

International Securities Services Association



## Governance Update

### Operating Committee

In May, Juliette Kennel, SWIFT, was nominated as Operating Committee Vice Chair-elect. Juliette will take on this position as of November 20, 2019, succeeding Jyi-chen Chueh, Standard Chartered Bank, who will become the Operating Committee's new Chair as of that date.

We congratulate Juliette on this nomination and wish her all the best in her new role.

### New Member

Since the last Newsletter in May 2019, Nivaura Ltd, United Kingdom, has joined our Association.

We welcome this organization and are looking forward to a fruitful relationship.

*Board of ISSA*

Dear ISSA Members and interested parties,

At its May 2019 meeting, the Board approved the proposed Business Plan for the next five years. The following key elements were agreed:

- To retain the objectives of our organization
- To maintain a balance between risk management, practical issues and thought leadership items
- To create capacity in the CEO Office to generate a greater amount of content
- To have a membership from a diverse range of industry participants
- To substantially grow ISSA's media & social media presence
- To continue to engage and partner with other Trade Associations.

You will subsequently be informed on the relevant implementation steps.

In this Newsletter, Jyi-chen Chueh, Standard Chartered Bank and Vice Chairman of the Operating Committee (OC), talks about Crypto-Assets and DLT with the conclusion that Securities Services Providers are needed more than ever.

Furthermore this Newsletter reports about the current status of activities of ISSA's Working Groups, as well as the Board's and OC's decision to form a new Working Group on Business Model Aspects. Its key findings are expected to be further debated at our flagship event, the 20<sup>th</sup> Symposium (June 2-5, 2020).

The ambition of the Symposium will be to discuss of the expected "Securities Services Evolution and their increasing Value in the Future Capital Markets Environment". The CEO Office has already started the various activities. The formal invitations to our ISSA Membership are expected to be released in early December.

ISSA CEO Office

# Crypto-Assets and DLT: Securities Services Providers are Needed More than Ever

Transcript of an article that appeared in a recent edition of the Magazine of The Network Forum

In the last few years, Distributed Ledger Technology (DLT), crypto-assets and tokenisation have attracted a lot of attention, touted for their potential to transform capital markets. These technologies and solutions not only have the potential to provide faster, cheaper and more efficient liquidity and investment flows, they also lower the barriers for investors to access new and expanded asset classes.

At the same time, one cannot ignore the negative headlines in the media on crypto-exchanges being hacked, fraudulent Initial Coins Offerings (ICOs) or investors losing their assets as a result of their cryptographic private keys being lost, compromised or stolen.



**The International Securities Services Association (ISSA) firmly believes that rather than being disrupted, securities services providers are more relevant than ever and can leverage their expertise and eco-systems to protect and service investors' digital assets with appropriate standards.**

**Jyi-chen Chueh**  
Vice Chairman of the  
ISSA Operating Committee /  
Executive Director, Head Custody Services  
Standard Chartered Bank

[ISSA's report "Infrastructure for Crypto-Assets: A Review by Infrastructure Providers"](#) published in October 2018 provided the perspective of the Central Securities Depositories (CSDs). Through a dedicated DLT Working Group comprised of representatives from market infrastructures (CSDs, ICSDs and exchanges), global and sub-custodians, SWIFT and other solutions providers, ISSA now aims to broaden that perspective and provide an expanded industry thought leadership report in the context of the overall securities chain.

The Working Group's key objective is to help ISSA members, regulators, central banks and institutional investors to form an educated view on DLT and crypto-assets, by highlighting not just the benefits and potential models, but also raising challenges and addressing unanswered questions. To help bridge between the "old" and "new" worlds, the Working Group will also attempt to draw parallels with traditional securities flows, to highlight specific areas of importance and prevent a symptom of "re-inventing the wheel".

There are many areas that remain to be addressed and ISSA is calling for greater cooperation, standardisation and harmonisation across the securities industry to address them.

**As a starting point, the DLT working group has identified the following key areas of focus:**

**1. Definitions and Taxonomy**

Our industry has yet to reach a consensus on the definition of what constitutes a crypto or digital asset, and which would be deemed as securities (for example, asset backed tokens, digitally native securities tokens, utility tokens and payments / exchange tokens). This partly explains why regulations are currently disparate, creating further challenges for service providers to come up with solutions and harmonised best practices on a technology that is borderless by nature. AML / KYC impacts must also not be underestimated.

**2. Wallet and Keys Management**

Especially in the context of public / permissionless blockchains, the notion of protection of private cryptographic keys (which sometimes are an actual physical USB key) is often marketed as "crypto custody". But what constitutes crypto custody and how does it compare to traditional assets custody? For instance, is a private key considered as an asset itself or is it just a technical means to access the underlying asset that resides on the DLT?

**3. Issuance / Tokenisation Standards**

This is another area of focus to ensure liquidity and transparency for investors. Digital exchanges and marketplaces should follow similar standards in terms of listing rules transparency as well as ensure independence of roles (exchange versus CSDs / custodians). The inclusion of issuers in a DLT model also needs to be looked at and evaluated.

**4. Settlement Models**

Key notions of settlement finality and true DVP models must be reviewed and addressed. In addition, new models of DVT (deliver vs tokens) or DVC (deliver vs crypto currencies, stable coins or tokenised fiat currencies) would require significant additional research and industry discussion, as it may well preclude many of the needed features of the current liquidity markets. Similarly, the notion of T+0 instantaneous settlement must also be reviewed, as some models require private keys to be retrieved from "cold storages" (or, in other words, physical vaults) which brings back memories - and challenges - around physical instruments settlement.

**5. Asset Servicing**

This introduces topical thoughts around the concepts of "forks" and "smart contracts". While some would associate DLT forks (which in lay man's terms could be compared to the technical "branching out" of a particular DLT) to a traditional corporate action, the reality is that forks carry much greater risks of asset loss, as no providers can reasonably guarantee the support of all future forks. Smart contracts offer the ability to embed and automate, through coding, terms and conditions (for example, the likes of rights issues and auto-interest accruals) within the digital asset itself. However, this poses the question as to how an investor would be able to audit and review the accuracy of such codes in order to ensure their assets behave as expected.

Reflecting on the above, we can reach a preliminary conclusion that standardisation and interoperability will be key to the sustainability and scaling up of crypto and digital assets' accessibility and liquidity. Re-using existing standards, such as the ISO 20022 taxonomy, in the context of DLT and APIs would also avoid returning to the costly and painful era of bespoke / bilateral proprietary interfaces and connectivity.

**ISSA expects to issue a follow up report on DLT addressing the issues raised above by September 2019.**

# Potential New Working Group on Business Model Aspects

Based on the ISSA Operating Committee's suggestion, the Board recently decided to form a new Working Group dealing with the business model aspects of the securities services industry, as a response to the main forces expected to significantly impact Capital Markets. Membership in this new Working Group is presently being constituted.

The work will most likely be divided into the following sections:

- Description of main forces expected to have a significant impact
- Prioritization of the forces, also based on recent feedback from ISSA Board and OC Members
- Potential scenarios that may play out for Capital Market evolution, focusing on priority forces
- For each scenario, potential impacts (threats and opportunities) on securities services, including growth opportunities, cost and risk reduction opportunities, leverageability of available data to create value in an environment of expectations of near infinite data at near zero cost.

**A first report will be available in time for the ISSA Symposium taking place at the beginning of June 2020.**

# Update on Current Working Group Activities

## Corporate Actions and Proxy Voting

The Working Group presently focuses on the creation of a guide aimed at bringing clarity into the beneficial owner disclosure process in various countries. The relevant data is being collected by means of a questionnaire issued to the CSD community in the first quarter 2019.

[https://www.issanet.org/e/pdf/2019-03-07\\_ISSA\\_Survey\\_Final\\_Version.pdf](https://www.issanet.org/e/pdf/2019-03-07_ISSA_Survey_Final_Version.pdf)

So far, 27 CSDs, covering 26 markets, have completed and returned their questionnaires, for which ISSA is very grateful. In order to provide a representative overview of the distinct processes in place across the globe, ISSA seeks a broader coverage of markets. Some institutions will be targeted directly within the next few days.

The survey results will be used to provide an overview of the disclosure processes in various countries, an area where different standards and practices abound. ISSA intends to make this information publicly available as soon as a representative number of markets have been covered. In a next step, the analysis of the survey results will be used to develop best practice recommendations to be disseminated to the industry, which are expected to be available towards the end of this year.

Following the conclusion of the work on the beneficial owner disclosure processes, the Working Group will focus on industry trends on proxy voting.

The Working Group is also in close discussion with ISSA's Working Group on DLT, relating to Corporate Actions on Crypto-Assets and Smart Contracts.

**Recipients of this Newsletter are encouraged to have their institutions complete and return this survey.**

## Distributed Ledger Technology

At its March Workshop, the Working Group decided to focus on enriching its October 2018 Report on "Infrastructure for Crypto-Assets: A Review by Infrastructure Providers" with input from Global Custodians. Refer in this connection also to Jyi-chen Chueh's article on "Crypto-Assets and DLT" on page 2 of this Newsletter.

At the beginning of July, the Working Group will reconvene in order to review work on the different topics that will form the basis for the update report to be published before SIBOS that takes place towards the end of September 2019.

## Financial Crime Compliance Principles for Securities Custody and Settlement (FCCP)

Based on feedbacks from the community, the ISSA Working Group updated various documents which have meanwhile been made available in the relevant [Working Group Section](#) on the ISSA Homepage. The major update relates to the standardized use of "Beneficial Ownership" across the various documents.

The Working Group has decided to improve communication to and within the ISSA Membership. For this purpose, a specific FCCP Newsflash has been envisioned. Starting in June 2019, a first of a series of such publications will be issued. Subscribers of the ISSA Newsletters will automatically receive those FCCP Newsflashes.

The Working Group is also focusing on the following issues:

- In order to attempt to avoid payment abuses, ISSA intends to provide consistent and robust guidance aimed at funding securities-related accounts and repatriating proceeds.

- ISSA will establish a pilot guide on the various FCCP risk items and on ways how to detect them and what could / should be done in response to such detection.

Progress on the above-mentioned items will be reported by means of ISSA Newsletters and FCCP Newsflashes.

## Cyber Risks in Securities Services

The Working Group is focusing its current work on best practices for industry response to a key member being incapacitated by a Cyber-Attack. With the approval of ISSA's Board, the Working Group has entered into discussions with FSARC (Financial Systemic Analysis & Resilience Center, USA). FSARC's mission is to proactively identify, analyze, assess and coordinate activities to mitigate systemic risk to the financial US system from current and emerging cyber security threats through enhanced collaboration between participating firms. Various ISSA member institutions are also members of FSARC.

FSARC maintain a risk register of systemically important financial services and have taken steps to coordinate response related activities for certain services. Custodial services are high on their register. They have produced a summary high level Risk Analysis for these services. Their intention is to identify "Use Cases" (specific impactful scenarios) from which to develop industry required responses (a playbook) in 2020.

The ISSA Working Group believes that it can provide valid input to the FSARC endeavors. It expects to produce an industry level framework document which draws on the FSARC approach / terminologies but sets out industry expectations for both compromised and non-compromised firms. The Working Group intends to have a draft framework document available by the time of SIBOS in September 2019, the content of which will be defined in detail at its Workshop planned for the end of July 2019.