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Nasdaq claims to break ground with blockchain-based share sale

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Nasdaq claims to have broken new ground on use of blockchain with a share sale on Wednesday that used a system based on the technology.

The blockchain is the shared database technology that initially gained notoriety as the platform for bitcoin and other crypto currencies. But many large financial groups are now seeking to use its technology to make payment systems and capital market transactions faster and cheaper.

It works as an electronic ledger of digital events that uses cryptography to continuously verify “blocks” of records and then distribute them among parties to the transactions.

The enthusiasm around blockchain on Wall Street has been so intense that Nasdaq’s announcement prompted a scuffle over who owns the bragging rights to the first share sale using

blockchain.

Nasdaq said Chain.com, a privately owned company that itself specialises in blockchain technology, had issued shares to a private investor using the US exchange's new Linq system that is based on the digital ledger technology.

The exchange group said the transaction had created a digital record of share ownership — “significantly reducing settlement time and eliminating the need for paper stock certificates”. It also allowed the issuer and investor to complete and execute share subscription documents online.

Bob Greifeld, chief executive of Nasdaq, said: “We believe this successful transaction marks a major advance in the global financial sector and represents a seminal moment in the application of blockchain technology.”

But Symbiont, a start-up backed by trading veterans including Duncan Niederauer, the previous chief executive of the rival New York Stock Exchange, hit back, claiming it issued the first securities using blockchain technology in August.

Symbiont issued its own shares using the bitcoin blockchain while a privately held company used Nasdaq's proprietary blockchain network to sell shares to a private investor.

Nasdaq said the blockchain technology could significantly speed up the clearing and settlement of equity trades from the existing standard of three days in the US and two days in Europe to as little as 10 minutes.

Supporters of blockchain technology argue that near-instantaneous settlement of transactions can transform the financial system by automating the clunky back offices of banks. This could also free up billions of dollars that banks and others must hold as collateral to insure against things going wrong while a trade is being settled.

However, despite a plethora of industry consortiums, no widely-used financial product has yet been switched to blockchain technology.

Mr Greifeld said: “Through this initial application of blockchain technology, we begin a process that could revolutionise the core of capital markets infrastructure systems. The implications for settlement and outdated administrative functions are profound.”



The technology could cut banks' infrastructure costs for cross-border payments, securities trading and regulatory compliance by \$15bn-\$20bn a year from 2022, according to a recent report by Spanish bank Santander, management consultancy Oliver Wyman and venture capital investor Anthemis.

Other groups are also turning their attention to bitcoin and its technology. The NYSE this year launched the first exchange-calculated and distributed bitcoin index. In January, NYSE made a minority investment in Coinbase, a bitcoin wallet and platform.

Blythe Masters, the former JPMorgan banker who helped develop the idea behind credit default swaps, has joined a group of trading executives setting up a venue that will convert buyers and sellers of financial assets into bitcoins, thus cutting settlement times.

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