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CFTC Looks to Blockchain to Transform How It Monitors Markets

Agency now struggling to manage data would be able to see firms' trading activities in real time—but plan would have to survive procurement process.



CFTC Chairman J. Christopher Giancarlo sees blockchain and other technology as a way to get the agency out of 'a 20th-century time warp.' PHOTO: JOSHUA ROBERTS/REUTERS

By *Gabriel T. Rubin*

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The Trump administration has promised to modernize the federal government's operations, aiming to run it more like a Silicon Valley technology giant.

The Commodity Futures Trading Commission, a market regulator, is conducting an early test of that initiative. The regulator hopes to use blockchain—the ledger technology that underpins the digital currency bitcoin and increasingly is being used by financial institutions and others to record and track transactions—to help it better analyze immense amounts of data. But it faces many hurdles embedded in government rules.

Procedures for acquiring new technology can hamper government agencies' ability to test out innovative products, leaving them with outdated and inefficient systems, experts say.

“Procurement procedures work really well when you know exactly what you want to get and how it will work,” says Jeff Bandman, who until this year served as a financial-technology adviser at the CFTC. “But when you're trying to understand the capabilities of a new technology, these procedures may not lend themselves well,” because they encourage a cautious approach so that agencies don't waste taxpayer money on technology that doesn't work out, says Mr. Bandman, who founded the consulting firm Bandman Advisors after leaving the CFTC.

The CFTC, which has about 700 employees, was tasked with new responsibilities after the financial crisis. Now overseeing much of the \$483 trillion global swaps market, the regulator must analyze mountains of data and keep a close eye on the markets to prevent wrongdoing and maintain market stability.

It has struggled with data management. A report earlier this year by the CFTC's Office of the Inspector General chided the commission for its methods in collecting data on market activity, saying current data was “essentially unusable.” The report cited “outdated mark-to-market valuations; illogical or impossible values; incorrect product

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classifications; incorrect cleared status; and an unworkable mishmash of firm ID formats.”

To modernize, CFTC Chairman J. Christopher Giancarlo introduced a plan to invest in financial technology such as blockchain. “The CFTC remains stuck in a 20th-century time warp,” he said in a May speech announcing the initiative. “It is imperative that we open wider our agency doors and regulatory minds to benefit from fintech innovation.”

Mr. Giancarlo has spoken favorably of using

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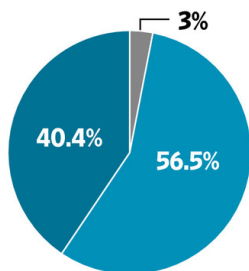
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blockchain technology to give the CFTC real-time access to the transaction data of regulated trading participants, rather than the agency waiting until later to piece together trading data to understand market conditions, as it does now.

“In the current system, regulators are completely reliant on regulatees to provide information to them,” says Charley Cooper, managing director of R3, the provider of a blockchain-based technology platform for financial transactions that is used by a consortium of more than 80 financial firms. If the CFTC were to participate in the consortium, he says, the agency’s market-oversight division would be able to see real-time transaction data from firms under its jurisdiction. R3 has such relationships with financial regulators elsewhere, including in Canada, Hong Kong and Singapore.

Tech Trouble

A study of more than 300 federal IT projects over the past decade found that few went as planned. A breakdown of outcomes:



Note: Study looked at 329 projects with more than \$10 million in labor costs.

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SUCCESSFUL

Completed on time and on budget, with all features and functions as initially specified.

CHALLENGED

Operational but over budget, over the time estimate, and offers fewer features and functions than originally specified.

FAILED

Canceled at some point during the development cycle.

Daniel Gorfine, the CFTC’s chief innovation officer, says R3 is one of several blockchain consortia that commission officials have discussed joining at some point. He says cost isn’t the primary impediment, but rather that the relatively untested nature of the technology makes such an investment a gamble for now.

“That’s potentially down the road,” Mr. Gorfine says. “Right now we’re just trying to learn and better understand the technology underpinning

these various blockchain consortia.”

The CFTC announced last week that Mr. Gorfine will also serve as the primary staffer for the commission’s Technology Advisory Committee, under new Republican Commissioner Brian Quintenz. The committee has not met since February 2016.

Tough judges

Should the CFTC decide it wants to join a blockchain consortium, it would have to go through a so-called scheduling process with the General Services Administration, in which a price for the service would be set and the provider would be approved and registered as a government contractor. People who have dealt with the process describe it as a time-consuming, Kafkaesque hurdle, and approval is uncertain.

“We’ve put in place a lot of strictures about how you can purchase things, and those are all very good,” says Justin Slaughter, a partner at consulting firm Mercury Strategies and a former aide to CFTC Commissioner Sharon Bowen, referring to rules put in place by Congress over several decades to prevent corruption and waste in government spending. “But it makes it hard to buy cutting-edge stuff. We’re always a generation behind.”

Cost overruns and faulty rollouts of technology projects at government agencies in recent years have sharpened the focus of Congress and the Government Accountability Office on preventing waste.

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In recent testimony before the House Oversight Committee, the GAO’s information-technology director, David Powner, ticked off several major government technology projects that had failed to achieve their goals despite significant expenditures. He cited a Department of Veterans Affairs project to upgrade its patient scheduling that was canceled in 2009 following an estimated \$127 million in spending, as well as an Office of Personnel Management effort to

modernize its retirement systems that was canceled in 2011 after \$231 million was spent.

A study of federal IT projects between 2007 and 2016 by Standish Group International, a research firm, found that only 3% of large-scale federal IT projects were successful, which the report defines as on schedule, meeting user expectations and remaining within budget.

Still, federal spending on technology projects is slated to inch higher. The Trump administration has allocated \$96 billion for federal IT projects in its 2018 budget, up from \$94 billion in 2017.

Mr. Giancarlo’s vocal advocacy for upgrading the CFTC’s technology could work in the agency’s favor as it tries to get a piece of that pie. Kathleen Hamm is a senior strategic adviser to the CEO on cyber solutions at Promontory Financial Group, a consulting firm owned by International Business Machines Corp. Based on her experience at her previous position as counselor to the deputy secretary of the Treasury in the Obama administration, she says that to be successful, technology projects in government require intense engagement from agencies’ senior leaders.

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