Blockchain securities - Much ado about nothing?

Eva Micheler

Status quo

- Computerisation lead to intermediation
- Settlement is fast, counter-party risk is low
- the price: complexity in the holding chain
Complexity in the holding system

Investor

Custodian 1

Custodian 2

Custodian 3

CSD

Issuer

Custody contract

Custody Contract

Custody Contract

Custody contract
Effect on asset values

- 2008: When Bear Stearns was restructured an excess of 28% of shares compared to the shares issued by the company was discovered.

- 2017: Dole Foods was reorganised. There were 36,793,758 shares issued. 49,164,415 shareholders registered facially valid claims. Excess of 33.6%

  *Eckerle* - no remedy for the loss of value caused by a delisting

  *Secure Capital* - litigation on the question of standing
Blockchain/distributed ledger technology

Assumption:

- Trading, clearing and settlement can merge into one real time process
- Buyer and seller interact directly
- Delivery and payment are linked at master record level (share register/central bank money)
- Low counter party risk AND low custody risk
- IT risk
Lessons from Bitcoin

- private key as the vulnerable point
- Hosted v non-hosted wallets
- Intermediation
- Moving transactions off the chain
The future

- Exciting times in the custody industry
- Business processes rather than technology as a barrier
- Turkeys and Christmas
- Permissioned systems
Asset owners

- Why have they accepted intermediation?
- Excess inertia
- Cost of intermediated holdings
- Bundling
- Lack of transparency
- Questions of bargaining power
Lessons for asset owners and regulators

- Economics of incumbent service providers
- Asset owners pay for and bear the risk of the infrastructure
- Consultation
- Disclosure
- Asset owners with market power