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Efficient
Markets ISLAUK
FINANCEInternational
Capital
Market
Association **bankenverband**

LBMA

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Re: Digital Future for Financial Markets

We are writing to assert our joint commitment to defining and promoting the development of a digital future for financial markets.

The rapid emergence of economic globalisation in the early '90s catalysed the development and adoption of the internet, revolutionising almost overnight the way that we interact and communicate with each other. A similar confluence between the development of innovative new technology (e.g. DLT and AI) and increasing consumer demand for more open and inclusive digital services suggests that we are on the cusp of a new paradigm shift. We must now begin to consider the future of financial markets.

The G20 financial regulatory reforms introduced in the wake of the financial crisis have fundamentally altered the traditional operating structure of bilateral financial markets. Firms have implemented these regulations and associated requirements on top of existing infrastructure, placing significant new demands upon it. These new regulatory requirements have also led to the creation of significant amounts of unstructured data and the proliferation of bespoke, paper-based contracts. Complex and inconsistent reporting requirements between and within asset classes have further complicated the situation. With the completion of these global regulatory reforms and the emergence of multilateral markets and operating infrastructures, market participants are now turning their attention to how they can use new technology solutions to optimize these systems, processes and data.

Now is the time to embrace a digital future for our members and our markets. The benefits of doing so are self-evident. The adoption of common data and process standards across the industry will allow for the consistent

aggregation of global financial data and more comprehensive risk assessment of supervised firms, promoting greater confidence in the integrity of financial markets. Increased digitization will improve risk management through greater alignment between contracts, processes and data, and allow for the introduction of real-time regulatory oversight. Increased automation will promote more efficient and cost-effective operational processes, reduce complexity, and allow firms to deliver better services and lower costs for businesses and consumers in the real economy.

None of this is possible without the industry-led development of enhanced standards and distribution of these standards in digital formats that allow direct deployment within these technologies. We will provide leadership and support our members in developing these standards by defining a series of principles and objectives across three core areas: **Standardization, Digitization and Distribution.**

Critical to the success of these principles and objectives is the involvement and commitment of regulatory authorities. Underpinning each of these principles and objectives is our commitment to encouraging greater coordination among our members, national authorities and regulators to create an enabling framework for a digital future.

The COVID-19 pandemic has highlighted the urgency of these efforts. While markets continued to function well, the significant increase in market volatility experienced at the outset of the pandemic placed existing infrastructure under considerable strain. More fundamentally, the pandemic is now challenging established consensus around how trading and operations should function, with many firms now seeking to accelerate plans for greater digitization and automation within their operating models.

The financial services industry finds itself at a crossroads. One path leads toward incremental change, continuing to make tactical investments in existing technology infrastructure, and reacting to specific issues and challenges as and when they arise with a patchwork of bespoke, potentially duplicative and manually intensive technologies and processes.

There is an alternative path. Through the adoption of these principles and objectives, we are embracing transformational change and adopting an ambitious strategy for defining a digital future for financial markets, fostering an environment for technological innovation and building a safer, more robust global financial system.

Sincerely,



Scott O'Malia
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Martin Scheck
Chief Executive
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Principles and Objectives

Standardization

Firms and infrastructure providers typically use their own unique set of representations for transaction events and processes. This is inefficient and expensive, complicates trade and counterparty identification and classification, and has the potential to result in data capture errors, disputes, and inconsistent regulatory reporting. Firms negotiate and customize legal documentation to address specific legal and operational risks. However, excessive customisation often provides little benefit and increases complexity. These challenges compound over time, creating significant legacy issues for firms, particularly when responding to regulatory implementation or market events. Overcoming these challenges and creating the foundation for digitization and increased automation requires greater standardization.

Principles and Objectives:

1. Support the development of common, interoperable industry standard models for financial transactions and processes.
2. Work with our members and relevant authorities to promote alignment among disparate data standards and greater consistency of regulatory requirements across the market.
3. Promote the adoption of standardized and simplified legal documentation where appropriate in the relevant market.

Digitization

Market participants continue to rely upon paper-based legal documentation, physical document exchange and wet-ink signatures. There is a lack of connectivity between contractual terms and the systems and processes designed to implement these terms (e.g. netting enforceability, liquidity and counterparty credit-risk management) within asset classes and across the industry. Increased digitization will allow for more efficient, cost-effective, scalable and automated payment, settlement, operational, regulatory and collateral management systems and processes.

Principles and Objectives:

4. Explore and pursue the delivery of industry-standard documentation in digital formats.
5. Support the development of robust legal agreement data models aimed at connecting contractual terms with supporting processes and data.
6. Work with our members and relevant authorities to establish greater legal and regulatory certainty on the use of electronic contracts and signatures.

Distribution

Technology developers rely upon easily accessible and open-source technology standards, allowing them to focus on innovation and development. Fragmented and duplicative distribution of digital offerings will inevitably result in incompatible and inefficient platforms and solutions. We will make our standards available in a way that facilitates the consistent and cost-effective development and implementation of mutualised technology solutions in the financial markets.

Principles and Objectives:

7. Distribute new standards on an industry-wide, commercially reasonable basis where possible to support the development and implementation of interoperable and efficient technology solutions.
8. Establish a robust and inclusive governance framework around the development, operation, and maintenance of any mutualised technology standards.