

VIDEO

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Focus on Funds: How Blockchain Could Transform the Fund Industry

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New efficiencies associated with blockchain technology could lower the cost of fund operations. In the April 20, 2018, edition of *Focus on Funds*, ICI Chief Industry Operations Officer Marty Burns details how.

Transcript

Stephanie Ortballs-Tibbs, ICI director of media relations: You may be hearing a lot about cryptocurrencies these days—but did you know that they can have a real impact on the way your mutual funds operate, and create new efficiencies and innovation within the industry? That's what we're looking at, as I learned from speaking with Chief Industry Operations Officer Marty Burns.

Marty Burns, ICI chief industry operations officer: Cryptocurrencies, because they're digital, can transact and can move very efficiently. They can move, essentially, in real time—unlike money, which has to go through the Federal Reserve system, and multiple banks, and various steps to get from one party to another.

Digital currencies can move essentially in real time. That can be very efficient when it comes to settlement of both portfolio securities, as well as mutual fund shares.

Ortbals-Tibbs: Now for laypeople like me who are still trying to sort out all of these terms, how do I understand cryptocurrency, digital currency, and blockchain?

Burns: Cryptocurrencies are currencies that are issued by the consensus of a group. So if you think about bitcoin, it means that there is a group of people who have gotten together and decided that bitcoin would operate in a certain way. There is no government behind it, there's no legal obligation behind it. Digital currencies are the electronic version of fiat currencies—so think about it as an electronic dollar. That's the difference—it carries the full faith and credit of the US government, just as the dollars in our wallets do.

Ortbals-Tibbs: And then blockchain fits into this how?

Burns: Blockchain is the technology that runs underneath the surface that keeps track of,

and does all of the recordkeeping for, the cryptocurrencies. So, blockchain is the engine that makes all of the activity move forward through all of the use of cryptocurrencies.

Now, it's interesting—and this is one of the challenges for operations—there is a lot of resource demand for the cryptocurrency system and blockchain to run. For example, I read a report that it takes 155 megawatts of electricity for some of the processing that goes into blockchain and cryptocurrency activity. That's the equivalent to 1.5 million households' worth of electricity. That's a lot of power to be drawing that requires infrastructure that will support all of that. And you can imagine, Stephanie, as the use of cryptocurrencies expands, that draw is going to get only bigger and bigger.

Ortbals-Tibbs: It's a really interesting, fast-moving, innovative area. Where do you and your team see this going? What should we watch for?

Burns: We need to see how the regulators are going to react to this, and see where they're going to allow this to be used. There are many, many organizations that are out there—including regulated banks—that are looking at cryptocurrencies to do things like cross-border settlements. That's an area that is highly manual today. If that can be smoothed out, if that can be automated through cryptocurrencies, that could become a big plus for all of our members.

So we'll continue to watch the consortiums that are working together, how the regulators are playing into this, what they will allow—and whether or not at some point the federal governments will designate cryptocurrencies as a medium for payment.

Additional Resources

- [Video: Understanding Cryptocurrencies and Funds](#)
- [From the *Investment Company Fact Book*: Core Principles of Mutual Fund Regulation](#)
- [FAQs: The Differences Between Mutual Funds and Hedge Funds](#)
- [ICI Guide to Understanding Mutual Funds](#)