



CHALLENGES AND OPPORTUNITIES IN POST-TRADING ACTIVITIES

MONTSERRAT MARTÍNEZ PARERA, VICE-CHAIR OF CNMV
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Good morning.

It is a pleasure to join, another year, the Securities Services conferences, a true benchmark in the industry. I also look forward to listening to Santiago Carbó and, of course, Salvador Arancibia, Deputy Director of Expansión. It is great to see that a reference media channel, as is Expansión, supports the dissemination and organisation of such conferences.

Over the last ten years, Cecabank has been consolidated for its provision of post-recruitment services, proving its professionalism, specialisation and ability to adapt to changes and trends in the market.

It is now time to look straight ahead, using our headlights, as the coming years are essential due to the trends that are sure to be discussed throughout the day.

I would like to discuss two of them today. On one hand, for years we have been witnessing a consolidation and integration process of the post-contracting sector in the European Union, associated to cost efficiency and greater professional development of services. I will get back to that later on.

Another dynamic, one I would like to focus on today, is linked to the innovation and use of new technologies, which undoubtedly offer great opportunities while also being highly disruptive to the current system. I will refer firstly to digital assets, and secondly, and more specifically, to the potential of DLT technology and the consequent trend towards disintermediation.

Digital assets

Starting with digital assets: when we mention digital assets, the first thing that comes to mind is cryptocurrencies. And, more recently, we will recall the different collapsing examples seen in the sector, such as the cases of Celsius, Terra Luna, or, the most recent, FTX. In the case of the latter, one of the main global exchanges, it is a clear example of the problems arising from the complete absence of controls and minimum standards of internal governance.

Since 2018, the CNMV has not stopped warning of the risks for investors in putting their savings in products and platforms without any controls or guarantees, which is why we make an effort in warning of the risks in advertising. Ultimately, they are "assets" with a high speculative component and, in many cases, little or no intrinsic

value beyond the hope for a fast profit. It is an investment system that usually requires a broad base of investors for only a few, the first entrants, to gain profits.

That said, we now have the MiCA European Regulation in the works, already approved, which will hopefully be published in the coming months.

There are two nuances. Firstly, once it is published, there will be 18-month span for the implementation and the development of the regulation (what we call level 2), which will harmonise the requirements for a crypto-operator to officially set up in an EU country under standard rules.

On the other hand, it is worth recalling what MiCA is. In other words, in addition to regulating tokenised digital money or what is known as stablecoins, this regulation regulates the issue, marketing and provision of services related to cryptoassets that are not considered financial instruments and are therefore not currently subject to any European investor protection regulation.

Does this imply that the MiCA will make risks disappear? No. The MiCA does not eliminate all risks, it is not magic, but it does make it easier for certain digital assets to follow minimum standards for their sale, which will be lower than those currently required for financial instruments. For example, with MiCA these assets will not be subject to a contingency fund like Fogain or FGD, and what reporting will be given to the supervisor and, consequently, what supervisory capacity we will have is still to be determined. It is important to note this had been determined some time ago and that the market is evolving very quickly.

Nonetheless, beyond regulating investment in such assets, what seems more important to me are the characteristics of the product itself, that is, where it is invested. At the end of the day, the product is what ultimately determines the return on investment.

In other words, MiCA will allow to help provide minimum controls to entities that trade and sell such products, which is important, as well as the sales process, but the products will continue to have the same characteristics and nature, whether they are cryptocurrencies or tokens. Greater transparency and information while holding the same characteristics.

Now comes, in my opinion, the most important aspect of the crypto sector: the underlying technology. Beyond the regulation of the crypto world that MiCA will offer, what will be truly disruptive is the application of crypto, DLT or blockchain technology to "traditional" financial instruments already subject to regulation, such as bonds, investment funds, equities and others. That is, applying crypto world technology to the real world.

DLT technology

This way, current financial instruments can turn into digital assets represented in distributed ledger systems.

In this same forum last year, I already pointed out the importance of distributed ledger technology or DLT in the post-contracting field.

The implementation of DLT technology will allow the purchase and sale and settlement of a financial instrument to be carried out simultaneously, thus eliminating the need

for clearing, as delivery versus payment could take place automatically. This possibility, if scalable to greater volumes of market transactions, would imply major benefits, not only in terms of efficiency, but also in terms of considerable savings on the margins currently provided.

In fact, within a month, this will become a reality, as the pilot scheme for DLT-based market infrastructures in Europe comes into force. It will be launched as a trial for a determined period of six years, and with certain limitations, but it is the first step to move forward.

Thus, the Regulation controls the trading and settlement of DLT financial instruments with certain limits on volumes. For example, the issuer of shares may not have a capitalisation of more than 500 million euros, and bonds and any other type of securitised debt must have an issue volume of less than 1 billion euros.

As I mentioned, it is a trial programme, but highly important given the disruptive power that its widespread implementation can have.

In Spain, we are getting ready to make the most of these opportunities.

Firstly, we are already adjusting our regulatory framework. As such, in the coming months we will have a new Securities Markets and Investment Services Law, which will hopefully include these securities within the definition of financial instruments.

This will mean recognising registration in a DLT system of transferable securities as a third valid form of representation, and ensuring that a transmission within such DLT systems has the effect of a legitimate transmission of the represented securities. This will allow corporate events to be held, as well as the registration of liens, the issuance of certificates or the execution of compulsory transfers.

Secondly, the CNMV has been working for more than two years on the context of the sandbox with specific projects associated to DLT technology, and particularly with the goal of being prepared for the future EU trial scheme.

Such preliminary work is key, as it gives room to test real initiatives of this type of platform, and thus assess the risks, their operation and the functionality of compensatory measures. This collaborative work, hand in hand with the project promoters, benefits both parties. This is important, as the European Regulation does not go into any specific technological requirements and business models can be diverse.

Currently, we have four projects in the sandbox that aim at operating market infrastructures under said pilot scheme, each with its own business model and technology.

Mid way through last year we started collaborating with a trading platform that was active in the United States and that plans to offer DLT-represented financial instruments in both jurisdictions, namely equities.

Within the latest cohort of the sandbox, we have accepted three more projects.

One of them will use a private blockchain and wants to specialise in applying the technology to investment fund shares. The other two are based on public blockchain: the first will specialise in the real estate sector, issuing debt and equity to finance such

projects. The second focuses on financing start-ups through the issuance of shares and bonds.

As you can tell, we are staying busy.

We have an exciting few years ahead of us, time in which we will value and assess the efficiency, risks and opportunities of DLT technology in market infrastructures. It will be particularly important to determine the advantages it could offer in cross-border operations and how it could affect global custody.

At the beginning of my speech I mentioned the growing process of consolidation and integration of the bargaining and post-contracting sector in the EU. We have been observing this trend for years. There are less and less CCPs and there is room for trading centred around more active entities based on cost reduction and efficiency gains. Brexit also plays an important role in the design of the European market.

In this sense, for many years the CNMV has supported a legislative and regulatory effort to eliminate peculiarities of the Spanish settlement system and closer in similarities to the European standard to make it more efficient and comparable with those in our environment. This process includes elements such as the removal of the PTI and the other reforms that we have promoted with this objective in mind.

Technology now introduces an additional element, which is the vertical integration of services and the trend towards disintermediation.

It seems possible to renounce clearing, in models where investors have direct access to the market, offering real-time trading and eliminating collateral or funds held in CCPs.

We know that innovation is speeding up settlement times, from T+2 to T+1, and even so-called atomic or instant settlements, through the use of smart contracts, are preferred.

Nonetheless, this may entail other risks, extent and implications of which we do not yet know: such as those arising from automaticity and a greater pro-cyclical component, which we must keep an eye on.

This technological environment also entails significant changes in the area of custody.

On the one hand, the growing need to supervise digital assets is particularly important. In a digital world, custody has an unquestionable component of technological specialisation, to guarantee physical security of the asset and control the risk of cybersecurity or theft.

We are seeing different models to provide such services in the digital world: there are entities specialised in providing such service to third parties, but we have seen it is common for entities that trade and sell cryptocurrencies to offer custody services using third-party applications, an activity with certain risks.

On the other hand, in regards to financial instruments, the current custody and depositary service for CISs, that is, funds and collective investment undertakings, follows the trend of specialisation and professionalisation of the activity that we have seen in recent years.

This can be seen in the concentration of the task in fewer and fewer entities. There are currently 16 active CIS depositaries, compared to 76 there were fifteen years ago. And the three largest custodians make up for a 73% share (up from 44% in 2007).

Such specialisation of the function should lead to a more efficient service and is the result of the major transformation of the sector in an increasingly competitive environment, as I mentioned before. Consider, for example, the high level of investment required to manage cyber-security risk affecting the assets under custody and business continuity risk.

I will finish. Post-trading activity in Spain is healthy. In any case, technology provides an environment of disruptive change that requires our collective attention to the implications in terms of risk and market functioning. I am sure we will see major transformations in the coming years.

Again, I want to congratulate you for these series of conferences, which is a great opportunity to reflect on these challenges.