

DERIVATIVES SERVICE BUREAU

PRODUCT COMMITTEE 2021/22

DIGITAL ASSET STRATEGY SUB-COMMITTEE

2nd August 2022

MEMBER FINAL V01



Agenda

1. Introduction & Agenda (Standing Item)
2. Competition Law Reminder (Standing Item)
3. Review Minutes from Previous Meeting (Standing Item)
4. Open Actions (Standing Item)
5. Definition of Terms
6. Scope and Prioritization
7. AOB

Competition Law Reminder – I of II

The purpose of this protocol is to remind attendees of Derivatives Service Bureau (DSB) Limited (“DSB”) Digital Asset Strategy Sub-Committee (DAS-SC), that all discussions at such meetings are subject to the application of EU, UK and other applicable national competition law (“Competition Law”).

Individual attendees are responsible for observing the requirements of Competition Law and should make themselves familiar with their legal obligations and their own organization policies.

The DSB is committed to compliance with Competition Law and advises that all participants follow the guidance set out below in order to ensure that all meetings remain in compliance with Competition Law.

1. A meeting agenda will be circulated in advance of a meeting. Any objections to, or potential concerns about, the proposed agenda in relation to Competition Law compliance should be raised prior to the meeting if practicable
2. Attendees must stick to the prepared agenda during the meeting and avoid discussion about other topics
3. Attendees must not seek, discuss, communicate or exchange any commercially or other business sensitive information about their organization or relating to competitors (whether before, during or after meetings). This includes, for example, any non-public information relating to prices, costs, revenues, business plans/marketing activities, individual terms and conditions, risk appetite or any other information which is likely to reduce strategic uncertainty in the market (i.e. which might result in less intensive competition than would normally occur)
4. Attendees must not reach any sort of agreement or understanding that is unlawful due to competition law (e.g. unlawful horizontal agreement, unlawful vertical agreement)

Competition Law Reminder – II of II

5. The Designated DSB Officer (“DDO”) will take minutes of the meeting, and supply these to each attendee in due course.
6. If the Chair considers that a discussion at the meeting may be inappropriate from a Competition Law perspective, he or she shall raise an objection and promptly bring that part of the discussion to an end. If another attendee, or the DDO, is concerned about a discussion from a Competition Law perspective, he or she shall bring it to the attention of the Chair, who will promptly bring that part of the discussion to an end. If other attendees attempt to continue that discussion, the Chair shall bring the meeting to an end. Every attendee is allowed to immediately leave the meeting in such situations. All such situations must be properly recorded in the minutes.
7. The minutes of the meeting must subsequently be read and approved by the attendees. If any matter discussed is not recorded in the minutes, or is recorded incorrectly, any attendee may raise an objection in writing and request an amendment.
8. Similar principles should be observed for any group email exchanges or other online group discussions operated by DSB, including those pertaining to PC matters.

We remind attendees that breaching Competition Law has serious potential consequences for them as individuals and their organizations. Such consequences may include heavy fines, liability to pay compensation to affected individuals and businesses and, in certain cases, the imposition of criminal penalties, director disqualification orders and disciplinary action.

Review Minutes from Previous Meeting

The Digital Asset Sub-Committee is asked to approve the minutes of the previous meeting (19th July 2022):

- No updates received. Minutes are now considered final.

Open Actions

#	Actions	Owner	Target Date
001	The DSB to share the proposed glossaries with DAS-SC members and to request further input.	DSB	02-Aug-22
002	The DSB to ask DAS-SC members to propose OTC derivatives and digital asset underliers for immediate consideration by the DAS-SC.	DSB	02-Aug-22
003	The DSB to ask the CDIDE for summary Digital Asset OTC Derivative trade reporting metrics.	DSB	02-Aug-22

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Propose Close	Discuss in this meeting	Outstanding
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General Glossary

For terms used generally within the digital asset space, the following provides a useful collection of definitions: <https://coinmarketcap.com/alexandria/glossary>

For example (more complete explanations are also provided):

- ~ **Distributed Ledger Technology (DLT)** A database that is shared by multiple participants, in multiple places. The basis for blockchains.

- ~ **Cryptoasset** A cryptoasset is any digital asset that uses cryptographic technologies to maintain its operation as a currency or decentralized application.

- ~ **Governance Token** A governance token is a token that can be used to vote on decisions that influence an ecosystem.

- ~ **Non-Fungible Token (NFT)** Non-fungible tokens (NFTs) are cryptocurrencies that do not possess the property of fungibility.

- ~ **Central Bank Digital Currency (CBDC)** CBDCs are digital currencies issued by a central bank whose status as legal tender depends on government regulation or law.

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Scope & Prioritization

The DSB has proposed limiting the current definitions to the following two Digital Assets:

1. Crypto-Native Token (eg: BTC, ETH, SOL)

A native medium of exchange used as payment/reward for verifying blocks and the creation of other tokens on the DLT.

May also be known as: crypto-currency, virtual currency, protocol token, payment token, native token, intrinsic token.

Note: Not all DLTs have a native Digital Token but a Native Digital Token is native to only one DLT (although tokens with the same ID/name may be transacted on other DLTs).

Note: This avoids the term “currency” since this may be ambiguous in the context of the DAS-SC.

2. Stablecoin (eg: USDC, USDT, DAI, UST)

A crypto-asset (token) that is designed to be pegged (and ~~redeemable 1-to-1~~) to a Fiat Currency (e.g.: USD, EUR etc.).

Also known as: Payment Stable Coin, E-Money, E-Money Token, Digital Settlement Asset.

Note: It is possible for Stable Coin transactions to be recorded on more than one DLT (eg: Ethereum, Solana, Algorand) but these are not truly fungible since bridging is required to move positions between DLTs.

Note: This definition does not seek to differentiate between “algorithmic” and “backed” stablecoins.

This should allow the DAS-SC to focus on the tokens that are likely to be used as underliers to OTC Derivatives in the near future and are likely to be regulated as a separate category (see: Lummis/Gillibrand, MiCA, UK Financial Services and Markets Bill and others).

The DASC-SC will be able to extend this list of terms as the scope of the sub-committee expands.

OTC Derivatives on Crypto-Native Tokens (BTC, ETH etc.)

- It is proposed that the DAS-SC initially focuses on OTC Derivatives with Crypto-Native Token Underliers.
 - Based on BTC, ETH, SOL, ADA, DOGE as crypto-native tokens.
- For each product, it is necessary to define / classify the Instrument Type of the OTC Derivative and the Asset Class of the Underlier.

What is the Instrument Type of the OTC Digital Derivative?

- Is the OTC Derivative on-chain (a smart contract) or a standard off-chain contract?
- Is the OTC Derivative a Swap, Option, Future or Non-Standard product?
 - If a Swap (and regardless of asset class)...what type of Swap? E.g.: does it behave like an IRS, CDS, FX Swap, Equity Swap or...
- Is settlement on-chain or off-chain?

What is the Asset Class of the Underlier?

- Does the Underlier behave like an **Equity** (ownership, dividend); a **Bond** (debt, principal, coupon), a **Currency Pair** (exchange of value); a **Commodity** (an economic good or service) or something else?
- What reference price is used in the valuation of the underlier?

Action : Agree next steps for the Digital Asset Strategy Sub-Committee

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Members and Invitees

First Name	Last Name	Organisation	PC Role
Andrew	Bayley	International Swaps and Derivatives Association (ISDA)	Observer
Joseph	Berado	ICE / NYSE	Co-Chair
Alex	Chow	The Investment Association (IA)	
Stephan	Dreyer	Association of National Numbering Agencies (ANNA)	
John	Graham	Futures Industry Association (FIA)	
Dawd	Haque	Deutsche Bank	Member
Lisa	Iagatta	International Securities Association for Institutional Trade Communication (ISITC)	
Harry	McAllister	BNP Paribas	Co-Chair
Alex	McDonald	European Venues and Intermediaries Association (EVIA)	
Dianne	O'Boyle	International Securities Association for Institutional Trade Communication (ISITC)	
Jean	Obray	Financial Conduct Authority (FCA)	Regulator
James	Oswald	Morgan Stanley	
Gregg	Rapaport	DTCC	Member
Tom	Soden	Financial Conduct Authority (FCA)	
Lisa	Taikitsadaporn	FIX Trading Community	Observer
Mark	Wetjen	FTX US	

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Terms of Reference

Objective

To agree an industry approach to the assignment of globally consistent and unique UPIs based on a common methodology for the classification and identification of digital assets – focused on (but not limited to) their use as underliers to OTC derivative products.

Deliverables

The Sub-Committee is expected to deliver the following artefacts before the end of 2022:

- Recommendation for amendments to ISO 10962 (CFI) for the classification of Digital Assets.
- Agree an approach for the assignment of OTC ISINs under the current (ISO 10962:2015) CFI standard.
- Recommendation for the identification of Digital Assets as underliers to the UPI / OTC ISIN.
- Industry guidance for a common approach to the classification of Digital Asset based OTC Derivatives.

Logistics

- Coordinator / DDO: DSB Secretariat
- Format : Microsoft Teams
- Frequency : Fortnightly
- Time / Day : Tuesday 10 am (EST), 3 pm (UK), 4 pm (CET)
- Duration : 90 minutes