THE BLOCKCHAIN Q&A

Today's disruption tomorrow?

Stater Blockchain focuses on developing and deploying globally scalable blockchain technology solutions in the financial markets. William Essex spoke to CEO Ramy Soliman about the prospects for blockchain-inspired disruption in the FX market.

William Essex: In what ways are Blockchain and DLT finding applications across the FX space? In trade execution, perhaps, or post-trade clearing, compliance, risk management?

Ramy Soliman: Blockchain technologists are trying to find applications in all of those areas. In the FX space, the clearest proponent is probably Cobalt, for post-trade clearing and settlement. Trade and execution? I've seen some, but the feedback we get is that blockchain and DLT don't serve a purpose in terms of speeding up execution performance against the existing technology that's in place – a lot of the matching engines that we have for FX are doing things in microseconds now, the low milliseconds. In trade execution, blockchain is not there yet, but it's extremely useful in allocation of credit in post-trade clearing and settlement, with Cobalt leading the way. In compliance and risk management, blockchain can certainly speed up the AML process. That's something we're looking at ourselves.

WE: You're looking at "Smart KYC", of course?

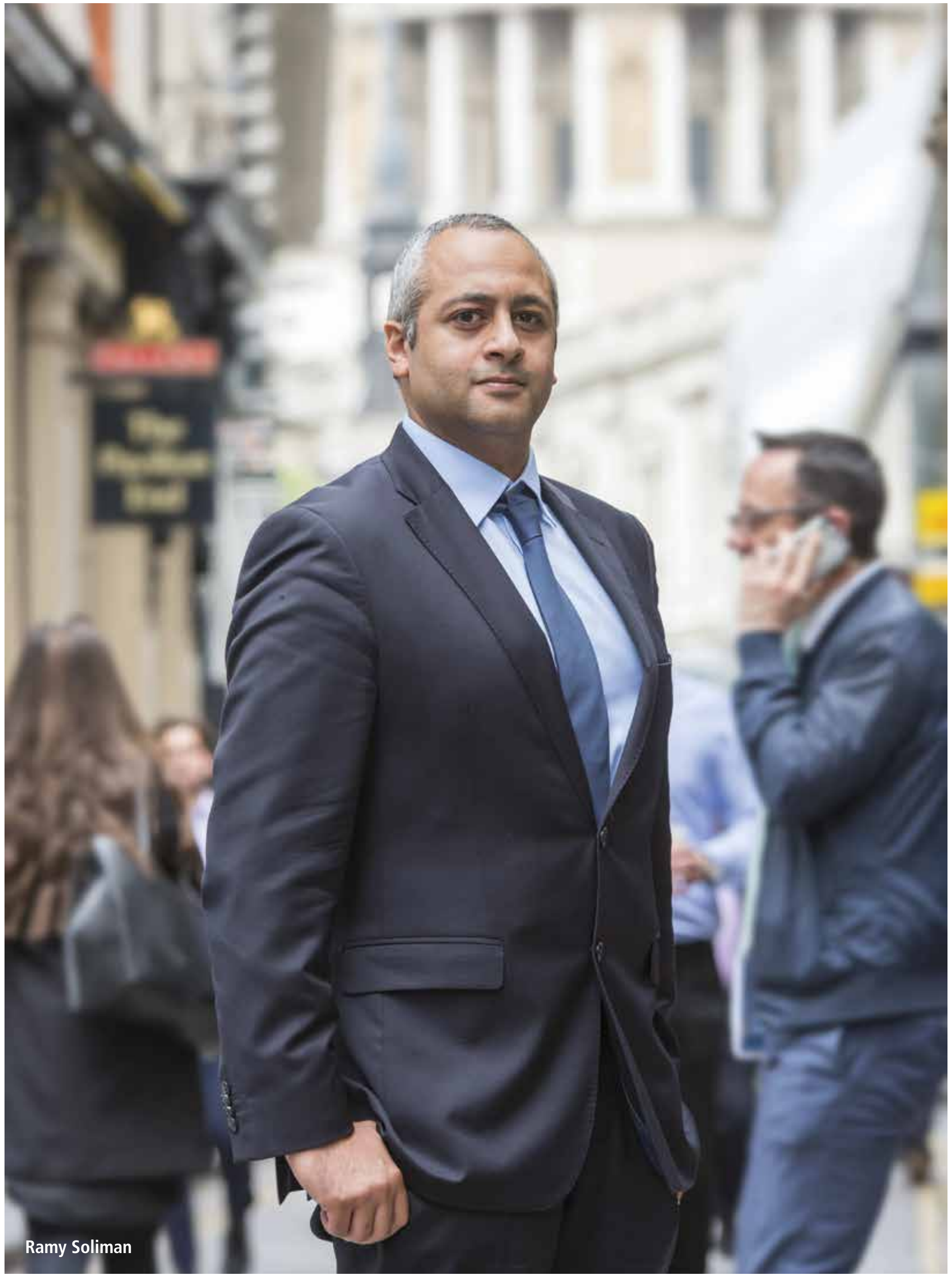
RS: Exactly right. Compliance is a massive area; anything that can do KYC, for corporates or individuals, is something that has a global application in financial and professional services. If you're onboarding with your accountant, for example, there's no reason why that process can't be automated and centralised using DLT. We're trying to build out something that will allow the clients of prime brokers like us – those that face underlying retail customers – to speed up the process for onboarding customers.

WE: What are the benefits and competitive advantages that blockchain technology and new digital ledger services can bring to both FX sell-side and buy-side firms?

RS: In FX, generally credit intermediation is the constraint for both sell-side and buy-side. Blockchain can manifestly improve the efficient allocation of credit and dynamic credit allocation. For a bank, a market maker and a prime broker trying to credit-manage themselves, blockchain can reduce their structural risk. It can bring massive advantages to all participants in that value chain.

WE: In what ways can core blockchain and DLT concepts such as smart contracts be utilised within the FX trading environment?

RS: With smart contracts, it depends on what you're trying to do. I think certainly in non-latency-sensitive trading environments, people will trade them, and some people will trade the underlying crypto-currencies. There they can bring value. In terms of using them as a replacement for the existing FX infrastructure, I don't think we're



Ramy Soliman

there yet. In time, the technology will improve and maybe it will happen. I don't rule it out, but we're not there yet.

WE: Yet?

RS: Never say never. What's staggering is the pace of change and the pace of development of this new technology. There are a lot of applications and a lot of smart people looking at this and a lot of banks looking at this too.

WE: On that, what would you say to banks and FX sell-side firms about the importance of developing a cohesive enterprise-wide strategy and implementation roadmap for the use of blockchain technologies?

RS: They have tried to do this. There's R3, for example, and consortiums of banks have looked at using blockchain technology in a collaborative basis. It's very difficult to replace your intricate internal systems – systems that you've been using for many, many decades - and work to a common standard. The intention's very admirable and everybody has tried to do that, but I think the reality is that it's very difficult to come to a solution. Banks are certainly investing in blockchain companies; they are looking at blockchain; some may have a cryptocurrency trading desk; they're buying crypto-firms as well.

WE: Okay, so what key issues need to be considered when integrating – or trying to integrate – blockchain technologies into existing FX trading architectures to avoid delays in time-to-market?

RS: The technology needs to be robust; it needs to link in with existing technology; to be cognizant of settlement cycles and the conventions that the FX world works to.

It needs to have an appreciation of credit functionality, the credit-intermediation life cycle.

WE: How is Blockchain technology being leveraged in the engineering and building of new FX products and service models, trading platforms especially and I'm thinking also of the retail market?

RS: In the retail market, there are blockchain technologies in the sense of crypto-exchanges. Certainly that's happening: cryptocurrency and digital-asset exchanges are appearing with greater frequency.

The application of blockchain is likely to be asset-exchange first, then cryptocurrency trading and CFDs on cryptocurrencies are the next logical step. It goes from there really.

WE: What advantages may lie for FX market participants in combining blockchain networks with other fast-emerging technologies such as AI and machine learning?

RS: Smart learning, AI-based learning, machine learning, blockchain; the various kinds of fuzzy logic are all merging into one in terms of sophisticated technology that can adapt to customers' requirements. It's not just the FX market; all asset classes can take some benefit from the various new technologies that are out there, whether it be for alpha generation, or post-trade transparency, or for compliance and regulatory reporting. A lot of the new stuff will work in tandem.

WE: What factors should influence a firm's choice of a blockchain-technology provider?

RS: Competence. Experience in the industry. There are people jumping on the bandwagon, but there are some very credible parties out there who have extensive blockchain experience and very valid financial-sector experience as well. This combined experience will result in some very, very powerful products.

WE: What lessons might FX learn from the way blockchain and DLT are being deployed in other capital markets?

RS: The answer is a lot. It's a learning curve. We have to be cognizant that blockchain didn't just turn up last year; it has been around since the mid-2000s, and there hasn't been a silver bullet. All the hype around the last year or two has certainly come as a result of the spike in Bitcoin and cryptocurrencies that have been the main application of blockchain. However, it is credit intermediation, post-trade settlement, compliance, KYC and smart guarantee which will be the significant developments of blockchain technology. If there is a lesson to be learned, it is that this takes time. No-one's cracked it yet. Our experience with the technology, and the speed of the technology, is helping us to come up with practical solutions. Eventually, we'll find the way.

WE: Finally - in what ways may Blockchain end up fundamentally disrupting the FX value chain and transforming the future evolution of both Institutional and retail markets?

FOR A BANK, A MARKET MAKER AND A PRIME BROKER TRYING TO CREDIT-MANAGE THEMSELVES, BLOCKCHAIN CAN REDUCE THEIR STRUCTURAL RISK.

Blockchain As You Like It

RS: Certainly it will do that. I'm a big believer that it will disrupt the value chain. I think institutional markets will be the first to benefit from it, as it solves the problem of the efficient allocation of credit. That's a systemic risk that has been in the market for some time and has been crying out for a good solution. For me, if there's going to be a disruption, it will happen at the institutional end. Hypothetically, it might drift down into retail as well. You might get a homogenisation of trading. In a world with blockchain you could potentially trade with many retail brokers without necessarily having a deposit with any of them and benefit from everyone's pricing. That could revolutionise things. With decentralisation comes independence, with independence comes disintermediation; with disintermediation comes freedom – a brave new world.

WE: Do you think it will happen? There's a great weight of established methodologies and systems.

RS: Regulated financial services are probably the most difficult place to disrupt. I don't think disruption will come in the time frame that people expect. It will take longer. The problems we're trying to solve have been in the industry for decades. People need to get their heads around being comfortable with the technology itself; trying to apply decentralisation to it in a manner that is consistent with the regulations is not easy.

WE: Ramy Soliman, thank you very much.