Insideview

Distributed Ledger Technology (DLT) and Blockchain for Securities Markets

INTERVIEW WITH JENS HACHMEISTER

Jens Hachmeister
Managing Director, DLT, Crypto Assets and New Market Structures
Deutsche Börse AG

After the extreme hype on DLT and blockchain in the last years, there seems to be more realism and pragmatism now. What is your perspective on this development?

2017 was the year of cryptocurrencies and especially Bitcoin. 2018 was the year of ICOs with almost 900 ICOs and over USD 6 billion (up to USD 20 billion according to some sources) raised. Currently, we experience a crypto winter with falling prices and only few successful ICOs. Many of the projects struggle to proof that DLT is adding value and I expect to see a further consolidation in the crypto space. However, I am also convinced that 2019 will be a great year for shifting towards actual value-adding initiatives. I don't see cryptocurrencies – at least in an unregulated and non-transparent environment – attract institutional-grade financial market participants to a substantial extent. But I think that the tokenization of assets, the next major phase of asset digitization, has the potential to reshape global financial markets. In the future, we will be able to tokenize all kinds of assets, such as industrial goods or real estate. The tokenization increases the fungibility and flexibility especially of less liquid asset classes, and portfolios will be more differentiated and personalized.

For which type of applications is DLT a real game changer?

The expectations are high – but DLT and blockchain technology is not the answer to all questions. In order to create new market structures, to add new products onto present structures, and to enhance existing offerings, a multi-technology approach is needed. I think that DLT and blockchain technology can create real value whenever a common view on a shared set of information is beneficial to foster reconciliation, transparency, and liquidity. The collateral management solution that we developed together with HQLAx is a perfect example for a value-adding service based on DLT.

What are the goals and key benefits of HQLAx for the market?

HQLAx is a collateral lending platform aiming to increase collateral mobility and decrease capital costs for financial institutions. Technically, a DLT-based tokenization of security baskets takes place, which is fully integrated in our established value chain. At the trading level, the DLT layer connects to Eurex Repo, an electronic trading system on which OTC financing transactions are being agreed. The DLT layer is also connected to another Deutsche Börse entity, the so-called Trusted Third Party (TTP), which links to multiple custodian locations, where the securities are deposited. The TTP's role is to ensure that relevant securities are safely locked away. HQLAx is a great example how the legacy and DLT world can interconnect to create value for market participants. We are confident that HQLAx will go live in the first half of 2019. The solution will support financial institutions to better manage and monetize their HQLA portfolios, which many of them have to hold due to regulatory requirements.

What are your predictions for the future and what are your plans?

In order for DLT to fully unfold its potential for the financial markets, it needs a comprehensive regulatory-compliant infrastructure. This should be an open platform or ecosystem enabling an easy integration of third-party services to foster innovation, co-creation, and scalability. This is what we aim for with our strategic partnership with Swisscom and Sygnum. This cooperation aims at building a trusted and regulatory-compliant financial market infrastructure for digital assets. The core elements will include issuance, access to liquidity, banking services, and a custody solution – all based on DLT in a regulatory-compliant environment. We start to build the infrastructure today that is needed for the financial markets of tomorrow.

Thank you for this interesting conversation.