



Blockchain and FinTech Opportunities

Wednesday, June 15, 2016

KEY TAKEAWAYS

We were glad to see over 200 of you in New York for the lively discussions on “Blockchain and FinTech Opportunities” among FinTech firms, venture capital funds, international banks, consulting firms and Nasdaq, the event’s co-sponsor with Cleary Gottlieb.

Below are key takeaways from the day’s discussions.

Keynote Conversation

The keynote conversation was a discussion with Vikram S. Pandit, Chairman and CEO of The Orogen Group and former CEO of Citigroup, facilitated by Ben McLannahan, a reporter for the *Financial Times*.

Mr. Pandit discussed three themes key to driving growth of the FinTech industry:

1. Regulation
2. Technology
3. Globalization

He focused on the impact regulation of financial institutions post-crisis has had on returns on equity, leading to pressure on banks to cut costs and to look to FinTech to increase the efficiency of their operations. He also discussed the potential for decentralization and disintermediation in the financial sector to reduce transaction costs in areas such as payments.

The discussion turned to emerging regulation of FinTech firms. Mr. Pandit expressed his view that the development of new regulations would work best when regulators and companies come together and take an iterative approach to find the right structure. If regulation comes too early, it can impair innovation.

Mr. Pandit closed the discussion with observations on the importance of cybersecurity to the industry. He noted that customer confidence is critical to growth and that creating a secure environment was an important element of building customer confidence.

If you have any questions concerning this memorandum, please reach out to your regular firm contact or the following authors

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Session 1: Blockchain 2.0 – A practical exploration of blockchain technology and its various uses

The first session, moderated by Cleary partner Michael Krimminger, featured contributions from:

- **Jacob Farber**, General Counsel, R3CEV
- **Yolanda Goettsch**, Vice President and Associate General Counsel, NASDAQ
- **Steven O'Brien**, Associate General Counsel, Lending Club Corporation
- **Prakash Santhana**, Director, Deloitte Advisor
- **Steve Wager**, EVP of Operations and Development, itBit

The session focused on existing and emerging applications of blockchain technology. The panelists discussed the advantages that blockchain might provide over existing methods for trading and clearing assets, including creating an immutable record of ownership, limiting the risk of errors in that record, potentially increasing the transparency of information available to regulators, reducing settlement risk, and increasing liquidity in secondary market trading of assets such as loans.

The interaction between the blockchain and existing market infrastructures was discussed. Panel members argued that use of the blockchain for transactions that could settle immediately, such as securities trades, would significantly reduce or even eliminate most settlement risks, which would greatly reduce the current need for central counterparties in those markets. They acknowledged, however, that central counterparties may continue to play an important role in clearing transactions in which a party to the transaction assumes the credit risk of its counterparty, such as derivatives. The panel discussed the possibility of cradle-to-grave existence on a blockchain ledger for assets, with some members arguing that depositaries would remain necessary to ensure investors that entries on the blockchain were backed by real assets.

The session also focused on different models of using the blockchain, discussing three alternatives:

1. At the outset, the panel discussed the use of a public ledger intended to allow participants to act anonymously.
2. An alternative, a “permissioned ledger” in which all participants know each other and verify the transaction ledger by consensus of the participants, was also discussed. The panel addressed the importance of controlling the information that different parties using a permissioned ledger would be able to see, noting the need of participants to keep some trading information confidential.
3. The third alternative discussed was a ledger without a consensus-based verification system, in which only the parties to a transaction are made aware of that transaction.

The panel discussed those models and the relative approaches to their use in their businesses.

Watch the full session [here](#)

Session 2: FinTech – Opportunities for targets and acquirers

The second session, moderated by Cleary partner Pamela Marcogliese, featured contributions from:

- **Kate Christensen**, Open Innovation, Barclays
- **Boris Khentov**, Vice President of Operations and Legal Counsel, Betterment
- **Lowell Putnam**, Chief Executive Officers and Co-Founder, Quovo Inc.
- **James Robinson**, Managing Partner, RRE Ventures
- **Luis Valdich**, Managing Director, Citi Ventures

The session focused on the development of the FinTech sector from a variety of perspectives. The panel began by discussing challenges and opportunities faced by FinTech startups when partnering with large financial institutions. Members of the panel noted challenges, including getting large financial institutions comfortable with a smaller company that has a more limited set of policies and procedures. The panel also noted that large financial institutions may need a shift in perspective to become more open to FinTech opportunities. However, the panel also discussed opportunities for growth in the FinTech sector, including the increased efficiency for large banks of working with FinTech startups rather than building similar services in-house.

The panel moved on to discuss how investors view FinTech firms. Members of the panel representing venture capital funds discussed a recent shift in the areas FinTech firms are focused on, with a recent move into more heavily regulated spaces such as lending and payments.

The group then discussed regulatory challenges facing FinTech companies. They noted the challenges involved in educating regulators about their operations and how they fit into existing frameworks.

Finally, the panel went on to discuss the future of FinTech. Panel members said that mobile technology and globalization were drivers of growth, noting that the proportion of FinTech investments made outside the United States has grown rapidly. The group discussed how changing consumer preferences for new types of services presented opportunities for growth. Some panel members noted that while incumbent financial institutions were likely to win most battles by building their own technology and buying FinTech firms, some small number of FinTech startups would likely emerge as new household names.

Watch the full session [here](#)