The current regulatory environment affects entities which render financial services and assumes that these entities also maintain the relevant IT infrastructure. Where they outsource any IT activities, they still remain responsible and have to ensure that applicable regulations are also met by their subcontractors.

Therefore, there will be operators to be regulated even though they might only provide IT services like the maintenance of the DLT network while financial services are provided by the actors using the DLT network. Nevertheless, there is already practical experience with overseeing these so-called Critical Service Providers[9] which could be applied to DLT operators as well.

Another aspect is that a distributed ledger system used to settle securities might be classified as a "Securities Settlement System" (SSS)[10] and the functional operator would therefore need to adhere to the respective requirements.

Outlook: Considerations Regarding Eurosystem Requirements for the Mobilization of DLT Collateral Assets

All credit operations of the Eurosystem are required by its statute to be based on "adequate collateral". Collateral must be able to protect the Eurosystem against losses in the event of a counterparty default. The Eurosystem's legal framework for monetary policy instruments specifies the criteria for the eligibility of assets determining which assets can be used as collateral for monetary policy operations and which risk control measures the Eurosystem has introduced.

In addition, as the provision of eligible collateral does not eliminate credit, market and liquidity risk, the Eurosystem has a specific risk management framework in place. It consists of four risk mitigation elements: (1) the Eurosystem's Credit Assessment Framework (ECAF) which includes measures to mitigate credit risk, (2) the Eurosystem valuation framework specifies how collateral is valued to minimize interferences with market prices, (3) the Eurosystem haircut framework defines specific valuation haircuts, (4) other risk control measures such as variation margins, limits on the use of collateral or even the exclusion of specific closely linked assets aim to further mitigate specific risks.

The collateral and risk management framework, which regularly undergoes amendments, would also apply in case DLT-based collateral assets might be eligible for use with the Eurosystem. In addition to these eligibility criteria and risk management measures, the Eurosystem has defined specific requirements with regard to the mobilization of eligible assets. Currently, when mobilizing eligible marketable assets to the Eurosystem, counterparties make use of eligible SSSs operated by eligible CSDs, eligible links between such CSDs or eligible triparty agents. In order to ensure the safety and efficiency of these infrastructures, the Eurosystem has defined specific eligibility criteria that have to be fulfilled when the respective CSDs, SSSs and links between them or Triparty Agents (TPAs) are used. If DLT-based collateral assets were to become eligible for use in Eurosystem credit operations, these criteria would remain valid to ensure that - before and whilst being tokenized, - these assets are safekept under Eurosystem rules. Provided that an operational model as considered in this paper is

[9] CPMI/IOSCO Assessment methodology for the oversight expectations applicable to critical service providers; December 2014.

[10] Securities Settlement System as defined in the Directive 98/26/EC of the European Parliament and of the Council of 19 May 1998 on settlement finality in payment and securities settlement systems.