

Position Paper

EU DLT Reforms – The Need to Update Capital Markets Architecture through Innovation, Connectivity, Resilience, and Competition

May 2026

EU capital markets are at a crossroads:

- Persistent concerns related to **integration, efficiency, fragmentation, lack of access, innovation and competition** in European capital markets have not been overcome in the last decade.
- Furthermore, there is an urgent need to enhance European **economic competitiveness** and **investments** to enable future European growth, security, and digital infrastructure developments.
- DLT can help Europe overcome these problems. Looking ahead, DLT could provide critical financial market infrastructure with the potential to promote **faster, better, and cheaper transactions** between SMEs, corporates, investors, and financial institutions, further **integrate economic actors** in financial markets, and provide **better access to finance** through more streamlined processes and fractionalisation opportunities.
- **Other large jurisdictions – for example USA, UK, Hong Kong, and Singapore – have launched ambitious regulatory reform** programmes to enable growth of DLT-based markets by fully leveraging the benefits of DLT and transaction processing without the centralisation of functions. Europe is starting to lag.

Ambitious action on DLT is therefore needed to ensure Europe can reap the full benefits of DLT and become competitive with other key jurisdictions.

- As EU policymakers have acknowledged, DLT offers unprecedented opportunities to address perennial challenges in European capital markets. It brings **multiple benefits** to streamline issuance processes, automate post-trade processes, reduce settlement risks, improve the resilience of the financial market architecture, and ultimately reduce costs for investors. However, we remain concerned about the ability of the Market Integration and Supervision package reforms – as proposed - to deliver on EU objectives without changes.
- AFME members play a vital role in EU capital markets, underwriting around 90% of European corporate and sovereign debt, and 85% of European listed equity capital issuances. We call on European policymakers to **enable the use of DLT as a basis for a new capital market architecture that promotes innovation, connectivity, resilience and competition**, rather than one that replicates the existing capital market architecture and its shortcomings on DLT. This is especially critical at a time when the costs of central securities depositories (CSDs) are significantly more expensive and complex than international peers.
- It is therefore not sufficient to bring the existing financial market architecture (and replicating its shortcomings) on-chain, but rather to **redesign and optimise market architecture, leveraging key benefits offered by shared (distributed) ledgers and**

Association for Financial Markets in Europe

London Office: Level 10, 20 Churchill Place, London E14 5HJ, United Kingdom T: +44 (0)20 3828 2700

Brussels Office: Rue de la Loi 82, 1040 Brussels, Belgium T: +32 (0)2 883 5540

Frankfurt Office: c/o SPACES – Regus, First Floor Reception, Große Gallusstraße 16-18, 60312, Frankfurt am Main, Germany T: +49 (0)69 710 456 660

www.afme.eu

smart contracts, and allowing for distributed, broadened, and network-based participation by SMEs, corporates, issuers, investors, and financial institutions offered by DLT.

- The proposed reforms related to DLT under the EU Market Integration and Supervision Package (MISP) need to move away from both only attracting participation by existing financial market infrastructures (FMIs) and from replicating the capital markets structure as it exists today. Therefore, **more ambition is needed to make network-based market participation possible and transactions scalable through the proposed MISP new settlement scheme model (“Settlement Scheme”)**.

Why are Settlement Schemes important?

- The design of the pre-MISP DLT Pilot Regime has failed to innovate the capital markets architecture because it replicates the existing market structure and its regulatory assumptions and does not resolve challenges on-chain. These pre-MISP DLT Pilot Regime challenges include fragmentation and a lack of competition for FMI service provision, and do not fully utilise the benefits of DLT to facilitate network-based settlement or to streamline issuance, settlement, and trading processes.
- In addition, due to persistent legal, regulatory, and commercial barriers preventing credit institutions and investment firms from becoming DLT Settlement Systems (DLT SS), Trading and Settlement Systems (DLT TSS)¹, and DLT Trading Venues², none of which have been fully resolved by the DLT PR reforms, **the DLT Pilot Regime has not been able to attract necessary participation from existing financial institutions to create the scale needed for success.**³
- We welcome the European Commission’s recognition of these challenges and the benefits of network-based settlement. The MISP proposals acknowledge the vital objective 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”. **By introducing the Settlement Scheme model, and being more ambitious, 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.**
- Settlement Schemes consist of a set of rules and procedures that would allow DLT accounts keepers (leveraging the Eurosystem’s DLT-adapted wholesale central bank money solutions) to transact and settle with each other **without the need for a single central operator mandated by regulation**, as well as use a **shared (distributed) ledger as the shared source of truth**. This model would also provide **streamlined access to finance by issuers and asset managers through their existing connections** to sell-side firms and custodians, which can serve as DLT account keepers (see *Figure 1*).

¹ In addition to the barriers identified in our submission to the European Commission (November 2024), we also note that DLT SS cannot be operated by credit institutions providing banking services that are not CSD ancillary. The same applies to investment firms / credit institutions applying for a DLT-TSS as they must comply with CSDR, even though certain CSDR exceptions apply.

² Due to MiFID restrictions on combining the operation of an OTF and a Systematic Internaliser under the same legal entity.

³ 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.

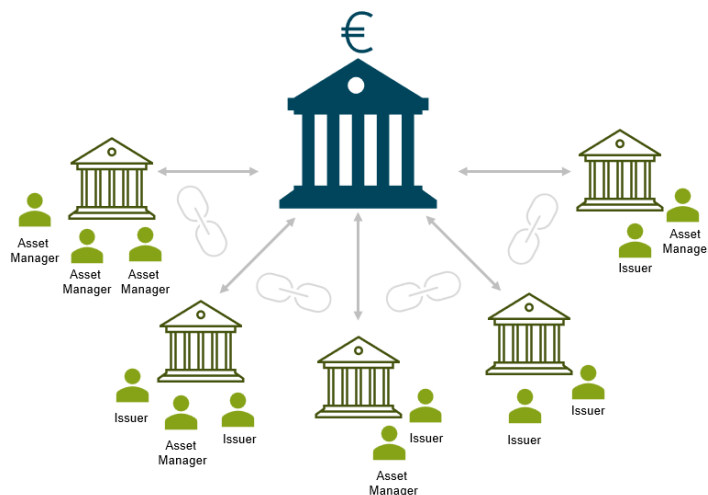


Figure 1 Settlement Scheme - Envisaged Set-Up

- Settlement Schemes can, importantly, help deliver on key EU objectives, achieve the full benefits of DLT, and create network-based capital markets by:
 - **Enhancing efficiency:** a shared ledger can help automate financial markets issuance process and corporate actions. For example, by leveraging the programmability of smart contracts, Settlement Schemes can compress the securities issuance and settlement process, automate post-trade actions, and reduce transaction costs for investors, for greater efficiency
 - **Enhancing robustness:** 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, Settlement Schemes would lower systemic risk.
 - **Enhancing competition and innovation:** unlike the centralised operator model today, Settlement Schemes would increase competition for issuance and settlement options, and ultimately drive down costs for investors by broadening the choice of service providers. Greater connectivity could also enhance liquidity and reduce liquidity balkanisation. These benefits could make market-based financing more economically viable for corporates (especially if DLT is combined with other technologies, for example AI solutions).
- While Settlement Schemes proposals are an important and beneficial foundation for achieving the full potential of DLT in capital markets, more ambition is needed to **make Settlement Schemes economically attractive** and **avoid the limited take-up among (significant) institutions observed with the existing DLT PR**. It is only through broadened institutional participation 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 Settlement Schemes 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 (see below), we believe that the Settlement Scheme proposals can broaden participation and encourage a critical mass scale of participants and transactions.**

Proposals – How to make Settlement Schemes work?

Ensure thresholds are economically viable:

- The proposed thresholds for the Settlement Scheme are too low, at €10 billion for market value of recorded DLT financial instruments per scheme.

- For a Settlement Scheme to be economically viable and fully function, 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, inter alia.
- The proposed €10 billion threshold is very similar to the current €6 billion that applies for the DLT PR. Without it changing, this will likely result in the same outcome that has befallen the DLT PR: a very limited take-up because the restrictions render investment in Settlement Schemes uneconomical. It is crucial to ensure that thresholds and regulatory compliance make it easy to scale.
- *Recommendation:* We support a threshold of at least €50 billion 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 €100 billion of market value of DLT financial instruments.

Simplify authorisation and supervision:

- DLT account keepers and notaries would require additional authorisation to perform their new roles. ESMA and national competent authorities (and the EBA, where e-money tokens are used) would be given oversight responsibility in relation to Settlement Schemes. This authorisation is more stringent than the current regime for traditional finance, which does not (at EU level) require registrar or notary functions to be authorised, and it is unclear why for DLT this would be now required.
- *Recommendations:* 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.

Broaden settlement assets and modalities:

- As proposed, settlement is limited to central bank deposits on a Delivery-versus-Payment basis. This would exclude settlement in other forms of DLT-based money (e.g. tokenised deposits, authorised EMTs) and on other bases. It would not accommodate Free of Payment settlement, which is often used in financial markets (e.g. for asset servicing, securities lending and collateral management), reducing the attractiveness of this regime for these types of activity. Again, unless there is a clear risk-based rationale for this, participants should be allowed to perform settlement in commercial bank money and on a free of payment basis.
- *Recommendations:* 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.

No less competitive than current national regimes:

In addition, the Settlement Scheme model should be no less competitive than current national regimes, and not introduce additional barriers that have already been resolved by national regimes.

Remove two schemes limit

We also disagree with the proposed restriction on Settlement Scheme participation to two schemes per participant, which could [arbitrarily] limit innovation for network-based settlement.