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MINUTES OF THE CONFERENCE

BLOCKCHAIN – THE REAL FINTECH REVOLUTION?

JUNE 26, 2018

Speakers:

- Dominique Riquet, MEP, Chair of the Long-term Investment Intergroup
- Thiebald Cremers, Director Legal and Public Affairs SETL France (setl.io)
- Wim Mijs, CEO, European Banking Federation
- Nadia Filali, Head of Blockchain programme, Caisse des Dépôts et Consignations & Member of the EU Blockchain Observatory and Forum
- Marcello Topa, Citi, Chair of the European Banking Federation Blockchain Working Group
- Peteris Zilgalvis, Head of Unit, Start-ups and Innovation, DG CONNECT, European Commission
- Eva Kaili, MEP, STOA chair



I. Welcome address and keynote speeches

Dominique Riquet, MEP, Chair of the Long-term Investment Intergroup welcomed the participants and introduced the discussion. He suggested a definition for the Blockchain technology: a digital system run by an algorithm, based on the delocalized and decentralized storage of information in blocks,

classified over time, on a large amount of servers, guarantying that the information cannot be modified once included in a chain of blocks. As the information is widely spread and registered, it becomes inviolable. Hence, all information registered inside the system are trackable, verifiable and unforgeable. Cryptocurrencies, like Bitcoin, are based on blockchain technologies while using an algorithm, generating the currencies with a determined production rate. He reminded the audience that those currencies are the only real assets created by the blockchain itself, and their price depends on supply and demand.

He kept cautious on the common saying that Blockchain is revolutionary because it removes the need for third-party intermediaries as the keep of trust. Not quite actually: instead of removing them, it just evacuates them outside of the system. Third parties are still needed, but upstream and downstream of the process, to validate and guarantee the information integrated to a blockchain. For instance, if one creates a Blockchain for ownerships' certificates of houses, one still needs a third party to validate these certificates and their accuracy, and therefore their value, before entering them into the system. Blockchain systems cannot tell if something is valuable or not per se, they cannot read the inherent accuracy of one certificate for instance. He concluded this part explaining that third parties are still needed before and after a Blockchain mechanism and that they're just excluded from the operating system.

Beyond the storage part of Blockchain technologies, he argued the exchanges part, particularly with the "Smart Contracts" is another very important aspect of the technology. Indeed, as every information once included in a blockchain is protected and certified, contracts can therefore be concluded extremely quickly. Smart Contracts therefore allow automated and autonomous exchanges as soon as the conditions are gathered from both sides, without human intervention. Clearly, the different uses of Blockchain are numerous, and it is just the beginning, like for property deeds or cultural copyrights for instance.

Overall, blockchain allows exchanging, almost instantly, information and value in a verified, protected and safe-proof environment. The blockchain then offers a stronger security than current centralised systems and an increased fluidity for exchanges thanks to smart contracts. Nevertheless, he warned that these advantages are counterbalanced by a very high consumption of energy, due to enormous amounts of digital power needed. This is one of the many challenges Blockchain technologies are facing at the moment, along with regulatory loopholes.

Thiebald Cremers Director Legal and Public Affairs SETL France, then took the floor addressing several introductory questions: How and why blockchain is a revolution? Will the Blockchain technology be as disruptive for the functioning of the capital markets as was dematerialization?

He then followed on presenting the SETL company. It was founded in 2015 by people with long experience in capital markets. SETL is not a startup and not an IT company, more a of a post-trade player as they don't sell the technology but use it for developing services. He then explained that in the current structure of the capital markets - composed of many intermediaries - a high volume of investments is necessary to make a product profitable. In this context, SETL features two key products:

- IZNES integrates into the market, replacing the role of the Transfer Agent, and provides services to asset-owners, investors, asset issuers and asset managers. Key benefits are direct investor-asset manager relationship, cost reduction and operational efficiency, enhanced transparency of beneficial fund owners and potential new revenue streams through on-platform services. IZNES is backed by 20 European fund managers that together aggregate USD 5 tn of assets under management (AUM). First transactions were completed in Q1 2018 and the formal launch was in May 2018. IZNES aims to onboard €75bn AUM in 2018.
- ID2S is a fully-fledged central security depository (CSD) which will operate across Europe, primarily for Commercial Paper. Key benefits are reduced settlement timeframes (from T+2 to

T+0), cost reduction for market participants and enhanced market transparency. This platform will reach full regulatory approval by October 2018 and launch in January 2019. SETL has signed a 10-year contract with Orange for the development and operation of ID2S. Testing with T2S commenced in April 2018 and regulatory submissions have been issued to the Banque de France and AMF.



II. Panel discussion

The panel was then introduced by Wim Mijs, CEO of the European Banking Federation (EBF). He claimed the Blockchain technology has the potential to replace all the trust intermediaries, and streamline transactions. The promise is there but has encountered several barriers:

- the energy consumption;
- the weight of its own;
- regulatory issues, as shown by crypto currencies affecting Market Abuse Directives.

Nadia Filali, Head of Blockchain programme, Caisse des Dépôts et Consignations & Member of the EU Blockchain Observatory and Forum, then took the floor. Mrs Filali recognized the challenges posed by energy consumption and the governance of Blockchain applications, but highlighted the development of the public blockchain as a potential solution. Applications are multiple and the new collaborative economy could benefit from it. The Blockchain technology could develop finance inclusion, with the development of e-currency for instance (like in Turkey and Morocco, but there remains questions of liquidity). Initial Coin Offering (ICO) is a specific application, addressed in the soon to be discussed "PACTE" Law in France. She mentioned an ongoing project within *Caisse des Dépôts*, related to the Securities Financing Transactions Regulation (SFTR) and presented to French *Autorités des Marchés Financiers* and ESMA which could also be compatible with the General Data Protection Regulation (GDPR). Works are also ongoing with sharing the identity on Know Your Customer (KYC), which is not allowed for the moment. New applications are also being developed on green bonds in cooperation with French Institute for Technological Research SystemX regarding normalized certifications and the development of a market place. Finally, a posttrade blockchain company is being developed with other financial institutions.

Marcello Topa, Chair of the European Banking Federation Blockchain Working Group admitted being skeptical on some aspects on the Blockchain technology though he acknowledged great potential. There are many opportunities to share data and blockchain is simply a database with other functions. It is a technical tool that has existed for many decades in fact but it became famous recently with blockchain offering a new way of managing data. It has not emerged for now because it is complex and presents to the ordinary citizens a real change of thinking, about identity and the localization of assets. We still have accounts, and that culture is not easy to change. So far, risks have not been correctly assessed. The matter of governance for users and regulators too is important. This explains why the revolution has not emerged. It takes time to assess potential and risks.

Peteris Zilgalvis, Head of Unit, "Start-ups and Innovation", DG CONNECT, explained that regulators want to favor the innovation on the one hand and produce more technologies like this in Europe. He then presented the role of the EU blockchain Observatory forum: promoting the technology and highlighting regulatory issues. There are many applications (transport, finance, infrastructures) made possible thanks to e-governance and their intervention. He informed the audience that legislative proposals are planned for the next Parliament (notably on the Market Abuse Regulation with secondary markets). There will not be a regulation specifically on the Blockchain technology though.

Eva Kaili, MEP, Chair of the Science and Technology Options Assessment Panel, praised the huge potential of a decentralized database which can tokenize any value. However, she warned that many questions have to be answered before, such as articulation with the GDPR, a strong definition and national barriers to be raised. The next Observatory will focus on currencies and ICOs. Finally, she praised the fact that The European authorities go fast with positive spirit regarding the huge potential. A state of mind much welcomed by Wim Mijs.

III. Q&A

- **How to link sustainable finance and blockchain, especially regarding Caisse des Depots' activity?**

Nadia Filali explained Caisse des depots's approach to Blockchain as a driver of inclusive finance: Blockchain can be used to foster local currencies currently spreading across many French cities. Also, as is illustrated by the Region of Bretagne, social benefits sent to people can be better steered via Blockchain.

Marcello Topa highlighted the importance of digital education, coupled with the need for financial education.

- **In the future, can we imagine major historical players could disappear quickly because of that technology?**

A representative from Euroclear explained that the technology can disrupt the market but the transition needs to be dealt with first.

Wim Mijs and Dominique Riquet then concluded the Q&A session thanking the speakers and the audience. D.Riquet concluded saying we gave to go forward with doubts but also enthusiasm.

