

Holding, Clearing and Settling Securities through Blockchain Technology Lessons from Bitcoin

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Status quo

- Computerisation lead to intermediation
- Settlement is fast, counter-party risk is low
- the price: complexity in the holding chain

Blockchain/distributed ledger technology

- Assumption:
 - Trading, clearing and settlement can merge into one real time process
 - Buyer and seller interact directly
 - Delivery and payment are linked at master record level (share register/central bank money)
- Low counter party risk AND low custody risk
- IT risk

Lessons from Bitcoin

- private key as the vulnerable point
- Hosted v non-hosted wallets
- Open v permissioned blockchain
- Intermediation

The future

- Exciting times in the custody industry
- Business processes rather than technology as a barrier
- Turkeys and Christmas
- Permissioned systems

Asset owners

- Why have they accepted intermediation?
- Excess inertia
- Cost of intermediated holdings
- Bundling
- Lack of transparency

Lessons for asset owners and regulators

- Economics of incumbent service providers
- Asset owners pay for and bear the risk of the infrastructure
- Consultation
- Disclosure
- Asset owners with market power