## How Can Collateral Management Benefit from DLT?

related rights, collateral can be mobilized without moving underlying securities in the related custody environments. This opens up the opportunity for efficiency gains as cost- and time-intensive reconciliation processes become obsolete. Another substantial benefit is the combination of the client's traditional securities holdings with different custodians into one collateral token.

From a custody perspective, a distributed ledger system has the capability to record positions at an end-beneficiary level. This increased transparency and resulting operational efficiencies open up opportunities for service providers alongside the custody chain.

On the technical side, decentralized data management of distributed ledger technology enables extended system availability potentially around the clock, every single day. Currently, international financial market activities are limited by settlement windows which usually prevent trades from being settled during the night in the specific time zone. One of the reasons for this limitation is to allow for maintenance and system housekeeping. In contrast, due to its distributed nature, a DLT-based system is innately capable of allowing maintenance to be done on a single node without affecting the availability of the full system. In this way global integration of financial market activities could be further fostered.

To allow the full potential of this technology for the financial industry to unfold, legal and regulatory aspects need to be tackled as a matter of priority. Market participants need leeway for further analysis and investigation to develop new business cases as well as legal reliability and certainty to integrate these new services into the productive environment. Therefore, European lawmakers and regulators need to ensure that coordinated and harmonized laws and regulations are put in place within a short timeframe.

Relevant actors in the securities services industry are closely interlinked and bound by existing regulation. Hence, changes regarding the actual business models are much more likely to evolve gradually over time. Accordingly, it is not expected that securities issuance in its entirety will happen via tokens in the short term. Instead, there will probably be more intermediate use cases utilizing tokens as a mere carrier of information or using them to represent claims.

Another key element is whether and when market participants will be able to integrate DLT-based solutions into their existing technical environments. Given that existing well-functioning traditional systems will not be replaced soon, it is expected that they will run in parallel with new solutions reaping the benefits of DLT. For the time being, the challenge will be to efficiently interface both worlds.

In addition, internationally agreed market standards would be helpful for the market to develop efficient business solutions. Standardization would be required from both the functional and the technical perspective. This could be common identifiers for tokens or communication standards between different chains.

Finally, disintermediation is always seen as an issue when discussing distributed ledger technology. However, regulation of services and actors in the trading and post-trading sector constitute a limitation for such disintermediation. In the end some functionalities and roles in the current value chain might be reduced or will even no longer be required with DLT. However, as shown in the analysis with the example of the TTP, it can be expected that - with the evolution of this innovative technology - various new roles will develop instead.