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| 4 January 2022 |

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| Reply form for the Call for Evidence (CfE) on the DLT Pilot Regime |
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| Date: 4 January 2022 |

Responding to this paper

The European Securities and Markets Authority (ESMA) invites responses to the specific questions listed in the Call for Evidence (CfE) on the DLT Pilot Regime for published on the ESMA website.

*Instructions*

Please note that, in order to facilitate the analysis of the large number of responses expected, you are requested to use this file to send your response to ESMA so as to allow us to process it properly. Therefore, ESMA will only be able to consider responses which follow the instructions described below:

* use this form and send your responses in Word format (pdf documents will not be considered except for annexes);
* do not remove the tags of type <ESMA\_QUESTION\_DLTP\_1> - i.e. the response to one question has to be framed by the 2 tags corresponding to the question; and
* if you do not have a response to a question, do not delete it and leave the text “TYPE YOUR TEXT HERE” between the tags.

Responses are most helpful:

* if they respond to the question stated;
* indicate the specific question to which the comment relates;
* contain a clear rationale; and
* describe any alternatives ESMA should consider.

**Naming protocol**

In order to facilitate the handling of stakeholders’ responses please save your document using the following format:

ESMA\_DLTP\_NAMEOFCOMPANY\_NAMEOFDOCUMENT.

e.g. if the respondent were ESMA, the name of the reply form would be:

ESMA\_DLTP\_ESMA\_REPLYFORM or

ESMA\_DLTP\_ANNEX1

***Deadline***

Responses must reach us by **4 March 2022.**

All contributions should be submitted online at [www.esma.europa.eu](http://www.esma.europa.eu) under the heading ‘Your input - Consultations’.

***Publication of responses***

All contributions received will be published following the end of the consultation period, unless otherwise requested. **Please clearly indicate by ticking the appropriate checkbox in the website submission form if you do not wish your contribution to be publicly disclosed. A standard confidentiality statement in an email message will not be treated as a request for non-disclosure.** Note also that a confidential response may be requested from us in accordance with ESMA’s rules on access to documents. We may consult you if we receive such a request. Any decision we make is reviewable by ESMA’s Board of Appeal and the European Ombudsman.

***Data protection***

Information on data protection can be found at [www.esma.europa.eu](http://www.esma.europa.eu) under the headings ‘Legal notice’ and ‘Data protection’.

# General information about respondent

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| --- | --- |
| Name of the company / organisation | FlatStone Capital Markets Inc. |
| Activity | Investment Services |
| Are you representing an association? |[ ]
| Country/Region | Other |

1. Please provide any general observations or comments that you would like to make on this call for evidence, including any relevant information on you/your organisation and why the topics covered by this call for evidence are relevant for you/your organisation.

<ESMA\_QUESTION\_DLTP\_1>

FlatStone Capital Markets Inc. DBA TridentX (FlatStone or TridentX) welcomes the opportunity to provide feedback to ESMA's consultation paper on the Call for Evidence on DLT Pilot. In line with FlatStone's mission “To build a bridge between legacy and decentralized finance to fund entrepreneurs and innovators creating the future digital economy”, FlatStone's response focus on aspects relevant to the development of regulated DLT Capital Markets bridging to unregulated Cryptoassets.

FlatStone comments represent a cross-section of the concerns expressed by many of the subject matter experts and members (the stakeholders) of the digital asset ecosystem. These members coincide in that regulators' lack of understanding of DLT and other technologies results in a blanket approach (perceived) risk that will be detrimental to digital transformation. It is our position that unless adjusted future regulation will discourage market adoption, investment, and corporate participation.

The ideal model eliminates arbitrary barriers of entry making, replacing them to facilitate and promote the adoption by corporate issuers, institutional investors, and end-users. We believe a simpler regulatory model could help DLT Capital markets to provide an alternative funding source for SMEs during the post-pandemic recovery

As a result, of the ESMA regulatory framework, FlatStone will focus on responding to questions relating to RTS 1 (equity transparency). FlatStone sees the need for focused amendments to the framework where we believe that the main obstacles to meaningful regulation under MICA relate to a) the bulking of RTS2 (Non-equity transparency) into one single bucket without differentiation. The lack of recognition in the impact of the different types of infrastructure architecture namely the Decentralized ledger technology (DLT) and Distributed ledger technologies.

These and other general misconceptions concerning taxonomy and infrastructure have an impact on the misalignment of the regulation and the requirements for transparency for digital crypto assets. Our response should be read with these comments in mind:

1. “**Adoption of Digital Currencies**” – FlatStone believes digital currencies adoption will happen as a result from the demographic shift and the massive expansion of the central bank balance sheets M2. Clearly, the cost of minting (printing) physical currency M1 exceeds the utility when demand for currency exceeds the supply required for post-pandemic recovery programs. While we support the impending issuance of Central Bank Digital Currencies (CBDCs) regulated by the Bank of International Settlements (BIS) we caution ECB against banning the public blockchain cryptocurrencies, which should be regulated by ESMA as financial contracts, and/or instruments with full legal status and legislation.
2. “**Bulking of Non-Equities**”- FlatStone believes that it is counterproductive to not differentiate Debt capital markets (DCM) from other non-equity such as commodities derivatives within regulation RTS2. A similar problem situation presents with the widespread use of ISINs for the identification of both Equity capital markets (ECM) and multiple contracts for derivatives. The prime example is the meaning of liquidity/risk in derivatives, which differs significantly from equity and/or debt, and it is similar to most unregulated Cryptoassets as there is neither a finite pool of liquidity nor a single ‘issuer’ of financial instruments in derivatives and Cryptoassets.
3. “**DLT Cost Compression**” - The EPB DLT facilitates Levelized cost compression (LCC) reflected on lower CAPEX and OPEX requirements of virtualized or digital operations. The LCC paves the road for an accelerated digital transformation across industries. The adoption of digital Robotic process automation (RPA), and self-execution of predetermined workflows for complex operations and transactions (via Smart-Contracts).
4. “**Education and Training**”- It is our position that European Supervisory Authorities (ESA's) and European Commission (EC) legislators like their global counterparts lack the competence across a Body-Of-Knowledge (BOK) to properly regulate areas of increasing technical complexity. These knowledge gaps would require immediate remedial actions for ESA's and legislators to draft legislation that both protects investors, without curving innovation and fostering competition. Only adequate skill sets are required by being trained and becoming certified.
5. “**GDRP Compliance**” **-** The recent events in the Ukraine highlight the fragility of the public infrastructure DLT and potential violation of the GDRP laws. This underlines the need for deployment of EPB DLT T1 infrastructure network(s) capable of recording and processing structured data from both on-chain and off-chain sensors from fixed Internet of Things (IoT) and mobile devices.

Such Encrypted structured data (ESD) processed would be capable of providing regulated access to analytical framework encrypted data transparency information enforcing privacy and compliance to GDRP, over a regulated, robust and scalable network capable of increasing market liquidity and protecting data.

1. “**Non-equity instruments segmentation**” - Concerning the structure of MICA and relative to MiFIR proposed transparency requirements, i.e. equity vs non-equity instruments, we underline that debt capital markets (DCM) are different from the other such as derivatives markets, in terms of objectives, market structure and the aforementioned notion of liquidity/ risk profile.

Furthermore, the differentiation between exchange-traded derivatives (ETDs), OTC derivatives, and other contracts is not granular enough. We submit that within the ‘non-equity’ bucket, ESMA should recognize the structural differences between fixed DCM and other non-equity capital markets. FlatStone addresses this by creating three categories (buckets) Equity Capital Markets (ECM), Debt Capital Markets (DCM), and Extensible capital markets (XCM) which includes ETDs, OTC, and other structured and non-structured instruments such as commodities, emission units, notes, and complex exotic financial instruments.

1. “**Enhanced Liquidity Privacy & Transparency**” - As outlined by ESMA concerning transparency across the lifecycle (Pre and Post Trade) of the DLT capital markets processes can deliver both enhanced liquidity and remain in compliance with GDRP legislation. The EPB-DLT model is uniquely positioned to address ESMA call for simplifying the regime MIFID2/MIFIR while providing both meaningful transparency and useful information to end-users on the dynamics of derivatives and other capital markets.
2. “**Environmental impact of Proof of Work**” **-** FlatStone core expertise on the energy and infrastructure sectors enables us to comment on the relevance of the European Commission Article 8 of the Taxonomy Regulation classification system of Sustainable Economic Activities on the POW infrastructure.

TridentX has designed climate finance solutions to fund energy transition and structured risk transfer mechanisms such as carbon credit and green bonds. Therefore, we suggest that POW regulation and taxation should contain special treatment by the Markets in Crypto-assets Regulation (MICA) and the Digital Operational Resilience Act (DORA). The Proof-of-Work (POW) public blockchains constitute an increasing source of emissions even when produced by renewable energy sources, constitute an unfair transfer of wealth from the taxpayers to the POW operators.

1. “**Taxation of Blockchain & DLT**” **-**The taxation of Blockchain & DLT particularly POW is appropriate because, the construction and operation of electric grids and related infrastructure used to transmit power was and is still financed by the estate via taxation. Today, the new renewable capacity is largely financed by a combination of equity government-guaranteed debt instruments, and/or private investment schemes that are supported by complex tax credit incentives (credits and/or rebates) among other structured finance programs.

As the EU leads the race to decarbonize the economy by electrifying mobility there is an increasing cost of an opportunity to supply the POW for-profit mining sector at the expense of the consumers which are the taxpayers funding the public infrastructure CAPEX + OPEX. Therefore, the government has the legal right to assess the appropriate level of levies, on the industry via royalties or taxation for such POW operations.

It is our position that unless fully privately funded and operated no power consumption from the public electric utility infrastructure, all POW mining operations should pay higher industrial rates for the consumption, maintenance, and usage of such infrastructure facilitating their operations.

Access fees and transit levies could be imposed for the privately funded operators using the telecommunication networks, and transit fees can be imposed on those operators using PPA's to power their private networks. FCM proposes preferential taxation upward sliding schedule on income, capital gains and dividends should be considered during the transition period (±10 years) promoting and supporting the digital transformation attracting investment on robust enterprise digital infrastructure supporting the economic recovery operations.

1. “**Trusted Gateway Infrastructure vs Public Infrastructure**”. Regulation lags behind the industry and the Regulation on Markets in Crypto-assets Regulation (MICA) would require a different framework to categorize, identify, and delineate what areas constitute risk versus the ones which constitute opportunities for the Digital Operational Resilience Act (DORA).

As such we propose to delineate a clear differentiation between three broad segments of the infrastructure supporting the Decentralized Ledger Technologies. First the public blockchain infrastructure, the private permissioned blockchain infrastructure, the Enterprise purpose-built (EPB) Decentralized ledger-technology (DLT) or Trusted Gateway infrastructure. The second is the private version of the Public Blockchain (PPB), and the third is the Decentralized Autonomous Organizations (DAO) which has accumulated the bulk of the digital assets.

<ESMA\_QUESTION\_DLTP\_1>

1. Please indicate whether you/your organisation is planning to operate a DLT MI under the DLT Pilot and provide some high-level explanation of the business model

<ESMA\_QUESTION\_DLTP\_2>

TridentX is a dealer and marketplace regulated in Canada fitting at least two of the three pilot categories of DLT market infrastructures (DLT MI): DLT Multilateral Trading Facilities (DLT MTF), DLT Trading and Settlement Systems (DLT TSS), and DLT Settlement Systems (DLT SS). TridentX is considering registering an EU as DLT MI and/or MTF and/or TSS soon where we might request exemptions from specific requirements in EU legislation (MiFID II, CSDR) while remaining in compliance with the conditions attached to those exemptions and compensatory measures requested by the relevant NCA.

We understand that the TridentX Dealer-Marketplace model might require us to secure an exemption(s) and authorization as an investment firm (or regulated market) or can be granted to new entrants that will have to meet the relevant MiFID II/ CSDR requirements, except those for which the applicant requests, and has been granted, an exemption.

FlatStone has completed the regulatory process with the Canadian Securities Administrators (CSA) to operate a Canadian security token Dealer and Marketplace “TridentX”. In anticipation of the licensing, our team of team subject matter experts continues to work diligently with leading companies, governments, and investors promoting the digital transformation of the capital markets.

TridentX, is a next-generation platform for primary issuance and secondary trading of financial instruments developed on Enterprise purpose built (EPB) Decentralized ledger technology (DLT) already operating leading global capital markets including the SIX Digital Exchange in Switzerland.

FlatStone believes that by implementing the best industry standards and practices we can foster a more democratic financial system and inclusive capital markets during the formation stages of the new digital economic era.

<ESMA\_QUESTION\_DLTP\_2>

1. What are the key elements supporting the increased use of DLT in the field of financial services? What are the main obstacles, including in the technical standards, for the development and up-take of DLT-based solutions (listing, trading and settlement)? Do you plan to operate a restricted (permissioned) or unrestricted (permissionless) distributed ledger?

<ESMA\_QUESTION\_DLTP\_3>

According to the analysis and thesis for our TridentX project The most significant challenges identified under these reviews, result from changes in the regulatory framework and the shift in market perception of cryptocurrencies, particularly:

* **Compliance** – As identified by a research report from Accenture on the impact of DLT on the Canadian broker dealer industry, there is a growing concern amongst the members of industry related to the current regulatory regime in Canada. Such a cumbersome and fragmented regulatory framework has a negative correlation to the competitiveness, profitability, and relevance of the Canadian capital markets.
* **Interoperability** – widespread adoptions by retail and institutions is directly correlated to the marketplace interoperability between Banking sector legacy systems and decentralized fintech public infrastructure ultimately enabling cross-trading.
* **Liquidity** –key to attracting participants, therefore the implementation of best practices and standards should integrate retail crowdfunding and facilitate the institutional adoption via enterprise infrastructure gateways.
* **Security** - The increasing cyber-security threats and operational risks, are key consideration for any marketplace, especially when the market value of cryptocurrencies crosses USD 2T. As segregated encrypted data can no longer provide risk isolation for the marketplace, risk mitigation demands security which eliminates the silo effects while facilitating the pre-trade and post-trade processes.
* **Scalability** - showcases the challenges stemming from widespread usage of first and second-generation public blockchain protocols, and the lack of resilient enterprise infrastructure required for the digital transformation of the capital markets.

These challenges showcase the Public DLT limitations and the need for reliable EPB DLT infrastructure capable of managing the increasing complexity resulting from institutional trading volume capacity expected post-adoption.

<ESMA\_QUESTION\_DLTP\_3>

1. Would you consider operating a DLT MTF Would you consider operating a DLT SS without operating at the same time a DLT MTF? If yes, under which conditions?

<ESMA\_QUESTION\_DLTP\_4>

No, and no.

<ESMA\_QUESTION\_DLTP\_4>

1. Please provide an overview of how DLT securities trade in the current market structure (incl. what types of trading system are used, the relevance of secondary market trading)? Do you see any challenges with the current market structure following the application of the DLT Pilot?

<ESMA\_QUESTION\_DLTP\_5>

Today DLT Securities have a very limited trading volume based on the lack of standardized regulation and interoperability technology standards for DLT Capital Markets. The trading is happening on isolated basis and does not represent the potential of the market.

<ESMA\_QUESTION\_DLTP\_5>

1. Instrument status: Do DLT financial instruments have different characteristics than ‘standard’ shares, UCITS-ETFs and bonds? If yes, please elaborate and explain whether these different characteristics call for a different approach for the application of the transparency requirements?

<ESMA\_QUESTION\_DLTP\_6>

FlatStone sees the need for focused amendments to the framework where we believe that the main obstacles to meaningful regulation under MICA relate to a) the bulking of RTS2 (Non-equity transparency) into one single bucket without differentiation. The lack of recognition in the impact of the different types of infrastructure architecture namely the Decentralized ledger technology (DLT) and Distributed ledger technologies.

These and other general misconceptions concerning taxonomy and infrastructure have an impact on the misalignment of the regulation and the requirements for transparency for digital crypto assets. FlatStone believes that it is counterproductive to not differentiate Debt capital markets (DCM) from other non-equity such as commodities derivatives within regulation RTS2.

A similar problem situation presents with the widespread use of ISINs for the identification of both Equity capital markets (ECM) and multiple contracts for derivatives. The prime example is the meaning of liquidity/risk in derivatives, which differs significantly from equity and/or debt, and it is similar to most unregulated Cryptoassets as there is neither a finite pool of liquidity nor a single ‘issuer’ of financial instruments in derivatives and Cryptoassets. <ESMA\_QUESTION\_DLTP\_6>

1. Transactions: Where are DLT financial instruments traded? Could there be OTC trading in those instruments?

<ESMA\_QUESTION\_DLTP\_7>

A) DLT Financial Instruments could be traded on many venues Alternative Trading System (ATS) an Exchange Centralized or Decentralized, a Marketplace. As long as the venue supports the consensus protocol(s), and the jurisdiction has approved legislation that recognizes the DLT Financial Instruments.

B) While it would be possible for DLT Financial Instruments to trade Over-the-Counter, this would defeat the purpose of this technology. <ESMA\_QUESTION\_DLTP\_7>

1. Transactions: Do the lists of transactions in Article 13 of RTS 1 and Article 12 of RTS 2 reflect relevant transaction types for DLT financial instruments? If not, please explain which types of transactions are missing and why they should be added to the lists of transactions.

<ESMA\_QUESTION\_DLTP\_8>

1. No
2. As per above the RTS 1 and 2 regulation for a DLT venue would eliminate the option for OTC unless, in fact would only permit such under specific condition exemptions. A DLT market would provide both transparency and privacy (GDRP+others)

<ESMA\_QUESTION\_DLTP\_8>

1. Can the current transparency requirements in RTS 1 and 2 be applied for DLT financial instruments (e.g. liquidity assessment, thresholds, flags, reporting fields) or would they need to be adjusted? If not, what should be the appropriate approach?

<ESMA\_QUESTION\_DLTP\_9>

A)Yes, mostly

B) Given our expertise on the Canadian and other regulatory frameworks, we propose a simple yet robust solution to addressing the perception of risk that regulators have about the public blockchain and decentralized finance (DeFi).

By creating an RTS conforming to a federated consortium model, ESMA can address the regulatory concerns of the government and private sector increasing data transparency by traceability and increasing the trusted legacy model without increasing the regulatory burden across the board for DLT market infrastructure

<ESMA\_QUESTION\_DLTP\_9>

1. Are there any standards (e.g. messaging, identification of accounts/users, product identifiers, reporting, etc.) in a DLT environment that should be taken into account when revising the RTS 1 and 2?

<ESMA\_QUESTION\_DLTP\_10>

Yes Enterprise Purpose Built (EPB) DLT standards <ESMA\_QUESTION\_DLTP\_10>

1. Do you anticipate any problems that may emerge from the current liquidity concepts in Delegated Regulation (EU) 2017/567 and RTS 2 for the application of related transparency requirements for DLT financial instruments? Please explain and make proposals on how such problems could be solved.

<ESMA\_QUESTION\_DLTP\_11>

Yes as per Answer to Question 9. The FlatStone federated model incorporates a hybrid network includes public, private, and licensed enterprise participants on the regulatory framework. The regulation would then provide for the regulation of a network of nodes running on enterprise infrastructure becoming the defacto backbone of trusted-gateways connection (bridging) into the financial sector.

FlatStone’s model would the three types of decentralized technology the trust would seat at the inner core where the EPB is surrounded by the Private Blockchains which then are surrounded by the Public Blockchains.

<ESMA\_QUESTION\_DLTP\_11>

1. Are DLT securities traded on different trading systems as ‘standard’ shares and UCITS-ETFs (mostly continuous trading and periodic auctions) or bonds (RFQ, voice trading)? Please explain.

<ESMA\_QUESTION\_DLTP\_12>

DLT securities can only be traded on compatible systems on continuous trading and/or periodic auctions similar to legacy electronic markets today. Refer to A7(A)<ESMA\_QUESTION\_DLTP\_12>

1. To what extent would the choice of trading protocols and applications have an impact on the trading of instruments and on the requirements to publish information according to RTS 1 and 2?

<ESMA\_QUESTION\_DLTP\_13>

As per the comments above the selection (choice) of protocols and applications would have a major impact on the trading of instruments. Where the EBP has an unmatched ability to trade at high frequency (HFT) and publish information according to reporting requirements according to RTS 1, and 2<ESMA\_QUESTION\_DLTP\_13>

1. Do the systems on which DLT financial instruments trade require tailored pre-trade transparency requirements as those per Table 1 Annex I of RTS 1 and Annex I of RTS 2?

<ESMA\_QUESTION\_DLTP\_14>

Yes<ESMA\_QUESTION\_DLTP\_14>

1. Would the use of restricted (permissioned) vs unrestricted (permissionless) DLT represent any difference in how the pre-trade transparency requirements should be applied?

<ESMA\_QUESTION\_DLTP\_15>

Yes

<ESMA\_QUESTION\_DLTP\_15>

1. Is it in your view necessary to make changes to the calibration of waivers for DLT shares and UCITS-ETFs in RTS 1? Do you expect any implementation issues in the application of waivers also taking into account the above considerations?

<ESMA\_QUESTION\_DLTP\_16>

Yes, and yes

<ESMA\_QUESTION\_DLTP\_16>

1. Is it in your view necessary to make changes to the calibration of waivers for DLT bonds in RTS 2? Do you expect any implementation issues in the application of wavers also taking into account the above considerations?

<ESMA\_QUESTION\_DLTP\_17>

Yes, and yes

<ESMA\_QUESTION\_DLTP\_17>

1. What can be considered as close to real-time as possible for the publication of post-trade reports in the context of DLT-securities on DLT MIs?

<ESMA\_QUESTION\_DLTP\_18>

Our EPB DLT is capable of sub-second consensus and near real-time reporting intervals 60 second, other private and permissioned DLT might approach similar several minute reporting parameters. Public non-permissioned DLT depending on the consensus might require a significant delay for post-trade reporting times<ESMA\_QUESTION\_DLTP\_18>

1. Are the current deferral periods for equity and non-equity instruments appropriate for DLT securities? Please, distinguish between DLT shares, ETFs and bonds.

<ESMA\_QUESTION\_DLTP\_19>

Yes, with Bond requiring a longer time then ETF’s and tokenized shares <ESMA\_QUESTION\_DLTP\_19>

1. Is it necessary to amend the current fields and flags for post-trade transparency (modifications/cancellations/additions) for their application to DLT shares, ETFs (Tables 2, 3 and 4 of Annex I of RTS 1) and bonds (Annex 2 of RTS 2)? Do you expect any implementation issues on basis of the current fields and flags?

<ESMA\_QUESTION\_DLTP\_20>

Yes, on any DLT market modification and/or cancellations are particularly difficult if not impossible. On a POW this would prove impossible if not impractical therefore there would be major challenges and implementation issues with the current fields, and flags<ESMA\_QUESTION\_DLTP\_20>

1. Is it necessary to amend RTS 3 for the purpose of the DLT Pilot? Do you anticipate any problems with the application of RTS 3 under the DLT Pilot?

<ESMA\_QUESTION\_DLTP\_21>

Yes, and no.

<ESMA\_QUESTION\_DLTP\_21>

1. Do you agree with the approach indicated in the above paragraph? Please justify your answer.

<ESMA\_QUESTION\_DLTP\_22>

Yes because. DLT is capable of referencing both on-chain and meta-data.

<ESMA\_QUESTION\_DLTP\_22>

1. Private individuals: Do you agree that DLT MTFs could report transactions on behalf of the private individual as part of the compensatory measure foreseen by Article 4(1)(c) of the pilot regime? Please explain your statement. What other solutions can be explored to address this data gap?

<ESMA\_QUESTION\_DLTP\_23>

Yes, in fact, our EPB-DLT automatically generates all compliance reporting <ESMA\_QUESTION\_DLTP\_23>

1. Reporting status and transaction reference numbers (Fields 1 and 2): How will DLT MTF treat cancellations to correct previously submitted information as per Section 5.18 of ESMA Guidelines on transaction reporting being the information stored on DLTs immutable? Is it necessary to amend the current fields 1 and 2 for their application in the context of a DLT environment? Do you foresee any other reporting status other than New and Cancellation in the context of a DLT environment?

<ESMA\_QUESTION\_DLTP\_24>

Yes refer to Answer to Question 20

<ESMA\_QUESTION\_DLTP\_24>

1. Trading Venue Transaction Identification, TVTIC (Field 3): Is it necessary to amend the current field for its application in the context of a DLT environment? Do you expect any implementation issues on basis of the current fields? Should new fields be added in the context of a DLT environment?

<ESMA\_QUESTION\_DLTP\_25>

Yes, yes and no

<ESMA\_QUESTION\_DLTP\_25>

1. Executing entity and submission entity identification codes; MiFID II Investment Firm indicator (Fields 4-6); Buyer details and decision maker (Fields 7-15); Seller details and decision maker (Fields 16-24): Is it necessary to amend the current fields for their application in the context of a DLT environment? Do you expect any implementation issues on basis of the current fields? Should new fields be added in the context of a DLT environment?

<ESMA\_QUESTION\_DLTP\_26>

Yes, and yes

<ESMA\_QUESTION\_DLTP\_26>

1. Transmission of an order (Fields 25-27): Is it necessary to amend the current fields for the application in the context of a DLT environment? Do you expect any implementation issues on basis of the current fields? Should new fields be added in the context of a DLT environment?

<ESMA\_QUESTION\_DLTP\_27>

Yes, and yes

<ESMA\_QUESTION\_DLTP\_27>

1. Trader, algorithms, waivers and indicators (Fields 57-65): Is it necessary to amend the current fields for the application in the context of a DLT environment? Do you expect any implementation issues on basis of the current fields? Should new fields be added in the context of a DLT environment?

<ESMA\_QUESTION\_DLTP\_28>

Yes, yes and no.

<ESMA\_QUESTION\_DLTP\_28>

1. Short selling field (Field 62): Is short selling possible? Does it depend whether it is a DLT MTF or a DLT MTF+DLT SSS? Is it necessary to amend the current field for the application in the context of a DLT environment? Do you expect any implementation issues on basis of the current fields?

<ESMA\_QUESTION\_DLTP\_29>

Yes, no, yes and no

<ESMA\_QUESTION\_DLTP\_29>

1. Transaction details (Fields 28-40): Is it necessary to amend the current fields for their application in the context of a DLT environment? Do you expect any implementation issues on basis of the current fields? Should new fields be added in the context of a DLT environment?

<ESMA\_QUESTION\_DLTP\_30>

Yes, yes and no.

<ESMA\_QUESTION\_DLTP\_30>

1. What are your views on the arrangements that DLT MTFs would need to establish to ensure the provision of complete and accurate reference data to ESMA? Do you think that the current arrangements described in RTS 23 should be amended to ensure its application in the DLT environment? Do you expect any implementation issues on basis of the current RTS 23?

<ESMA\_QUESTION\_DLTP\_31>

ESMA reference data fields are outdated and there are better ways to capture relevant data via DLT. This is because DLT structured (encrypted) data requires fewer fields and provides more context. Yes, and yes.<ESMA\_QUESTION\_DLTP\_31>

1. Issuer related fields (Field 5): Is it necessary to amend the current field for the application in the context of a DLT environment? Do you expect any implementation issues on basis of the current fields? Should new fields be added in the context of a DLT environment?

<ESMA\_QUESTION\_DLTP\_32>

Yes, yes, and no.

<ESMA\_QUESTION\_DLTP\_32>

1. Venue related fields (Fields 6-12): Is it necessary to amend the current field for the application in the context of a DLT environment? Do you expect any implementation issues on basis of the current fields? Should new fields be added in the context of a DLT environment?

<ESMA\_QUESTION\_DLTP\_33>

Yes, yes and no.

<ESMA\_QUESTION\_DLTP\_33>

1. Notional (Field 13): Is it necessary to amend the current field for the application in the context of a DLT environment? Do you expect any implementation issues on basis of the current fields? Should new fields be added in the context of a DLT environment?

<ESMA\_QUESTION\_DLTP\_34>

Yes, yes and no.

<ESMA\_QUESTION\_DLTP\_34>

1. Bonds or other forms of securitised debt related fields (Fields 14 – 23): Is it necessary to amend the current field for the application in the context of a DLT environment? Do you expect any implementation issues on basis of the current fields? Should new fields be added in the context of a DLT environment?

<ESMA\_QUESTION\_DLTP\_35>

Yes, yes and no.

<ESMA\_QUESTION\_DLTP\_35>

1. Do you agree with ESMA’s assessment that no major amendments to RTS 25 appear necessary for the implementation of the DLT Pilot?

<ESMA\_QUESTION\_DLTP\_36>

Definitely no.

<ESMA\_QUESTION\_DLTP\_36>

1. Do you think the definition of “order” is still applicable to the DLT context? Are the order record keeping requirements in Article 25 and related RTS 25 applicable in the DLT context? If yes, how do you envisage to comply with such requirements? If no, please justify your answer.

<ESMA\_QUESTION\_DLTP\_37>

Yes, yes and yes.

<ESMA\_QUESTION\_DLTP\_37>

1. Can chains of transmission on DLT financial instruments occur?

<ESMA\_QUESTION\_DLTP\_38>

Yes, yes and no.

<ESMA\_QUESTION\_DLTP\_38>

1. Is it possible to split or aggregate orders? In or out the DLT? Or both?

<ESMA\_QUESTION\_DLTP\_39>

Yes

<ESMA\_QUESTION\_DLTP\_39>

1. Does the concept of “Transmission of an order” defined in Article 4 of RTS 22 make sense in the context of DLT? If so, when would you consider an order to be transmitted?

<ESMA\_QUESTION\_DLTP\_40>

Mostly, when is routed by a node on the network <ESMA\_QUESTION\_DLTP\_40>

1. What do you consider are the phases of a DLT transaction? At what point in time can such a transaction in DLT securities be considered executed? How do you think “broadcast the transaction to the network” should be defined?

<ESMA\_QUESTION\_DLTP\_41>

The phases of a DLT transaction for our EPB-DLT are:

1. Accessing the marketplace historical trades & prices for digital assets.
2. Investor generates entry on order book from assets on the marketplace.
3. Investor enters bid & ask orders to venue Central Limit Order Book (CLOB).
4. The matching engine “matches” the bid and ask for orders on the CLOB.
5. The DLT reaches consensus finality via the payment vs delivery model.
6. The DLT broadcast the transaction (trade and settlement) to the nodes.

When the counterparty nodes reached a consensun, and is accepted by network.

<ESMA\_QUESTION\_DLTP\_41>

1. Do you think the definition of “transaction” is still applicable to the DLT context?

<ESMA\_QUESTION\_DLTP\_42>

No

<ESMA\_QUESTION\_DLTP\_42>

1. General fields (Fields 1 - 3), ISIN for RTS 1-3: Is it necessary to amend the current fields for the application in the context of a DLT environment? Do you expect any implementation issues on basis of the current fields? Should new fields be added in the context of a DLT environment?

<ESMA\_QUESTION\_DLTP\_43>

Yes, yes and no.

<ESMA\_QUESTION\_DLTP\_43>

1. Should a new field indicating the DTI be added to RTS 23 and RTS 1-3? What kind of analysis could be performed on a tokenised security by coupling ISIN and DTI information?

<ESMA\_QUESTION\_DLTP\_44>

No, none our EPB-DLT automates analytics.

<ESMA\_QUESTION\_DLTP\_44>

1. Is the ISIN sufficient to ensure uniqueness of a given tokenised financial instrument? Is there any element of the DTI standard that you consider should be added as a separate field in RTS 23 and RTS 1-3?

<ESMA\_QUESTION\_DLTP\_45>

No and no <ESMA\_QUESTION\_DLTP\_45>

1. Traditional reporting systems - RTS 22/23: Does the setting up of the traditional reporting systems as illustrated in Annex 1 of the ESMA Guidelines on transaction reporting make sense in the context of the pilot regime?

<ESMA\_QUESTION\_DLTP\_46>

Not really

<ESMA\_QUESTION\_DLTP\_46>

1. Execution and IT infrastructure - RTS 22/23: Does the fact that execution takes place on a DLT has an impact on the investment firm’s reporting system and requires setting up of separate/new IT infrastructures?

<ESMA\_QUESTION\_DLTP\_47>

Yes

<ESMA\_QUESTION\_DLTP\_47>

1. ISO standards 20022 and RTS 22/23: Can ISO 20022 be implemented and used by DLT MTFs or DLT TSS and/or their members/participants to comply with the reporting required under Article 26 and 27 of MiFIR. Do you think ISO 20022 would represent an opportunity or an issue for DLT MTF? Please explain your statement.

<ESMA\_QUESTION\_DLTP\_48>

Yes, yes, the ISO 20022 can serve as reference data, however the data-set might require additional information for DLT Capital Markets. <ESMA\_QUESTION\_DLTP\_48>

1. XML template of RTS 22/23: do you think that different formats might be more suitable to the DLT while keeping the common ISO 20022 methodology? If yes, please explain what the most appropriate format would be and for which reasons.

<ESMA\_QUESTION\_DLTP\_49>

No, and NA

<ESMA\_QUESTION\_DLTP\_49>

1. Do you/your organisation plan to offer settlement of DLT securities in e-money tokens? If yes, what would be the most appropriate way for reporting these transactions? Do you agree with ESMA’s proposal on how to populate the currency fields when the financial instrument is priced in e-money tokens?

<ESMA\_QUESTION\_DLTP\_50>

Our Canadian Dealer + Marketplace operates with a token with parity to CAD/USDT and can offer EUD/X as a stable coin. The transactions would be reported on the currency of parity, not the token as the stablecoin has a fixed parity to the currency selected. Therefore, ESMA’s proposal on how to populate the currency fields when the financial instrument is priced in tokens seems appropriate.<ESMA\_QUESTION\_DLTP\_50>

1. Do you consider it possible that transactions in DLT securities could be settled in different currencies and/or different e-money tokens? If yes, please explain what would be the most appropriate way for converting such transactions in EUR.

<ESMA\_QUESTION\_DLTP\_51>

Yes, there is no significant difference from the regular FX Markets as the parity is reference metadata to the same underlying currency. Example: 1 USDT is equal to 1 USD therefore FX into EUD would reference USD to EUD <ESMA\_QUESTION\_DLTP\_51>

1. What are your views on the arrangements that DLT MTFs and DLT TSSs would need to establish to grant direct and immediate access to transaction data to regulators by admitting them as regulatory observer participants? Do you expect any implementation issues in relation to the obligation to make MiFIR transaction data available to the NCAs and MiFIR transparency/ reference data to ESMA?

<ESMA\_QUESTION\_DLTP\_52>

In our experience, DLT MTFs and DLT TSSs could incur significant incremental cost associated with EPB-DLT permitted infrastructure and data access fees related direct and immediate access to transaction data for regulatory observer nodes. <ESMA\_QUESTION\_DLTP\_52>

1. Is it technically feasible to store on the DLT the details of the transaction according to ISO 20022 methodology in order to enable regulators to pull that data directly into a readable format without any transformation of the data? Do you believe that the use of ISO 20022 could have a significant negative impact in terms of scalability of the system and the related congestion risk? If yes, please justify your answer and specify if the impact is dependent on the type of governance model and technology that the DLT is using.

<ESMA\_QUESTION\_DLTP\_53>

As per A52 not only could there be incremental costs but also cybersecurity risks incurred by DLT MTFs and DLT TSSs converting encrypted data into ISO 20022 methodology to enable regulators access to readable formats. Refer to A48 for context. <ESMA\_QUESTION\_DLTP\_53>

1. Can all information to be reported under MiFIR Article 27 pursuant to Table III of the Annex to RTS 23 be recorded on the DLT according to the ISO 20022 methodology? Please explain your answer also in relation to scalability impact at DLT level.

<ESMA\_QUESTION\_DLTP\_54>

It seems possible but there might be some adjustments as the ISO 20022 was designed around the payment use of digital currency, not Global Capital Market regulation. To become scalable across the different types of DLT the regulators would likely have to establish international standards specific to consensus, functionality, and other DLT Infrastructure supporting the operations for Capital Markets.<ESMA\_QUESTION\_DLTP\_54>

1. Can all data necessary to perform the transparency (Article 2 of RTS 3) and DVC (Article 6 of RTS 3) calculations be recorded on the DLT according to the ISO 20022 methodology? Please explain your answer also in relation to scalability impact at DLT level.

<ESMA\_QUESTION\_DLTP\_55>

Refer to A54 and others above <ESMA\_QUESTION\_DLTP\_55>

1. Do you see any issue with obtaining the data elements required by RTS 22 and 23 from external databases like GLEIF, ISO 4217 list (currencies), ISO 10383 (MIC) or ANNA-DSB (ISIN) before the data is permanently stored into the distributed ledger? Please explain your answer.

<ESMA\_QUESTION\_DLTP\_56>

None

<ESMA\_QUESTION\_DLTP\_56>

1. Do you see any major impediments for the regulator as a regulatory observer participant to pull large size of encrypted data from the distributed ledger? Please explain your answer in the context of encryption of data and key management, and in relation to any scalability impact at DLT level.

<ESMA\_QUESTION\_DLTP\_57>

Yes, the data access fees and GDRP/PIPEDA equivalents across the world. The easiest way would be to grant permission as observer nodes with delayed data,or specific periodic, or random time access to the markets. Granting access to delayed and reported encrypted data, for time defined period(s), would be the best way to mitigate the incremental fees of EPB-DLT fees. <ESMA\_QUESTION\_DLTP\_57>

1. Taking into consideration the variety of technologies available in the DLT world, what is, in your opinion, the most efficient way to admit regulators as regulatory observer participants? Please explain your answer.

<ESMA\_QUESTION\_DLTP\_58>

Refer to Answer to Question 11

<ESMA\_QUESTION\_DLTP\_58>

1. Do you have any suggestion to ensure interoperability among DLT MTFs, DLT TSS and the regulators as described in Paragraph 126? Please explain your answer.

<ESMA\_QUESTION\_DLTP\_59>

Yes replicate our EPB-DLT agnostic architecture where the interoperable layer connects the different DLT MTFs, and TSS

<ESMA\_QUESTION\_DLTP\_59>

1. Do you have any suggestion to ensure interoperability among different DLT MTFs and/or DLT TSS as described in Paragraph 127? Please explain your answer.

<ESMA\_QUESTION\_DLTP\_60>

Yes as per above Q59

<ESMA\_QUESTION\_DLTP\_60>