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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 | Euronext  |
| Activity | Regulated markets/Exchanges/Trading Systems |
| Are you representing an association? |[x]
| Country/Region | Europe |

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>

Euronext welcomes the ESMA Call for Evidence ahead of its assessment of the MiFIR RTS pre- and post-trade transparency and data reporting requirements.

As a leading pan-European group of trading and post-trading infrastructures, with activities spanning from capital raising facilitation, secondary market trading, post-trade and market data, we believe technology evolution is a key driver to increase the competitiveness of European markets. Euronext trading and post-trading market infrastructures are committed to the highest standards of transparency, resilience and investor protection: this requires continuous financial investment and resources. Euronext has a long-standing interest in the Distributed Ledger Technology (DLT) as a tool to enhance capital market efficiency and is generally supportive of the EU’s initiatives in this space.

Euronext has been experimenting extensively with potential DLT applications. This is because the technology offers the potential of facilitated information sharing (e.g., by enabling to track shareholders on a single registry) and -on post-Bitcoin protocols - allows for more automation with its smart contract features.

In 2017, Euronext spearheaded the launch of LiquidShare, together with AFS Group, BNP Paribas, Caceis, Caisse des Dépôts, Euroclear, S2iEM and Société Générale. This initiative primarily aims at leveraging DLT to enhance back-office processes in listed SME stocks, with a view to fostering more liquidity, cheaper access to capital. We run two pilots jointly with LiquidShare and market participants (spanning from asset managers, brokers, custodians and other market infrastructures) where we have successfully tested the real-time settlement and delivery of transactions of listed stocks onto LiquidShare’s blockchain. The last pilot, conducted over the course of 2021 and including Banque de France, allowed Euronext to further the experiment to the settlement of transactions in listed equities against a central bank digital currency issued and managed by the Banque de France.

In 2019, Euronext has also invested in Tokeny, a tokenisation provider based on public blockchain protocol, which offers the ability for issuers to leverage on the tokenisation technology with a view to managing their issuances and back-office process in private markets more easily.

As a result, we welcome the DLT Pilot regime, which will enable to further leveraging of the benefits of DLT whilst enabling for a regulatory-secured testing environment. Most notably, we welcome the particular attention to the challenges with respect to potential facilitated peer-to-peer transactions allowed by DLT. The current geopolitical environment strengthens the value of the DLT Pilot’s approach, which will allow strict KYC – AML controls on trading participants and users and a clearly defined set of responsibilities applicable to service providers. This approach contrasts starkly with the operational set-up of large segments of the pure crypto-assets today, notably that of decentralized exchanges, which today account for more than 10% of ADV on crypto-assets[[1]](#footnote-2).

That being said, we also welcome the opportunity to share some of the points that in our opinion will require careful attention to implement the DLT Pilot regime.

First, even if DLT is a very powerful technology, its main benefits in a controlled environment can be replicated via other non-distributed technologies. Typically, facilitating further information transparency and delivering more automation can be achieved respectively (i) via centralized databases yet accessible to multiple third-parties via APIs and webpages and (ii) standard programming.

Secondly, the DLT Pilot Regime’s construct, aiming at fostering flatter, more accessible markets, enables market infrastructures to interact directly with non-regulated customers. There is a risk of introducing significant loopholes in the overall regulatory construct, in the absence of a proper calibration of pre- and post-trade transparency and of the requirements that should apply to infrastructure operators interacting directly with non-regulated clients, including in respect to fee and incentives policies.

More specifically on pre- and post-trade transparency, DLT is potentially a catalyst for record keeping and transaction processing for financial instruments but has no impact (i) on the inner financial instrument characteristics (i.e. the rights allocated to investors and the duties imposed on issuers) nor (ii) on price formation mechanisms for fair, orderly and efficient secondary markets. DLT will enable to process the same type of instruments already traded on transparent lit markets. Hence the DLT Pilot Regime, whilst opening the possibilities to record and transact on financial instruments leveraging DLT, should not be accompanied by a structural revision of the transparency requirements applicable to operators and participants: overall, real-time pre-trade and post-trade transparency should continue to be a priority, even if, given the DLT Pilot Regime’s features, transparency provisions will have to be extended to apply to direct orders from end-investors. **The implementation of MiFID / MiFIR transparency and reporting requirements required a substantial effort to foster the creation of Capital Markets Union. Transparency requirements are pivotal to market structure and are calibrated for different asset classes. In our view, the creation of a subset of these requirements would not be beneficial for the market and could cause a potential fragmentation of market structure and liquidity pools.** Harmonized reporting requirements are also important to ensure convergence in supervisory practices. Especially as the DLT regime will process similar instruments to those traded on public markets, it is vital to ensure a similar level of information on the transactions in these instruments.

<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>

<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>

The key elements supporting the increased use of DLT in the field of financial services are:

* **Additional transparency provided by the technology**. Most notably, public ledgers provide information (albeit by nature not in real-time) that is available to anyone, providing they have the capacity to operate a node or use a service provider that does operate a node to provide access to information. For example, etherscan.com provides access to information on the Euthereum blockchain.
* **Broader accessibility**. Anyone with a wallet and internet access can theoretically access assets stored on DLTs.
* **Cost reduction expectations** from the implementation of this new technology in market operations: accessibility and simultaneous availability of information could reduce the complexity of infrastructures and software. However, this remains to be demonstrated in a production set-up in light of existing technology limitations (please see below).

The main obstacles to the development and uptake of DLT-based solutions are:

* **The level of security** embedded in the technology and the lack of precise lines of responsibilities in case of issues. Even if by construct DLT is built to avoid hacks or scams, and that all related scams to date have been happening on off-chain or interoperability protocols, not on underlying DLTs, nothing predicts that moving forward (especially with the exponential development of quantum computing) DLT will remain a safe haven in terms of data integrity, similarly to more centralised technologies. Yet, unlike central technologies, the distributed nature of DLT raises an additional structural difficulty, which is to define clearly the relevant lines of responsibilities within the organisation in case such as problem materialises. A lack of proactively addressing these risks and responsibilities will be a major impediment to the use at scale of DLT by risk-savy counterparties.
* **DLT transaction costs**. Transactions costs on DLT are significant and highly volatile. For example, as of February 2022, Euthereum transactions cost around $2, and prices over $50 have been observed at times in 2021 when the network was congested.
* **DLT environmental footprint**. The two main blockchains, Bitcoin and Ethereum, are still working with consensus mechanisms (Proof of Work / Proof of Stake) for transaction validation, requiring high computational capacity and intensive use of resources in terms of energy. In the context of DLT for financial services, this is particularly important for Ethereum, as many applications are built on this blockchain.
* **Trade-off between performance (latency, transaction costs and environmental footprint) and security (by decentralisation).** By design, the most secured blockchains are those that are the most distributed and hence also those that imply the highest transaction fees and environmental footprint. More economically and environmentally viable options are being launched (typically Solana blockchain, Ethereum’s migration towards proof of stake consensus) but they come with higher security risks as they trade performance against a lower overall decentralisation.
* **Lack of interoperability**. Blockchains are not structurally natively compatible with each other. Interoperability protocols are flourishing (Avalanche, Polkadot, Stellar, etc.), yet adding an additional layer of complexity and often risk as illustrated by the Poly Network Hack in 2021.

<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>

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<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>

Currently, most DLT financial instruments are private market securities, hence with intrinsically lower liquidity than listed instruments. This lower liquidity does not result from the use of DLT but from the instrument characteristics.

Typically, and in order to cover a wider spectrum of crypto assets, 85% to 90% of reported ADV in pure crypto-assets is executed on centralised crypto-exchanges, vs. 15% to 10% on decentralised exchanges, which rely on DLT for trading in a totally peer to peer fashion .Very limited data is available on the scale of other OTC trading.

Centralised exchanges operate along a standard (albeit for many not regulated as such) central-order book type of model, which is run outside of DLT, on the exchange’s central system (often hosted on the cloud), with transaction processing likewise effected within the exchange and outside of the DLT.

As such, we do not see any challenges in the application of the DLT Pilot with the current market structure, and rather, we see the DLT Pilot as (i) an opportunity to further DLT deployment on core financial services, (ii) an opportunity to promote fair and orderly markets in DLT-recorded instruments, provided key market structure provisions (such as pre- and post-trade transparency) are replicated within the DLT Pilot’s construct and the required attention is given to the side-effects of some of the DLT Pilot’s innovations (direct access to market infrastructures for non-regulated clients notably, increased risk exposure for previously mostly credit-neutral infrastructures in the absence of central clearing).

<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>

DLT financial instruments do not have different characteristics than ‘standard’ shares, UCITS-ETFs and bonds besides the fact that they are recorded on a decentralized database vs. a central one for standard financial instruments. **The use of DLT for the issuance, recording, transfer and storage of those securities does not change the legal nature nor the economic value of those instruments**. It is simply a vector for new forms of representation and of transactions, similar to the digitalization of securities as from the 1980s (i.e. moving from a paper format to a digital entry in a database). What the DLT is changing, to be more specific, is the fact that the recording database is no longer operated by an operator but is distributed.

Therefore, **pre- and post-trade transparency requirements should be the same for DLT financial instruments** as for non-DLT financial instruments. Moreover, we believe that the operational risk inherent to the use of these new technology should be disclosed clearly to the market, particularly to investors.

<ESMA\_QUESTION\_DLTP\_6>

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

<ESMA\_QUESTION\_DLTP\_7>

OTC trading will be possible in these instruments as it is our understanding that no provision in the DLT Pilot Regime’s would imply all transactions on DLT Financial Instruments will have to be effected on such market infrastructures. We would welcome ESMA clarification in this regard.

As a result, we believe that existing MiFID II/MiFIR rules should be expanded to the DLT Pilot regime to promote the multilateral and transparent trading that underpin efficient, fair and orderly price formation.

Please see our answer to Q.5. for more generic comments on market structure.

<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>

The lists of transactions in Article 13 of RTS 1 and Article 12 of RTS 2 reflect relevant transaction types for DLT financial instruments.

<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>

The current transparency requirements in RTS 1 and 2 can be applied to DLT financial instruments (e.g. liquidity assessment, thresholds, flags, reporting fields). The “same activity, same rules” principle should apply across ESMA’s assessment of the MiFIR RTSs.

<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>

The use of DLT protocols should not alter market structures as DLT market infrastructures are expected to operate as regulated trading venues (i.e. MTFs). Provisions on investor protection should be maintained when revising RTS 1 and RTS 2.

<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>

Euronext does not anticipate any problems emerging from the current liquidity concepts in Delegated Regulation 2017/567 and RTS 2 for the application of related transparency requirements for DLT financial instruments. Therefore, the “same activity, same rules” and “technology neutral” principles should apply. We believe that introducing any type of differentiation in liquidity concepts or in the application of related transparency requirements based on the underlying technology would risk fragmenting the landscape (e.g. different definitions of liquidity would imply different data sets which would not be comparable across different trading venues).

<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>

Today, there are no markets trading DLT securities on different trading systems because there is a focus on using DLT for illiquid private instruments. We believe that, moving forward, norms for DLT securities should be aligned with those for standard financial instruments in order to protect the price formation mechanism, taking into account the instruments’ inherent characteristics and not the underlying technology supporting it. Euronext believes that ESMA should take a “technology neutral” approach in its assessment of pre-trade transparency requirements.

<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>

The choice of trading protocols and applications have no impact on the trading of instruments and on the requirements to publish information 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>

Systems on which DLT financial instruments trade do not require tailored pre-trade transparency requirements as those per table 1 Annex I of RTS 1 and Annex I of RTS 2. The “same activity, same rules” principle should then apply to DLT financial instruments.

<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>

The use of restricted (permissioned) vs unrestricted (permissionless) DLT would not represent any difference in how the pre-trade transparency requirements should be applied, whether the vector for pre-trade transparency is an on-chain or off-chain mechanism, as DLT does not change the fundamental principles for fair, orderly, and efficient price formation.

To date, there are important limitations to the use DLT for the communication of information in real-time (please refer to question 3). Most DLT securities are today based on Ethereum, where the transaction time is an estimated 5 minutes

<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>

Euronext does not expect any implementation issues in the application of waivers. Therefore, in our view, it is not necessary to make changes to the calibration of waivers for DLT shares and UCITs-ETF in RTS 1. The “same activity, same rules” and “technology neutral” principles should apply

<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>

Euronext does not expect any implementation issues in the application of waivers for DLT bonds in RTS 2. Therefore, in our view, it not necessary to make changes to the calibration of waivers for DLT bonds in RTS 2. The “same activity, same rules” and “technology neutral” principles should apply

<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>

Euronext believes that the definition of “as close to real-time as possible” for the publication of post-trade reports in the context of DLT-securities on DLT Market infrastructures should be the same as the one applicable to non-DLT market infrastructures and participants on non-DLT instruments (please refer to question 15).

<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>

The current deferral periods for equity and non-equity instruments are appropriate for DLT securities. The “same activity, same rules” and “technology neutral” principles should apply.

<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>

Euronext does not expect any implementation issues on basis of the current fields and flags. Therefore, we believe it is not necessary to amend the current fields and flags for post-trade transparency for their application to DLT shares, ETFs and bonds. The “same activity, same rules” and “technology neutral” principles should apply. It is also worth noting that a significant amount of investment was made by trading venues to meet the technical requirements that MiFID II lays down.

<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>

Euronext believes it is not necessary to amend RTS 3 for the purpose of the DLT Pilot. We do not anticipate any problems with its application under the DLT Pilot. The “same activity, same rules” and “technology neutral” principles should apply.

<ESMA\_QUESTION\_DLTP\_21>

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

<ESMA\_QUESTION\_DLTP\_22>

Given the transaction reporting exemption, Euronext agrees with the approach that ESMA and NCAs efforts should focus on making the DLT direct access and re-distribution provisions operational. <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>

Euronext agrees 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. Such an approach would avoid the risk of introducing any regulatory loopholes with respect to DLT MTFs’ transactions reporting requirement.

<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>

Euronext believes it is not necessary to amend current fields 1 and 2 for their application in the context of a DLT environment. We do not anticipate any problems with its application under the DLT Pilot. The “same activity, same rules” and “technology neutral” principles should apply. Euronext believes that the same fields should be applied to DLT, as it will ensure that all reporting systems are in place notably for the DLT Market Infrastructures’ exit strategy to a traditional financial market infrastructure at the end of the temporary regime.

<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>

Euronext believes it is not necessary to amend current field 3 for their application in the context of a DLT environment. We do not anticipate any problems with its application under the DLT Pilot. The “same activity, same rules” and “technology neutral” principles should apply. Euronext believes that same fields should be applied to DLT, as it will ensure that all reporting systems are in place notably for the DLT Market Infrastructures’ exit strategy to succeed to a traditional financial market infrastructure at the end of the temporary regime.

<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>

Euronext believes that there is no need to amend the referred fields (4-24). However, it would be worth considering if some of these fields can be made optional for the DLT Pilot Regime. This would facilitate the absence of an intermediary between end clients and market infrastructures. This can be translated by leaving a field blank if there is no intermediary in the context of a DLT environment

<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>

Euronext believes it is not necessary to amend current fields 25-27 for their application in the context of a DLT environment. We do not anticipate any problems with their application under the DLT Pilot Regime. The “same activity, same rules” and “technology neutral” principles should apply. Euronext believes that the same fields should be applied to DLT, as it will ensure that all reporting systems are in place notably for the DLT Market Infrastructures’ exit strategy to a traditional financial market infrastructure at the end of the temporary regime.

<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>

Euronext believes it is not necessary to amend current fields 57-65 for their application in the context of a DLT environment. We do not anticipate any problems with its application under the DLT Pilot. The “same activity, same rules” and “technology neutral” principles should apply. Euronext believes that same fields should be applied to DLT, as it will ensure that all reporting systems are in place notably for the DLT Market Infrastructures’ exit strategy to a traditional financial market infrastructure at the end of the temporary regime

<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>

In theory, short selling is possible without the securities being in an account and covered by settlement. Therefore, we believe it is not necessary to amend the current field 62 for the application in the context of a DLT environment.

<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>

Euronext believes it is not necessary to amend current fields 28-40 for their application in the context of a DLT environment. We do not anticipate any problems with its application under the DLT Pilot. The “same activity, same rules” and “technology neutral” principles should apply. Euronext believes that same fields should be applied to DLT, as it will ensure that all reporting systems are in place notably for the DLT Market Infrastructures’ exit strategy to a traditional financial market infrastructure at the end of the temporary regime

<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>

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<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>

TYPE YOUR TEXT HERE

<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>

We believe that is not necessary to amend the current venue related fields for their application in the context of a DLT environment.

<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>

It is not necessary to amend the notional field for the application in the context of a DLT environment <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>

It is not necessary to amend the current field for the application of bonds or other forms of securitised debt in the context of a DLT environment.

<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>

Euronext agrees with ESMA’s assessment that no major amendments to RTS 25 appear necessary for the implementation of the DLT Pilot

<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>

Euronext believes that the definition of “order” is no longer applicable to the DLT context, and that the order record keeping requirements in Article 25 and related RTS 25 are no longer applicable in the DLT context.

<ESMA\_QUESTION\_DLTP\_37>

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

<ESMA\_QUESTION\_DLTP\_38>

Euronext believes that chains of transmission on DLT financial instruments can occur. Therefore, the same rules should apply to DLT financial instruments.

<ESMA\_QUESTION\_DLTP\_38>

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

<ESMA\_QUESTION\_DLTP\_39>

It is possible to split or aggregate orders. Crypto exchanges regularly enable this practice, for instance, by sending in large orders to DLT for DLT settlement with a view to limiting transaction fees.

<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>

Euronext believes that the concept of “transmission of an order” makes sense in the context of DLT. <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>

TYPE YOUR TEXT HERE

<ESMA\_QUESTION\_DLTP\_41>

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

<ESMA\_QUESTION\_DLTP\_42>

TYPE YOUR TEXT HERE

<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>

We do not believe that there is a need to amend the ISIN fields for the application of DLT

<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>

Euronext believes that a new field indicating the DTI should not be added if the DTI enables to track the instruments and underlying infrastructures where it is recorded.

<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>

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<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>

The setting up of traditional reporting systems as illustrated in Annex 1 of the ESMA Guidelines on transaction reporting makes sense in the context of the DLT Pilot Regime.

<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>

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<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>

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<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>

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<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>

TYPE YOUR TEXT HERE

<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>

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<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>

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<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>

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<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>

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<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>

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<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>

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<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>

The issue we see is less an issue of technical feasibility, rather an issue related to the exhaustivity and reliability of the information that regulators will be able to trace from the DLT. As mentioned in Questions 3 and 5, DLT is today less efficient than central processing (with a trade-off between latency, transaction costs and security). As a result, based on today’s practices on the main markets for digital assets (pure crypto-assets), most of the transactions in DLT-recorded assets are actually processed off-chain, and only a few are sent to the DLT. That means that a DLT cannot be used on its own to accurately trace all activity and investors in a given DLT-recorded assets. If the goal is to enable regulators to use DLT as a tracing record, than either DLT market infrastructure operators should be required to send all transactions toward DLT (i.e. do not process transactions off-chain), covered by a well-defined framework to allow both information exhaustivity and yet preserve investor’s anonymity (a key feature for the functioning of financial markets today) or maintain separate off-chain registry at par with those available for standard market infrastructure operators.

<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>

<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>

TYPE YOUR TEXT HERE

<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>

Access and interoperability between trading and post-trading (settlement) infrastructures is indeed a critical backbone of capital market integration in the European Union. In the legacy environment access and interoperability across trading venues / settlement systems and between settlement systems are governed by CSD-R but also depends largely on industry effort that have been made so far to define common standards and protocols. Indeed the integration of EU securities markets has been facilitated by the interconnection of securities settlement systems into one common settlement platform – T2S – and by the requirement for trading venues and settlement systems to ensure access between one another where such a construct is operationally possible without resulting in incremental systematic risk.

With reference to DLT environment, lack of harmonised standards and protocols is still a clear obstacle to interoperability across different solutions. Although there are several initiatives in this regard, proprietary standards developed within each network can still diverge significantly in terms of scope, connection speed, scalability and fault tolerance. In this context technical interoperability bridges between DLTs are not sufficiently mature and might raise operational risk and security concerns (cross-DLT interoperability protocols have proven to be significant potential points of failures, as illustrated by the Poly Network case).

These concerns should be assessed also in light of the possibility for DLT Market Infrastructure to ask for an exemption from article 53 of CSDR with reference to access by legacy infrastructures.

Therefore accommodating both the desire to favour the development of new DLT-based solutions on EU securities and the need to promote open access may prove difficult in the DLT Pilot regime, in particular with reference to Trading and Settlement System (TSS) given the nature of these operators that integrate trading and post-trading services on one single platform.

Although the lack of interoperability has been highlighted by different fora[[2]](#footnote-3)[1], with the introduction of Pilot regime as it stands there might be further fragmentation to the EU trading and settlement landscape, as technically it will be difficult for DLT Market Infrastructure to bridge securely and efficiently between one another and other legacy infrastructures.

<ESMA\_QUESTION\_DLTP\_60>

1. Source https://coinmarketcap.com/ [↑](#footnote-ref-2)
2. [1] See the report by the European Blockchain Observatory and Forum entitled “Scalability, interoperability and sustainability of blockchains” and Advisory Groups on Market Infrastructures for Securities and Collateral and for Payments report The use of DLT in post-trade processes” [↑](#footnote-ref-3)