
Press release

Banks call for regulators to take a more innovative approach to DLT

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The Global Financial Markets Association (GFMA) together with Boston Consulting Group (BCG), Clifford Chance and Cravath, Swaine & Moore LLP, have today published a new report highlighting the potential transformative benefits of Distributed Ledger Technology (DLT) for capital markets and calling for market participants to proactively shape its future use, as well as for greater regulatory clarity from policy makers.

The report, “**The Impact of Distributed Ledger Technology in Global Capital Markets**” evaluates the opportunities and risks of DLT and DLT-based securities and assesses the applicability of existing legal, regulatory, and risk management frameworks. To illustrate the potential of DLT in capital markets, the report examines three emerging use cases: collateral management; tokenization of assets; and sovereign and quasi-sovereign bonds.

The report finds that DLT could unlock transformative cost-saving and operational efficiency benefits (for example, approximately \$20 billion annually in global clearing and settlement costs) and innovation-led growth, broader market access, and new liquidity pools when operating at scale (e.g., approximately \$16 trillion global market for tokenized illiquid assets by 2030).

Despite the growing momentum in developing DLT use cases, the report also acknowledges that, there is still no widespread adoption in securities markets, with most DLT-based issuances to date largely experimental exercises due to the challenges identified.

GFMA therefore sets out **five calls to action**, for industry participants and regulators, to overcome existing barriers to adoption and advance the development of DLT-based capital markets:

- **Harmonize global regulatory and legal frameworks** for clear and unambiguous definition of the key terms and risk mitigants required to support the development of a transparent, disciplined, risk-focused, and effective digital market infrastructure.
- **Enable interoperability by building consensus on common standards** and vision for DLT-based markets to guide market linkages with traditional market infrastructure.
- **Drive faster adoption by prioritising resources** in asset classes where DLT has the most upside potential to help pool and deepen liquidity, particularly for illiquid assets.
- **Collaborate on the advancement of DLT to promote technical solutions**, including around scalability, cybersecurity and regulatory compliance.
- **Continue the development of DLT-based payment solutions**, such as tokenized commercial bank money and deposits, to facilitate safe and efficient settlement processes.

The GFMA has developed an approach to the classification of digital assets that reflects the principle that the treatment of digital assets should be underpinned by a clear methodology for identifying different types of digital assets’ risk. This will allow for tailored regulatory treatment, to mitigate reputational risks caused by conflating different use cases of DLT, as well as promoting legal clarity and confidence for asset managers, investors, and issuers.

Adam Farkas, Chief Executive of the GFMA, said: *“Distributed Ledger Technology holds promise for driving growth and innovation. This potential should not be ignored or prohibited where regulatory oversight and resiliency measures already exist. Policymaking should focus on creating a regulatory framework that supports financial stability and responsible innovation in digital asset markets while also setting out a level playing field for both new entrants and regulated financial institutions. A technology-neutral and outcomes-based approach to regulation is crucial. The goal of our latest report is to help policy makers and financial market participants to find a way forward that ensures appropriate stability and protections, while also allowing the industry and economy to harness the benefits of this new technology.”*

Roy Choudhury at BCG said: *“Distributed ledger technology has the transformative potential to further improve efficiency across the capital markets value chain. However, there are critical barriers to large-scale adoption beyond just legal and regulatory roadblocks, including a lack of cross-industry alignment on use cases, limited operational readiness, and a need to further develop interoperable technology standards and infrastructure. Our report examines these barriers and outlines actions to unlock potentially game changing efficiency and innovation across the capital markets industry. We expect global infrastructure, operational cost, and financial resource efficiencies to deliver more than \$100 billion (USD) in annual savings and freed capital when adopted at scale globally, driven by smart contract process automation, streamlined back office functions, and lower settlement and counterparty credit risk.”*

Simon Gleeson, Consultant at Clifford Chance said: *“The introduction of distributed ledger technology across finance poses a whole new series of challenges for legal and regulatory frameworks. Legal structures must deliver clarity of ownership rights, settlement finality and robust insolvency treatment. Regulatory structures must deliver high levels of investor protection without impeding the development of new products and services. However, those apparently simple objectives require deep and sophisticated thought and analysis. This report is a significant step towards these goals.”*

Scott Bennett at Cravath said: *“Distributed ledger technology offers significant potential to foster financial innovation. It has the capability to accelerate payments, streamline capital markets transaction settlements and enhance liquidity. However, there is significant uncertainty around how existing legal and regulatory frameworks apply to this emerging technology. This report provides industry participants and policymakers detailed analysis related to these issues and a foundation to help support effective market infrastructure.”*

The report also sets out the foundations of a global taxonomy for digital assets to encourage both industry participants and policymakers to work from a consistent baseline with globally harmonised definitions, particularly as frameworks for digital assets continue to emerge.

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About GFMA

GFMA represents the common interests of the world's leading financial and capital market participants to provide a collective voice on matters that support global capital markets. It also advocates on policies to address risks that have no borders, regional market developments that impact global capital markets, and policies that promote efficient cross-border capital flows to end users. GFMA efficiently connects savers and borrowers, thereby benefiting broader global economic growth. The Association for Financial Markets in Europe (AFME) located in London, Brussels, and Frankfurt; the Asia Securities Industry & Financial Markets Association (ASIFMA) in Hong Kong; and the Securities Industry and Financial Markets Association (SIFMA) in New York and Washington are, respectively, the European, Asian, and North American members of GFMA.

About Boston Consulting Group

Boston Consulting Group partners with leaders in business and society to tackle their most important challenges and capture their greatest opportunities. BCG was the pioneer in business strategy when it was founded in 1963. Today, we work closely with clients to embrace a transformational approach aimed at benefiting all stakeholders—empowering organizations to grow, build sustainable competitive advantage, and drive positive societal impact.

Our diverse, global teams bring deep industry and functional expertise and a range of perspectives that question the status quo and spark change. BCG delivers solutions through leading-edge management consulting, technology and design, and corporate and digital ventures. We work in a uniquely collaborative model across the firm and throughout all levels of the client organization, fueled by the goal of helping our clients thrive and enabling them to make the world a better place.

About Clifford Chance

Clifford Chance has a market-leading, multi-disciplinary fintech practice with significant depth across five continents, providing an un-paralleled international reach. Clients approach the firm for advice on their most transformational fintech projects across key areas such as blockchain, digital assets and tokenisation, digital bond issuances, payments and AI. The firm's fintech clients range from tech-focused corporates branching out into financial services, banks and other financial institutions, regulators and governments, insurance companies, sovereign wealth funds, asset managers and private equity houses, right through to disruptors, start-ups and industry consortiums. The firm is deeply embedded within local and global fintech ecosystems and collaborates with leading industry-wide working groups, consortia and academic institutions. For more information, visit www.cliffordchance.com

About Cravath, Swaine & Moore LLP

For over two centuries, Cravath has been known as one of the world's preeminent law firms. Each of the Firm's practice areas is highly regarded, and its lawyers are widely recognized for their best-in-class legal work. With a depth of experience advising on leading-edge issues, often in uncharted territory, the Firm is uniquely positioned to partner with clients exploring opportunities and facing challenges inherent in these evolving areas of business and law. Cravath represents clients ranging from early-stage companies to global financial institutions on the legal and business issues most important to growth and investment in all areas of fintech, digital assets, blockchain and Web3 technology. The cross-disciplinary advice the Firm provides spans transactional, financing and restructuring, regulatory, intellectual property, litigation, tax, strategic and policy matters. More information is available at www.cravath.com.