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5 Reasons Why Industry Collaboration Is Essential to the Future of Blockchain

Robert Palatnick, DTCC
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Will 2016 be the year the industry came together to create the foundation for blockchain, which would eventually transform the post-trade landscape? Or will it be the year that individual efforts trumped collaboration and the industry began down the path of creating a jumbled, disconnected maze of distributed ledger silos? Here are five reasons why industry-wide collaboration will be essential to fully realizing the potential of distributed ledgers

When people look back on the history of distributed ledger technologies, such as blockchain, 2016 will be a critical point in the story. But will it be the year the industry came together to create the foundation for a technology that would eventually transform the post-trade landscape? Or will it be the year that individual efforts trumped collaboration and the industry began down the path of creating a jumbled, disconnected maze of distributed ledger silos?

With so many firms working on use cases in private, there is no consistent vision driving distributed ledger implementations. In order to maximize the potential of blockchain technology, it's essential that industry participants work in collaboration. Here are five reasons why industry-wide collaboration will be essential to fully realizing the potential of distributed ledgers to modernize the post-trade environment.

1. Create a common set of standards

Many standards need to be defined to enable the "network effect" that can truly unleash innovation with the blockchain platform. Those standards include: the network layer, the validation layer, the data layer and "smart contract" taxonomy, how security and permission models can plug-in, how consensus models can plug-in, how different ledgers can interact, how ledgers can feed into data analytic systems, and the standards needed to integrate into enterprise ecosystems.

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The chaotic gold rush of new vendors, partnerships and existing firms all working independently and privately on solutions will likely produce a new system with the very same reconciliation and integration problems that firms face today.

2. Ensure future processes improve risk controls and cost efficiencies

Distributed ledger technology is not the solution to every problem, nor can it, in its current form, replace the existing post-trade ecosystem. The industry needs to analyze whether using the platform is more cost effective than improving existing infrastructure and whether it removes or creates risk and complexity. If it is found to improve risk controls and cost efficiencies, the regulated and trusted central authorities should help to play a leading role in introducing the standards, governance and technology to support distributed ledger implementations.

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Furthermore, these organizations, working in partnership with a wide range of the industry, can help ensure that new opportunities are in the best interests of post-trade processing and consistent with long-standing goals of mitigating risk, enhancing operating efficiencies and driving cost efficiencies for market participants.

3. Work toward common mandates and industry best practice

Industry practices and regulations exist based on current technology implementations and would need to change significantly to enable distributed ledger technology. For example, a key feature of the technology that has generated widespread interest is its "real-time settlement" capability. What's important to note, however, is that real-time settlement is possible with current technology and is already an existing practice for some asset classes.

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The current U.S. equity market convention of T+3 (settlement occurs three business days after the date of trade) as well as the industry plan to move to T+2 are not the result of technology limitations, but based on regulations and market practice. Changing laws and industry practices will require consensus and cooperation among all industry participants.

4. Pool and expand the collective experience of all industry participants

The global financial market infrastructure is a complicated, interconnected ecosystem. Many players have experience and knowledge related to their particular areas, but the collective expertise of the industry is needed to take into consideration the myriad of delicate relationships, interconnections and differing needs of the post-trade infrastructure. An effort as broad and encompassing as reimaging the post-trade environment requires the broadest cross-section of the industry to work together in common purpose.

What is more, we need to greatly expand the pool of skilled blockchain practitioners before we can expect progress. Expertise in distributed ledger technology is very limited today, as this platform is a convergence of a number of deeply technical skillsets, including cryptography, hashing, distributed computing paradigms, and contract semantics. Finding any resume with real blockchain production experience is almost impossible and a necessary prerequisite to broad adoption.

5. Ensure the future architecture provides stability to the market

While the current financial industry infrastructure was not created through intentional architecture and design, it provides the stability and certainty required to serve the global markets. It has been tested repeatedly with multiple systemic shocks, environmental shocks, security shocks, etc., and the performance, scalability, resilience and reliability have all continued to be improved as a result. Any new technology will require significant real-world testing to ensure it meets and preferably exceeds today's standards.

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Any failure in the highly orchestrated processing of transactions that occurs every day could literally grind the world's financial markets to a halt and disrupt global economies. Significant technological changes to this infrastructure require industry-wide collaboration to ensure the implementation and transition to a distributed platform is seamless and does not impact market stability or integrity.

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