



Zodia Custody Consultation Response

Reassessing the Case for Central Clearing
of Bonds and Repos in Australia



Context - Zodia Custody Group

Designed for institutions and corporate investors, Zodia Custody is the leading provider of institution-first digital asset custody, owned by Standard Chartered, National Australia Bank, Northern Trust and SBI Holdings Inc. With presence in the UK, EU, Singapore, Hong Kong, Japan and Australia, Zodia Custody provides client-focused innovation with leading-edge technology, applied within a framework of compliance and governance.

Zodia Custody's digital asset product capabilities include:

- private key safekeeping and wallet management
- connectivity to staking partners
- connectivity to digital asset trading venues with off-venue/off-exchange settlement through 'Zodia Interchange'

These capabilities are currently provided for digital assets which do not meet the definition of financial products. However, Zodia Custody's longer term strategic roadmap envisages broadening this support to include custody of tokenised financial products.

Zodia Custody applies a compliance-first approach and has the following registrations in place:

- Zodia Custody Limited (UK-based parent company) is registered with the United Kingdom Financial Conduct Authority with Firm Reference Number 928347 under the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (as amended) in respect of its activities in cryptoassets
- Zodia Custody (Ireland) Limited is registered with the Central Bank of Ireland with Firm Reference Number C453603 under the Criminal Justice Act 2010 to 2021 (as amended) in respect of its activities in cryptoassets. Zodia Custody (Ireland) Limited is also supervised by Grand Duchy of Luxembourg Commission de Surveillance Secteur Financier (CSSF) in accordance with the AML/CFT Law dated 12 November 2004, under the reference number @00000010. It is in the process of MiCA authorisation with the CSSF in Luxembourg.
- Zodia Custody (Hong Kong) Limited is registered with the Registry for Trust and Company Service Providers with License Number TC009245 under the Anti-Money Laundering and Counter-Terrorist Financing Ordinance (AMLO), Cap. 615 in respect of its custodial activities in digital assets.
- Zodia Custody (Singapore) Pte Ltd has been granted an exemption from holding a license under the Payment Services Act 2019 ("PS Act"). It has submitted its application for a Major Payments Institution license following the amendment of the PS Act and Transitional Regulations announced mid-2024.
- Zodia Custody Australia, the fully owned subsidiary of Zodia Custody headquartered in Sydney, was launched in October 2023.

Consultation Responses

Zodia Custody Australia welcomes the proposal paper and appreciates the opportunity to provide a submission to the Reserve Bank of Australia. Zodia Custody Australia ("ZA") has provided responses in this document to the consultation questions that are most relevant to our institutional digital asset services, including those in our product roadmap. We would welcome the opportunity to discuss any aspects of our responses further.



Costs and benefits

- 1. Have the potential benefits of central clearing the Australian bond and repo markets increased in recent years? What costs/benefits do you view as being the most relevant for consideration of central clearing in the Australian bond and repo markets?**

Whilst Zodia Custody does not currently provide support for financial products, we see benefit in the introduction of a central clearing facility in the Australian bond and repo markets given a shift in settlement practices and an increase in the global connectivity and size of the bond and repo market.

We have outlined our experience below in the digital assets space as further context:

- Currently, in a maturing digital asset ecosystem, participants rely on trading venues to execute settlement in a bilateral manner, leading to counter party risk, inefficiencies and hesitation for significant institutional involvement in the digital assets ecosystem given the lack of crucial infrastructure.
- Zodia Custody (and other custodians) have therefore developed integrations with vetted digital asset trading venues to allow clients' digital assets to be held with the custodian off the trading venue whilst clients trade on the venue itself. The intention is to provide a more secure mechanism for institutional clients wishing to trade digital assets whilst their assets are kept in a 'cold' or offline environment off the trading venue or exchange. This product, known as 'Zodia Interchange', is seen as the first step in maturing digital asset trading infrastructure.
- As the digital asset ecosystem matures, we have seen demand in the UK and other financial hubs to introduce regulated clearing infrastructure to support in driving the next stage of growth in the digital asset market. This type of infrastructure mitigates bilateral counterparty risk for settlement, financing and derivative transactions. As a custodian playing a core role in the settlement lifecycle, Zodia Custody is supporting initiatives such as [ClearToken](#), which is an entity working with the Bank of England to establish itself as the first horizontal clearing house of the digital asset market.

Participation and Viability

- 3. Under what conditions would you participate in a bond and repo CCP if there was one servicing the Australian market?**

Whilst this is not currently relevant considering the scope of digital assets that Zodia Custody provides services for, in the longer term, Zodia Custody would participate in a bond and repo CCP in the Australian market if it was commercially viable to do so and if these financial products were in a tokenized form (following regulatory authorization and licensing). We would welcome involvement in any sandbox initiative if this is envisioned for the future.



Location

9. Some other major jurisdictions have CCPs operating bond and repo clearing services in their domestic markets. What are your views on an overseas operator providing clearing services for the Australian bond and repo markets?

Establishing a new CCP requires significant effort, investment and experience. If regulators are able to exercise effective oversight over the activities of an overseas operator through a licensing regime, we see benefits for an existing overseas operator providing clearing services for the Australian bond and repo markets. We hold the same view considering tokenized bonds and repos as well.