

FinTech in International Capital Markets

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ICMA FinTech Advisory Committee

ICMA's FinTech Advisory Committee (FinAC) held its fifth and sixth meetings on 28 September and 19 November 2020 respectively. Building on previous discussions on primary, secondary, repo and collateral markets and the Common Domain Model (CDM), the meeting in September aimed to identify trends and new initiatives from a legal perspective and take stock of reporting regimes in debt capital markets, including reporting formats and standards, with a view to identifying challenges and potential solutions.

From a legal technology perspective, the initial aim was to reduce internal inefficiencies before addressing broader market challenges faced such as repapering exercises arising from post-Brexit or the transition to risk-free rates. This trend is reflected in increased investments by law firms in technology providers. User-friendliness has improved over the years and for many applications coding skills are no longer required. In bond markets, one example of legal technology applications is automated generation of bond documentation. To enable wider adoption, standards are critical but the cost-benefit of transitioning from legacy to new systems is an equally important factor.

Financial institutions that are active in multiple jurisdictions across the world are subject to a wide range of reporting obligations. Cost of regulatory compliance is significant. A key issue is that large elements of reporting requirements are bespoke to individual regulators and the scope of reportable attributes is significantly greater than for trade settlement. For example, under MiFID II/R transaction reporting requirements, firms have to report the passport number of traders. For CFTC reporting, more than 600 data points may be reportable for rates products, including identification of US persons. Industry collaboration is important. However, the scale and complexity of reporting requirements pose a significant challenge.

On the agenda in the November meeting was an outlook on capital markets of the future, notably digital cash in the form of the Utility Settlement Coin (USC) or Central Bank

Digital Currencies (CBDC), as well as digital securities in the context of the German draft law for the issuance of electronic securities and beyond.

The Utility Settlement Coin (USC) project is considered to be a building block for the financial market payments infrastructure of the future. Key drivers behind USC are asset tokenisation and greater efficiency in wholesale financial markets from a post-trade perspective. CBDC initiatives tend to focus on retail payments, while USC is designed to represent wholesale digital cash, backed by fiat cash and cash equivalents, carrying identical credit characteristics to central bank money. Expected benefits include risk reduction, transparency and market harmonisation. Implementation of first use cases is expected in 2021.

The technical feasibility of tokenising debt securities has been demonstrated in recent years. In Germany, the Government introduced a new draft law in August 2020 enabling the electronic issuance of debt securities (*elektronisches Wertpapiergesetz*) as part of its blockchain strategy. Generally, it is expected that going forward securities will be represented in hybrid forms ie both on DLT networks as digital assets and in conventional systems. Bridging these two systems is critical from a business perspective. Benefits of tokenisation include instant settlement, for example in conjunction with USC, which would eliminate settlement risk, free up regulatory capital and reduce transaction costs. However, a challenge to adoption is not technology but rather the commercial incentives.

Following discussions on strategic priorities and the required level of expertise within the committee, the FinAC will reconvene in its new composition in the first quarter of 2021. As usual, further background on the FinAC and its mission statement are available on ICMA's dedicated [FinTech webpage](#). An overview of new FinTech applications in bond markets, most of which are based on DLT, can be found [here](#).



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