CAN BLOCKCHAIN REINVENT THE SECURITIZATION INDUSTRY?

The Structured Finance Industry Group and the Chamber of Digital Commerce commissioned Deloitte & Touche LLP to examine the application of blockchain in securitization to answer this very question.

After months of analysis and multiple consultations with various industry constituents involved in the securitization lifecycle, there is little doubt that blockchain and smart contracts, a key technology that enables many blockchain applications, hold such promise. Blockchain will streamline processes, lower costs, increase the speed of transactions, enhance transparency, and fortify security. Let's examine what the future of the securitization lifecycle looks like:

Blockchain and smart contracts in action

1. All loan data placed on the blockchain becomes immutable and is time-stamped within a verifiable audit trail. From the point of origination, there will no longer be a need to consult different data silos for different pieces of relevant underwriting and servicing information, creating one "true" and auditable source of data.

2. Asset servicing will become truly automated and integrated, with the ability to track and manage payments, initiate corrective measures, and update underlying loan records for adjustments. The tagging of loans to unique owners will eliminate double pledging and reduce fraud risk.

3. Different parties finalize transaction details and model the terms of the deal as a smart contract. All parties would approve the model before it is recorded on the blockchain. Consensus would eliminate duplication and reduce misalignment among different parties' models, creating one "true" model for the life of the transaction.

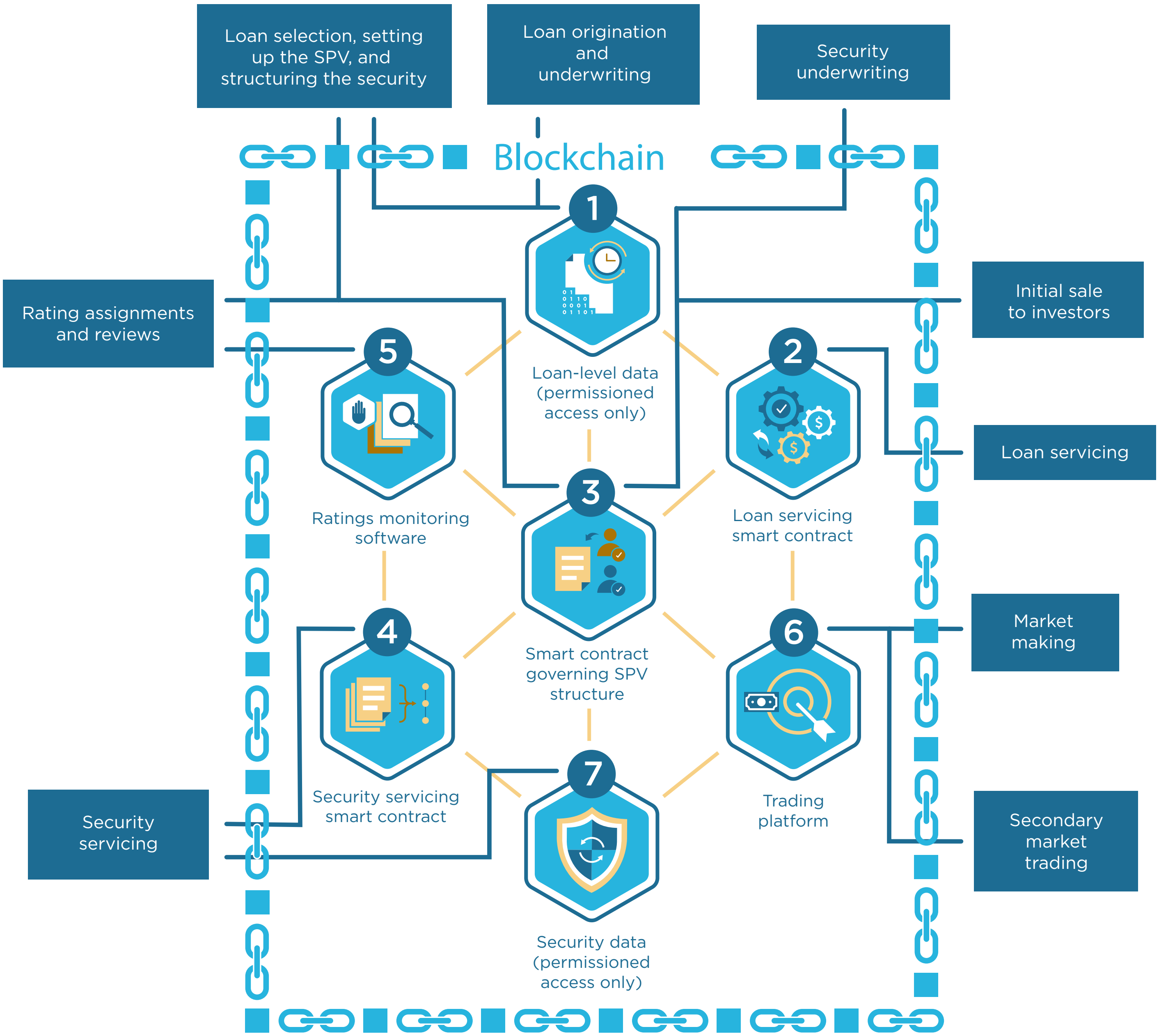
4. Security servicing smart contracts will slice and channel payments to security holders based on the "true" model and relay information to secondary markets and rating agencies. Regulatory reporting and compliance would become simpler and more automated.

5. Rating transparency and timeliness would improve as monitoring software on the blockchain could track security performance raising red flags or triggering reviews as necessary.

6. Security pricing would become more accurate with a potential narrowing of spreads as all investors gain the ability to make real-time assessments of security values by tracking shifting patterns in loan-level payments. Trading platforms could be created directly on the blockchain to enable vibrant secondary markets for securitized assets and eliminate settlement delays.

7. Blockchain will securely and confidentially track and relay security ownership information to authorized trustees to streamline security servicing. Regulators with full access rights could gain a systemic view of asset ownership and monitor systemic risks.

Blockchain and securitization, a possible look at the future



Deloitte.

THE QUESTION FOR THE SECURITIZATION INDUSTRY IS NOT IF, BUT WHEN

One thing is clear: blockchain and smart contracts could catapult the securitization industry into a new digital age! Financial institutions around the world have already invested over a billion dollars in blockchain. Most big banks are likely to have initiated blockchain projects by the end of 2017 and governments and regulators are showing increasing interest. There are already hundreds of use cases, ranging from international payments to securities processing, and major technology firms are offering a host of blockchain services aimed at the financial industry.

Read *Applying blockchain in securitization: opportunities for reinvention* for additional insights into the opportunities blockchain can bring, the potential challenges and obstacles, and the next steps that can begin the journey to a new future in securitization.