

# Blockchain securities - Much ado about nothing?

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Available from [http://papers.ssrn.com/sol3/papers.cfm?abstract\\_id=2786972](http://papers.ssrn.com/sol3/papers.cfm?abstract_id=2786972)

# Status quo

- Computerisation lead to intermediation
- Settlement is fast, counter-party risk is low
- the price: complexity in the holding chain

# Complexity in the holding system

Investor

Custody contract

Custodian 1

Custody Contract

Custodian 2

Custody Contract

Custodian 3

Custody contract

CSD

Issuer

# Effect on asset values

- 2008: When Bear Stearns was restructured an excess of 28% of shares compared to the shares issued by the company was discovered.
- 2017: Dole Foods was reorganised. There were 36,793,758 shares issued. 49,164,415 shareholders registered facially valid claims. Excess of 33.6%
- *Eckerle* - no remedy for the loss of value caused by a delisting
- *Secure Capital* - litigation on the question of standing

# Blockchain/distributed ledger technology

- Assumption:
  - Trading, clearing and settlement can merge into one real time process
  - Buyer and seller interact directly
  - Delivery and payment are linked at master record level (share register/central bank money)
- Low counter party risk AND low custody risk
- IT risk

# Lessons from Bitcoin

- private key as the vulnerable point
- Hosted v non-hosted wallets
- Intermediation
- Moving transactions off the chain

# The future

- Exciting times in the custody industry
- Business processes rather than technology as a barrier
- Turkeys and Christmas
- Permissioned systems

# Asset owners

- Why have they accepted intermediation?
- Excess inertia
- Cost of intermediated holdings
- Bundling
- Lack of transparency
- Questions of bargaining power



# Lessons for asset owners and regulators

- Economics of incumbent service providers
- Asset owners pay for and bear the risk of the infrastructure
- Consultation
- Disclosure
- Asset owners with market power