

**Dear ladies and gentlemen, dear members,**

## **The Digital Portfolio is on its Way and so is the Digital Asset Manager – Joy to the world!**

Every year, we dedicate one BAI newsletter to the main topic of digitization and digital assets. Digital change is a mega-topic, which naturally also affects all of you. It is not without reason that we have addressed this topic for more than three years in newsletters, guest contributions, panel discussions, webinars, and even BAI Insights, back when we were still able to hold them. In last year's BAI newsletter on this subject, I mentioned the German government's block chain strategy, the joint key issues paper of the Federal Ministry of Finance and the Federal Ministry of Justice on electronic securities and the regulation of crypto tokens, as well as the introduction of the new KWG definition of crypto custody. More than a year has passed since then, so the question arises: what has happened in the meantime?

Unfortunately, legislators cannot keep up with the pace of the digital world. Nevertheless, they have recognised that clear legal regulations are urgently needed in this area. On the one hand, this illustrates the economic importance of technical developments, especially through block chain or distributed ledger technology. As we all know, the development was initially driven by the cryptocurrencies, which emerged in 2009 and developed a considerable market capitalisation. The market capitalisation of Bitcoin, the most popular crypto currency, is rushing from peak to peak and amounts - on occasion - to around USD 300 billion, although it is subject to significant fluctuations as could be observed again recently. In addition to the dazzling example of Bitcoin, the entire field of crypto-assets, into which many serious investment concepts fall, is developing rapidly. More and more studies, such as Fidelity's Institutional Investors Digital Asset Survey 2020, show that this investment area is also increasingly becoming the focus of institutional investors, certainly on a global scale. By the way, you can read about how German institutional investors view crypto assets in the article "Crypto Assets: Investment obstacles under the magnifying glass" by Philipp Bunnenberg and Sven Gralla from BAI.

In addition to the investment side, the service and infrastructure aspect is no less important in the context of Blockchain & Co. A look at Luxembourg shows that the impact on the entire asset management industry is huge. Together with the Luxembourg Stock Exchange and Clearstream, various market participants have set up a DLT platform for the fund industry called FundsDLT.

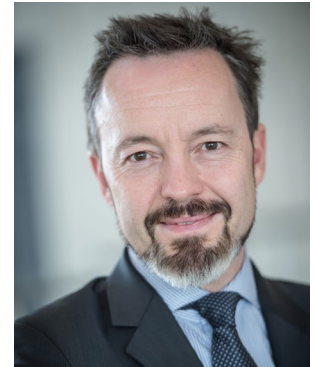
Roughly speaking, the aim is to rationalise various fund distribution activities through block chain, with the aim of automating processes in a secure fashion. The first subscription to funds via the Blockchain was already processed there in 2017!

Policymakers have also recognised that the spread of

these technologies and their possible applications is not likely to slow down and are now working hard to create an appropriate regulatory framework. In August, the long-awaited draft of a law on the introduction of electronic securities (eWpG) was finally published - on the basis of last year's key issues paper - and submitted for consultation. Only a short time later the Digital Finance Package was presented at European level, which combines various aspects that will also significantly affect the alternative investment industry.

On the one hand, this involves dealing with various digital risks (ICT risks, Information Communication Technologies), which are of course also of importance for AIFMs, i.e. independently of whether or not investments are made in cryptographic values. Corresponding specifications and requirements are contained in the Ordinance on Digital Operational Resilience for the financial sector (DORA). Correspondingly, various financial market directives, including MiFID II, UCITS, AIFMD, are to be amended via an amending directive, which will result in new requirements for risk management, e.g. for AIFMs. Equally as significant is the proposal for regulation on crypto-assets markets, Markets in Crypto-assets Regulation (MiCAR), which will provide the future regulatory and supervisory framework for different types of crypto-assets (asset-referenced tokens, electronic-money tokens, other crypto-assets (as a catch-all)) to the extent that such crypto-assets do not qualify as financial instruments under MiFID. The MiCA Regulation will supersede German law, in particular the administrative practice hitherto established by BaFin with regard to crypto-assets. Ultimately, the question is also whether and in what form business models based on crypto-assets will compete with "classic" alternative investment funds in the future.

Overall, this new supervisory regime is of particular interest not only for alternative investment funds and their investment universe, but also against the background of whether and how



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traditional assets can be digitalised in the future and how new technologies can be used in different areas of activity and processes. Of course, this new infrastructure and the services associated with it also require a supervisory framework. On the technology side, the proposed **regulation for a pilot regime for DLT-based market infrastructures** should be mentioned, which contains the requirements for MTFs and CSDs using DLT. Thus, this aspect is also of central importance for asset managers.

The key message at this point must therefore be that block chain or DLT should not be reduced to the investment theme of digital or crypto assets alone, but that the focus should be on the technological effects on the asset managers' value chain. All areas, starting with the front office (e.g. transaction execution), middle office (e.g. settlement), and back office (e.g. accounting, valuation, collateral management), through sales and legal & compliance to risk management (e.g. liquidity management) and reporting (for supervisory, investor, tax purposes, etc.), will be affected by technological change.

In a nutshell: it's not just the portfolio that is going digital, but the asset manager as well! This is one of the reasons why we are closely monitoring the aforementioned legislative projects at national and European levels and you are, as always, invited to join in the discourse!

## **BAI AIC 2021: Virtual, but Interactive – Deck the (Virtual) Halls**

In the last newsletter I had already announced that we were working on a concept for next year's AIC. To this end, we are engaged in an intensive and creative dialogue with sponsors, exhibitors, IT service providers, speakers and, of course, industry representatives and investors, so that next year's AIC will once again provide an opportunity for the professional and personal exchange that you so highly value. On this basis, we have decided to host next year's AIC purely virtually, especially in order to be able to maintain the date at the end of April. The wish on all sides was that, following the cancellation this year, AIC should take place at an early date next year, so that important investment and regulatory topics can be presented and discussed in detail. Many decision-makers have also made it clear that, despite the availability of a vaccine, face-to-face or hybrid events do not appear feasible well into next year, partly because, for reasons of caution, attendance at such events may not be permitted.

In this respect, we have already initiated a number of measures to ensure that next year we will be able to provide you not only with an exciting and interactive programme, but also with a wide range of virtual networking opportunities, which will ensure that personal exchange will not be neglected under any circumstances. You can find out more about the programme on the newly designed conference homepage.

Of course, there will also be interesting opportunities for sponsors to present themselves and contribute to a successful virtual conference.

Further information on sponsoring as well as on interaction possibilities etc. will be available in the new year in good time before the conference.

## **AIFMD Review - Santa Clause is Coming to Town**

Our BAI Infomail IX/2020 from the 12th of November, 2020 already drew attention to the regulatory final dash, once again with a large number of legislative proposals and consultations. In addition to the above-mentioned digital topics, various sustainable finance topics and the ominous Fund Jurisdiction Act, we particularly emphasised the ongoing consultations of the EU Commission on the AIFMD and ELTIF review.

After the EU Commission had previously promised a rather moderate and selective review of the AIFM Directive, this topic has gained considerable momentum, among other things due to repeated initiatives by the European Securities and Financial Market Authority ESMA. In addition to a general section on the functionality, scope, and authorisation procedure of the Directive, the consultation paper contains questions on investor protection, international aspects, financial stability including a harmonised regime for credit funds, investments in unlisted companies, sustainability and ESG, and other aspects.

In short, the AIFMD review is an ambitious project to which our members and the whole industry should devote their attention. The Fund and Market Regulation Committee already issued a first detailed call on the topic on 26 November and by the beginning of January there will be a first draft of an association positioning. As always, suggestions and proposals from members are very welcome.

## **BAI Investor Survey 2020 – What a Bright Time, It's the Right Time**

We have just completed our annual Investor Survey and will present the very informative results to you shortly. We are happy to announce that we have once again exceeded the number of participants from last year. We would therefore like to take this opportunity to thank the many institutional investors who contributed to the success of the survey. The survey benefits not only the investors themselves, but also a number of non-profit organisations, which received a donation for each participating investor. A total of EUR 2,310 was thus donated to the following institutions:

- Doctors Without Borders
- Plan International
- Viva con Agua
- World Bicycle Relief

## **BAI Workgroup for ESG Implementation - Oh Christmas Tree**

On 1 December you could not only open the first door of the Advent calendar, but also take part in the first BAI call on ESG implementation. We have deliberately separated this topic from the long-running work on ESG and the Sustainable Finance Initiative, particularly in the BAI Fund and Market Regulation Committee, and wanted to give representatives from member companies, i.e. also outside the committees, an opportunity to exchange views on ESG implementation. Much of the current and upcoming work on ESG implementation is of a process-related or operational nature, so that we would like to offer a platform to complement the regulatory discourse in the specialist committees. There not only strategic, but above all operational issues relating to ESG implementation can be discussed. Depending on demand, we also want to set up working groups on specific topics in order to involve investors in this work, as they are also affected by many of the issues. A short summary of the call from December 1st and an overview of the further planning will be available on the BAI homepage shortly. If you or any of your colleagues who are working on ESG implementation in your institution are interested in participating in this working group, please contact the BAI office.

## **Main Topic Digital Assets - Jingle Bells**

With regard to the topic of digital assets, I would like to draw your attention both to the BAI homepage as well as the section "Digital Finance" under the section "Regulation", where we present the various regulatory projects mentioned above and provide the relevant documents.

Needless to say, the specialist articles contained in this newsletter are equally informative and worth reading. They cover a wide range of highly relevant digital topics related to the asset management industry. Finally, this BAI newsletter once again features an institutional investor and I am pleased that we were able to win over our advisory board member Armin Beerwart from W&W Asset Management for an exciting interview.

Apart from informative reading, I would like to take this opportunity - also on behalf of the BAI Managing Board and the entire BAI office - to wish you a merry and healthy Christmas!

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