

Position Paper

EU DLT Reforms – Improving Settlement Choice As A Key Driver for Greater Market Integration, Innovation, and Resilience

September 2026

Executive Summary

- How to reduce the current fragmentation in EU capital markets, while promoting competition, innovation and resilience at the same time? DLT offers a credible opportunity to achieve these objectives by creating an integrated, distributed network of regulated entities able to work together and perform key tasks currently concentrated in centralised infrastructures.
- Would more centralisation – as opposed to the distributed model outlined above – better deliver on the integration objectives? Certainly not. Centralisation towards a post-trade monopoly would go against the objective of providing capital markets users more choice and lowering costs. It would also endanger resilience, by creating a single-point-of-failure.
- Would not it be sufficient maintaining the current (centralised) architecture and making it incrementally more efficient with DLT? No, this would simply replicate the current market structure with its shortcomings and not leverage the key benefits and attributes of DLT: the distributed architecture. In line with the ECB's Appia vision, we envisage a distributed market architecture consisting of a network layer (bringing integration) and a services layer (promoting competition).
- The EU Market Integration and Supervision Package (MISP) represents a crucial opportunity to promote integration and competition: the proposal to create the new settlement scheme model ("Settlement Scheme") and unbundle settlement services (notary, account maintenance, and settlement) represents a major step forward. While we welcome the European Commission's proposal, which provides a strong foundation to promote this model, a number of improvements are necessary: restrictions on thresholds, settlement modality, and limits on participation stand in the way of institutional adoption, commercialisation, and innovation.
- AFME therefore calls on EU co-legislators to be more ambitious in their reforms on network-based market participation to seize the unique opportunities offered by DLT to improve market integration, competition, innovation and resilience.

1. Current problems

In the last decade, EU capital markets have faced persistent concerns related to inefficiency, fragmentation, lack of access, stifled innovation and limited competition. In particular, market fragmentation has resulted from a lack of harmonisation across supervisory practices, tax treatment, and insolvency rules, as well as from a lack of unification in the post-trade environment, while settlement costs remain more expensive and complex than international peers due to a lack of competition. Furthermore, there is an urgent need to enhance European

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economic competitiveness and **investments** to enable future growth, security, and digital infrastructure developments.

2. Solution

With advancements in DLT, Europe has another option: **settlement infrastructure integration with enhanced services competition**. However, the design of the pre-MISP DLT Pilot Regime has so far failed to innovate the capital markets architecture because it replicates existing market structure, its regulatory assumptions, and does not resolve challenges on-chain. In addition, due to persistent legal, regulatory, and commercial barriers, **the DLT Pilot Regime has not been able to attract necessary participation from existing financial institutions to create the commercial scale and market depth needed for success.**¹

It is not sufficient to bring the existing financial market architecture on-chain; this would only replicate its shortcomings. DLT offers the chance to redesign and optimise market architecture leveraging key benefits offered by shared (distributed) ledgers and smart contracts, as well as broadening access to SMEs, corporates, issuers, investors, and financial institutions. Ultimately, this could facilitate faster, more efficient, and cheaper transactions; more integrated markets; and improved access to finance.

With DLT as the basis for the new capital market architecture, **post-trade service providers can collaborate and compete in a shared and interoperable network.**² Because of DLT's ability to create a shared data environment among participants, new distributed settlement models operated by regulated actors – without relying on a single operator – have the unique potential to improve market integration and competition. For example, a European corporate can issue securities registered with a DLT notary and transacted and settled by one or a number of DLT account keepers; all of these participants (including the issuer) would connect to the same underlying network operating on a pan-European (or indeed global) basis, pooling the liquidity of those listed securities and expanding their access to a greater number of connected participants, including investors.

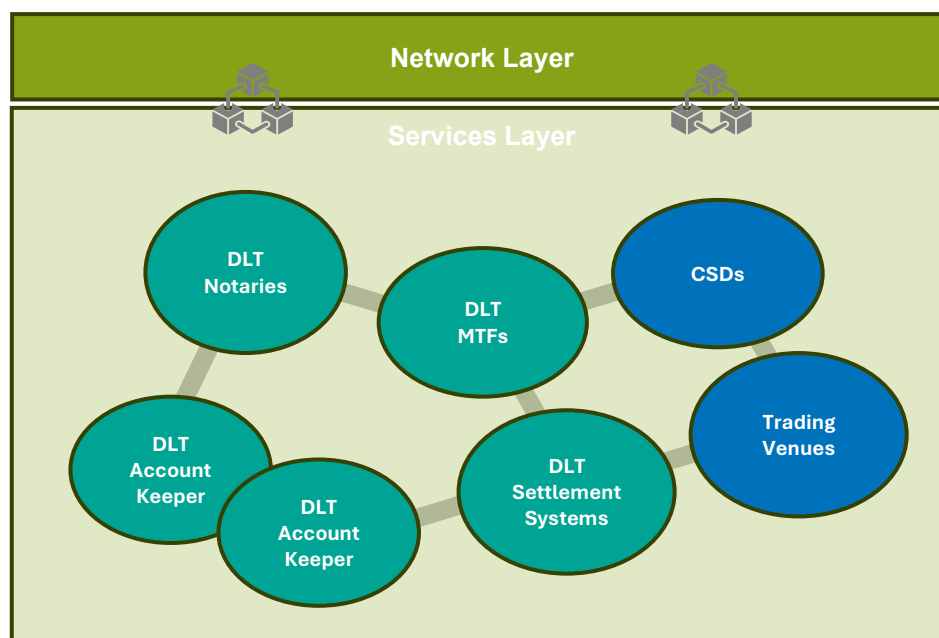


Figure 1 DLT-Based Financial Architecture - Envisaged Set-Up

¹ As we have consistently noted, for credit institutions and investment firms to set up a separate legal entity, backing it with capital and arrange for operational arrangements would make DLT PR participation very costly, and therefore challenge the business case.

² See Appia – paving the way for a future-ready, integrated financial ecosystem leveraging tokenisation and DLT (2026)

As the ECB has pointed out in its Project Appia Roadmap, DLT “allows multiple parties to share a basic infrastructure that these can use to compete on services. This arrangement could help overcome the siloed nature of the current market infrastructures in Europe and lower barriers to entry.” In addition, improved interoperability between underlying networks will also further reduce fragmentation risk and deepen integration over time. In the same vein, the MISP proposals acknowledge the vital benefits of network-based settlement, i.e. to “allow market participants to experiment with a new business model that does not involve a single operator of a settlement system, but rather relies on regulated entities that are individually and jointly required, through the establishment of a settlement scheme, to ensure robust settlement outcomes”.

As such, we envisage a market architecture consisting of:

- **Network layer:** interoperable network-based infrastructures operated jointly by multiple regulated entities, which may be part of schemes or agreed arrangements.
- **Services layer:** separate regulated settlement infrastructure and services (notary, maintenance of accounts, and settlement) on top of the network-based infrastructure, servicing financial institutions, issuers, and investors.

This set-up allows for the creation of at-scale capital markets architecture that is both **unified at the settlement infrastructure layer and more competitive at the services layer**. By departing from the existing capital markets architecture reliant on centralised operators, this model can, importantly, help deliver on key EU objectives, achieve the full benefits of DLT, and create network-based capital markets by:

- **Improving competition and avoiding monopolisation in service provision:** DLT offers a way to generate more competition for service provision on top of a single or multiple network layer(s).³ Unlike the centralised operator model today, the distribution of settlement services (notary, maintenance of accounts, and settlement service) and the creation of Settlement Schemes (allowing DLT accounts keepers with central bank accounts to transact and settle with each other without the need for a single central operator – see *figure 2*) would allow regulated service providers to undertake one or a number of different CSD services, and therefore increase competition for issuance and settlement services and improve options for issuers and investors.⁴
- **Deepening integration from enhanced competition:** unlike today’s centralised operator model reliant on siloed databases, network-based distributed settlement service provision – and a growth in service providers – will not cause more fragmentation, but rather, help to enhance integration. This is because of DLT’s inherent technological attributes: the network layer of DLT is similar to the internet, and derives its functions and benefits from distribution; in a DLT-based system, regulated financial participants can exchange data and transact with one another using a common programming language and, as a result, form a shared database (contrary to today’s siloed databases run by individual participants).⁵ In line with improved competition and the nature of new technological developments, the number of providers offering services on top of network layers may increase. However, competition in a DLT-based system does not undermine integration. Instead, integration is enhanced through shared network layers that facilitate liquidity pooling and market depth.
- **Deepening integration from interoperability:** service providers maintain economic incentives to build on top of common network layer(s) with widespread uptake and

³ This is widely acknowledged by the ECB’s Project Appia [roadmap](#)

⁴ This is similar to MiFID bringing greater competition across Europe in the provision of trading services to investors and between trading venues; in the last decade, improvements to competition in trading have created more market depth and integration, more trading mechanisms and venues, greater competition, improved market liquidity, and – ultimately – better market functioning and cheaper transaction costs as a result. The unbundling of CSD services and creation of Settlement Schemes can bring similar benefits to the settlement segment of transaction lifecycles, by innovating on settlement mechanisms (facilitated by DLT) and providing a new way of issuance and settlement to issuers and investors without compromising regulatory and financial stability objectives

⁵ To illustrate, on the same network layer, smart contracts create shared technical stacks and executing environments among regulated participants, who can transfer and mobilise DLT-based assets with each other.

sufficient network effects. Over time, the network layer of the financial market architecture will increasingly consolidate to a limited number of networks focusing on particular jurisdictional and/or asset class requirements.⁶ Where DLT-based assets need to be transferred between network layers, greater connectivity and interoperability between these layers will also enhance integration and reduce fragmentation risk. Technological innovation and market incentives are already driving advancements in interoperability to achieve greater connectivity and integration between protocols. For example, a number of industry initiatives (Canton, Regulated Layer 1, SWIFT, etc.) are beginning to achieve scale, widespread participation by regulated institutions, and network effects, and we expect cross-protocol interoperability to improve over time. Greater connectivity between the network layers will also enhance liquidity and reduce liquidity balkanisation. By significantly improving competition for issuance and settlement options, DLT can make market-based financing cheaper for European issuers and corporates, especially if DLT is combined with other technologies, for example AI solutions.

- **Enhancing efficiency:** a shared ledger can help automate financial markets issuance process and corporate actions. For example, by leveraging the programmability of smart contracts, the new DLT-based settlement models can compress the securities issuance and settlement process, automate post-trade actions, and reduce transaction costs for investors, for greater efficiency.
- **Enhancing robustness and resilience:** regulated network-based settlement would diffuse single-point-of-entry risks (which are currently prevalent in a centralised operator model) and improve operational resilience. By distributing settlement functions across a broader array of authorised actors and channels, the new settlement models would create better service substitutability and lower systemic operational risk.

3. How do we get there?

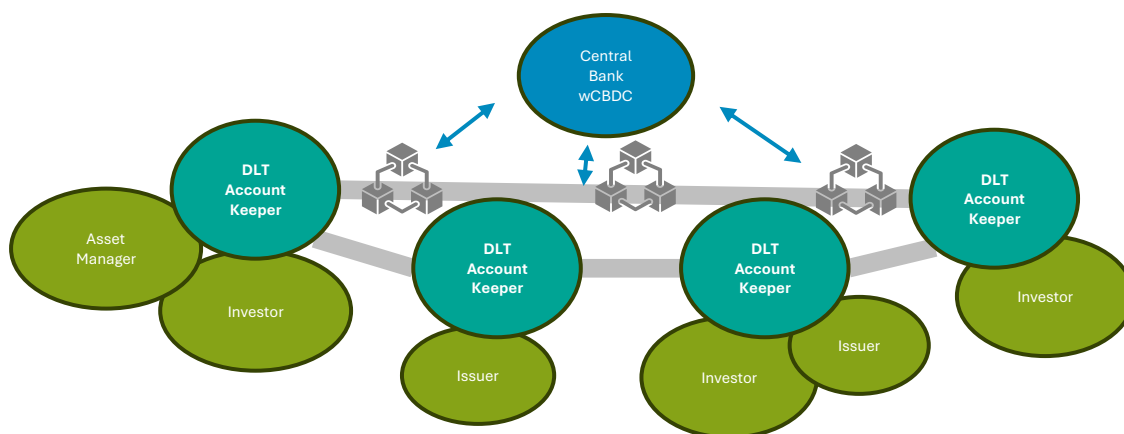


Figure 2 Settlement Scheme - Envisaged Set-Up

AFME is supportive of the proposed reforms related to DLT under the MISP to provide a basis for **network-based market participation** through unbundled settlement services (notary, account maintenance, and settlement) and the new settlement scheme model ("Settlement Scheme"). **By unbundling CSD services and introducing the Settlement Scheme model, the MISP proposals pave the path for a framework that more closely resembles an innovative future capital markets architecture, maximises the benefits of DLT, and creates more competition and client choice.**

While these new settlement models are an important and beneficial foundation for achieving the full potential of DLT in capital markets, more ambition is needed to **make them economically attractive** and **avoid the limited take-up among (significant) institutions observed with the existing DLT PR**. It is only through broadened institutional participation

⁶ See AFME's [vision](#) for the future European DLT-based financial market architecture

that the DLT PR can achieve its potential for success, support EU objectives, and place the EU at the forefront of DLT innovation.

The MISP proposals currently restrict the ability of such new settlement models to be operated at scale, making it unlikely that they will be economically viable and realise the potential benefits of network-based capital markets. **With a number of critical improvements, we believe that the proposals can achieve the vision above, avoid recreating structural fragmentation, broaden institutional participation, and encourage a critical mass scale of participants and transactions:**

1. **Clarify that DLT-based assets issued through network-based infrastructures benefit from on-venue trading eligibility, collateral eligibility, and passporting / market access rights.** The MISP Regulation should explicitly clarify that DLT-based assets registered with DLT notaries, and issued and settled through the new distributed settlement models, would fulfil the security registration requirement. Relevant legal and regulatory frameworks (e.g. Financial Collateral Directive, ECB framework for collateral) as well as national law should also be updated to clearly reflect such eligibility.
2. **Improve the economic viability of participation in network-based infrastructures,** by raising Settlement Scheme thresholds from €10bn to at least €50bn. For a Settlement Scheme to be economically viable and fully functional, these thresholds need to be sufficiently attractive to DLT account keepers, in terms of the business case for setting up the operator, establishing governance arrangements, covering capital, legal, and new system costs, and putting in place new reporting arrangements. We support a threshold of at least €50bn per scheme, with the ability for the European Commission to adjust the limit through a Delegated Act as needed. We would also note that in the regular regime the thresholds are €100bn of market value of DLT financial instruments.
3. **Ensure a simple and streamlined authorisation and supervision process for existing regulated credit institutions.** The authorisation requirements for existing regulated institutions (credit institutions and investment firms) to become DLT notaries and account keepers should be proportionate, risk-based, and streamlined. The new additional layers of supervision should not add additional costs or supervisory burden to participants.
4. **Broaden settlement assets and modalities,** to allow for innovation in DLT-based commercial bank money alongside the use of DLT-based central bank money. The regime should consider allowing settlement in DLT-based cash solutions beyond central bank money (e.g. e-money tokens or even traditional commercial bank money), in line with the principles of the full DLT Pilot Regime and MiCAR, to test the innovative potential of new settlement models. It should also explicitly allow Free of Payment transfer models.
5. **Enhance the competitiveness of the new settlement models beyond the functioning of current national regimes,** and allow for existing authorised actors under national regimes to benefit from EU-level eligibility and passporting. The MISP reforms should explicitly allow existing notaries and DLT account keepers authorised under national regimes (e.g. Central Account Keepers in Luxembourg, electronic securities registrars in Germany, etc.) to perform these functions at the EU level and passport across EU Member States.
6. **Remove Settlement Scheme participation limit,** which could arbitrarily limit innovation, connectivity, and interoperability for network-based settlement.

Separately, and in parallel, it is also critical for Project Appia to continue promoting interoperability and ensure that underlying networks can support safe and seamless asset transfers across one another.