ARENDT UCITS Webinar SERIES 2024

Are you ready for UCITS tokenisation?

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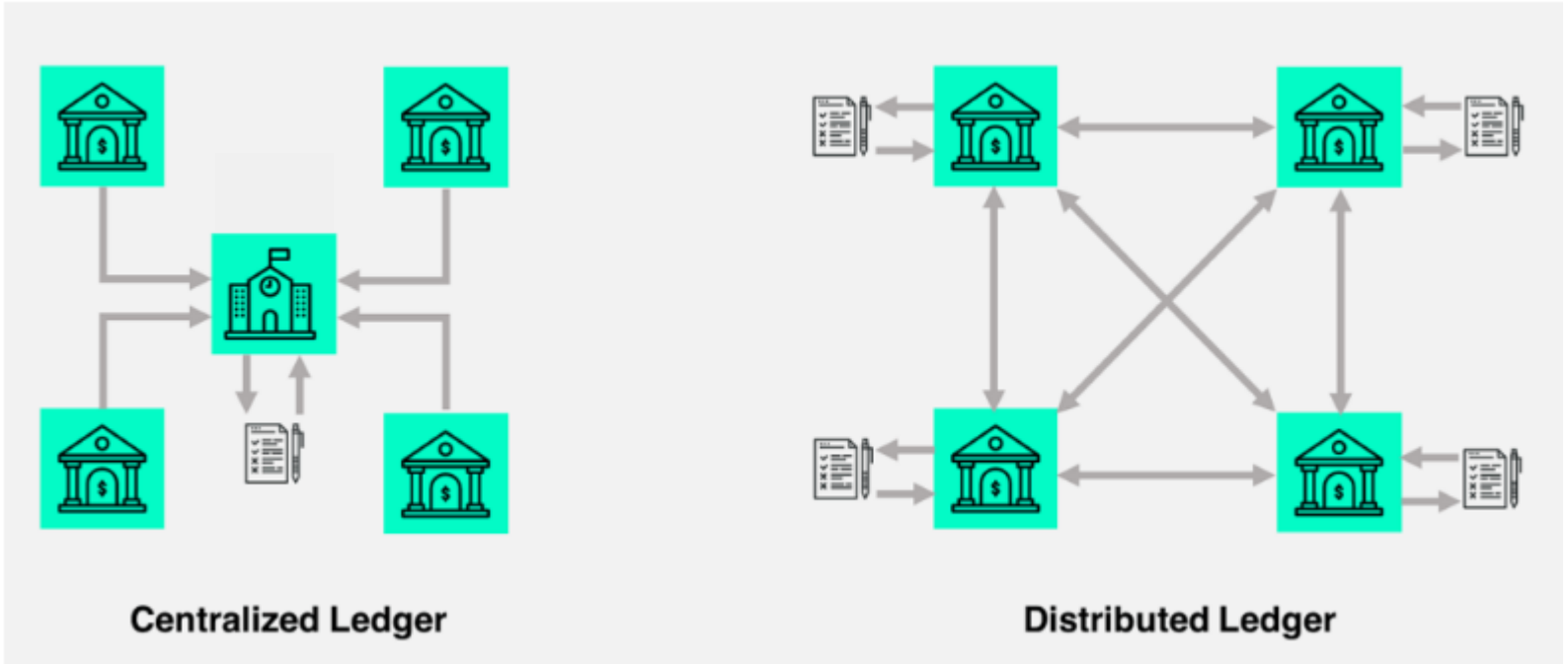
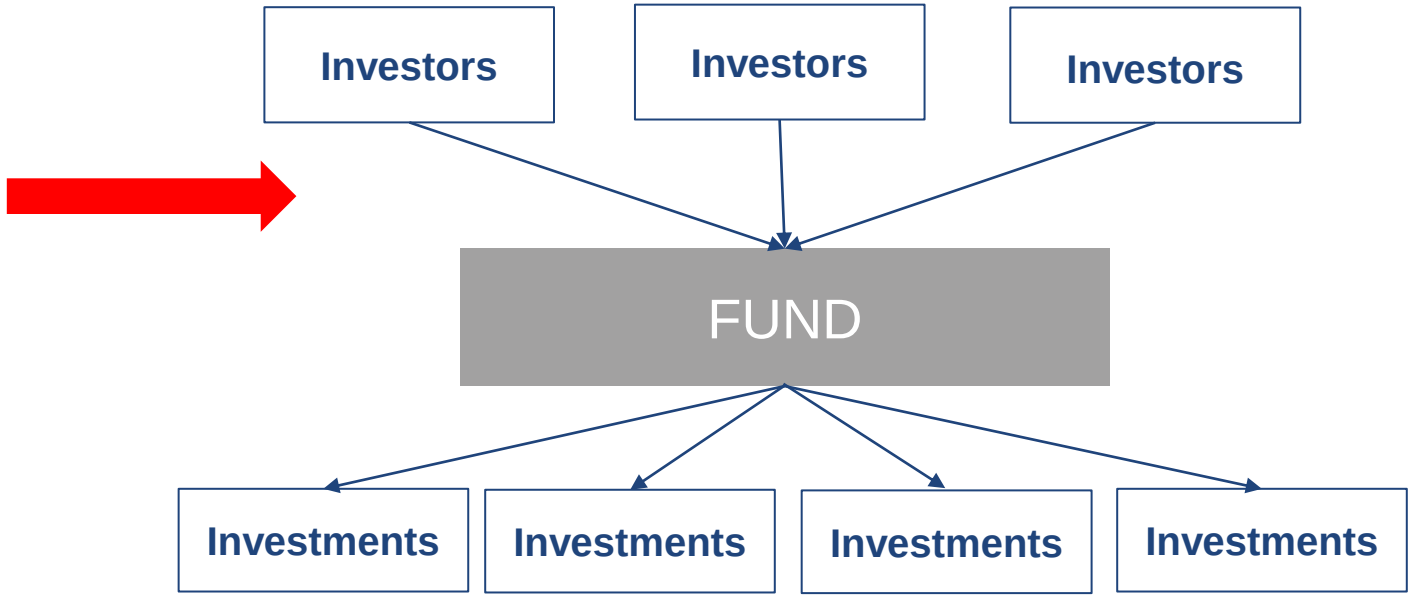
Introduction

DLT



FUND STRUCTURE



Why blockchain and fund tokenisation?

Industry pain points

- Old **legacy technology** preventing digital transformation and automation
- Intermediated supply chain with **no data insights and high fees**
- **Cost pressure** due to **regulation** and **competition** from lower costs products or actors
- **Poor user experience (UX) / user interface (UI)** in front and backend systems
- A shift from **institutional to individual** investors

Market opportunities

- **Technology** has transformed the distribution of goods and services fundamentally
- **Blockchain** will improve distribution process speed and efficiency while reducing risks and being more transparent
- **APIs** have the potential to replace current financial communication systems
- **Cloud computing** reduce cost and complexity
- **Data analytics** and usage reveal key user and customer trends, refine the bid proposed to the client

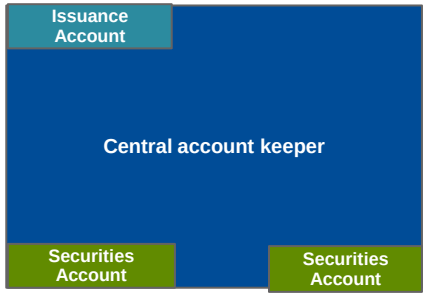
Is UCITS tokenization possible?

TYPES OF SECURITIES

Bearer

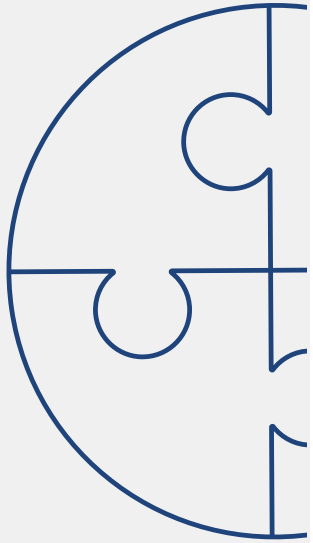
Registered

Dematerialized



REGISTERED SECURITIES

Article 430-3 of the 1915 Companies Act



“A register of the registered shares shall be maintained at the registered office and every shareholder may examine it; the register shall specify: […]”

Tokenisation is possible!

- **The Companies Act does not expressly require paper form**
- **Wide-spread practice in the fund industry of keeping register electronically**
- **Condition: appropriate facilities at the registered office allowing for access to the register**

→ **Common industry position**

→ **Accepted by CSSF (cf. FundsDLT)**

No full disintermediation

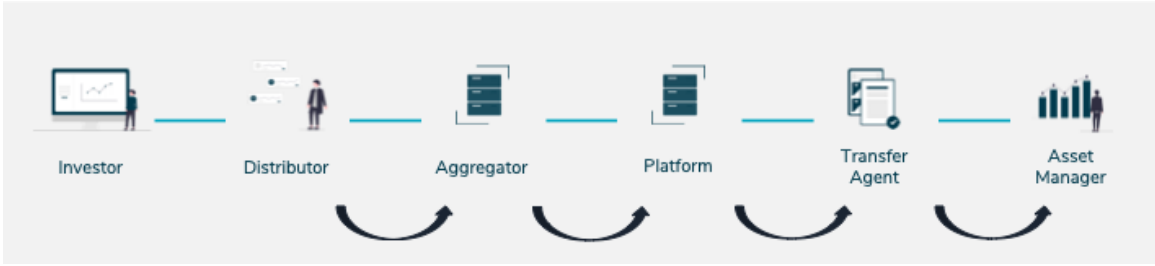
Unicity of register

What does this mean in practice?

From a Custody to a Shared Ledger model fostering disaggregation and removing siloes

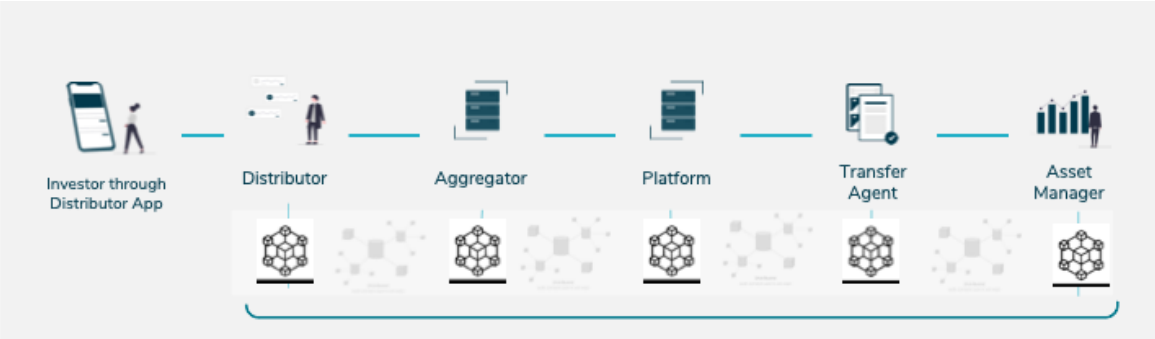
Custody model

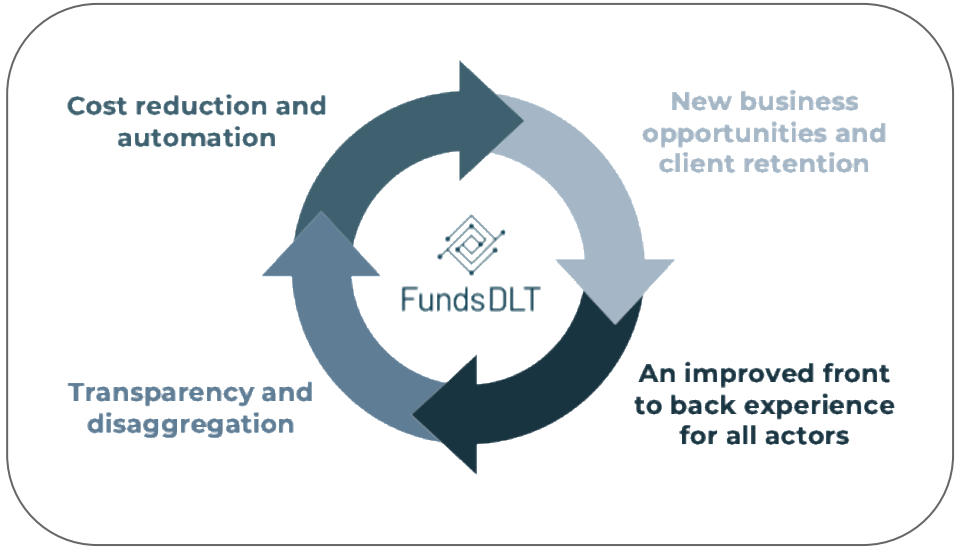
Different entities with different information systems, messages and reconciliation, no shared information, loss of information, cost redundancy.



Shared model

A shared fund register amongst all intermediaries removing messages and reconciliation needs, providing data transparency and cost efficiency.





The myth around fund tokens

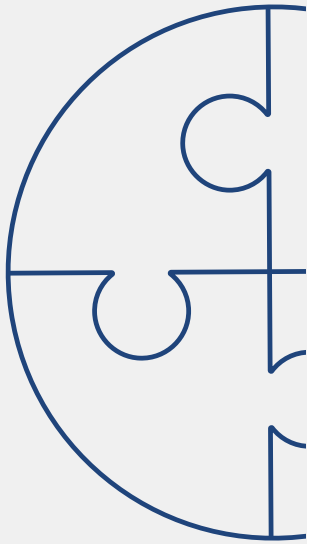
Investment funds, whatever their structure, are financial instruments and as such, even if created under the form of a token on blockchain, need to **strictly adhere to existing rules and regulations.**

Blockchain and fund tokens have the potential to drastically improve fund distribution but **the myth, whereby a fund token could be created, bought, held and transferred without any constraints over the blockchain does not exist and will not be permitted by regulators**

- UCITS
- AIFMD
- Commercial company law
- MiFiD
- AMLD
- Financial Sector law
- ....

Points of attention

Registrar function & Unicity of register



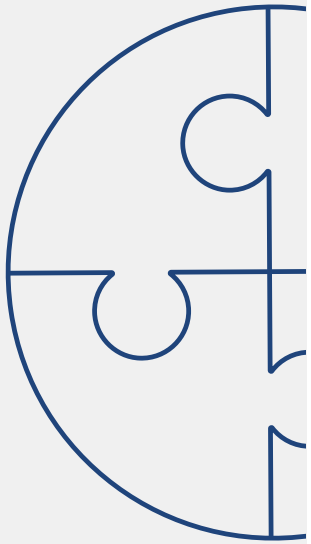
Maintenance of the register

- One of the key fund administration functions (CSSF Circular 22/811)
- CSSF confirmation that DLT can be used (FAQ on CSSF Circular 22/811)
- “In-house” by management company vs delegated to registrar agent
- Registrar agents regulated under the Law of 1993

Unicity of the register

- Key principle: single entity in charge of maintenance of register
- Possibility for registrar agent to delegate/outsource part of the tasks
- Challenges
- Future evolution ?

Other key points of attention



- AML/KYC
- Prospectus language
- Protection of investor data
- CSSF interaction

Market views and upcoming developments

Use cases we observe on the market

Money market funds

D2C

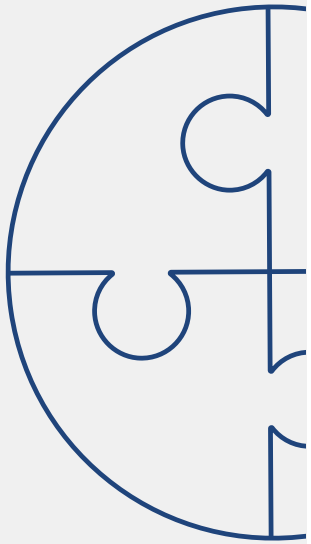
Digital TA

B2B2C

New digital distribution channels

Private assets

Market practice and key take-aways



Growing trend towards tokenisation of UCITS

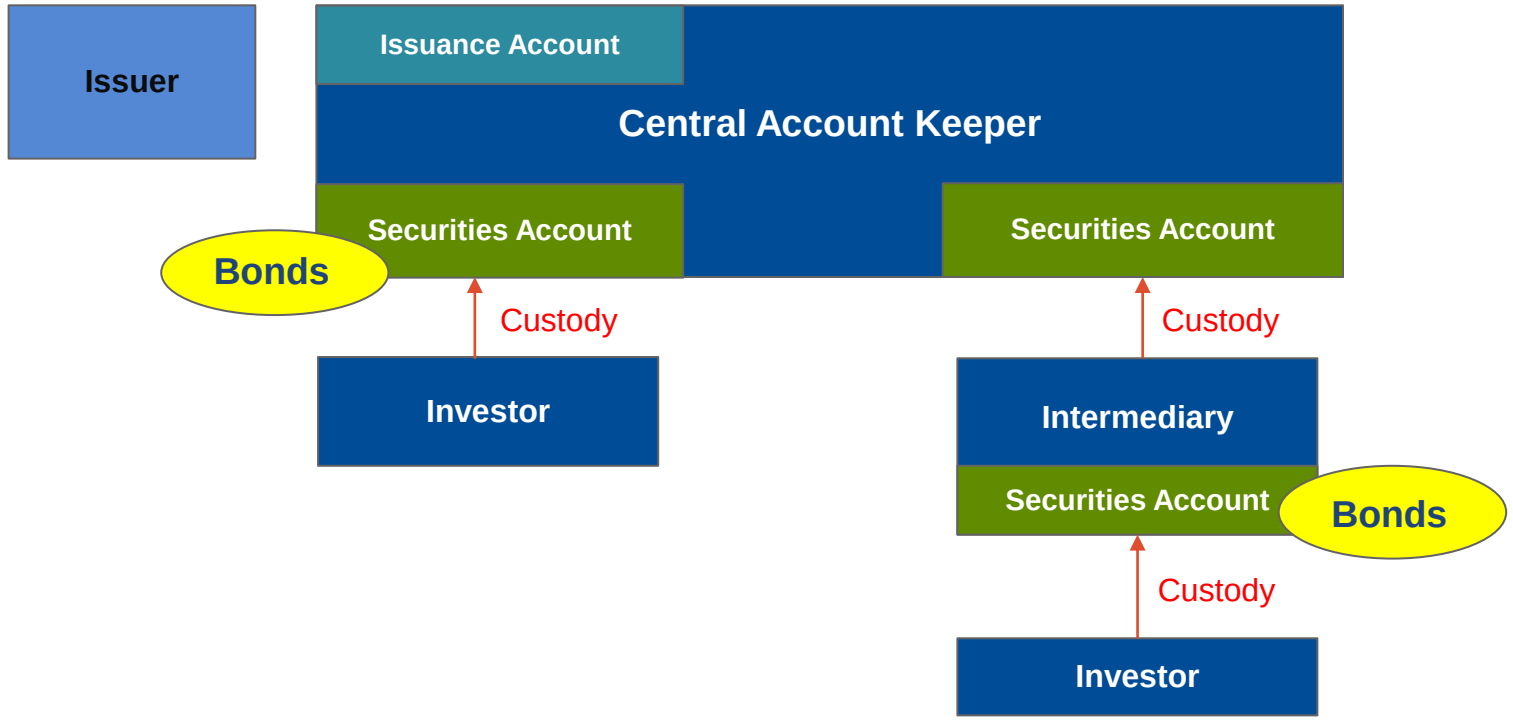
Various approaches:

1. Native tokenisation vs duplication of existing units
2. Use of private blockchains vs public blockchains
3. In-house technology solutions vs external providers
4. Tokenisation of entire funds vs tokenisation of individual share classes
5. Classical distribution models vs more direct distribution

Draft Blockchain IV law

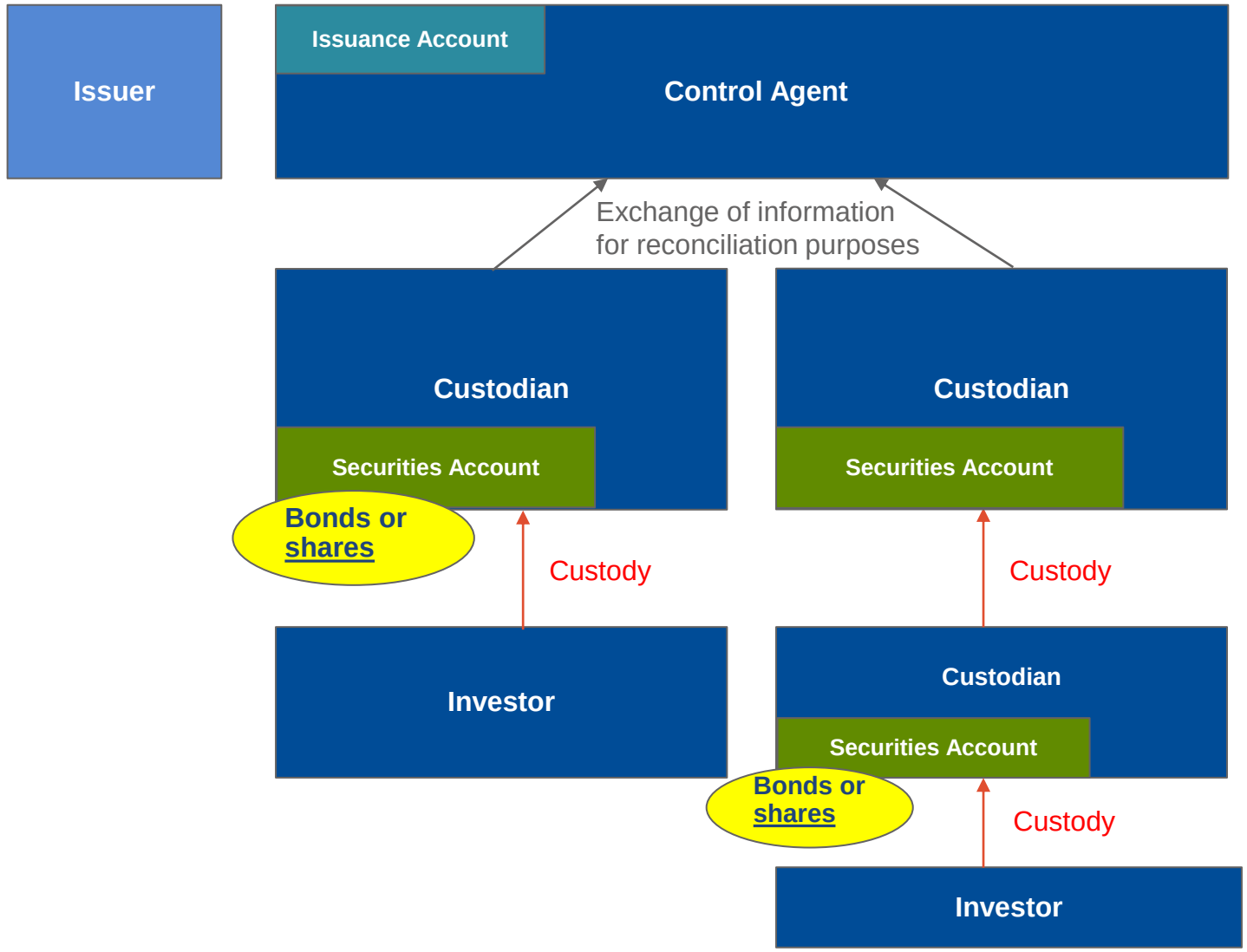
Blockchain I law & Blockchain II law

Dematerialized securities



Draft Blockchain IV law

NEW option for dematerialized securities



Upcoming UCITS webinars

Upcoming UCITS Events

Q&A

Your contacts

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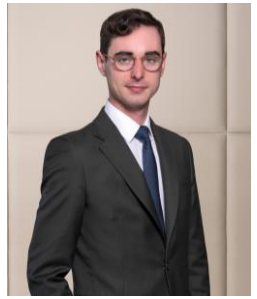

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