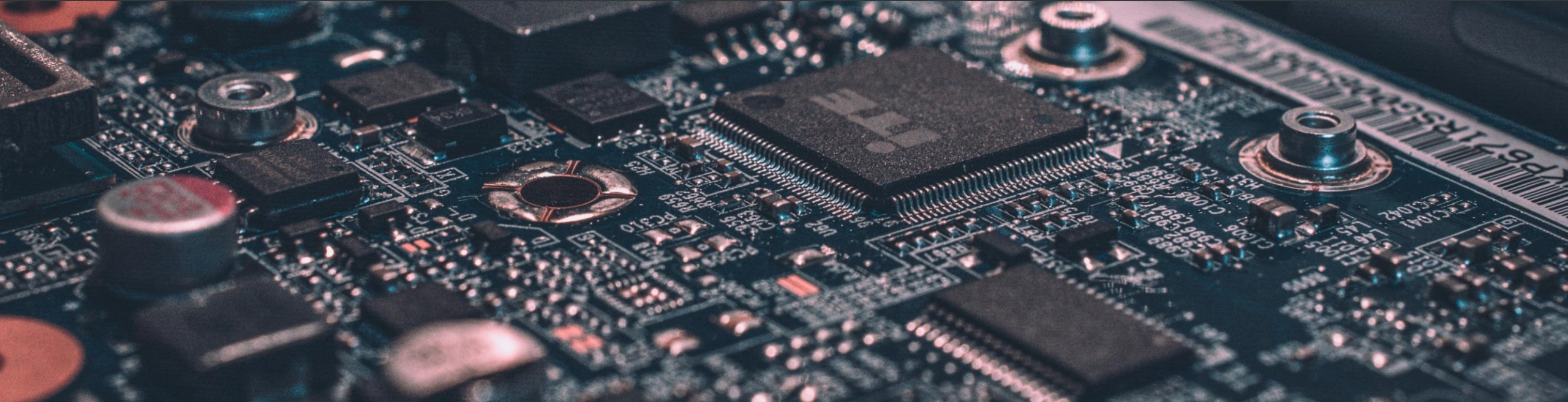
Contributor Sponsors





FS Club

News Events Partnerships



## The Use Of DLT In Capital Markets

Adam Farkas, CEO, AFME

Webinar

Thursday, 31 August 2023





## A Word From Today's Chairman

Hugh Morris  
Senior Research Partner  
Z/Yen Group





Platinum Sponsors



Global Times Consulting



Gold Sponsors



Silver Sponsors



Bronze Sponsors



Contributor Sponsors





# Today's Agenda



- 11:00 – 11:05 Chairman's Introduction
- 11:05 – 11:25 Keynote Presentation – Adam Farkas
- 11:25 – 11:45 Question & Answer



## Today's Speaker

Adam Farkas,  
CEO,  
AFME







C L I F F O R D  
C H A N C E

CRAVATH

**GFMA**

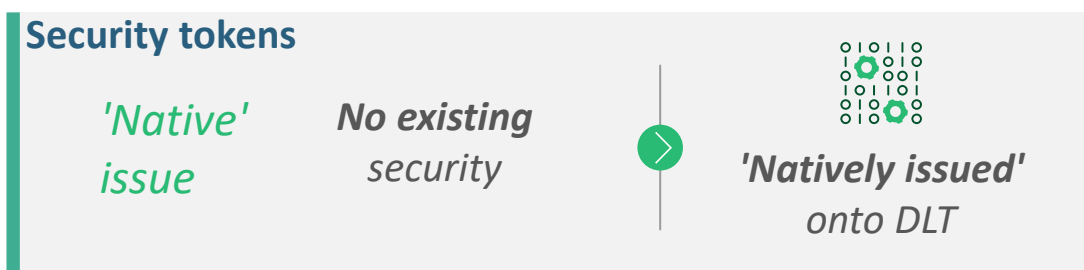
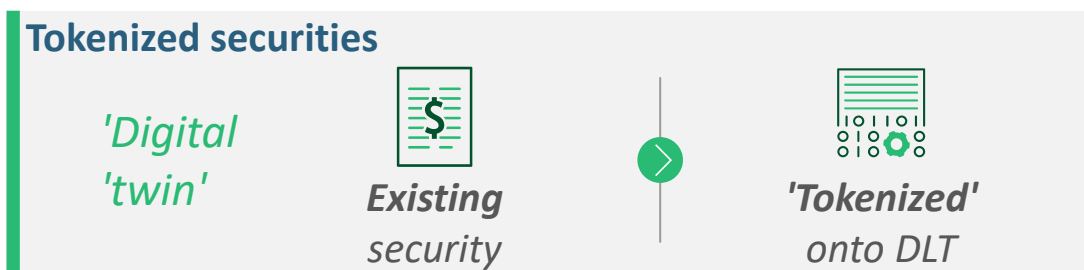
*Impact of DLT in Global  
Capital Markets*



# Opportunity: Tokenized securities in capital markets could deliver game changing efficiency and innovation

'Tokenization of securities' means...

...the digital representation of **traditional financial instruments on a distributed ledger**, reflecting an ownership right of the underlying asset



Transformative efficiency & innovation

**~\$2B**<sup>1</sup>

Est. Global back-office Opex saves

'Golden-source' data **reduces post-trade reconciliations**

**~\$20B**<sup>2</sup>

Global clearing & settlement Opex saves

Smart contracts **automate clearing & settlement**

**~\$19T**<sup>3</sup>

Addressable global collateral in 2022

Faster settlement frees **trapped collateral for redeployment**

**>\$16T**<sup>4</sup>






Value of global tokenized illiquid assets by 2031

Tokenization forms **new liquidity pools for illiquid asset classes**

Note: Benefits shown are hypothetical, assuming DLT is adopted at scale in capital markets; 1. Goldman Sachs, extrapolated to global benefit case; 2. Santander InnoVentures; 3. BCG analysis (original); 4. BCG x ADDX paper; commodities and FX are out of scope for this paper.

# End game: DLT-based capital markets is emerging, but **critical barriers must be overcome**

## DLT-based markets is emerging in phases<sup>1</sup>

Phase	Characterized by...
 <b>1   Experimentation</b>	<ul style="list-style-type: none"><li>• <i>Limited demand for DLT securities</i></li><li>• <i>Focus on primary market issuance</i></li><li>• <i>Legal &amp; regulatory ambiguity</i></li></ul>
	
 <b>2   Commercialization</b>	<ul style="list-style-type: none"><li>• <i>Growing demand for DLT securities</i></li><li>• <i>Growing liquidity in secondary markets</i></li><li>• <i>Market-level legal &amp; regulatory clarity</i></li></ul>
	
 <b>3   Scaling</b>	<ul style="list-style-type: none"><li>• <i>DLT-securities demand overtakes non-DLT</i></li><li>• <i>Globally harmonized legal &amp; regulation</i></li><li>• <i>Interoperability across DLT-platforms</i></li></ul>

## Critical barriers to be overcome



Harmonized **global legal and regulatory frameworks**



**Interoperability** across DLT and non-DLT systems



**Deeper liquidity** across primary and secondary markets



**Resolved technical constraints** around scale and cybersecurity



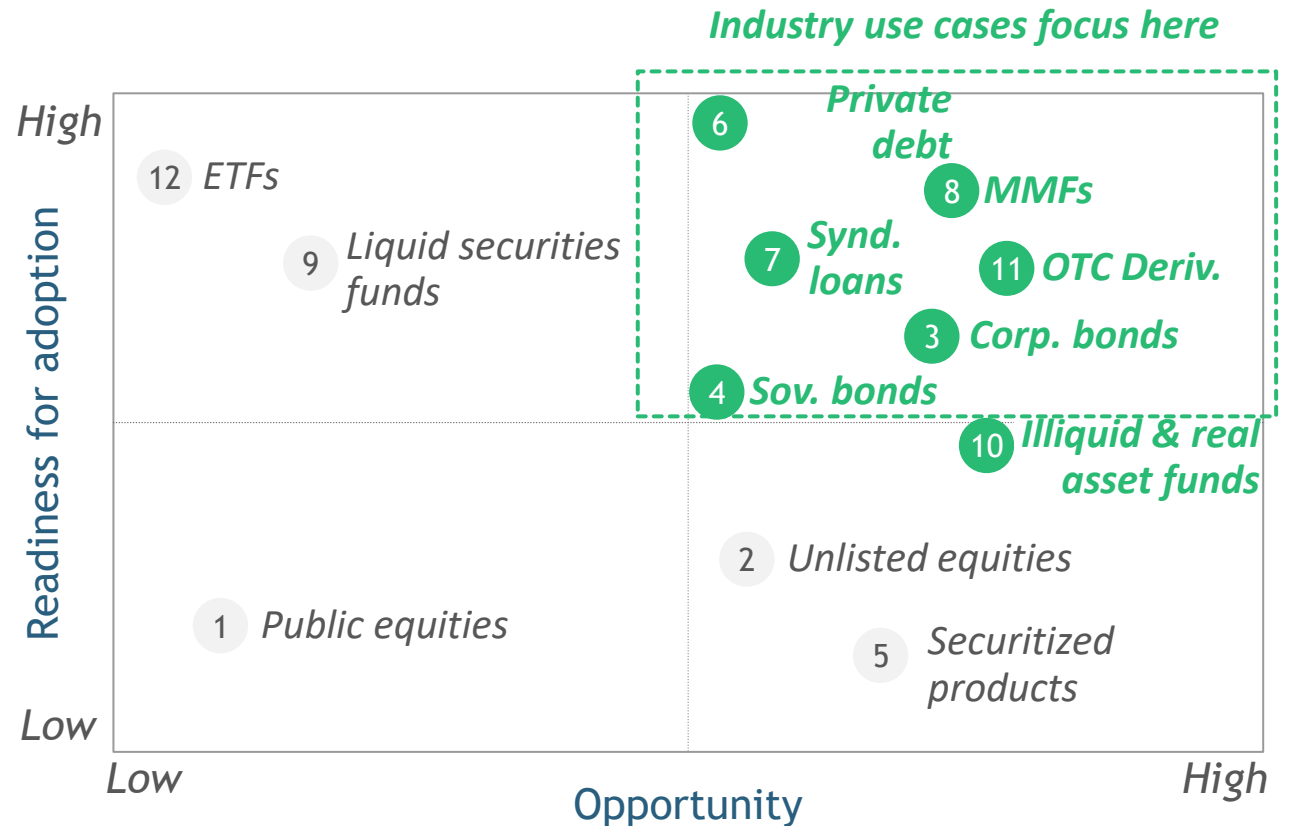
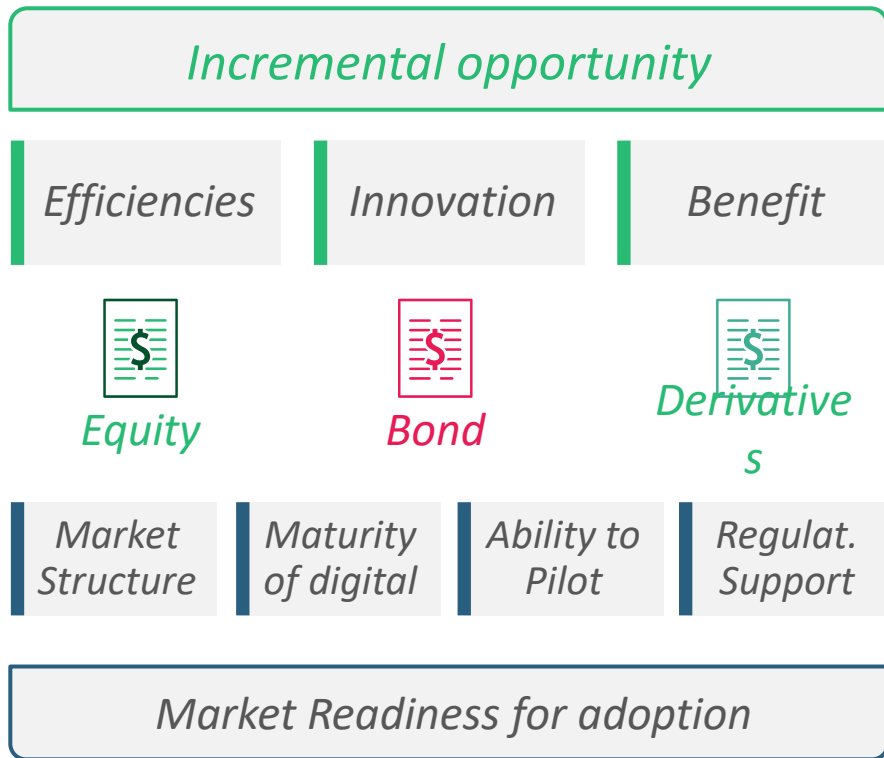
Launched **DLT-based payment instruments** (CBDC, deposits)

1. Phases will not always occur in a linear order and often occur in parallel; asset classes and transaction types (e.g., intra-day repos) are already reaching institutional scale



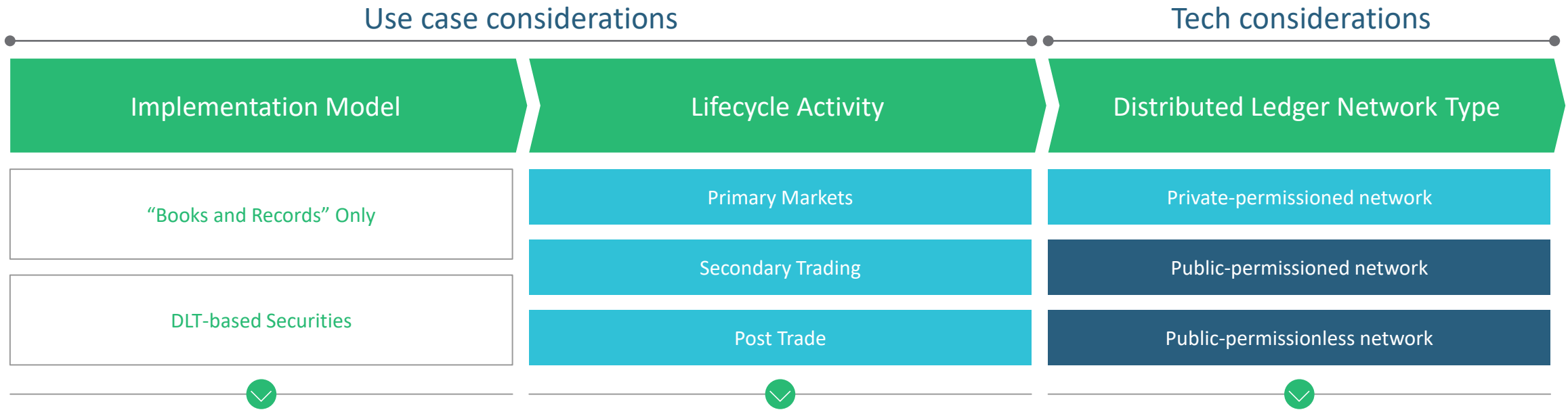
# Deleveraging adoption: Varying incremental opportunity and market readiness will drive adoption

Interplay of opportunity size and market readiness... suggests illiquid assets, bonds and debt well-placed for early adoption





# DLT Networks: Use case considerations drive decisions around network type



**"Books and Records" use case typically internal and permissioned**

"Books and records" use case represents dematerialized securities on centrally-administered electronic databases, does not issue securities with use of DLT


**Relevant frameworks remain applicable to lifecycle specific risks**

Example: Use Of Basel MAR50 framework to perform CVA RWA adjustments for Group 1A assets (as for or non-tokenized assets)

**Private permissioned networks are already compliant with regulations**

Public network risk considerations can be managed: cyberattacks, KYC/AML compliance, Group 2 asset exposure, market conduct, and settlement finality

 Existing risk frameworks largely applicable

 Existing risk frameworks need DLT-specific supplementation

# Impact assessment: Three dimensions assessed cross the securities lifecycle

Dimensions assessed	Primary Markets	Secondary Trading	Clearing & Settlement	Custody	Asset Servicing
Overall DLT Impact	Medium	Medium	High	High	High
Workflow Efficiency	Medium	Low	High	High	High
Financial Opportunity & Value Creation	High	High	High	High	High
Incremental Risk Mitigation	Low	Low	High	Medium	Medium

# Five critical takeaways



## Harmonization of global regulatory and legal frameworks

- Adaptations to existing legal and regulatory structures is fundamental in promoting transparent, disciplined, risk-focused, and effective market infrastructure.
- Different jurisdictions are facing individual and global challenges and as such, legislation is at different levels of maturity
- Demonstrates need for harmonized and risk-consistent policy positions across different jurisdictions to benefit both the market and governments & regulators



## Enablement of interoperability with existing market infrastructure

- Interoperability is an important enabler to network effects, providing the basis for real-world, diverse use cases
- Build on existing initiatives and broaden alignment on a framework of standards to guide market-level compatibility. This entails initiatives that cover public networks with appropriate risk mitigation, as well as private-permissioned networks.
- Key areas include technology architecture design, smart contract standards and governance, linkages with traditional infrastructure - alongside risk identification, mitigation, and management - and specific roles and responsibilities.



## Development of viable Primary & Secondary Markets

- Cross-industry initiatives to focus the pooling of liquidity in a few, high potential asset classes (e.g., fixed income, OTC derivatives) across the security lifecycle could help increase the formation of viable markets for DLT-based securities.
- Market participants could focus on assets where the inefficiencies are well-documented and the cost of conversion is less onerous

# Five critical takeaways



## Advancement of open technical challenges posed by DLT

- DLT is not yet a fully formed infrastructure solution, with demanding requirements around scalability, cybersecurity, and regulatory compliance.
- Industry practitioners and developer communities collaborating on research and development of DLT-specific solutions that address these issues.
- Cross-industry participation can maximize the strength of participating talent pools, distributes costs and accelerates the timeline to key outcomes



## DLT-based Payment Instruments to achieve true DvP settlement

- DLT-based payments are a critical enabler for the settlement of DLT-based Securities; integration with legacy payment tools significantly reduces the scope of benefits, such as programmability.
- DLT-based commercial bank deposits represent deposit account balances on a distributed ledger to support settlement, which can support more efficient and effective payment tools.



Thank You

## Reference Papers:

GFMA with BCG, Clifford Chance, and Cravath, Swaine & Moore LLP report on the impact of distributed ledger technology (DLT) in global capital markets.

Full report, [“The Impact of Distributed Ledger Technology in Global Capital Markets”](#)

[Executive Summary](#)

[Annex I: GFMA Proposed Approach for the Classification and Understanding of Digital Assets](#)



# Comments, Questions & Answers



山梨県営地下鉄

レールライン

Yamanashi Line Subway



観光案内所

Question & Answer

问讯处 詢問處 안내소

西口

West Exit

西出口 서쪽



Platinum Sponsors



Global Times Consulting



Gold Sponsors



Silver Sponsors



Bronze Sponsors



Contributor Sponsors





# Thank You For Participating



## Forthcoming Events

- Mon, 4 September (11:00-11:45) Living With American Power
- Wed, 6 September (9:00-9:45) Financial Centres Of The World 2023: Focus On Warsaw
- Thu, 7 September (15:00-15:45) Influence Alpha: Shaping Apex Decision-Making In Government

Visit <https://fsclub.zyen.com/events/forthcoming-events/>

Watch past webinars <https://www.youtube.com/zyengroup>