

**New City Initiative
(NCI)
Submissions to the Financial Conduct Authority
On
DP17/3 Discussion Paper of Distributed Ledger Technology**

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Introduction

New City Initiative (NCI) is comprised of leading independent asset management firms and offers an independent, expert voice in the debate over the future of financial services; its over fifty members collectively manage around £500 billion of assets. Predominantly owner-managed, NCI's members align their interests with their clients' in a transparent manner and, more broadly, seek to encourage competition, innovation and consumer choice within the UK asset management industry.

Overview

NCI's members, and the NCI itself, have a watching brief on the use of DLT within the asset management industry and ancillary services. NCI's members see the potential for

¹ Jonathon.Read@newcityinitiative.org. The author is a Professor of Finance at Luxembourg School of Business and has led various industry workshops on distributed ledger technology and its applications to the broad financial services industry. Such workshops have included application of smart contracts, use of private blockchains and similar elements broadly considered in DP17/3. The author can bring a comparative analysis of DLT within different jurisdictions and hopes that the FCA will engage on such matters.

transformative efficiencies in recording transactions in an auditable and verifiable manner. However, many of these changes are likely to be grounded in: the middle-office and back-office processes that underlie the asset management process itself, and; the reporting that follows from the current and planned regulatory environment, a trend that will only be increased by the introduction of MiFID II in 2018.

DLTs such as Blockchain permit scalable, auditable and secure solutions that can facilitate workflow, particularly in areas such as the middle and back office or in regulatory transaction tracking. Whilst much focus has been on public blockchains, such as Bitcoin or Ethereum, the underlying technology can be applied fruitfully to internal blockchains or within a consortium-based solution. There is considerable evolution in this space but, especially when database solutions are naturally upgraded, DLT is likely to be deployed by the asset management industry or its suppliers.

NCI perceives the use of DLT within the broader lens of the promotion of financial innovation within the asset management sector and sees a natural synergy with the extension of other FCA initiatives such as Project Innovate. NCI has recently published a policy paper entitled *Supporting Innovation and Entrepreneurialism in Asset Management: A Framework for Regulatory Incubation*. A copy of this policy paper is attached to this submission.

Discussion Paper Responses

Q8: Is this a viable use case for DLT in the context of asset management? What other examples are there for this sector?

NCI Response to Q8: The example provided appears viable and highlights several key benefits that DLT may offer:

- A direct and auditable chain of information that can populate multiple databases, including those required by regulators;
- Reduction in paper-based processes with a concomitant reduction in cost and time required accompanied by a reduction in error;
- Lower costs passed on to investors in the form of lower management fees or higher-value added from asset managers;
- Enhanced risk-management and reporting with an aim of real-time management information and regulatory reporting;
- Increased redundancy and reduction in a single-points-of-failure through use of distributed recordkeeping.

NCI sees broader use cases with similar underlying rationales and efficiency-gains: client recordkeeping and KYC; trade settlement; auditing of research access following from MiFID II; regulatory reporting; legal work process; automatic execution through smart-contracts; lower overall costs of asset management, and; increased transparency.

Next Steps

NCI is keen to be involved in future work undertaken by the FCA on this topic, bringing a pragmatic and business-oriented perspective that is based within a natural industry use-case: the UK boutique asset management industry is recognized as being dynamic, client-centric and a cornerstone of the UK's financial services industry. NCI would welcome participation in events, roundtables and bilateral discussions on the topic of DLT.