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Marcia E. Asquith
Office of the Corporate Secretary
FINRA
1735 K Street, NW
Washington, DC 2006-1506

Via: pubcom@finra.org

Re: Distributed Ledger Technology: Implications of Blockchain for the Securities Industry, a Report from the Financial Industry Regulatory Authority

Dear Sir/Madam,

CFA Institute[1] appreciates the opportunity to provide comments to the Financial Industry Regulatory Authority (Finra) on its report, "Distributed Ledger Technology: Implications of Blockchain for the Securities Industry (the "Report"). CFA Institute represents the views of those investment professionals who are its members before standard setters, regulatory authorities, and legislative bodies worldwide on issues that affect the practice of financial analysis and investment management, education and licensing requirements for investment professionals, and on issues that affect the efficiency, integrity and accountability of global financial markets.

As a point of principle, CFA Institute supports a functional regulatory approach that is technologically agnostic and is less likely to be made redundant by technical development. In addition, a functional approach provides a level playing field for different business models that should, in time, yield the most efficient solution to delivering a given financial service. For this reason, we *a priori* would argue for no special regulatory approach to businesses and business models that use DLT or blockchain to deliver financial services. We believe the main role for regulators in this environment should be to ensure new entrants and new business models are not able to find ways around existing regulations. Whether some of these regulations are appropriate is a different question that we believe should be addressed separately and in a holistic manner, rather than, for example, as part of a DLT-focused exemption.

Please find below our comments on three sections of the report dealing with: clearance and settlement, trade and order reporting requirements, and fees and commissions.

Clearance and Settlement

Distributed ledger technology and blockchain, a particular implementation of DLT, seem to have promising applications in the field of clearing and settlement. We know the current monopoly counterparty – the Depositary Trust and Clearing Corp. (DTCC) – has been actively investigating blockchain in the last year. However, we wish to sound a cautionary note about considering DLT/ blockchain to be the only technical solution available.

[1] CFA Institute is a global, not-for-profit professional association of nearly 146,800 investment analysts, advisers, portfolio managers, and other investment professionals in 163 countries and territories, of which more than 140,000 hold the Chartered Financial Analyst® (CFA®) designation. The CFA Institute membership also includes 147 member societies in 73 countries and territories.

Blockchain is a particular type of DLT and, in turn, DLT is only one of a number of ways of improving existing database infrastructure. Swift's new Global Payments Innovation (GPI) that has introduced one-day settlement without the use of blockchain or DLT is evidence of this. The reasons Swift gave for not using DLT were the need to improve their service offering quickly and the relatively immature state of development of its DLT pilot programs. In addition, the desire for T-zero settlement needs to be examined on a cost-benefit basis. While blockchain and DLT certainly enable T-zero settlement, so do other technical approaches. Moreover, depending on the magnitude of benefits relative to costs, these technologies may cause market participants to conclude it would be better to wait for better, more-cost effective technologies in the future.

Trade and Order Reporting Requirements

CFA Institute believes real-time reporting requirements are critically important for price discovery and market integrity. The US has a relatively robust system of trade reporting with all equity trades being reported to a single, consolidated tape, something that does not happen in Europe. We wish to highlight the importance of maintaining this characteristic of US equity markets in any future DLT or blockchain-based market system. Many market participants have lamented the slow progress in upgrading market infrastructure and switching to a DLT or blockchain-based market system may improve things on this front. However, we again note that DLT is not the only option for improving network performance, as the recent upgrading of the Securities Information Processor shows.

Further, while post-trade reporting presents a relatively simple-to-understand application of DLT or blockchain technology, pre-trade price transparency is more difficult to envision on a DLT system. First, current market structure is highly fragmented and competitive with very low end-user costs. Consequently, it is hard to see how a DLT-based network would arise as cooperation among exchanges would be necessary to capture the network effects. Second, to the best of our knowledge, DLT-based applications, particularly blockchain-based applications, necessarily perform batch processing. Batch processing of trades has been suggested in the past as a potential solution to latency arbitrage among exchanges, but ultimately found little support at the time. It is difficult, therefore, to see what has changed in this regard that would make DLT or blockchain attractive in this sense.

Fees and Commissions

Investor protection is a core mission of CFA Institute and we welcome FINRA's caution on the possibility of DLT-based networks possibly levying additional or increased customer fees. In the context of a DLT-based market system, we struggle to justify the levying of any new types of fees for investors given the highly competitive and low-cost nature of the modern US equity market. Given the highly technical and complex nature of DLT-based systems, it is important that firms do not take advantage of this complexity to obfuscate their fees and commissions structures to investors.

Ultimately, we do not see DLT or blockchain-based systems providing new types of financial services, merely more efficient ones. If DLT is to improve the efficiency of financial services it is difficult to understand why fees and commissions would increase. We would be wary of firms touting services such as private key or wallet management as a reason to increase fees – ultimately the all-in cost of trading must be lower on a like-for-like basis if DLT is to represent progress of any kind.

The financial service must be qualitatively different and better to justify higher fees, for example an improved certainty of execution. We believe FINRA should be vigilant to the possibility of mis-selling or up-selling unnecessary services to end-investors.

Concluding Remarks

Should you have any questions about our positions, please do not hesitate to contact Kurt N. Schacht, CFA at kurt.schacht@cfainstitute.org or 212.756.7728; or James C. Allen, CFA, at james.allen@cfainstitute.org or 434.951.5558.

Sincerely,

/s/ Kurt N. Schacht

/s/ James C. Allen

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