

The Reality of blockchain in Australia

Lots of Plans but Waiting for Big Hit

Nick Abrahams tells us where blockchain is up to in Australia.

The truth is the only people making any money out of blockchain at present are conference producers.

The country is awash with blockchain conferences but the technology itself is still stuck in the 'proof of concept' starting blocks. However, there is cause for hope as Australia has a leading position globally with various projects, including the ASX's CHES replacement, AgriDigital's supply chain provenance solution and Webjet's travel industry blockchain.

The predictions about the impact of the technology make it hard to ignore. The World Economic Forum believes 10 per cent of global GDP will be stored on blockchain by 2027.

Jeff Schumacher of BCG Digital Ventures says blockchain will end up being more disruptive than electricity. According to PwC, well over \$US1.4 billion (\$1.8 billion) has been invested into the tech globally.

Even government is in on the act. Treasurer Scott Morrison is a fan saying it will deliver 'significant productivity, security and efficiency gains' for the Australian economy.

It has even caused an outbreak of bipartisanship with Labor senator Sam Dastyari and Liberal senator Jane Hume co-convening a new 'Parliamentary Friends of Blockchain' group.

In essence blockchain is a secure set of databases that automatically synchronise to become an unalterable record of transactions between parties. This allows parties to do business securely without intermediaries such as clearing houses, custodians and, potentially, banks.

The ASX, in addition to being the world's most profitable exchange, is also leading the way globally on

blockchain. The CHES replacement project could see equity trades settle almost instantaneously rather than two days after trade.

At this stage it is a trial and a final decision on deployment is due before the end of the year.

The ASX must be reasonably confident, as it has invested \$30 million in the US vendor doing the project, Digital Asset Holdings.

The equities business is a focus for blockchain projects with the Sydney Stock Exchange announcing a move into the tech and Computershare announcing a relationship with blockchain start-up SETL.

Banks scared into action

Another leader is Sydney start-up AgriDigital, which last year successfully did the world's first live blockchain settlement of a physical commodity trade, in wheat. It has just announced a pilot to trace oats through the supply chain.

CSIRO's Data61 has said that proving provenance is one of the most promising applications of blockchain. This is especially important to our food exporters who can derive more income by proving Australian origin. Also in the supply chain space, BHP is trialling blockchain to track rock samples.

Blockchain requires an ecosystem to work and in the last two years there have been 25 industry-based global consortiums formed, 13 of those in financial services. Fearing blockchain as an existential threat, financial institutions have been the busiest blockchainers.

CBA and Westpac have joined 40 global banks investing a combined \$US107 million into the R3 consortium, which is developing tech to help banks cut costs. NAB

and Macquarie dropped out of R3 last year, though Macquarie is still involved in the R3 research lab.

Transferring money in real time between banks is one of the main opportunities. Currently this is done on a time-delayed process via SWIFT, a co-operative of 11,000 banks. However, CBA, Westpac, NAB and ANZ are all making progress on a potential alternative solution using US start-up, Ripple.

Ripe for change

Letters of credit have been around for more than 2000 years. In fact when answering the question 'what have the Romans ever done for us?', you can add trade finance to roads and aqueducts.

Trade finance is ripe for change and it looks like blockchain may be the answer. CBA executed an impressive trial involving the export of 88 cotton bales.

Once the cargo ship entered port in China this automatically triggered transfer of ownership and payment via a smart (ie. self executing) contract built on a blockchain.

CBA had a win with a successful trial of a virtual cryptobond issue for Queensland Treasury Corporation showing opportunities to use the tech for trading relatively illiquid debt instruments. It also joined with Colonial First State to showcase how blockchain can be used for the real time trading and settlement of units, thus streamlining inefficiencies in the administration of managed funds.

Proving yourself

One of the key hurdles to blockchain take up is verification of the identity of parties transacting digitally. Australia Post has been investing in its own blockchain-enabled biometric digital identity solution.

In May, it announced it will partner with the federal government's \$40 million digital ID project, GovPass.

Australia's love affair with property also gets a look in, with Scentre working with ANZ and Westpac to trial a blockchain solution to the paper-bound process of obtaining bank guarantees for commercial leases.

Also look out for newbie, BlochExchange, looking to make a play in fractional property investment.

According to KPMG, there are 579 fintech companies in Australia and more than \$675 million has been invested into the sector. Much of this has been channelled into new solutions in areas such as lending, wealthtech, payments and personal finance management.

There has not been a significant amount of funding of Australian start-ups in the blockchain space.

The reason is that blockchains require the support of an eco-system

of participants who are prepared to transact on the agreed platform. Note in this regard the proliferation of global consortiums of incumbent players mentioned above.

The opportunities for start-ups will truly grow once the big players, like the ASX and R3, build their platforms. The start-ups can then build their solutions on top of that infrastructure.

Having said that, there have been some Australian start-ups making moves, including Identitii and Kyckr in the identity space, Digital X in payments, Othera in alternative asset trading and Veredictum in anti-piracy.

AGL has partnered with WA-based Power Ledger to use blockchain for consumers to trade solar energy.

The hype is high but before blockchain can be rolled out it needs to be proven to be secure.

While blockchain has certain advantages in terms of security, high profile hacks of cryptocurrencies built on blockchain architecture

(such as Bitcoin and ether) give cause for concern.

In July alone there was \$US39 million of ether stolen in two separate attacks. Before deploying their blockchain solutions, banks and others will need to give consumers and regulators comfort they are robust and safe.

Now you will have to excuse me, a blockchain conference producer is calling on the other line.

Nick Abrahams is a corporate speaker on innovation and the future. He leads the APAC Innovation Practice for global law firm Norton Rose Fulbright. He is a co-founder of legal disrupter, LawPath and is on the board of ASX-listed software company, Integrated Research. He is the author of the book *Digital Disruption in Australia*.

This article was originally published by *The Australian Financial Review* and is reproduced with permission. <http://www.nortonrosefulbright.com/news/155592/the-australian-financial-review-nick-abrahams>

CAMLA members are invited to the 2017 Communications and Media Law Association Annual General Meeting and end of year drinks event



CAMLA Board nomination and proxy forms can be found at www.camla.org

THURSDAY 30TH NOVEMBER

5:45 pm Annual General Meeting

6:30 pm End of year drinks

Kindly hosted by:

Bird & Bird

Level 11

68 Pitt Street, Sydney

RSVP to camla@tpg.com.au or (02) 4294 8059 by Thursday 23rd November.

Please also indicate whether you will be also attending the Annual General Meeting and if you have any dietary requirements.

We look forward to seeing you there!