

Summary White Paper

“Future of the Securities Value Chain”

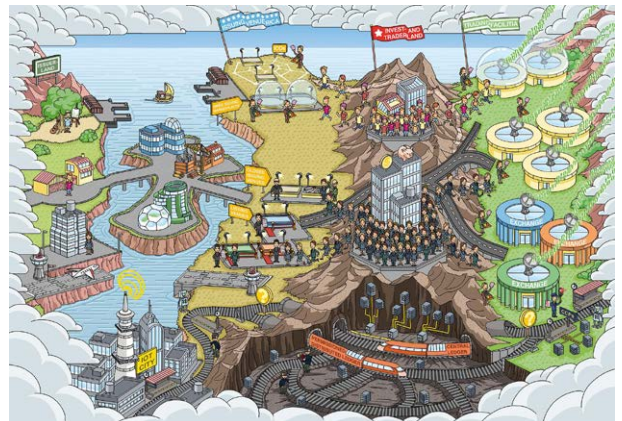
What will the stock exchange of the future look like in a rapidly changing financial world? What role will the Swiss financial center play?

SIX has drawn up a white paper summarizing eight possible scenarios for the future of the securities value chain.

An analysis of the factors indicates that value creation in the securities industry will be subject to significant change in the next five to ten years, perhaps more than in the last 20 years. At first glance, the most likely and second-most likely scenarios appear to merely describe the status quo. But this is deceptive. More careful scrutiny reveals that these scenarios involve really major changes below the surface. For example, the shift of the primary markets to easily accessible digital platforms (that enable a direct link to be forged between issuers and investors) is far removed from the status quo with its many intermediaries and lack of transparency/comparability. The explosion in the number and diversity of digitised assets is also in stark contrast to the current status quo, as is the presence of big technology companies in the value chain. Even if the white paper’s authors are not very optimistic about the domination of distributed ledgers, they will leave a noticeable impact on the value chain. This is because technology is raising people’s expectations about the scope and price of automation, for example, and fuelling their imaginations about what can be digitized (digitized assets).

The most likely scenario and the second most likely scenario are outlined briefly below. You can find more information and the other scenarios at: six-group.com/whitepaper.

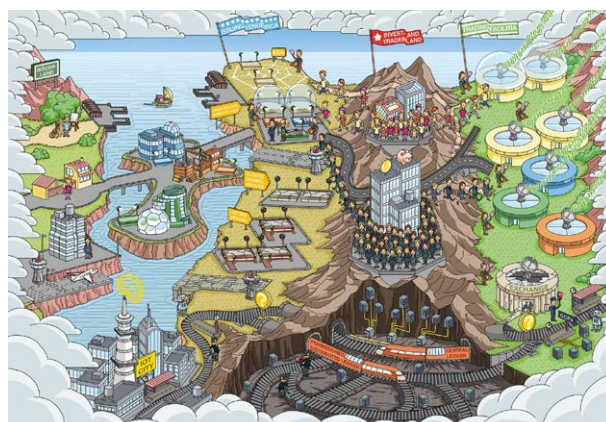
The Most Likely Scenario – Listing Survives, Intermediaries Come under Massive Pressure, Digitized Assets Boom



- Listed asset classes remain dominant, as investors continue to believe that a listing on an exchange and admission to trading are a sign of quality.
- Thanks to automation and digitization, the direct costs of the listing have fallen sharply. For example, accounting standards are fulfilled by machines; legal documents are generated automatically, and most due diligence is also done without human intervention.
- Traditional brokers and other intermediaries come under heavy pressure, as primary markets, where the securities are issued, have become directly accessible to issuers and investors – the intermediary is no longer necessary. Services such as assessments of issuers, underwriting, book-building, consulting or market-making are offered by third parties.
- The number and variety of digitized assets (digital representation of rights to real assets) literally explode. For example, investors with just two clicks can buy and trade shares in a luxury car or in a holiday home, including the usage rights. The same applies to the usage rights themselves, for example, for a specific time slot, for a private parking space or for an advertising space.

- The big technology companies operate their own issuing entities in order to boost activity in their ecosystems. A seller, for example, may issue and market shares or bonds on Amazon.
- New technologies play a major role in the securities value chain, including artificial intelligence, advanced analytics, big data, and cloud computing. In general, the level of automation has increased dramatically throughout the value chain; for example, the documents required to issue securities to the public are generated automatically.
- It is not yet clear where the IT infrastructure is heading. The big question remains whether distributed ledger technology (DLT) can replace central ledgers. What is certain is that both models can be successful only in a regulated environment with registered (permissioned) users. In all cases, however, the different ledgers communicate with each other and are therefore fully synchronized and up-to-date at all times. In addition, the ledgers do more than just record transactions, they can also contain lines of code that represent voting rights, for example.
- Permissionless distributed ledgers, such as those used to trade the crypto-currency Bitcoin, cannot prevail on a broad scale because these ledgers are based on the assumption that no trusted entities exist that are accepted as a supervisory authority. That, however, is not the case.
- Permissionless distributed ledgers and the corresponding crypto-assets are nonetheless somewhat important because they provide good opportunities to diversify a portfolio.

The Second Most Likely Scenario – the End of the Listing, Open Issuing Platforms Take Over



- The majority of investors no longer perceive a listing as a crucial feature of a security's quality. As a result, unlisted asset classes are booming.
- For issuers with digital business models, a listing involves significant costs and risks: although the listing itself is not as costly as before, indirect costs have risen significantly. This increase has resulted because digital corporations have primarily intangible assets, such as intellectual property (software), good qualified employees and R&D activities. The disclosure requirements governing the use of capital are problematic for these companies, as they must therefore reveal details about their business idea, their business model and their research.
- Open issuing platforms, on which all types of financial products can be issued, are replacing traditional listing entities.

Method

The white paper is based on an evaluation of more than 70 factors such as sustainability, the cloud, the sharing economy, unbundling, protectionism and data protection. We consider potential future trends for each of these factors and combine them to develop scenarios with varying probabilities of occurrence. The authors sum up their probabilities of occurrence after holding interviews and conferences and referring to written sources.

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