Presentation to the Federal Reserve (NY) Innovation Advisory Council

April 2023
### Challenges & DLT Solutions for payments & post trade

<table>
<thead>
<tr>
<th>Client Challenges</th>
<th>DLT Solutions</th>
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<tr>
<td><strong>Hierarchical access to safe settlements</strong></td>
<td><strong>Democratization of Access</strong> for R/T access and safe settlements</td>
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<td>Limited Access to centralized venues for settlements</td>
<td>Democratic access to safe settlements</td>
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<td><strong>Legacy stack with limited visibility &amp; control of risks &amp; costs</strong></td>
<td><strong>Interoperable</strong> alternatives available on secured cloud infrastructure</td>
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<td>Incompatible: Big rip and replace initiatives don’t work</td>
<td>Modernize stack with R/T visibility &amp; control to reduce risks &amp; costs</td>
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<td><strong>Batch Processing</strong> are expensive and unable to address post trade risk</td>
<td>DLTs allow <strong>Real Time</strong> visibility and control at lower costs</td>
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<td><strong>Unclear:</strong> The regulatory envelope for DLT system providers is unclear</td>
<td>DLT providers that synchronize large values seek <strong>Regulatory Clarity</strong></td>
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<td><strong>Inconsistency:</strong> Securities Settlement is more complex; so are the laws</td>
<td>Tokens can address Securities Settlement with <strong>Uniform Laws</strong></td>
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<td><strong>Neglected:</strong> No focused attention from Regulators on InfoSec</td>
<td><strong>InfoSec</strong> needs immediate attention from everyone</td>
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<td><strong>Regulatory Gaps covering DLT System Providers</strong></td>
<td><strong>Enforce regulatory regime for DLT system providers</strong></td>
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<td><strong>Payments &amp; Settlements</strong></td>
<td><strong>Post Trade &amp; Risk</strong></td>
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<tr>
<td><strong>Gaps in Regulations</strong></td>
<td><strong>Payments &amp; Settlements</strong></td>
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Baton’s DLT Architecture

Node A

AGGREGATE

ASSESS

ACTIVATE

Node B

AGGREGATE

ASSESS

ACTIVATE

Asset Exchange Venues

DLT with Asset Mobilization is key

Distributed workflows with real time shared data interoperate with existing systems

Asset Mobilization: Two way orchestration of cash and securities reduces latency and increases throughput of asset exchange

Rulebooks: Make simultaneous exchange legally binding with finality
Baton DLTs that are in production in Tier 1 Banks

Core FX
Interbank PvP Settlement of FX

1. **Aggregate** Ingest all FX trades across banks
2. **Assess**: Bi-Lateral matching of trades (where needed)
3. **Real Time Netting** (Bilateral and Multilateral)
4. **Activate**: On demand PvP Settlements with finality in 3-5 minutes with no risk
5. **Reconcile**: to books and record systems at banks

Core Collateral
Between FCM and CCPs

1. **Aggregate**: Provide COD, Margin calls, Eligibility etc in R/T from CCPs via unified API’s to FCMs.
2. **Connect**: to Custody and CSD to get R/T list of asset inventory
3. **Assess**: R/T normalized views of exposures, longs box, optimize asset movements
4. **Activate**: Orchestrate asset movements at CCPs, FCM and custody banks
5. **Reconcile**: to books and record systems at banks

Core Payments
Real Time visibility and control of all wholesale transactions

1. **Aggregate**: Ingest all cash exposures and obligations
2. **Connect**: to see client alleges and match netting values
3. **Assess**: R/T risk projections by counterparty, legal entities, etc. R/T settlement monitors for receipts
4. **Activate**: Controlled Settlements to manage liquidity – Split, PoP, PvP.

Baton settles between 20-30B of assets across cash and securities. It interoperates with existing banking systems.

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DLT: Not for all Seasons

Use Cases for DLT

• Single Source of Truth across heterogeneous systems and organizations
• Shared Workflows
• Data Lineage across workflows and transactions
• Non Repudiation between organizations when traditional flows are bilateral or multilateral without a central party

Use Cases not for DLT

• A Blockchain model where all data sits on every node.
• Data Warehouse or a Data Replication solution from a central venue to different "nodes."
• When the traditional workflow today is centralized or within one organization or legal entity - CCP, CSD, Exchange, etc
• As a better reporting tool
Thank You

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