

DLT-based Bond Issuance – Status and Outlook

ECB Bond Market Contact Group



Digital (DLT-based) bonds and intraday repos – Where are we now?



Source: Moody's Ratings, ICMA's tracker

Note: Since 2021, more than 150 DLT-based securities (including more than 30 in H1 2025) have been issued under German law, also referred to as "crypto securities". Due to limited availability of data, not all DLT-based debt securities have been included.

 Native digital (DLT-based) primary debt issuance has increased in waves since its inception – still only a negligible fraction of total volumes

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- In 2024, the Eurosystem processed over 200 DLT-based transactions and a total value of €1.6bn as part of its 'trials and experiments'
- Investor participation is dependent on jurisdiction, governing law, DLT platforms and settlement arrangements, amongst other factors
- Limited evidence of front office secondary market activity in DLT-based securities to date
- DLT has been adopted at scale for intraday securities financing, facilitated by GMRA Digital Assets Annex (August 2024)

DvP settlement – Approaches vary between market segments



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Key challenges and considerations for scaling DLT-based bond markets



- Standardisation and interoperability => Critical to scale DLT-based bond markets and avoid market fragmentation, ICMA's focus being on technical standards (Bond Data Taxonomy) and legal standards (GMRA Digital Assets Annex)
- Custody and trading => Major challenge to wider investor participation due to legal, regulatory, and operational complexities. Focus of MAS Project Guardian Fixed Income workstream (<u>chaired</u> by ICMA)
- 'Cash on chain' => Critical to fully unlock the benefits of tokenisation, ICMA members have consistently highlighted the need for a wholesale digital Euro (wCBDC) and welcomed the ECB's <u>announcement</u> on 20 February 2025
- Regulatory treatment:
 - EU regulation (eg CSDR, MiFID II/R), BCBS prudential treatment (SCO60) => impacts listing, trading, portfolio management and (re)use as collateral
 - EU DLT Pilot Regime => Flexible limits, clarity on duration and 'exit process' required for commercial viability
 - Market fragmentation => Diverging national securities laws in EU member states
- Cost-benefit considerations => Short term vs long term; type of instruments; size; funding requirements

Outlook

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- Equivalent prudential, legal, and regulatory treatment of DLT-based bonds and traditional debt securities required
- Ongoing international collaboration, including MAS Project Guardian, BdF/MAS Les Gardiennes, BIS Project Agora, amongst others, continues to lay incremental groundwork
- Further proliferation of industry-led interoperability and standardisation initiatives key to boosting market depth, access and adoption
- The ECB's <u>announcement</u> in February 2025 to expand its initiative to settle DLT-based transactions in central bank money is expected to accelerate market activity
- The UK is planning a Digital Gilt (DIGIT) expected to be issued through the UK's Digital Securities Sandbox following a market <u>consultation</u> in March 2025
- Focused use cases 'primary' processes where lifecycle scalability less important (eg repo / CP / private placements) and emerging / developing markets where legacy traditional infrastructure less embedded and can be leapfrogged
- US policy shift regarding crypto-assets is expected to have a spill-over effect to capital markets and drive growth of tokenisation in bond markets and other asset classes
- Issuers of USD-pegged stablecoins expected to further increase US Treasury holdings and create interdependencies

Discussion points

- What do you see as the main benefits (or costs / risks) of adopting DLT in capital markets?
- Has your organisation implemented DLT into your workstreams or does it have plans to do so?
- How long do you think it will be before DLT will have broad-based scalable application in capital markets?





Reference materials for background



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Considerations for risk factors and disclosure in DLT bond offering documents



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Market Association Frequently Asked Questions on DLT and blockchain in bond markets First published by the International Capital Market Association (ICMA) in September 2022. This document is provided for information purposes only and should not be relied upon as legal, financial, or other professional advice. While the information contained herein is taken from sources believed to be reliable, ICMA does not represent or warrant that it is accurate or complete and neither ICMA nor its employees shall have any liability arising from or relating to the use of this publication or its contents, including any information on any third party website which may be referred to in this document. Contents Acknowledgements Introduction 1. What is distributed ledger technology? What is blockchain? 2. What are virtual assets, crypto assets and (native) digital assets? 3. What is a Central Bank Digital Currency (CBDC)? 4. What are so-called stablecoins? . 5. What are DLT bonds?.... 6. What is the difference between between DLT bonds and traditional bonds, and how they are held?... 7. How does DLT bond documentation generally differ from traditional legal bond documentation?... 8. What is a (digital) token?...... a DLT hands always on a DLT network or blackshain? Are the Q 10

9.	Are DLT bonds always on a DLT network or blockchain? Are there access restrictions?	8
10.	Can DLT bonds reduce settlement risk?	8
11.	How might DLT bonds change the issuance and lifecycle process?	8
12.	How are payments made in relation to DLT bonds?	9
13. DLT	What is the Common Domain Model (CDM) for repo and bonds, and how does this fit in wi bonds?	
14. supp	What is ICMA's Common Data Dictionary initiative for primary bond markets, and how does bort DLT bonds?	

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