

Public blockchains gaining acceptance at Bank of Japan's Payment and Settlement Forum

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A summary of the Bank of Japan Forum on Payment and Settlement systems, released (https://www.boj.or.jp/en/announcements/release_2016/index.htm/) on Friday, revealed that public blockchains were discussed in a positive light. Banks and financial institutions typically focus on projects using private blockchains, where a greater amount of privacy and control can be held by the issuer. Their public counterparts, such as Bitcoin's blockchain, are usually sidelined.

The Bank of Japan (BoJ) Forum was held on March 17 and 18, with 49 companies and organizations participating on the first day and 45 on the second. Kenji Hoki, a Senior manager at one of Japan's leading audit corporations with approximately 5,600 professionals, KPMG AZSA LLC (https://home.kpmg.com/jp/en/home/about/azsa.html), delivered the opening presentation.

twitter Using the term Distributed Ledger Technologies (DLTs) in place of blockchains, Hoki discussed the merits of "private-type" versus "public-type." According to Hoki, private would be the "only feasible choice" for security and settlement, adding that public would be "a bit too costly and takes too much time in finalizing the settlement." While claiming that public DLTs are suitable for retail payments, it would be difficult to judge which is better for fund settlements, he argued.

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Public-type DLTs would be suitable especially for retail payments with huge volume and standardized procedures. Nonetheless, it would be necessary to overcome the possible flaws in public-type DLTs such as lengthy process of 'mining' that could hinder real-time settlements."

- Kenji Hoki, KPMG AZSA Senior Manager

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Sugii also discussed digital currency usage and credit card payments, highlighting obstacles from both the direction of credit card payment infrastructure as well as customers: "I do not think that [card payment companies] are very willing to invest in new infrastructure unless the direction of future settlement measures is clearly seen." On the other hand, the CEO states that consumers will not be willing to switch to the settlement measures that are not accepted by many stores.

The discussions on March 17 ended with closing remarks from the Assistant Director-General of BOJ Monetary Affairs. Shuji Kobayakawa briefly summarized the points of discussions, as well as offering the Bank's view.

"If such technology that allows real-time validation is used, consideration will be promoted in the future not only on administrative work of issuance and custody of securities more efficient, but also on possibility of simultaneous settlement of securities and funds," Kobayakawa said, adding it's "essential to promote standardization and commonalization of technologies as well as to improve externality of the network."

The second day of the Forum discussion, March 18, started with presentations on the current state of the Japanese financial system. The fourth presentation for the day returned to the subject of blockchain, when Deloitte Touche Tohmatsu LLC Senior Manager, Taketoshi Mori, gave his presentation.

Asserting that blockchain technology made a non-centralized system possible, with "real-time and low-cost settlement with improved accuracy in transaction handling and reduced transaction risks," Mori cautioned that "major changes are required."

Mori explained that numerous issues are likely to emerge, such as different securities laws in different countries and "supervisory power on browsing of the books." To that end, he highlighted the necessity of "demonstration experiments with relevant parties."

The Senior Manager also rekindled the subject of public versus private blockchains. After acknowledging the efficiency and cost reduction of private blockchains, he added "this may overshadow the advantages of the public-type."

"If the private-type blockchain is excessively sought after, it is true that the advantages of the public-type blockchain, such as Bitcoin, may be lost. I think it is sufficient to select the public, private or hybrid types according to the use."

- Taketoshi Mori, Deloitte Touche Tohmatsu LLC Senior Manager

Mori proceeded to describe his vision of an "ideal settlement system," where "transactions are settled on an RTGS (real-time gross settlement) and DVP basis and central banks cooperate across the border to completely eliminate the settlement risk." He added that blockchain technology makes this future feasible.

"I do not think it necessary to replace everything with the blockchain, such as exception handling of securities transactions," Mori states. The Senior Manager referenced the Australian Securities Exchange (ASX), an entity in the process of reviewing everything from laws and regulations to market practices in contemplating of using blockchain technology to replace existing systems.

ASX recently announced (news/major-stock-exchange-completes-blockchain-trial-for-replacement-settlement-system/) that it has completed a successful blockchain prototype that could replace its existing settlement system, CHESS. The company is currently working with Blythe Masters' Digital Asset Holdings to develop a settlement system that could potentially handle all of the Exchange's transactions.

Following Mori's presentation were the closing remarks from BOJ Director-General, Hiromi Yamaoka. He summed up the points raised by the participants and gave the Bank's view as well as a possible course of action.

"Blockchain and distributed ledger technologies try to enable a system free from an entrusted third party to manage a centralized ledger." In applying those technologies to various practices, it would be important to examine to what extent the current institutional framework such as legal systems are based on the concept of a "centralized ledger managed by an entrusted third party," and whether we need to modify those traditional framework so as to apply new technologies to the real world."

- Hiromi Yamaoka , BOJ Director-General

After acknowledging the benefits of and hurdles in applying blockchain technologies, Yamaoka asserted that the BOJ confirmed its commitment to maximize the benefit of financial innovations.

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Citing the work at the new BOJ's FinTech Center, he said the Bank will "enhance its research and analysis activities as well as public relations regarding financial innovations and relevant new technologies." Furthermore, it is important to have interactive communications with a wide range of economic entities including non-banks and startups. His closing remark was "The Bank of Japan is ready to play the role of 'catalyst' of those communications, and to make its best possible contribution to the improvement of financial services."



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