

## CENTRALIZED EXCHANGE OF FUND TRANSACTION AND INFORMATION

Cross-border fund distribution is undergoing constant change as all actors strive to standardize, streamline processes and increase efficiency

We offer a flexible and responsive infrastructure to enable operational effectiveness across the entire distribution chain. Our added-value services for funds cover:

- **information**
- **order management**
- **regulatory compliance**

As a subsidiary of the Luxembourg Stock Exchange, Fundsquare operates as a fund market utility



**FUNDSQUARE**  
MARKET INFRASTRUCTURE

[www.fundsquare.net](http://www.fundsquare.net)

# Distributed ledger technology (DLT)

A new frontier for the fund distribution model



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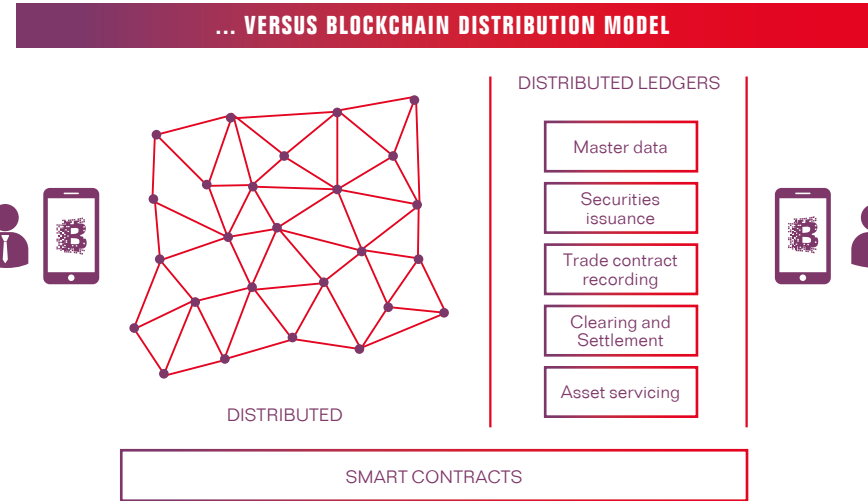
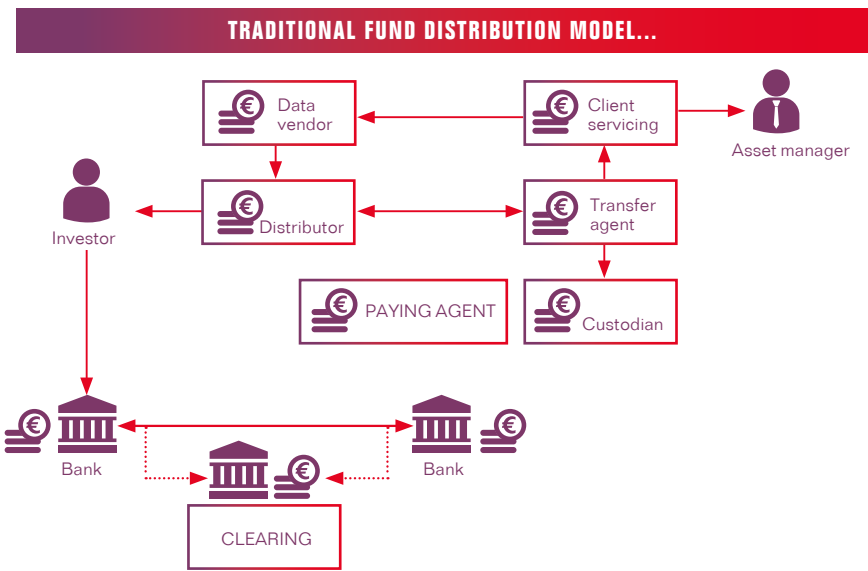


**OLIVIER PORTENSEIGNE >**  
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Distributed ledger technology threatens to disrupt the business model of many financial sector players, including much of the fund industry. Transfer agents, custody, fund accounting, distribution and more, are likely to suffer, as are clearing and settlement houses, payment system providers, and stock exchanges. In short, anything in the financial sector that can be summed up as data duplication and reconciliation is vulnerable for disruption. The blockchain technology underpinning Bitcoin is proving to be a perfectly secure and tamperproof way to share any type of data. As this technology and its use has matured, so Bitcoin and other crypto currencies are gaining a reputation for reliability.

Distributed ledgers use the blockchain to track ownership of any financial, physical, or electronic asset: bonds, equity, currencies, commodities, fund shares... Anyone with permission can update and access data on the distributed ledger, with all users able to see who has changed what, when and by how much. Counterparties could keep these ledgers up-to-date in real time, without the need for an expensive third party. This would eliminate the need for many of the firms that currently thrive in Luxembourg and elsewhere maintaining and reconciling lists of more or less the same data. Blockchain means software developers too will have to rethink their methods.

It is being taken very seriously by several key players. For example, America's leading post-trade financial services company the Depository Trust & Clearing Corporation (DTCC) has indicated that distributed ledgers have the potential for "modernising, streamlining and simplifying the 'silo' design of the financial industry infrastructure." They see room for greater standardisation, efficiency, faster processing, transparency, and security. Also, NASDAQ has just made its first share trade using blockchain technology. The potential disruption for fund administration and distribution is clear. This technology would allow an asset >



manager to work directly with clients or the retailer by offering investment services via a digital “smart” contract. All the third party services could be automated and accessed directly in a peer-to-peer fashion (see diagram). The whole distribution supply chain would be visible and available for all registered users to track and manage the lifecycle of their financial transactions. And this at a fraction of the cost. Regulators too would like a process that is transparent which potential cuts the risk of systemically important failures. “Clearing, settlement, custody and registration services all add a significant cost

burden to issuing, trading and holding securities,” said the writer and consultant Dominic Hobson (COOConnect). He cited an estimate that the global finance industry pays around \$65 billion to \$80 billion per year in post-trade costs. A recent Deloitte/Fundsquare report pointed out that Europe’s cross-border fund industry alone could save nearly 1 billion with improvements to the fund distribution supply chain. The DTCC has highlighted the following areas as being ripe for improvement by distributed ledgers:

- Master data management
- Asset/securities issuance and servicing

- Confirmed asset trades
  - Trade/contract validation, recording and matching for the more complex asset types that currently do not have strong, existent solutions
  - Netting and clearing
  - Collateral management
  - Settlement
- In all this, distributed ledgers promise to reduce the need for third parties and extra layers of processing, particularly in the fund sector. This could be on public blockchains or proprietary systems. This technology is coming and will make changes. The only question is how fast this change will be.



Robo-advisory is clearly gaining in popularity and used by discerning customers, so in time the whole financial advisory landscape is going to adjust accordingly.

< JEREMY ANDERSON  
Chairman of KPMG's Global Financial Services, CBE

The digital wallet, purchasing via the Internet, virtual credit clearing, will change the way we use money in the coming years, as we conduct most of our financial activity by pressing a button.

LYRON WAHRMANN >



Distributed ledger technology threatens to disrupt the business model of many financial sector players, including much of the fund industry.

< OLIVIER PORTENSEIGNE



Despite the open questions, blockchain technology has the potential and power to profoundly reshape the way we all do business.

< PATRICK LAURENT



As digitally driven solutions emerge among competitors, the ability to differentiate will be a challenge and players that do not keep pace with the competition will lag behind.

GRÉGORIE WEBER >



The multi-manager platform model is maturing, providing new options for those seeking a quick, reliable, secure path to access the market and raise assets.

< REVEL WOOD

