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Blockchain Beyond the Hype: Embracing Disruption

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> *Blockchain has become one of the most hyped technologies in decades. But distributed ledgers may not be the solution to every problem, and key challenges with the technology will need to be overcome before it can be widely adopted or considered enterprise-ready. And the lack of coordination among industry participants could result in a new jumbled, disconnected maze of distributed ledger silos based on different standards and with significant reconciliation challenges.*

The emergence of the Bitcoin payment network and its associated ecosystem of blockchains, sidechains and altchains has been described as a disruptive force in financial services. This new platform has captured the imagination of the industry and become one of the most hyped technologies in decades for its potential to modernize the post-trade ecosystem.

At DTCC, we are excited by this once-in-a-generation opportunity to reimagine the financial infrastructure to address long-standing operational challenges. While the current system provides the stability, reliability and certainty that ensure global markets are efficient, transparent and cost effective, distributed ledgers hold the potential to streamline and simplify today's siloed design and improve processes in certain defined areas where automation is limited or non-existent and where the technology provides a clear benefit over the existing approach.

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However, based on our extensive research over the past year, as well our expertise as an industry-owned and governed financial market utility with more than 40 years of experience, we recognize that distributed ledgers may not be the solution to every problem. In some cases, alternative opportunities may exist to lower the costs and risks with the current infrastructure through standardized industry workflows and expanded use of cloud technologies. In addition, key challenges with the platform will need to be overcome before it can be widely adopted or considered enterprise-ready.

These are just some of the issues that must be addressed in the years ahead, but the most immediate one is the lack of coordination among industry participants – a point of concern because the current path could result in a new jumbled, disconnected maze of distributed ledger silos based on different standards and with significant reconciliation challenges. To avoid this, the industry should engage in a collaborative rearchitecture of core processes and practices to ensure standardization.

We believe the existing, regulated and trusted central authorities can help play a leading role in introducing the standards, governance and technology to support distributed ledger implementations. In addition, these organizations should work in partnership with the industry and its supervising regulators to ensure that new opportunities are in the best interests of post-trade processing and consistent with long-standing goals of mitigating risk, enhancing efficiencies and driving cost efficiencies for market participants.

In the frenzy and whirlwind of multiple and competing bets being placed today, the industry needs a coordinated effort to develop the right architecture, prioritize the infrastructure building blocks, and support focused and collaborative experiments to help the technology mature. That is the surest way to turn the hype into reality.

To learn more about the opportunities and challenges of leveraging blockchain technology in financial services, please download the DTCC's latest paper, "Embracing Disruption – Tapping the Potential of Distributed Ledgers to Improve the Post-Trade Landscape."