Guiding principles for tokenization of securities under CSDR

The imperative for a clear interpretation of the existing European regulatory framework

The relevance of asset tokenization has grown significantly, presenting both opportunities for innovation and the need for regulatory clarity. **As other jurisdictions advance, namely the United States where the DTCC received a no-action letter to tokenize existing securities, it is crucial for Europe to establish a clear, fast-track and efficient pathway to be able to also tokenise the already existing assets (EUR ~90 trillion of securities).** European Central Securities Depositories (CSDs), that hold the majority of those assets under custody, are pivotal in enabling a large-scale tokenization of securities within the established financial market infrastructure.

To achieve this, close alignment between CSDs and National Competent Authorities (NCAs) and ESMA is instrumental to **seamlessly embed services for tokenized securities within the current regulatory frameworks like CSDR and SFD, ensuring uniform interpretation and continuity for existing licenses through a smooth notification process.**

Therefore, Deutsche Börse Group (DBG) proposes the following key principles to guide the integration of tokenized securities, ensuring legal certainty and fostering a competitive and innovative European capital market landscape.

Principle 1: Tokenization represents a technological evolution that should not warrant new licensing

The Central Securities Depositories Regulation (CSDR) is designed to be technology-neutral, regulating the core functions of notary, central maintenance, and settlement irrespective of the underlying technology. **The regulation does not prescribe the specific form of a security (e.g., physical, dematerialized, or tokenized). Therefore, offering services for tokenized securities on a DLT, should be viewed as a different technological way of providing an already licensed service under the CSDR.** This interpretation is further supported by and consistent with the changes proposed to the DLT Pilot Regime and Settlement Finality Regulation under the Market Integration and Supervision Package (MISP), that envisage that book-entries may be undertaken using distributed ledger technology.

Principle 2: A notification-based approach is sufficient for licensed CSDs

Given that tokenization is a different technological way of providing already licensed services, a new authorization process under Article 19(1) CSDR should not be required for already-licensed CSDs. Instead, a **notification of substantive changes to the competent authority, as outlined in Article 16(4) CSDR, should be the appropriate procedure**. A common interpretation from NCAs that notification-based procedure is sufficient, complemented by clear **ESMA guidelines for a**

Confidential

harmonized and efficient notification process, would be instrumental in building out the European tokenization landscape without undue regulatory friction. **Requiring an authorization procedure would bring about very significant legal, operational and business risks for CSDs** that might severely undermine their ability to innovate and modernize existing business models and irrevocably harming EU's competitiveness on a global scale.

Principle 3: A single, integrated system for traditional and DLT-based securities is essential

To avoid creating operational and liquidity silos, it is **vital that an existing CSDR-authorized securities settlement system and an additional DLT securities settlement system, operated either as a DLT infrastructure under the CSDR and/or Pilot Regime, are qualified and treated as one single, integrated IT system**. Therefore, clarification and/or guidelines from the NCAs and ESMA would be welcomed to ensure that CSDs can operate a unified infrastructure, which is crucial for maintaining market integrity and sufficient liquidity as we integrate new technologies. **At the same time, we advocate for fully licensed CSDR entities to be permitted to operate a DLT market infrastructure under the Pilot Regime without being subject to aggregate value thresholds.**

Principle 4: Settlement in "new forms of money" should be enabled within CSDR

The evolution of financial markets includes the emergence of new forms of money:

d) Central bank money – the anticipated wholesale CBDC;
d) Tokenized commercial bank money;
d) Private money on-chain in the form of MiCA instruments including e-money tokens; and
d) Money on-chain in the form of tokens used for internal purposes (e.g., settlement).

The CSDR framework should explicitly accommodate settlement in all these new forms of money. At the same time, we acknowledge that under the current legislative proposal o the MISP, CSDs authorized to provide banking-type ancillary services would be permitted to use e-money tokens for settlement, subject to a notification of substantive changes under Art. 54(4) of proposed CSDR review, without prejudice to the compliance with the additional requirements set forth in Art. 54c CSDR.

In respect to such additional requirements, we recommend evaluating ways to alleviate pre-funding requirements for the use of e-money tokens to unlock meaningful adoption. Likewise, any existing use of e-money tokens for settlement shall be possible and subject to no actions by the competent authorities.

Confidential

Principle 5: No duplicative new designation process for already designated CSDs to perform SFR services

We strongly support modernising the Settlement Finality framework but consider it essential that CSDs (and CCPs) already designated under the Settlement Finality Directive are not subjected to a new designation process. These infrastructures have long operated under the robust supervisory regimes defined in CSDR (and EMIR). Thus, requiring them to undergo an additional designation would duplicate oversight, create potential contradictions between frameworks, and impose substantial administrative burden without enhancing systemic stability.

A grandfathering approach for existing designated systems ensures continuity, preserves legal certainty, and maintains proportionality. The SFR should therefore limit its designation and approval mechanisms to system operators not already captured by CSDR (or EMIR), thereby avoiding unnecessary duplication of supervisory procedures.

Concluding remarks

There is a strong political momentum and a clear necessity to create an environment that actively supports DLT innovation and tokenization. A clear regulatory mandate to empower licensed Financial Market Infrastructures (FMIs) to deploy DLT solutions at scale within their existing, robust frameworks is essential for securing the international competitiveness of European markets.

Confidential