80 PERCENT OF FINANCIAL FIRMS EXPECT TRANSFORMATIVE IMPACT OF BLOCKCHAIN AND ADOPTION WITHIN 3-5 YEARS ACCORDING TO NEW BAIN AND BROADRIDGE REPORT

- *Research estimates US$15-30 billion total cost and capital savings to global financial market ecosystems*
- *More than 80 percent of respondents expect distributed ledger technology (DLT) impact on clearing and settlement to be "transformative"*
- *While 40 percent of firms still take a wait and see approach, the report finds that firms can identify "no regret" DLT readiness preparations to navigate uncertainty and to gain a competitive edge*
- *Report identifies four distinct archetypes for DLT adoption; and certain asset classes and activities that are ripe for DLT. In more integrated markets like Australia, Japan and China, DLT is likely to reinforce a relatively integrated structure for cash securities*

Hong Kong – February 9, 2017 – A new report, ***Blockchain in Financial Markets: Gaining an Edge,*** released today by Bain & Company in partnership with Broadridge Financial Solutions, reveals that Distributed Ledger Technology (DLT) is gaining significant momentum in financial markets. More than 80 percent of financial markets executives interviewed expect the impact of blockchain to be "transformative" and be adopted by financial institutions by 2020.

At the same time and paradoxically, more than a third (38 percent) of those surveyed said they are taking a "wait and see" approach to the technology.

"It's clear that financial organizations are talking about or preparing for DLT, yet despite delays in adoption, these firms cannot ignore the impacts on market structure," said Thomas Olsen, Bain partner and the firm's global leader for C&IB and Market Infrastructure. "Firms need to elevate their thinking on DLT beyond their innovation labs. The question requires a top-down, strategic lens to complement the bottom-up experimentation" he added.

Benefits to Global Financial Markets

There is a significant amount at stake from companies and the industry. The survey estimates the total cost and capital savings to global financial market ecosystems to be between **US$15-30 billion** (or around 1-3 basis points of total assets). Important long-term benefits are also likely to be driven by improved reference data, analytics and applications to machine learning and artificial intelligence (AI).

"The adoption of blockchain in the financial industry will drive significant benefits to market participants, including operational and cost efficiency," said Vijay Mayadas, Head of Global Strategy and Fixed Income for Broadridge Financial. "We are already seeing participants such as the Australian Securities Exchange (ASX) taking a leap in investing in this transformative technology by using DLT to upgrade their post-trade systems. The trend will continue as market participants see real benefits with DLT, which include know your customer (KYC) utilities, more efficient clearance and settlement and enhanced reference data management."

The research also identified several reasons for delaying investment in transformative tech like DLT. As the technology is still uncertain, financial institutions may need to invest first before seeing any potential benefits. The benefits are also uncertain.

Additionally, most firms are under heavy near-term financial pressure and are also dealing with non-discretionary investments related to regulations. Competitive positioning and game theory issues which are related to how DLT could trigger changes in market structure and pricing are also key factors delaying collaboration and progress.

Adopting DLT in Financial Markets

The research found that the impact and evolution of DLT will vary by market with **four distinct models** likely to evolve. Each archetype carries implications for how and when individual firms should adopt DLT:

1. In *large, complex, but mostly domestic markets* such as **Japan and China**, DLT is more likely to reinforce a relatively integrated structure for cash securities.
2. By contrast, the impact of DLT may have the opposite effect in *large financial hubs*, such as the **U.S. and major European markets** where DLT could foster an even more unbundled and fragmented market structure, with multiple exchanges and utilities.
3. *Smaller, domestically focused markets* like **Australia, Canada and Brazil**, where DLT could have the earliest impact in cash securities, are already integrated, centralized and face fewer obstacles than the other models. In these markets, economic logic will likely drive consolidation as DLT comes into force.
4. Finally *small markets with international connections*, including **Singapore and Hong Kong** are likely to remain integrated for cash securities but will be more subject to global market practices and links in areas such as derivatives and over-the-counter (OTC) securities.

The research showed some striking results in how differently financial firms are approaching the question of adopting DLT.

How Market Participants are Implementing Locally

Some respondents interviewed are considering merging local custodians into a joint venture utility. The Central Bank in Singapore and others are investigating KYC and digital identity utilities, DTCC is implementing use of DLT in clearing and settlement of the US$11 trillion credit default swap (CDS) market and Broadridge, Nasdaq and others are working on using DLT to make proxy voting and corporate actions more efficient.

DLT's impact will also unfold differently across asset classes. Smaller and newer OTC markets show signs of gaining traction faster given they are less established and represent lower risk compared to large-scale cash securities markets (e.g. CME and Royal Mint's bullion initiative and Nasdaq's private market platform).

However, where integrated market infrastructure exists, there are initiatives to implement DLT in cash equity markets (e.g., ASX). DLT initiatives seeking to increase efficiency in specific processes such as proxy voting and KYC are happening across market types. Therefore, at its core, DLT represents both an opportunity and a threat as cost structure and market practices change and the expected impact varies across the financial ecosystem.

Ready for the Future?

The study finds that each firm needs to define the right approach given their position in the ecosystem.

Most firms could be doing more to identify the no-regret DLT readiness preparations they should be taking, mapping out clearly how they prioritize their efforts across specific use cases. One way or another, firms that want to gain an edge must make significant changes to their processes, policies and IT architecture – much of this preparation does not need to wait for complete certainty on how DLT will be implemented.

Market participants who will win as DLT is adopted will spend less energy on excuses for inaction and more on developing a strategic and longer-term approach, focused on driving towards a more efficient ecosystem and plotting a course consistent with who they are, what they do and where they operate.

Those firms that are less systematic and more short-sighted in their approach are likely to see their businesses disrupted as they become less competitive.

The report finds that the winners will be those firms that are already taking a very systematic, top-down and bottom-up approach to DLT, including analyzing how the ecosystem will evolve, thinking broadly about alternative roles they can take in the evolving ecosystem and prioritizing their roadmaps for DLT experiments and investments.

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infrastructure, allowing them to increase their focus on core business activities. With over 50 years of experience, Broadridge's infrastructure underpins proxy voting services for over 90% of public companies and mutual funds in North America, and processes on average over $5 trillion in equity and fixed income trades per day. Broadridge employs approximately 10,000 associates in 16 countries. For more information about Broadridge, please visit www.broadridge.com.

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