One of the most striking get-togethers discussions was around “Reforming the financial markets: demand, supply, and the role of the CSD”. The focus was on the challenges that the CSDs face, and the strategies that are being pursued to address them. The participants discussed the need for innovative solutions to improve the efficiency of the CSD industry, and the importance of alignment with the evolving regulatory landscape.

The conference also featured discussions on the role of technology in the securities market, with a particular focus on blockchain and distributed ledger technologies. Speakers highlighted the potential of these technologies to streamline processes, reduce costs, and improve transparency. However, they also emphasized the need for careful consideration of the regulatory and compliance implications of these innovations.

Another key topic of discussion was the impact of regulatory changes on the CSD industry. Speakers highlighted the importance of effective communication and collaboration between regulators and the industry to ensure a smooth transition to new regulatory frameworks. They also called for continued efforts to streamline processes and reduce costs, while maintaining a focus on transparency and accountability.

In conclusion, the conference provided a valuable platform for stakeholders to exchange ideas, share best practices, and identify new opportunities for collaboration. The insights and discussions from the event are expected to contribute to the ongoing efforts to reform and modernize the CSD industry, and to address the challenges that it faces in an evolving regulatory and technological landscape.
For instance, the CSDs of Armenia, Ukraine, South Korea, Uzbekistan, and Tajikistan have presented new opportunities for clients’ remote access. Improvement of cybersecurity and resilience of the settlement infrastructure remains one of the key trends. Significant changes in that area have taken place at the CSDs of Russia, South Korea, and Kyrgyzstan.

The work is also ongoing to maintain cooperation with governmental agencies and to improve the investment climate in the relevant countries. A notable progress in that field has been made by the CSDs of Kazakhstan, Uzbekistan, and Kyrgyzstan.

AECSD members continued to expand the range of their services and to improve service quality. For instance, the CSDs of Armenia, Ukraine, South Korea, Uzbekistan, and Tajikistan have presented new opportunities for clients’ remote access. Improvement of cybersecurity and resilience of the settlement infrastructure remains one of the key trends. Significant changes in that area have taken place at the CSDs of Russia, South Korea, and Kyrgyzstan.

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Armenia’s CSD has implemented the CDA Mobile project that, among other things, allows shareholders to vote at general meetings via the dedicated app. The CSD is also working on having the Central Bank to transfer government bonds to an account with the CSD and on launching tri-party and collateral management services for clients.

The CSD of the Republic of Belarus joined the ISIN-to-LEI mapping initiative of the Association of National Numbering Agencies (ANNA) in 2021. In addition, the national legislation that governs investment funds has taken effect in Belarus and the Republican Unitary Enterprise “Republicional Central Securities Depository” has made necessary adjustments to its processes. Moreover, Belarus has lifted the restrictions on trading in foreign securities in the domestic market, and RUE “Republicional Central Securities Depository” has offered foreign counterparts (NSD) an opportunity to use SWIFT and arranged for client identification using ID cards instead of passports.

Georgia’s CSD has continued to roll-out a new operating system together with the National Bank of Georgia (the depository for government securities). The scheme makes it possible to promptly exchange information, including information on corporate actions and repos trades. Last year, the largest state pension fund had been established in the country, which has made it necessary to attract foreign securities, including global depositary receipts, into the Georgian jurisdiction.

The CSD of Kyrgyzstan has increased the volume of assets in its custody, partially thanks to its contribution to the growth of private investment funds. The CSD intends to roll-out a new IT system that would improve information security. An intensive law-making process is underway in the country to ensure migration to a common format of data interchange between all professional securities market participants, which will also affect the CSD’s roles.

Kazakhstan’s CSD has informed about the upgrade of the national debt securities’ credit rating by the major credit rating agencies, the first upgrade in the last 14 years. To a great extent, that move has been driven by the joint efforts of the National Bank, the Ministry of Finance, and the Kazakhstan Stock Exchange (KASE) to develop the market of government securities. Moreover, the CSD has reduced the fees charged to market participants by 20% and simplified the payment process thanks to integration with The Integrated Securities Registrar of the Republic of Kazakhstan and tapping into new sources of income. The CSD intends to obtain the exclusive status of single paying agent for domestic bond issuers so that to ensure greater transparency of the redemption process. Together with the regulator, the CSD of Kazakhstan has implemented an initiative to allow domestic brokers and securities holders to use omnibus accounts.

Russia’s CSD has informed about the ongoing work to ensure its compliance with the Bank of Russia’s new, stricter requirements to infrastructure security and to improve IT security literacy among its staff.

Together with Moscow Exchange, NSD continues development of the financial services marketplace, building infrastructure that would allow offering more products to marketplace users. For instance, the marketplace already offers loans and retail bonds (OFZ-n).

In addition, the work is under way aimed at digitalization and facilitating new clients’ access to the financial market.

Uzbekistan’s CSD has shared the national Government’s plans to contribute to capital market evolution, as described in the Strategy 2021. The Strategy provides for the expansion of the CSD’s role by concentrating all securities settlements within the CSD, introducing a foreign nominee holder concept, and making the CSD responsible for custody of both government and corporate securities. The CSD also proposes to start issuing LEIs and ISINs on its own. A significant progress has been made in the field of remote client relations and client identification.

In line with the national digitalization trend, Ukraine’s CSD has released the first version of API and expects that direct clients of National Depository of Ukraine (NDU) will, as soon as the next year, be able to open indirect accounts with NDU for their own customers, throughout the securities holding chain.

In addition, NDU has made a number of improvements to ensure better compliance with the Principles for Financial Market Infrastructures (PFMI), implemented a system designed to enable bondholders to vote in the event of default of the bond issuer; and is exploring the CSD’s potential role in administering digital assets and long-term consequences of the application of ESG approaches.

The CSD of Tajikistan has strengthened digitalization of its services and is considering an expansion of the range of services, including by offering banking services. Changes are anticipated in the corporate securities register system, which will involve delegation of the role to maintain such registers to the CSD.

The CSD of South Korea has informed about the launch of a new data center in Busan to strengthen the CSD’s IT systems. The data center will improve data security and speed up the process of disaster recovery of data.

The CSD has also launched an asset-backed securities system (ABS) that provides domestic investors with wider access to information on securities. One of the major projects is transition to a risk-free rate that will be calculated by the CSD.
Tokenization: An Opportunity for CSDs to Become More Relevant

What is Tokenization?

Tokenization is the process of converting real-world assets or financial instruments into digital tokens. These tokens are then stored and traded on decentralized exchanges. The goal is to create a more efficient and transparent alternative to traditional financial systems.

Benefits of Tokenization:

- **Increased Liquidity**: Tokenization allows assets to be traded more easily and at any time, unlike traditional financial markets which are open for only a few hours a day.
- **Increased geographical access**: Investors can now purchase and trade assets regardless of their location, eliminating the need for physical intermediaries.
- **Automated Compliance**: Smart contracts can enforce rules and regulations directly in the blockchain, reducing the need for manual intervention.
- **Interoperability**: Tokenized assets can be transferred and used across different financial systems and blockchains.
- **Financial Inclusion**: Tokenization can help increase access to financial services for people who previously didn’t have access.
- **New Asset Classes**: Tokenization opens up the possibility of new asset classes, such as real estate, commodities, and even art.

How is ConsenSys Helping to Build the Future of Finance?

ConsenSys is a blockchain infrastructure company that provides tools, services, and products for building decentralized applications. They are working with many asset managers around the world to help them benefit from securities tokenization.

How can CSDs be the Leaders of Change?

Central Securities Depositories (CSDs) have the biggest opportunity to develop an international industry standard for a regulated financial market infrastructure using the internet of value.

CSDs have the ability to disrupt their current business model, by for example being an actor that holds a node, or supervise the nodes being kept by the actors that participate in the shared version of the truth being the Register of investors in a DLT protocol.

The bridge between the legacy financial system and the DeFi ecosystem is waiting to be built. The rising demand for tokenization is an opportunity for CSDs to redefine their current business model.

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