EMBRACING DISRUPTION:

TAPPING THE POTENTIAL OF DISTRIBUTED LEDGERS TO IMPROVE THE POST TRADE LANDSCAPE

KEY TAKEAWAYS

- Today's global financial market infrastructures enable the safe, seamless and efficient flow of assets, information and data across markets and regions. However, the current system has certain limitations, and DTCC believes that distributed ledger technology presents a once-in-a-generation opportunity to re-imagine and modernize market infrastructures to address long-standing operational challenges.
- DTCC embraces the potential benefits offered by distributed ledger technologies to address certain limitations of the current post-trade process by modernizing, streamlining and simplifying the siloed design of the financial industry infrastructure that developed over 40+ years. DTCC believes the industry should focus on the most manual asset classes, which would give them the opportunity to learn the advantages and limitations of the technology.
- DTCC believes the industry should explore using the technology in the following areas: master data management; asset/ securities issuance and servicing; confirmed asset trades; trade/contract validation; recording and matching for the more complex asset types that currently do not have strong existent solutions; netting and clearing; collateral management; and longer term settlement.
- While the platform has the potential to transform certain post-trade processes, the technology is still emerging and its development for use in post-trade is even less mature than it is for Bitcoin.
- There are significant hurdles that need to be overcome to make distributed ledger technology workable in today's securities markets, such as scale and performance challenges, integration issues and whether moving processes to the platform is more cost effective than improving existing technology.
- Industry-wide collaboration will be the key to any re-architecture of the post-trade environment. If firms continue to work separately and independently, we risk creating countless new siloed solutions based on different standards with significant reconciliation challenges. To avoid this, the industry should collaborate to take advantage of opportunities that distributed ledger technology could have in improving efficiency and reducing costs in the post-trade environment.
- The most logical way forward is for the existing, regulated and trusted central authorities to help play a leading role in introducing the standards, governance and technology to support distributed ledger implementations. Furthermore, we believe these organizations, working in partnership with a wide range of the industry, can help ensure that new opportunities are in the best interests of post-trade processing and consistent with long-standing goals of mitigating risk, enhancing efficiencies and driving cost efficiencies for market participants.
- Distributed ledger technology is not necessary to shorten the settlement cycle for equities, corporate and municipal bonds and unit investment trusts (UITs) in the U.S. market. Current technology is capable of reducing the time it takes to settle a trade. Market structures and laws are the reason behind today's T+3 – soon to be T+2 – settlement cycle.

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