

ISSA – Shaping the Future of Securities Services

SMPG Oslo – Digital Asset Custody, April 2023

Our Profile and Goals

Leading Global Trade Association Zurich, Switzerland domiciled	Dedicated to supporting the Securities Services Industry	Members include Custodians, CSDs, technology and other related firms
Connect	Collaborate	Change
<p>Facilitate global interaction across different markets, regions and industry segments</p> <p>Bring together key industry stakeholders in Working Groups and the Symposium</p> <p>In person Via Teams</p>	<p>Offer the opportunity for members and industry experts to come together to at our bi-annual Symposium</p> <p>Manage Working Groups to tackle key issues effecting the industry</p> <p>Member led organisation</p>	<p>Create a unique opportunity for debate of the key factors effecting the industry today in order to shape the future</p> <p>Provide best practice guidance through the publishing of papers, articles, surveys, videos and podcasts</p> <p>Offer education for all market participants</p>

Working Groups – on 11 Themes



Focusing on Corporate Governance and technology enablers



Revising the risks facing Securities Services



Exploring how DI can be used to facilitate onboarding



Setting out the industrialization of private markets



Creating Digital Asset Custody baselines



Resolving issues in CSD Operations



Focusing on geopolitical impacts and new asset classes



Divining the future of Securities Services



Aligning of Operational Resilience requirements



Looking at ESG and ISO 20022



Investigating non-domestic firm impacts

Digital Asset Custody – EMBARGOED DRAFT Report

The Digital Asset Custody (DAC) Report - Context

- ISSA Working Group proposed the topic last year
 - FTX increased the urgency

- Joint venture between ISSA and GBBC – GDF and Deloitte
 - Existing market participants and new entrants
 - All focused on ensuring that DAC
 - Is capable of protecting client assets
 - Is not killed, actively or inadvertently, by regulation
 - Agreement of the potential utility of DLT solutions

The Digital Asset Custody (DAC) Report – High Level Key Findings

- There is huge potential for the provision of digital custody above and beyond native crypto assets (such as bitcoin and Ether) to encompass new and emerging classes of digital assets.
- Although custody is a universally understood term in traditional financial services digital assets present many new challenges to the provision of custody services, particularly the liabilities that custodians have over the assets' safe custody.
- The legal rights of digital assets' owners represent the greatest challenge for custodians of digital assets.
- The architecture of DLTs is constructed differently to the current legacy of automated and / or dematerialized computer code and electronic data, offering a combination of substantial benefits and challenges to custodians

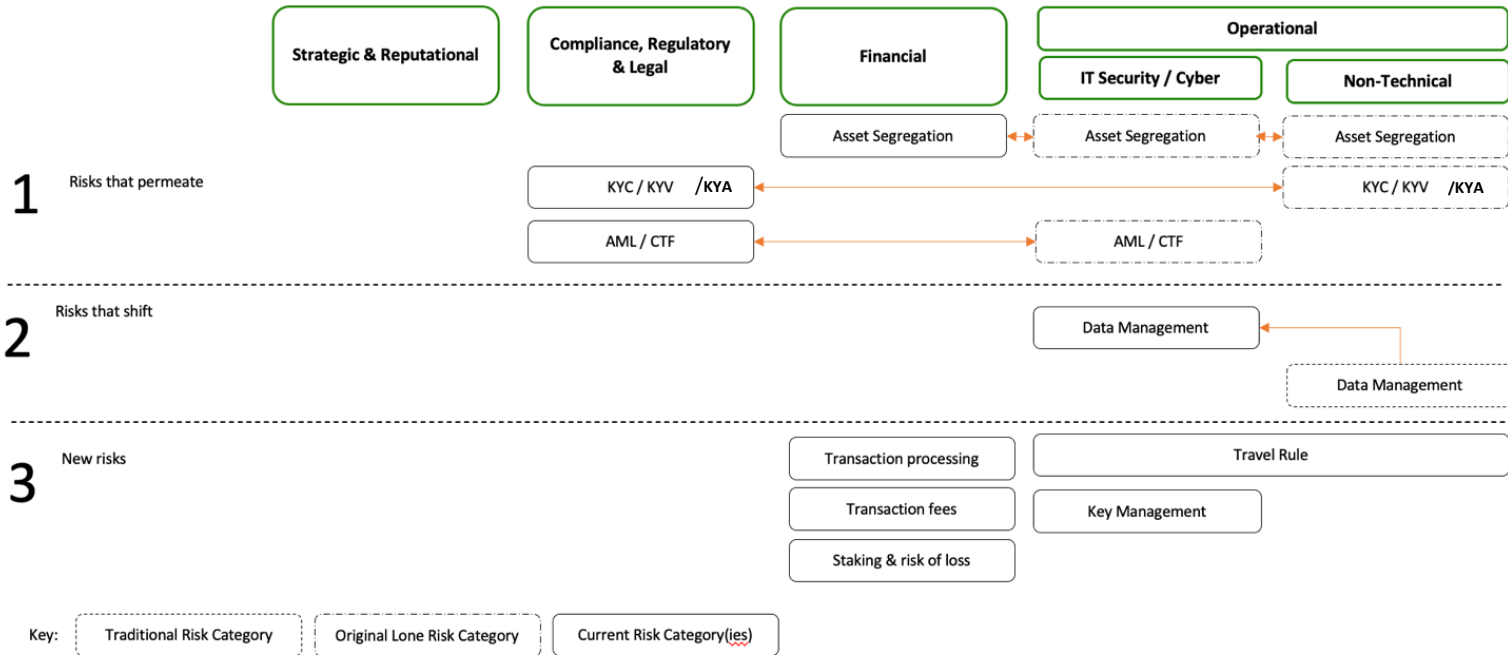
The Digital Asset Custody (DAC) Report – Detailed Findings

Key Differences

- DLT network nodes for consensus move the control point
- Cryptographic keys are used for assets owners to access (network) digital assets – these must be managed
- The immutability of the record of transactions on DLTs do not have a corresponding account-based structure and are accessible 24/7/365, with no notion of opening and closing balances.
- Segregation
- Settlement finality
- Digital Identity
- Staking and “Slashing”
- Transaction fees/gas fees and who are the miners?

The Digital Asset Custody (DAC) Report – Detailed Findings Risks

Delta in Digital Asset Custody Risks vs Traditional Custody Risk



The Digital Asset Custody (DAC) report – recommendations

1. Ensure bankruptcy remoteness of assets through regulatory reform, where needed, and clearer information to investors about the implications.
2. Resolve regulatory uncertainty related to sanction risks in the context of DLT transaction fees (mining / validator fees).
3. Allow for de minimis principal Crypto asset holdings in support of digital custody activity.
4. Technology neutral regulation for key management.
5. Preserve a clear delineation between the responsibilities of a digital custodian as compared to investors.
6. Work towards industry-wide wallet-matching solutions.
7. Recognize shifts in risk when implementing digital asset solutions.
8. Develop skill and expertise operating in peer-to-peer networks.
9. Rethink traditional problems to capture opportunities from DLTs.

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