THE INFLUENCERS:
DIGITAL TRANSFORMATION

TRANSCRIPT
Katey Neate

Leo Von Gerlach (00:01:18)	Hello everybody and welcome to another edition of The Influencers podcast, and our conversation on digital transformation and law. I'm Leo Von Gerlach and with me today is Katey Neate. Katey is managing Director and Chief Operating Officer for digital assets at the Bank of New York Mellon. During her long tenure at BNY Mellon, Katey has served in many positions, including as Chief Risk Officer, security servicing and digital. Katey has just been appointed to the board of CIBC Mellon, which is responsible for certain institutional investments. So Katey, first of all, congratulations to your recent board appointment. That is certainly a very exciting position and I think it somehow combines the world of digital finance, digital assets on the one side with the more traditional things of investment. So perhaps we go a little bit back into your career at BNY Mellon and you tell us what brought you into the world of digital finance and then more specifically digital assets?
Katey Neate (00:03:13)	Yes, of course. Well, thank you for having me first of all, it's great to be here. I think my career is atypical of people in the digital asset space but certainly not unique and one of the things that brought me to digital assets is that I grew up in operations and in client-facing roles and product roles around the organization before moving into risk management for the last ten years or so. All of those roles gave me a great vantage point on where the pain points are in our industry and for our clients seeing through the lens of BNY Mellon who has got products and services for our clients from global custody, to fund services, to FX, to investment management. They all rely on processes and technology that was put in place 20, 30,40, even 50 years ago and that means they're not all fit for purpose in the modern age, and it was through my risk manager's vantage point that I saw quite how many of those pain points led to errors, led to issues for our clients, and led to delays across the industry, that were very frustrating. So fast forward a few years when I got the opportunity to become a chief risk officer for our security, servicing and digital business. Security servicing is what I know and love and I've grown up doing that but it was the un-digital part of it that really caught my attention, and for me as a risk manager as nobody was really talking about the risks of the transition into a digital asset age. We were focused a lot on the opportunities, less on the threats, but nobody was really talking about how to manage the risk associated with that so I saw a great opportunity and in that role I was able to then develop the risk frameworks around, not just our digital assets business but also how we think about AI and machine learning and how we think about investing in early stage and Fintechs in particular. So it really was an opportunity to take everything I've learned over the previous 18 or so years and apply it to a new world.

Leo Von Gerlach (00:03:39)	That makes so much sense and speaking about risk, I think the markets and we all have learned a little bit of the risks during the last two years or so and now bringing all that knowledge into your role as Chief Operating Officer, that's basically a much broader responsibility and certainly you have defined your focus on what you find really relevant to pay your attention to.
Katey Neate (00:05:12)	Yeah, it's a great opportunity to make things up as we go along and to figure out where I need to lean on the side of the ship according to which way the wind is blowing. There are some things that are, you know, pertinent to any business and so I'm responsible for our strategy and for how we engage with our regulators globally but the great thing about the digital asset space is that there are no rules really yet, so we get to engage much more on the policy and advocacy side of things in all the jurisdictions in which we operate. As I talked about earlier, we get to create the risk frameworks and we're not starting from scratch there, we're really taking what we do as a global significantly important bank and bringing that to bear for a new asset class, so my team are responsible for that. The other thing I feel really strongly about and one of the reasons I went into this role is developing talent in this space. Those of us who are coming to this in the middle or later parts of our careers have the benefit of understanding the pain points as I talked about but there's a whole new crop of talent coming through whether that's fresh graduates or people who've been in the industry for a while, who don't know those pain points and it will rarely ever work in an environment where digital assets are the norm so it's fantastic to be able to bring together the experienced financial services professionals with new entrance into the market, whether they come from the financial services background or technology or any other medium.
Leo Von Gerlach (00:05:54)	Well, so much I mean, this kind of emerging world of combining new risks with opportunities and just infusing young people coming into the profession and just being really excited to produce something new. Well, that, I think, raises the question where this train is actually heading and there has been so much, I mean directional changes over the last couple of months. What's your take, where we just go and what the direction will be just in the month and perhaps even the years to come?
Katey Neate (00:07:18)	Yeah, it's that time of year, isn't it, where we all get our crystal balls out but I think there's one thing I can tell you that won't happen this year and that will be another proliferation of proofs of concept. Yeah, we saw a lot of those things springing up around the industry over the last couple of years and if I've heard one thing over the last few weeks, it's we can't do anymore proof of concept, we've got to really bring this to life and get it moving, so while there's been some fantastic experimentation done and we've certainly done our own fair share, it's time now we as an industry came together, figure out what's worked over the last few months and years and then take it forward and really kind of institutionalize it. So that means agreeing on things like interoperability and how we work as an industry across multiple different protocols, across borders. It means using things like the digital security sandbox here in the UK or the equivalents in Europe and other jurisdictions to bring genuinely new things to market, and it means doubling down on some of those investments we've made over the last couple of years on technology. So in the case of BNY Mellon, we're really focused on tokenization initiatives. We've seen some really great use cases there, especially in the fund space,

	very topical here in the UK but also, you know I was in Ireland last week and been in other jurisdictions recently as well. I really see the funds space and the digitization of funds and their underlying assets as the next real frontier for us.
Leo Von Gerlach (00:07:47)	Well, that's fully echoing what you hear everywhere in technologies, the new technologies just really need to prove their money. They need to have some return on investment, they really need to go down to business and the whole world of digital assets is a very broad one. Where would you see specific potential in turning something into a profitable business and perhaps even the business that you can scale overtime?
Katey Neate (00:09:09)	Yeah, that's I think that's something we've all been grappling with. This time a few years ago, we were talking about a lot about real world assets and the ability to tokenise at the less liquid end of the market. I've been quite surprised to see the instruments like money market funds, for example, have come to the fore in terms of tokenization, which is great. Certainly the interest rate environment is helping to drive that demand and we see that investor demand both in the US and in Europe, so I think we'll continue to see tokenization of those types of funds and their equivalent globally. The other area I think we'll see increasing demand is extending our existing products to service digital assets. So I don't think we can get through this podcast without mentioning the ETFs that were approved in the US. There's clearly pent up investor demand for those types of assets but for us at BNY Mellon, that means taking our existing services, you know we service thousands of ETFs in the market all day, every day and applying that to a new asset class, so I see that developing this year as well. Where I'd really like to go to though is that we are talking about some of those more illiquid assets and the real benefits of democratization of investment don't really come until we can open up some of those more illiquid things. So I'm looking forward to getting the liquid end of the market tokenized and up and running, and then we can start looking at some of those more esoteric assets in the future.
Leo Von Gerlach (00:09:36)	So there are really many different aspects in what you just said and I would like to come back to a couple of points you made but just stay for real world assets and illiquid assets that you mentioned towards the end. Real estate would be one example, there's a lot of talk about tokenizing real estate assets, whether do you see the challenges, where you see the problems, where do you see the potential?
Katey Neate (00:10:51)	I think anyone who has bought or sold a property in the UK recently will recognize the inefficiencies with the current system but it's some of those underlying inefficiencies in the local systems that I think have to be digitized before we can really start talking about all of that activity moving on chain. So you know, some jurisdictions have really made good strides there and taking their Land Registries, for example into the 21st century at least, but there's still work to do in in digitizing the underlying ingredients that will go to formally digitized real estate funds, for example, in the future. So I see that as one of the key barriers and we've also got to see the investor demand back to our earlier question. We've also got to see the investor demand to really justify people putting money behind the development and the creation of these funds. One of the interesting areas I think for real world assets and real estate and infrastructure for example, is as economies diversify and look

	to shift their investment profile and you've got different types of demographic coming to the investment space as well. You've got different family offices and high net worth individuals with different investment demands, you might start to see some of that demand picking up for those real world assets and therefore the opportunity to fractionalize through tokenization and becomes more appealing.
Leo Von Gerlach (00:11:28)	Very interesting, but let me just go back one more time to what you said earlier about the ETF approval for Bitcoin ETFs by the SEC, that is the Securities and Exchange Commission and the bodies that oversee the capital market over there. Do you see this as a transformational moment getting more institutional money, traditional money into digital assets in the broader sense and just promoting this whole idea of a new asset class more broadly to new type of investors?
Katey Neate (00:12:19)	Yes, in a word. I think it's a big moment for our industry. Is it truly transformational or are we seeing just an unleashing of some pent up demand that was sitting there, I think only time will tell. The encouraging thing is it's in a regulated vehicle that BNY Mellon and our peers can already service today. We can do that using the same risk management framework, the same tried and true processes, contracts, legal structures, all of those things that we do today and I think that gives a lot of comfort to people looking to access this new asset class. I do think it's evidence of a maturing of the market and a maturing of people’s appetite, certainly institutional investor appetite and given that we at BNY Mellon has brought in six out of the 11 ETS that have come to market and servicing their funds, it's certainly a good thing for us in being able to provide that capacity to the industry.
Leo Von Gerlach (00:12:44)	Staying for one more time with that intriguing topic, you said that's kind of an indication of a maturing market but isn't that also a challenge for a just investment product for the young people that tries to be a little bit rebellious, just outside the norm, so isn't it also a challenge to combine these two different perspectives into one point?
Katey Neate (00:14:07)	I think our role in providing services to this space is to enable people to access what they want exposure to in a safe and sound way and we've been doing that for many years, supporting innovation in the ETF space, for example, even with the Gold ETF many moons ago. So I wouldn't say regardless of what people want access to but certainly it's our duty where we have demand from our clients to help support that innovation in a responsible way. I think with the availability of being able to trade these types of instruments around the clock, putting the ETF structures to one side, it does change the profile of the kind of people who want to invest and I think that's a good thing in opening up access to financial services to more and more people worldwide. Doing that in a responsible and regulated part of the industry means that we can apply, as I said, the same kind of safeguards that we apply in the traditional space to these new asset classes, which hopefully gives people comfort as they come into the market.
Leo Von Gerlach (00:14:19)	So that's very useful just to put a marker down, I think we totally agree and understand from what you're saying, the digital assets are terrific for investment purposes but just changing gears slightly, how do you see the capability of digital assets to also serve as a kind of money, e-money

	replacement for money to any type of means of exchange that supports e-commerce so that other function would be also be in a position in the nearer term future to see more of that?
Katey Neate (00:15:24)	I think there's a few hurdles we've got to clear first, some very practical things, but yes, ultimately the ability to create an asset in tokenized form and then move it around and do the things that you want to be able to do with it, opens up whole new possibilities. The kind of hurdles I'm thinking of though are very practical. So if you take the ability to move the security on chain and move its store of value from place A to place B that's great but that can only happen what we call atomically so instantaneously if the cash can move at exactly the same time and for now, until we've got either Central Bank digital currencies or tokenized deposits, or regulated stable coins, we still have the inefficiency of the cash and the securities having to move separately. So whilst I would love to see a world where those kind of stores of value can be moved and affect those transactions and solve for some of those operational pain points that I talked about at the beginning of this conversation, we've still got that knot of cash to solve for.
Leo Von Gerlach (00:16:03)	Yeah, fully understood and on that way we probably see also a lot of technical issues like scaling up things and just making this really suitable for a trillion transaction market that we see every day. Very, very interesting but let's perhaps widen the horizon from here and ask the question, what does it take for a broader acceptance of digital assets so that in addition to a high suitability for certain purposes, a high acceptance among an ever growing number of customers and consumers?
Katey Neate (00:17:37)	I think you just touched on one of the key ones fairly and that's the technology keeping up with the demands of scale. So you know, some of the volumes and values that we at BNY Mellon service every day, it's 47 trillion of assets under custody, 100 of markets, $2.5 trillion worth of payments cleared and settled everyday. That's a lot and that's just at BNY Mellon, So for this technology to catch up and be able to fully replace all of those things that we do today, we've got a while to go. So technology and the advancement of the technology is one thing and trust. We talk a lot about trust in this space and I think a period of stability in the digital assets marketplace is to be welcomed, having a level playing field, a regulatory environment where banks like BNY Mellon and our global peers can operate on a level playing field with the syntax and the new entrance to the market is key. Key for trusting the industry and key that people can trust that the same principles that we apply to traditional assets can be applied to digital assets as well. And then really, those kind of killer use cases have really got to be brought into something that makes a difference for the man in the street as it were and I talked a lot about funds at the start of our conversation. Once we start seeing the benefit to the underlying investor of efficiency and the way funds are transacted by way of, for example, reduced transaction fees or reduced custody fees, I think that's when we'll really start to see appetite picking up because it will be incumbent on issuers and arrangers to seek out those good solutions so that they can offer the best possible product to their underlying clients.
Leon Von Gerlach	So trust is undoubtedly extremely important, as is regulatory and legislative certainty. Is there any specific message that you would have for the legislature, either in the UK or more broadly, what would it take to get that

(00:18:06)	higher level of certainty and reassurance, and perhaps more broadly, what should lawyers be doing to do their share and have their share in just promoting that further?
Katey Neate (00:19:17)	As I said, a level playing field is key for us and being able to apply the same principles that we apply, whether that's around operational resilience, financial resilience, cyber security, operational risk management, you name it. If we can take it from our traditional services, augment it where we need to for digital assets and then apply it to the new world that's the best possible outcome in terms of regulation for us. So whether it's in the UK or elsewhere or the issue is that we regulate the asset, not the technology, that the asset is delivered through and that we regulate the activity that we're doing. My call to regulators is really keep collaborating with industry in the UK, we're very lucky that we've got an extremely collaborative set of agencies who will seek opinions from industry and we're happy to share our kind of use cases and what we're hearing in the market and I'm seeing the same around Europe and in Asia as well. This is one part of the industry where we are very open about what the kind of use cases are and the opportunities because there are so many pain points that we can solve for between the various participants. So keep collaborating and really focus on taking the best bits of our existing regulatory regimes and applying it to this new asset class.
Leo Von Gerlach (00:19:39)	That's a very strong message and I would actually like to end on it and I would like to thank you so much for that most insightful conversation, Katey. It has been really a pleasure and thank you everybody for listening in and I hope you will join us soon again for the next edition of The Influencers, so stay tuned, take care and goodbye.