

## **BX DIGITAL: THE FIRST DLT TRADING FACILITY IN SWITZERLAND**

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BX Digital AG received the first license from FINMA to operate a DLT trading facility on 12 March 2025. It is also the first financial market infrastructure for the trading and settlement of DLT securities based on a public permissionless blockchain.

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### **1) DLT trading facility**

On 1 February and 1 August 2021, the so-called DLT Act came into force in two stages. This legislation introduced selective amendments to ten existing laws and ordinances, aiming to position Switzerland as a leading and innovative hub for blockchain and distributed ledger technology (DLT) in the future. Key amendments concerned securities law with the introduction of ledger-based securities (article 973d et seqq. of the Code of Obligations (CO)), the introduction of rules on the treatment of crypto-based assets in bankruptcy (article 242a of the Debt Enforcement and Bankruptcy Act) and the creation of a new licensing category for DLT trading facilities (article 73a et seqq. of the Financial Market Infrastructure Act (FinMIA)).

The DLT trading facility is the first financial market infrastructure that integrally enables both multilateral trading and post-trading with central custody (article 73a(1)(b) FinMIA) as well as the clearing and settlement of digital assets (article 73a(1)(c) FinMIA). Another novelty of the DLT trading facility is the possibility of providing financial market infrastructure services directly to private clients for the first time (article 73a(1)(a) FinMIA). In addition to trading, DLT trading facilities must offer at least one other of the three aforementioned service categories.

The DLT trading facility has created the ideal conditions for a regulated secondary market for digital assets.

### **2) BX Digital**

#### **a) Licensing**

BX Digital received the first license from FINMA as a DLT trading facility on 12 March 2025. The license became legally effective on 14 May 2025 after all of FINMA's conditions had been met in full. Since then, preparations for operations have been underway, particularly with regard to the admission procedures for trading participants and issuers. Operations are expected to commence in Q4 2025.

BX Digital was initiated by its sister company, the stock exchange BX Swiss AG. Both companies are part of *Gruppe Börse Stuttgart*, the sixth largest stock exchange group in Europe.

## b) Services offered

In addition to facilitating multilateral trading, BX Digital also settles trading transactions concluded through its platform. Participation in the DLT trading facility is reserved for regulated entities (including securities firms, other entities supervised by FINMA or foreign authorities). DLT securities are eligible for admission, i.e. Swiss ledger-based securities pursuant to article 973d CO on the one hand and foreign uncertificated securities on the other, provided they meet the minimum requirements of Swiss law (so-called **other uncertificated securities**, see article 2(b<sup>bis</sup>) FinMIA).

BX Digital has dedicated segments for equity securities, bonds, derivatives and ETPs. The offering will be expanded on an ongoing basis, for example to include collective investment schemes or so-called **other assets** (article 73d(2) FinMIA). Other assets are digital assets that are not (DLT) securities (e.g. digital assets that represent an ownership claim to fungible assets).

## c) Settlement

While trading on BX Digital takes place off-chain, i.e. using a traditional trading system, trades are settled using a combination of existing banking processes for the cash leg and blockchain-based processes for the securities leg.

- i) **Securities leg:** Once a trade has been concluded in the trading system, it transmits a settlement instruction to an off-chain component of the settlement system (**settlement converter**). This component converts the incoming data into the standardized target format and transmits the transaction data to another off-chain component of the settlement system (**trade payment oracle**). The trade payment oracle prepares the settlement and calls up the necessary functions in the delivery versus payment (DvP) smart contract (**DvP smart contract**). The DvP smart contract forms the core of the settlement system, executing the blockchain-based part of the securities settlement process via the Ethereum blockchain.

After receiving the settlement instruction from the trade payment oracle, the DvP smart contract retrieves the DLT securities from the seller's wallet and transfers them to the address of the DvP smart contract. For this process, the seller must first approve the DLT securities to be transferred for access by the DvP smart contract (**allowance function**). Once the DLT securities have been transferred to the address of the DvP smart contract, they are blocked there for the duration of settlement and can no longer be transferred back by the seller (clause 5.3 Settlement Rules of BX Digital).

- ii) **Cash leg:** The DvP smart contract then initiates a payment instruction to settle the cash side. An off-chain payment module is used as a bridge between the Ethereum blockchain and the **SIC payment system** of the Swiss National Bank (SNB). The payment module monitors the DvP smart contract on the blockchain for possible transaction signals from DLT securities. After receiving a transaction signal, the payment module uses the information received for a specific transaction and compares it with its internal database. The payment module only registers payment orders that contain information that matches the existing

information in its database (BIC, participant name). Similarly, the DvP smart contract only accepts settlement instructions with Ethereum addresses that match those in a database maintained by BX Digital (**allowlisting**). If the data matches, the payment module creates an ISO 20022-compliant payment message and sends it to the SIC system via an API interface.

BX Digital has been admitted by the SNB as a **third-party system operator of the SIC payment system**. As such, it can initiate Swiss franc (CHF) payments from participants' sight deposit accounts to sight deposit accounts of other participants within the SIC system (**trigger solution**). Participants must give their consent in advance.

Securities and cash settlements occur immediately and on a gross basis after a technically parameterized delay to ensure transaction finality on the blockchain. A settlement deadline of T+0 (Intended Settlement Date, ISD; clause 9.3 Settlement Rules of BX Digital) applies to all trades, which ends at 23:59:59 CET on the trade date.

From a legal perspective, settlement is structured in such a way that **counterparty risk** can be excluded. Once the DLT securities in the DvP smart contract are blocked, BX Digital holds them with direct dependent power of disposal (similar to direct dependent possession of objects) and with limited right of disposal for the seller, who has indirect independent power of disposal (similar to indirect independent possession of objects) and unrestricted right of disposal (similar to ownership of objects). After transferring the cash payment to the seller's sight deposit account in the SIC system, BX Digital simultaneously (**step by step**) no longer holds the DLT securities for the seller, but now for the buyer, who holds the indirect independent power of disposal and the unrestricted right of disposal.

The DLT securities temporarily held in the DvP smart contract are **segregable custody assets** pursuant to article 88 (1) FinMIA and articles 37d and 16 Banking Act and will be segregated in the event of a bankruptcy of BX Digital either in favor of the seller or the buyer, depending on the status of the settlement. BX Digital does not acquire the unrestricted right of disposal (similar to ownership) of the DLT securities at any time during the liquidation period.

#### d) Admission and maintaining admission

The provisions governing the admission of issuers and DLT securities, as well as the obligations to maintain admission, are set out in BX Digital's self-regulatory rules, which have been approved by FINMA. The admission rules follow a **modular approach**:

- i) **Admission Rules (AR)**: These regulate the general requirements for the admission and maintaining admission for all segments.
- ii) **Additional Rules**: These specify the Admission Rules on a segment-specific basis.
- iii) **Directive on the Procedure**: This regulates the general procedure-specific requirements for all segments.

- iv) **Annexes to the Directive on the Procedure:** The annexes specify the general procedure-specific requirements for each segment.

In addition to the common requirements for admission and maintaining admission for regulated trading venues, there are **also additional requirements under securities law and technology-related requirements**, in particular the following:

- i) **DLT securities:** Only DLT securities (ledger-based securities, other uncertificated securities) may be admitted to trading on BX Digital (clause 5.1 AR).
- ii) **Numerus clausus of admissible DLT networks:** DLT securities must be issued on the Ethereum blockchain using a token standard that is compatible with the Ethereum blockchain (usually ERC-20) (clause 5.2 AR in conjunction with List of technical compatibility criteria and recognised tokenization standards for DLT securities).
- iii) **Extended issuer declaration:** The issuer declaration contains various securities law and technology-related requirements, such as that the DLT securities have been created in accordance with applicable legal and regulatory provisions (see clause 6.1 AR). The declaration must be repeated annually by the issuer (clause 6.3 AR).
- iv) **Evidence:** The issuer must provide evidence of the validity of the DLT securities (clause 6.2 AR). The evidence must be provided by a competent person. For this purpose, BX Digital provides standardized legal opinion templates for the proof of ledger-based securities within the meaning of article 973d CO. BX Digital may refer to recognized standards and their certifications for the proof (clause 6.4 AR). Two standards of *The Capital Markets and Technology Association (CMTA)* are currently recognized: the *Standard for the tokenization of debt instruments using distributed ledger technology (Debt Standard;* as of 26 May 2025) and the *Standard for the tokenization of shares of Swiss corporations using the distributed ledger technology (Equity Standard;* as of 12 September 2024) (see List of technical compatibility criteria and recognised tokenization standards for DLT securities of BX Digital).

Evidence must be provided annually. Alternatively, confirmation of the continued validity of the initial evidence may be provided (clause 6.3 AR).

- v) **Regular reporting obligations:** There are specific reporting obligations in connection with the distributed electronic register, for example in the event of a change in the smart contract used for the issuance of DLT securities (see section Reporting obligations in connection with the distributed electronic register in the Directive on Regular Reporting Obligations).
- vi) **Duty to cooperate:** If a recognized DLT network (infrastructure layer) no longer meets the requirements pursuant to article 973d (2) CO or if a fork is imminent or appears likely in the future, the issuer has certain duties to cooperate in order to maintain or restore the lawful status (clauses 5.3 and 18 AR).

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