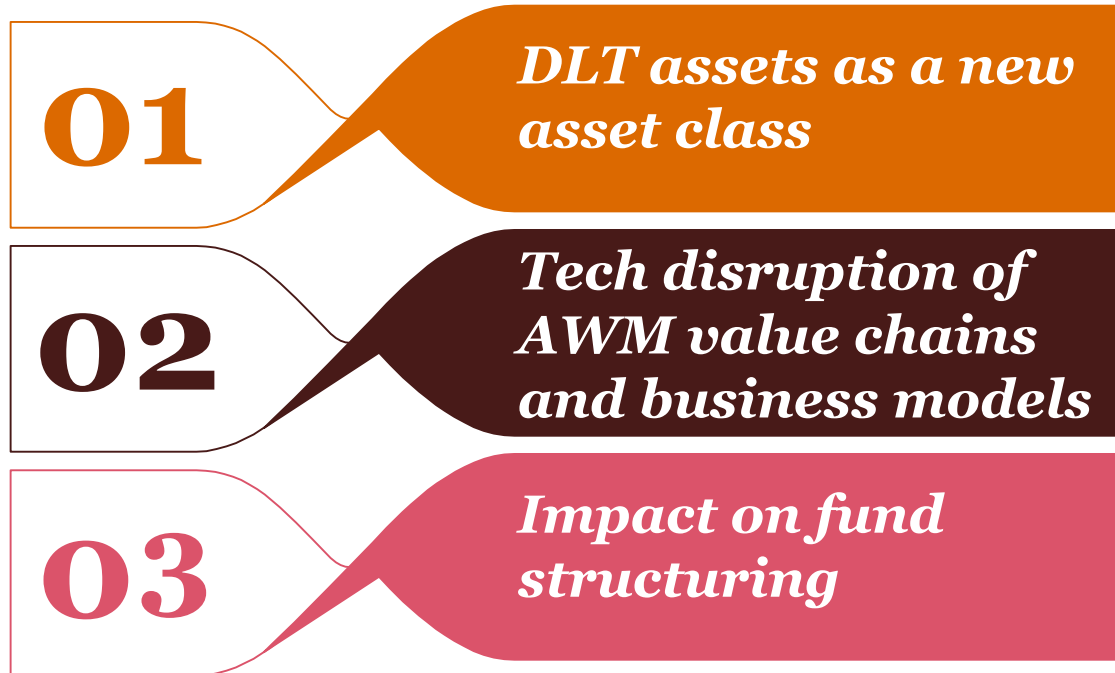


Will we require new fund types, or does it become easier to create hybrid funds?

Chris Mifsud Bonnici

Restricted use

Proposed approach – the impact of DLT on fund structures



A new asset class for the hybrids...

- Love them or hate them **cryptocurrencies** currently command a lot of investor attention
- **Volatility risk** points to mixed strategies
- Too much of a different animal – **custody** and **valuation**?
- Regulatory developments:
 - PIFs investing in VCs
 - Focus on differentiation from securities or financial instruments
- Slowly seeing the rise of specialised funds but which do not feel too different in terms of structure



Everybody loves ESMA...



Report

7 February 2017

The Distributed Ledger Technology Applied to Securities Markets

Potential benefits

More efficient post-trade processes

Enhanced reporting and oversight

Data management capabilities

Reduced costs

Challenges

Interoperability and use of common standards

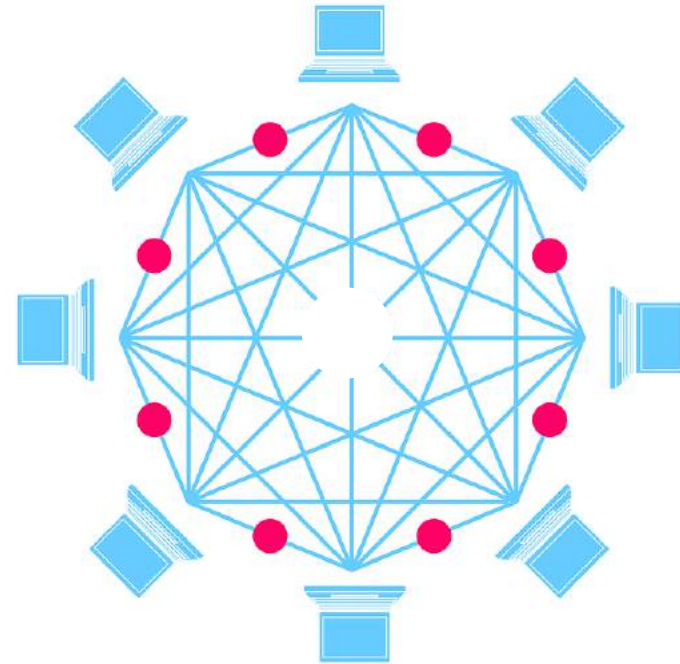
Access to central bank money

Governance and privacy

Scalability

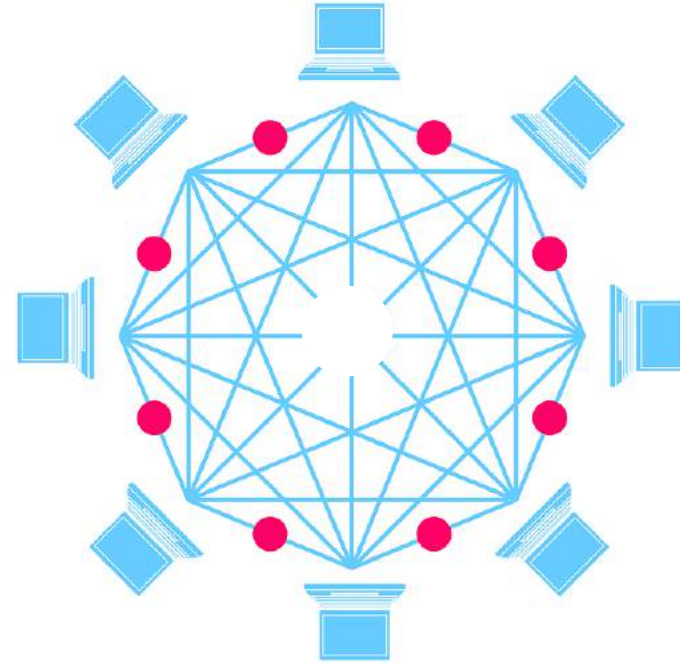
Where is the potential ?

- **Secure automation** leading to disintermediation and direct-to-consumer distribution – ecosystem connecting investors, managers, custodians and regulators in a world with automated transfer agency and clearing and settlement mutualisation of KYC and AML
- Almost **instantaneous clearing** with trade confirmation, affirmation, allocation, posting of collateral, settlement and P&L calculations combined into a single step with reconciliations becoming virtually superfluous



Where is the potential ?

- Reduction in **reporting, compliance and risk monitoring costs**
- Facilitation of **safe-keeping** and **record-keeping** of ownership of certain assets – lower custody costs
- Increase in the speed and quality of data and information flows – **data analytics**
- **Self execution** and ‘smart contracts’ impact on managing investment parameters and restrictions
- Easier **KYC/AML** processes and better **traceability** of transactions



Challenges

*Disruption
of market
practices*

*Privacy
issues*

Immutability

*Fraud and
money
laundering*

Cyber-risk

Governance

Blockchain is here. What's your next move?



600
blockchain-savvy
executives



44%
C-suite
and VPs



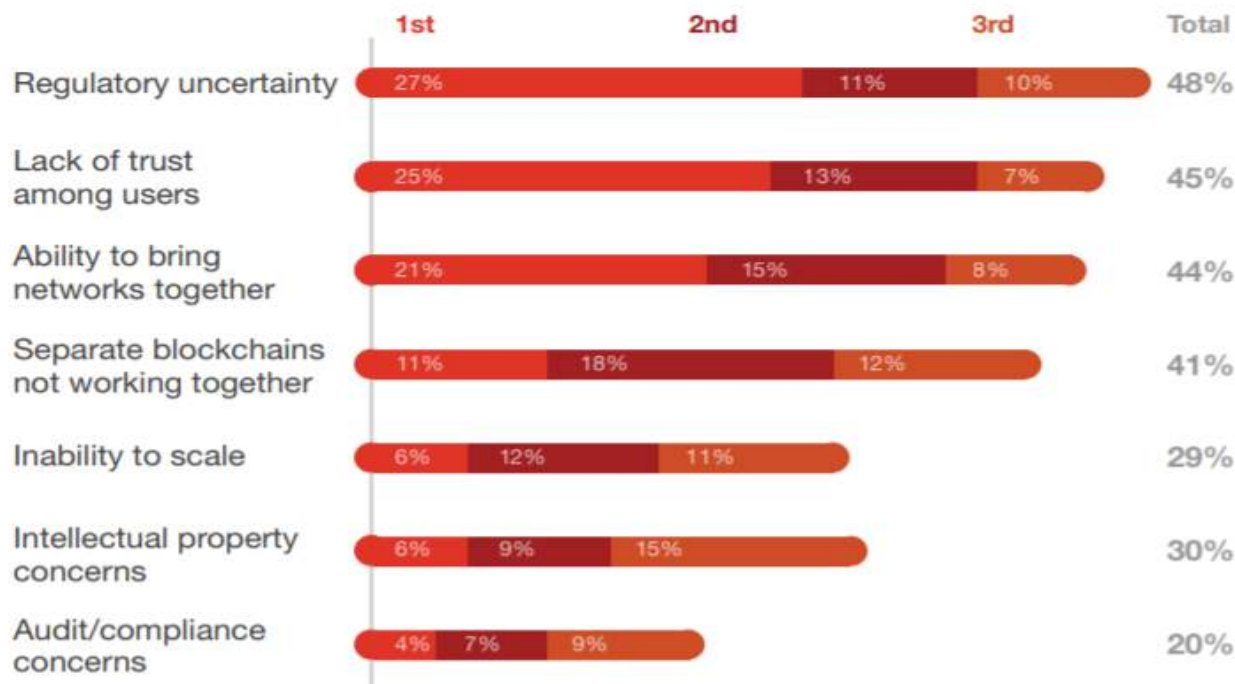
31%
with revenue
\$1 billion+



15
territories

The biggest barriers to blockchain adoption

Respondents' top three challenges



Where does that leave us?

- **AWMs sitting on the side lines** while the sell-side banks take the lead in exploring potential use cases (mainly relating to outsources realities such as clearing/settlement or custody)
- **Adoption will be gradual** – perhaps beginning in niche asset classes or trading environments – but will accelerate over time...
- **Hybrids** in the **short term** but a **distribution revolution** in the **long term**...?
- ...the rise of a new breed global managers and the tokenisation of their services



Thank you!

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