EFAMA
European Fund and Asset Management Association

Memo

Brussels, 18 September 2025

Review of DLT PR and existing regulatory frameworks to support digital assets

Over time, it is essential to reassess the regulatory frameworks governing Financial Market Infrastructures (FMIs) and the legislation surrounding the issuance, registration, custody, transfer, and settlement of assets. Distributed Ledger Technology (DLT) introduces new capabilities that the existing regulatory framework does not adequately address. Therefore, it is crucial to revise outdated regulations and establish a level playing field for new entrants aiming to leverage DLT in various roles and functions.

On unbundling CSD services

EFAMA members strongly support revision of regulations to allow more entities to provide core infrastructure functions fostering innovation and competition while preserving financial market stability and consumer protection.. EFAMA's consultation response on the integrated capital markets consultation in June 2025, revealed that there is no easy and cost efficient way to reform the current post-trade architecture to allow for more competition or cross border flows. Local regulations and requirements, cost of T2S connectivity, and lack of harmonization on securities, taxation and insolvency law, all conspire to create a fragmented CSD landscape where reform will be costly and time consuming.

Furthermore, as asset managers we have little visibility on actual custody and settlement fees and how these compare with other jurisdictions. This is largely due to opaque pricing models. However, the market structure and lack of competition would indicate that fees are not very competitive.

The emergence of a DLT ecosystem presents an opportunity to create a more open and competitive system from the ground up, fully harnessing the potential of DLT and enabling interoperability among settlement systems. We view this as essential for ensuring that European market participants benefit from innovative and competitive offerings in issuance and settlement services.

A distributed settlement system for DLT assets that would allow new players to provide services on the issuance/ledger side and on settlement would be a major step forward. We believe that with more entities providing settlement services and the ability to issue securities, the pricing per transaction could be dramatically reduced.

Investors (end-users) would be the biggest beneficiaries of these cost savings. It would also help asset managers to comply with their fiduciary duty to investors to act in the best interest of clients, and maximise returns while minimizing risks.

What does the current regulation say?

CSDR: As a first priority, we recommend amending Art. 3(2) of CSDR which currently restricts the securities that can be traded on venue and used as collateral to those that have been issued on CSD. This severely limits liquidity of tokenized assets, as these are only eligible to trade and settle on DLT PR regulated platforms by entities holding the DLT TSS license

- Tokenized Assets as Collateral: While there have been some issuances of tokenized securities in Europe, including tokenized bonds with issuers that are now on their fourth issuance and rated by major credit rating agencies, restrictions in the CSDR prevent these securities from being used as financial collateral.

- On-Venue Trading: Due to the conflict between CSDR Article 3(2) and the limitations of DLT PR, tokenized bonds traded on secondary markets (specifically on DLT platforms operated by entities holding a DLT MTF license only) cannot be managed as regulated market trades; instead, transactions must occur as bilateral OTC trades. The exemption from CSD registration is available only to holders of DLT TSS licenses. Although an order book exists on such a DLT MTF, it serves merely for informational purposes, forcing participants to engage in bilateral negotiations and preventing them from fully utilizing the MTF's functionality. Consequently, these transactions must be reported as OTC trades, highlighting another unintended consequence of Article 3(2) of the CSDR.

National frameworks on issuance,transfer and maintenance of tokenized funds:

A number of jurisdictions have developed national frameworks to govern the issuance, transfer and maintenance of tokenized funds. These models are viable as they have attracted plenty of issuances by fund managers and they are not incompatible among themselves. They all start with the same guiding principles to produce secure, transparent registries, an emphasis on robust digital custody arrangements to safeguard assets, and requirements for compliance with AML/KYC, risk management and reconciliation processes.

As such there is no need to review base national frameworks and impose a single harmonised approach in the traditional world, i.e Transfer Agent model vs a CSD model for fund share issuance (or indeed a Control Agent model as in Luxembourg versus other forms of digital issuance). Markets like Germany, France and Italy have already developed functional models for digital register keeping, and subscription and redemption of tokenized funds. Where we identify a case for further harmonization and convergence is on trading and settlement, and this can be achieved through the review of existing EU regulations.

Priorities for convergence and harmonization

Below we list the regulatory priorities that we believe are necessary to achieve the next phase of growth. We agree that reform of regulation should be calibrated to the growth and experience we have already seen to date in digital assets, but we also need to build for the use-cases and market efficiencies that market participants are chasing. As such we suggest prioritizing the following actions:

1. Convert the DLT PR into a permanent regime, and at the same time increase the permitted thresholds for different asset classes, and expand the list of eligible assets

2. Following the principle of substance over form: Removal of article 3 (2) of CSDR, to avoid needless discrimination of DLT assets (MiFID financial instruments) versus their traditional format counterparts.

   CSDR governs CSDs, requiring securities admitted to trading on regulated markets to be in book-entry form and registered with a CSD (centralised model). The national approaches challenge this by allowing decentralised/DLT-based registries and new players (e.g., Control Agents, register managers) to perform CSD-like functions (registry maintenance, issuance, transfer, custody). Amendments are needed to integrate these without mandating CSD exclusivity, enabling DLT scalability while preventing fragmentation.

   Failing to do this will severely limit the growth that the market is capable of, driven as it should be by secondary market trading and the use of tokenized securities as collateral.

   Removing this restriction will also enable new entrants into the market to provide core CSD services like issuance/registry services and settlement. This would introduce a much needed competitive dynamic into the market. Assets managers' end clients would benefit from the resulting price competition for settlement services which is extremely limited today.

3. The expansion of DLT PR is not sufficient, as we show above, there needs to be corresponding flexibility within CSDR as we point out with the removal of art. 3 (2). In time, we can elaborate on more areas where some revision is needed to support the convergence between DLT and traditional infrastructures. Settlement finality is one area, another is on the need for interoperability between CSDs and DLT registers to help support hybrid instruments that require reconciliation. There will also be the need to strengthen passporting for DLT operators across Member States, and finally, requirements for cash settlement under CSDR should be expanded to support DLT payment alternatives.