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CLIFF MOYCE: HOW BLOCKCHAIN HELPS ACHIEVE MORE EFFICIENT REGULATORY COMPLIANCE

By [Cliff Moyce](#) | Friday, December 2, 2016 at 8:12AM

Could the speed, security, and immutability of blockchain help financial institutions achieve regulatory compliance in a more efficient manner? There are good reasons to think so. Blockchain technology has the potential to transform many business processes, making the data used in those processes more available, transparent, immediate and secure. It can also strip out large amounts of cost, delay, error handling, and rework.

Possible uses include trade reporting; clearing, confirmation, validation and settlement; record keeping; monitoring and surveillance; risk management; audit; management accounting; financial accounting; and regulatory compliance, including financial crime prevention.

The immutability, immediacy and transparency of information captured within a blockchain means that all necessary data can be recorded in shared ledgers and made available in near real-time. In such a world, stakeholders will no longer be simple recipients of post-hoc reports; instead they can be part of the real-time process.

By necessity, blockchain technology is complicated, but the underlying idea is simple: It is a distributed ledger or database running simultaneously on many (possibly millions) of nodes that can be distributed geographically and across many organizations or individuals.

What makes blockchain unique is its cryptographically assured immutability, or irreversibility. When transactions on the ledger are grouped into blocks and written to the database they are accompanied by cryptographic verification, making it nearly impossible to alter fraudulently the state of the ledger.

Blockchain's immutability lends itself to proof-of-process for compliance; e.g., keeping track of the steps required by regulation.

Recording actions and their outputs immutably in a blockchain would create an audit trail for regulators to verify compliance. Perhaps more importantly, regulators could have read-only and near real-time access into the private blockchain of financial organizations.

This would allow them to play a more proactive role and analyze information in real time, and even issue alerts and warnings automatically.

Such a change could reduce dramatically the time, effort and cost that financial institutions spend on regulatory reporting, as well as improve the quality, accuracy and confidence in the process.

A further possible extension is blockchain being used as a digital identity management grid, with all of the information required for screening and compliance being held about individuals and/or firms in a chain.

This would reduce KYC/AML (know your client / anti-money laundering) processes to simple automated checks of a blockchain-powered, market-wide utility.

It is likely that sharing sensitive information about customers between financial organizations will start to become the norm, once trust is established in a blockchain-enabled ecosystem.

For example, SWIFT has announced that their own KYC registry -- which already includes more than 1000 member banks -- will be shared with trusted partners and customers in future. This is one of the early steps to achieving fully trusted digital identities in the industry -- a so-far unachieved target for the industry.

So what are the barriers to blockchain being adopted?

Mainly they are privacy and performance issues. Using blockchain for trade reconciliation, settlement and the like would require sophisticated privacy controls and the management of access to the information residing in the blockchain.

Out of the box, private (permissioned) blockchains can provide two types of access control: read-only and read/write. Additionally, it is possible to introduce permissions to mine, receive or issue assets.

Real-world applications in capital markets and other sectors, however, require more flexible and granular access management schemas: Simply putting complete information about all transactions on a shared ledger open to anyone on the network is something no market participants could accept.

Speed is also a possible issue for the immediate adoption of blockchain in high-frequency processes.

Performance with Blockchain-enabled databases is significantly slower than conventional databases due to the cryptographic component, which is very calculation intensive. But speed issues are always solved in the tech world, so this may just be a waiting game in which we migrate processes to blockchain once the technology catches up.

In summary, Blockchain technology has the potential to revolutionize many business processes in financial services and capital markets, as well as regulatory processes, bringing great benefit to the regulatory compliance profession.

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Original article — <http://www.fcpablog.com/blog/2016/12/2/cliff-moyce-how-blockchain-helps-achieve-more-efficient-regu.html>