

Capital Markets and Technology Association – Activities and objectives

The Capital Markets and Technology Association (CMTA) aims to facilitate the use of distributed ledger technology (DLT) in the field of capital markets.

The CMTA was created with the idea that DLT - and more particularly blockchain technology – has the potential to simplify the financing of companies and democratize their access to financial markets, which is for the time being, essentially reserved for large companies.

Currently, the lack of legal certainty and clear standards prevent companies, investors and financial intermediaries from fully exploiting the potential of DLT. Moreover, this technology has recently been used for financing operations - and in particular for Initial Coin Offerings (ICOs) - which are often not very transparent, or even fraudulent, and which risk bringing this method of financing into general disrepute. Such a development would be detrimental because, if properly applied, the DLT is likely to bring important benefits both to companies and to the Swiss economy as a whole.

The CMTA was established to promote the transparency and reliability needed to use DLT for financing purposes. One of the main objectives of the association is to promote the issuance and trading of traditional capital market instruments such as equity or debt securities in the form of digital tokens. The CMTA also seeks to adopt standards and systematize good practices at the regulatory, accounting and technical levels, in order to facilitate the treatment of digital assets by financial intermediaries.

The CMTA is not intended to promote the ICO process as such, but only the emission of certain forms of tokens that have particular characteristics.

Switzerland is an important player in the field of digital assets...

Internationally, Switzerland plays an important role in the development of DLT, particularly in the use of blockchain technology in the financial sector. According to a study by PwC¹, in 2017 Switzerland was the second largest jurisdiction in the world in terms of the volume of funds raised through ICOs (with USD 1.4 billion), and the sixth in the period corresponding to the first half of 2018 (with funds raised of USD 546 million).

The Swiss authorities have generally been supportive of the development of DLT in the financial field. In particular, the tax authorities of several cantons have adopted practices facilitating the establishment on their territory of companies active in the distribution of digital assets. In February 2018, FINMA also clarified the regulatory regime applicable to ICOs², thereby enhancing legal certainty in this area.

... but many uncertainties remain

However, many legal, regulatory, accounting and technological uncertainties remain. In particular, the way in which financial instruments can be issued and traded in the form of tokens remains uncertain. The same applies to the way in which financial intermediaries can fulfil their regulatory duties - particularly in the fight against money laundering and terrorist financing - when they process digital assets or open accounts for companies that issue them.

In the absence of clear standards in these areas, it remains difficult for companies to finance themselves through tokens and for professional asset managers to invest their clients' funds in this type of assets.

The ICO process is not reserved for alternative instruments

When used wisely, DLT can help the financing of companies by facilitating their access to capital markets. The mistrust of ICOs is often due to the unclear nature of the rights embedded in tokens, and the poor quality of information provided by issuers.

However, this is not inevitable. The token issuance process is not reserved only for alternative investments. It can also be used for ordinary capital market products such as equity or debt securities, the issue of which is already subject to a precise legal and regulatory framework.

¹ PwC, Initial Coin Offering – A strategic perspective, 28 June 2018 (https://cryptovalley.swiss/wp-content/uploads/20180628_PwC-S-CVA-ICO-Report_EN.pdf).

² FINMA, Guidelines for enquiries regarding the regulatory framework for initial coin offerings (ICOs), published 16 February 2018 (<https://www.finma.ch/en/news/2018/02/20180216-mm-ico-wegleitung/>).

The "tokenisation" of securities has considerable advantages

The CMTA was set up with the idea that the "tokenisation" of traditional securities is likely to promote the development of DLT in the financial field.

The advantages of such a development are considerable.

At present, recourse to capital markets is in fact reserved for the largest companies. This situation derives from the fact that the functioning of capital markets depends on complicated or costly infrastructure, the use of which can only be justified for the most important transactions.

However, DLT can change this situation by allowing smaller companies to issue and trade securities on decentralised platforms. The resulting "disintermediation" should enable both companies and financial intermediaries to free themselves from the often anachronistic and inefficient methods traditionally used for the distribution of securities on the primary market. The new regulatory framework deriving from the Financial Markets Infrastructure Act (FMIA) also allows financial intermediaries other than traditional exchanges to organise a secondary market for tokenised securities. These circumstances are likely to reduce companies' financing costs by facilitating their access to capital markets.

DLT requires new issues to be addressed

However, the use of DLT in capital markets raises new questions. The disintermediation that characterises the tokenisation process means that certain functions currently performed by financial intermediaries may no longer be performed for tokenized securities.

Financial intermediaries are the cornerstone of the system to combat money laundering and terrorist financing. The fact that the financing process can be carried out without their intervention requires finding other means to prevent issuers from becoming receivers of funds of criminal origin. The incorporation of securities into tokens also creates new risks for investors, in particular risks of loss or theft that do not exist for conventional securities.

Tokenized financial assets are not however inherently riskier or more exposed to abuse than traditional financial assets. Yet, their specific characteristics call for their own solutions, often different from those applied to traditional financial assets. From this point of view too, the adoption of standards and the implementation of good practices is necessary.

The mission of the CMTA is to develop standards for the application of DLT in the field of finance

The CMTA aims to promote the financing of companies through DLT and to prevent possible undesirable side effects that the use of this technology could have in the financial

field. To this end, it will obtain expert advice and make available to the public solutions for the issue, distribution and trading of tokenised securities.

The fact that the CMTA is representative of the many different industries active in the processing of digital assets should ensure that the appropriate standards are in line with the needs of practice.

Unlike other Swiss non-governmental organisations, the CMTA is not intended to promote DLT or the ICO process in general. Its purpose is more limited, and tends to favour the development of DLT in the limited field of securities issuance and trading.

Furthermore, the CMTA has no commercial vocation. It is not intended to market a particular solution or to promote a particular technology. Its main objective is to contribute to the security of transactions by establishing open standards, that is to say, accessible to all.
