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Exchanges call for regulatory clarity over blockchain use

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Styrofoam bull figurines are pictured at the Frankfurt's stock exchange, Germany, December 17, 2015. REUTERS/Ralph Orlowski



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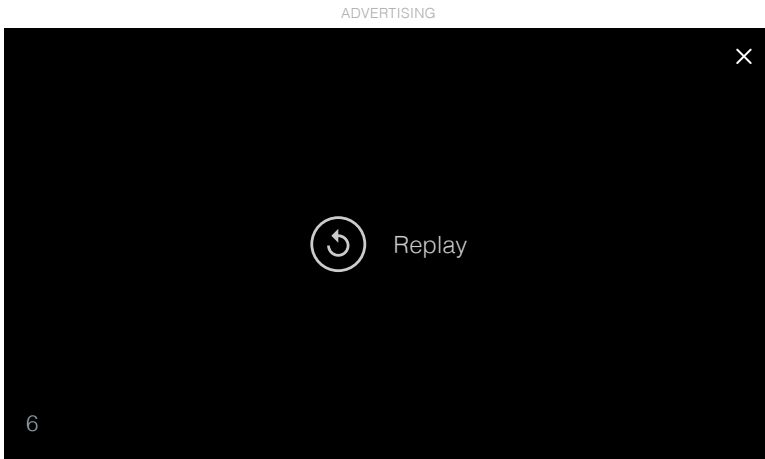
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A lack of clarity over regulation is holding back the development of blockchain technology for cutting the cost of share trading, the world's trade body for exchanges said on Thursday.

The World Federation of Exchanges (WFE) asked its members about their plans to use blockchain, a tamper-proof shared ledger that can automatically process and settle transactions using computer algorithms, with no need for third party verification.

This week more big banks, among the main customers of exchanges, piled into blockchain development because of the savings it could potentially bring.



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The WFE said blockchain was likely to have its biggest use in clearing and settlement, whereby the paperwork of a trade is completed and legal ownership of the security is swapped for cash.

"Financial market infrastructures are uncertain about the extent to which the technology, particularly as applied to capital markets, will live up to its promise," the WFE said in a statement.

"They also highlighted several risks that need to be addressed such as risks of maintaining security standards across a decentralized database, legal and regulatory uncertainty, and concerns around scalability."

Blockchain looks to combine elements of trading, clearing and settlement but current legal and regulatory rules treat each of those separately, the WFE said.

Vested interests in the preservation of the existing system was also a barrier to developing blockchain, the WFE said.

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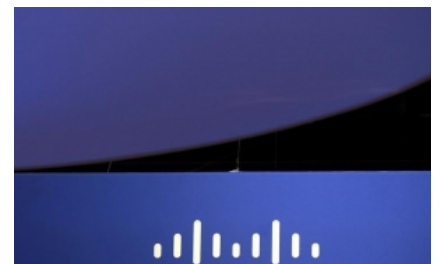
The WFE survey was based on responses from 24 exchanges, clearing and settlement houses such as CME Group, Deutsche Boerse, China Financial Futures Exchange, LCH.Clearnet, Japan Exchange Group, Nasdaq and Singapore Exchange.

Many exchanges and clearing houses are already looking at how they could use blockchain to avoid being sidelined.

The survey was conducted in conjunction with a consultative committee of IOSCO, the global umbrella group for securities markets regulators who are studying the implications of blockchain.

(Reporting by Huw Jones; Editing by Adrian Croft)

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