



LETTER TO FINRA, dated 3/29/17

Marie E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, D.C. 20006 – 1506

Subject: FINRA’s Report on Distributed Ledger Technology: Implications of Blockchain for the Securities Industry (the Report)

Dear Ms. Asquith:

Introduction

The Wall Street Blockchain Alliance (WSBA) appreciates this opportunity to submit its views on Distributed Ledger Technology (DLT) to FINRA. WSBA is a 501c(6) not for profit trade association which represents the interests of banks, broker-dealers, asset managers and other financial markets participants, concerning DLT and its impact on financial services. The WSBA stands as a neutral, unbiased steward of education and cooperation between Wall Street firms, with a mission to guide and promote comprehensive adoption of distributed ledger technology across financial markets. We do this by engaging with market participants, regulators, policymakers and technology innovators through direct communication, comment letters, studies and more to guide the public dialogue about Blockchain, distributed ledger and smart contract technology, so that the financial markets may realize the full potential of these capabilities. We are committed to sponsoring research and educational activities to foster the evolving technology-oriented goals of our membership.

In addition, we also represent various Wall Street firms which, as vendors, provide indispensable services to global financial markets participants, including investment banking and investment advisory businesses. These vendors usually update their technology in line with their client requirements and evolving technological capabilities. Basically, WSBA seeks to mobilize the financial services industry regarding DLT and to sponsor research and educational activities to foster the evolving technology-oriented goals of our member firms.

WSBA agrees with the thrust of FINRA’s Report that ongoing industry “dialogue” concerning the numerous technology and regulatory issues associated with Blockchain and

DLT is essential. In this regard, our organization is quite willing to share our members' collective ideas and views concerning DLT with FINRA, both now and in the future as Blockchain continues to gain traction in the securities industry.

WSBA believes that Blockchain DLT are essentially viable technologies. Thus, we believe DLT could potentially help many leading sell-side and buy-side firms, as well as other financial services and financial technology concerns in their ongoing efforts to enhance their operational efficiencies in the interest of client and investor protection. Our Alliance is uniquely positioned to bring technology experts and non-tech senior executives at these diverse firms together at the same time. We would welcome the opportunity to coordinate our broad activities in this regard with FINRA's recommended comprehensive "governance" assessment of DLT so that there would be a regulatory context for DLT.

What Is Blockchain / DLT?

Blockchain or distributed ledger technology is a shared record of transactions maintained by a network of computers on the Internet. In a *technology sense*, DLT operates on the basis of cryptography and message transmission via a series of nodes. In terms of *marketplace*, the \$11 trillion global credit default swaps market, for example, is currently being transformed by virtue of a proposed new DTCC Blockchain processing platform expected to be available in 2018 to keep track of swaps or derivative transactions and their corresponding fixed income securities trades. This market will have made immense progress when the proposed new platform is put in place inasmuch as the CDS business actually relied mostly on fax transmissions to confirm trades just prior to the financial crisis. In sum, Blockchain offers secure, accurate and real time transmission, not of data per se, but rather of consummated financial transactions that represent immediate value to the recipient of a "distributed ledger" page or item. There are no middle men or other such entities, no reconciliation, no corrections, no concerns about best execution or cyber-attacks, the follow up step is simply to move on to the next transaction on behalf of your client or clients.

Regarding DLT Implementation and Regulation Efforts

Section III of the FINRA report notes several factors to be considered when implementing DLT in the securities industry, including but not limited to governance, operational structure, network security, regulatory considerations and more. These factors are regularly discussed within the Board of the WSBA, as well as across our many member participation sessions and working groups. It is the opinion of the WSBA Board and members that industry implementation would be greatly aided by a concerted effort of industry participants to align mutual understanding of relevant DLT use cases, as well as an open forum to discuss governance models relevant to industry verticals and across workflow participants, including third-party vendors. In addition, there is still a deep need for further industry knowledge regarding DLT, both from a technical as well as business strategy perspective. It is the view of the WSBA that collaborative discussions regarding governance

as well as standards and practices, combined with educational outreach, will ultimately benefit and promote industry adoption of DLT. It is with this perspective in mind that WSBA has launched both an educational training track of activity for members, as well as planned for the launch of a specific governance/standard & practices working group to allow individual and corporate members to participate in the development of these foundational efforts.

Possible Trade Group Initiatives In Tandem With FINRA or Other Similar Organizations

WSBA, as a not-for-profit trade organization interested in fostering market efficiencies and investor protection goals relating to Blockchain, is pleased to suggest the following:

- WSBA would be willing to offer the use of its trade group resources to FINRA in connection with assessing the impact of various DLT technology products on FINRA rules (please see our "*Regulatory Initiative*" proposal below).
- WSBA currently provides foundational training to securities markets (and other financial industry) personnel, regarding DLT, and would be willing to offer or collaborate on specialized training to supervisory personnel and others within the securities industry, with a focus on effective performance of supervision and surveillance functions, as well as other relevant securities industry functions.
- WSBA generally supports using DLT regarding *loan syndication offerings* – we believe this marketplace may lend itself to DLT patterns similar to those being applied with respect to CDS transactions. Accordingly, we would welcome the opportunity to work with FINRA and other relevant agencies to suggest ways to conduct focus groups, that would involve Blockchain specialists, and perhaps map out a DLT action plan for this segment of the market. As noted above, our Alliance subscribes to the belief that a regulatory mode of governance is a necessary element in order for each asset class to ultimately adapt to DLT. Thus, on behalf of our members, we feel this is an appropriate trade association endeavour.
- In addition to DLT application across the broader equity, debt and derivatives markets, WSBA broadly supports the leveraging of DLT for what we frequently refer to as the "internal plumbing" relevant to securities markets, including but not limited to reference data, identity management and content and rights management. It is our belief that these utility functions across securities markets are ideally suited to a re-envisioning based upon DLT, and this is often the subject of discussion within WSBA and amongst our members.
- WSBA would be willing to assist FINRA on the question of whether DLT could provide opportunities concerning *the payment of coupons with regard to corporate bond holdings*. Likewise, we look forward to reviewing the benefits of DLT concerning *collateral management* on TBA and rates and CDS transactions. In this connection,

under our Regulatory Initiative we would use our industry-wide organizational skills (which rely on voluntary initiatives) to mobilize appropriate underwriters, issuers, buy-side firms, custodians and others to determine whether all parties and their customers would benefit by using Blockchain. If so, we would assist these parties in finding an appropriate project manager.

- WSBA would also welcome the opportunity to reach out to buy-side operations professionals and other senior executives affiliated with leading asset management firms regarding the effects on "*netting*" should DLT be used in connection with the *settlement of equities and corporate and municipal bond trades*.

"WSBA's Proposed Regulatory Initiative" to Facilitate Dialogue regarding DLT with FINRA and Other Similar Regulators

Introductory Comment: Since it is clear that regulatory authorities are currently interested in dialogue about Blockchain and Distributed Ledger Technology, this proposed WSBA Regulatory Initiative (which recently held a successful initial meeting with technology, risk and investment advisor professionals) is being designed to open up a meaningful exchange of ideas with FINRA as well as the principal Federal agencies that regulate the activities of Wall Street firms and asset managers.

The proposed Regulatory Initiative consists of three sets of distinct ongoing activities and is intended to enhance the development of DLT by the Wall Street community. Simultaneously, the Initiative would continuously provide pertinent information to regulators and others about the benefits of DLT to foster the interests of investors and the U.S. capital markets.

The three components of the WSBA Regulatory Initiative are as follows:

- **AVAILABILITY OF TECHNOLOGY EXPERTISE** – Some members of WSBA specialize exclusively in technology development. In other words, designing DLT solutions is itself a separate business endeavour. Accordingly, we have found that market professionals affiliated with Wall Street firms typically appreciate the opportunity to hear from members of this segment of WSBA members. Such Wall Street professionals feel that generally discussing DLT with experienced technology professionals can sometimes facilitate their own creative thinking.

With regard to WSBA's Regulatory Initiative, to the extent that any regulatory bodies might be interested in pursuing this special WSBA resource, please feel free to contact WSBA's Chairman to arrange for prompt consideration. WSBA would be interested in jointly pursuing (with FINRA or others) any broad industry-wide DLT educational opportunities that might emerge from this service.

- **CREATION OF WSBA FOCUS GROUPS TO GENERATE DIALOGUE WITH FINRA & OTHERS** -- Blockchain and DLT are relatively new to many in the Wall Street community. However, upon learning about the potential of DLT, many securities industry professionals are quick to assess how DLT could be beneficial to the Street in the future. Accordingly, WSBA is incorporating Focus Groups into its Regulatory Initiative. We intend to form these Groups for a) bank members of WSBA with regard to their own broker-dealer activities; b) asset managers, especially with respect to their fiduciary risk management functions involving custodians and third party vendors; and c) both sell-side and buy-side firms regarding business continuity and cybersecurity policies and procedures – an obvious question is whether it makes sense to encourage consideration of DLT when updating or revising these particular policies and procedures. Most importantly, WSBA would be willing to share the “themes and trends” that emerge from its various Focus Group activities with others, including FINRA and other relevant regulatory agencies. We intend to spread the word regarding our Focus Group developments via WSBA-sponsored in person briefings, written reports and Webcasts.
- **ACTION ITEMS** – As indicated above, we believe DLT is emerging in many respects as a separate technology enterprise. To help nurture the growth of DLT under our Regulatory Initiative, WSBA intends to offer additional in depth educational documents that will pick up on the many important DLT topics already outlined by FINRA and others. For instance, we recognize that governance standards in connection with DLT are extremely relevant to financial services industry members – accordingly, “governance” would be a priority item, and we would seek input from legal and compliance experts at WSBA member firms on this matter. Importantly, we believe this proposed WSBA educational effort will be informed by the above-mentioned Focus Groups. Finally, we are committed to undertaking joint studies of the most effective uses of DLT with the research arms of the Nation’s largest tech companies. It is also very apparent from our vantage point that the value of any industry-wide ideas developed as a result of working with these companies would only be worthwhile if they are shared with interested market participants and coordinated with regulatory officials.

Conclusion

Because WSBA offers the coordinated recommendations of financial markets participants such as broker-dealers, asset managers, fintech providers and more, we feel our efforts concerning blockchain and DLT are important to FINRA and other interested regulatory organizations in that WSBA can collaborate with industry to arrive to workable solutions fairly quickly; we are in a position to avoid the time consuming process of buy-side and sell-side activities evolving through multiple and sometimes duplicative iterations on DLT proposals. We believe this unique trade group attribute is

fundamentally the right approach at the right time. There are numerous new trends emerging in the financial services industry due to the likelihood of tax reform, the possible repeal of Dodd-Frank, interest rate increases, global regulatory harmonization, and concerns about cybersecurity, to name just some of the more notable issues. Without the type of targeted and inclusive initiative (in terms of reaching banks and advisers and their related vendors) that we feel is a natural undertaking by WSBA, our sense is that DLT could become a fragmented movement in the financial services industry -- and if so, it could face a challenging future given the competing initiatives that can reasonably be expected to confront Wall Street's diverse participants and competing interests both now and in the future. Ultimately our goal is for WSBA to be at the forefront of dialogue with market participants about the use of DLT in the securities industry. We are willing to discuss all of the above WSBA recommendations, as well as any additional issues, at the earliest convenience of FINRA's appropriate decision-makers regarding technology and the Blockchain movement.

Sincerely yours,

Ron Quaranta

Chairman of the Board
Wall Street Blockchain Alliance
www.wsba.co