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Here's What Bitcoin Offers That Private Wall Street Blockchains Won't

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A [panel](#) at a recent cryptocurrency event hosted by the [Cato Institute](#) discussed the differences between public blockchains (such as Bitcoin) and the distributed ledger technology currently being researched by various Wall Street firms and consortiums. Although many people view [consortium blockchains](#) as competition for Bitcoin, the reality is that these systems are mostly intended for different use cases.

While Wall Street's distributed ledger technology may offer substantial improvements over their current systems, these [permissioned ledgers](#) may not be able to provide the level of openness and [regulatory arbitrage](#) offered by Bitcoin.

Bitcoin Enables an Open-Access Approach

[LedgerX](#) CEO [Paul L. Chou](#) was one of the participants on the recent Cato panel, and noted that the openness of the Bitcoin blockchain was the first thing that attracted him to this new technology. Chou recalled his excitement when first learning about Bitcoin:

“I think, for me, the most exciting thing was really this idea of an open-access ledger that anybody could use and anybody could, importantly, program on. So if you're a 12-year-old kid with no relationships to Wall Street ... before, it was impossible to get access to any of the ledgers that banks use right now. Now, for the first time, if you're a talented 12-year-old programmer, you can build an application that – whether you like Bitcoin as a currency or not – it is moving some sort of value around in an automated way.

“We'll find the next [Mark Zuckerberg](#) of finance potentially with this open-access approach,” Chou said. “You want the people who can just tinker on the side and not have to go through a lot of these meetings and things to get access to all these systems that banks currently use.”

Other payment platforms, such as [PayPal](#) and [Ripple](#), also allow developers to build applications on top of their systems without much restriction; however, permission from the traditional financial system usually comes into play when it comes to unleashing that new financial application in the wild. The process is much more open with Ripple when compared to PayPal, but the early days of payments on that network essentially require large hubs to allow unconnected users to transact with one another; it still isn't a completely open system in that sense.

In addition to the perks of an open-access ledger, Chou also noted, “I see a lot of very exciting potential applications for Bitcoin in microfinance.”

He further explained:

“I worked on Wall Street at Goldman Sachs, and the business model there is very high-touch, very large clients with a lot of depth who need a lot of coverage. That’s fine for one model, but there’s also, I think, room for a model where it’s very low-touch, where the amounts that we’re talking about that people want to save or invest are not that significant to justify a Goldman Sachs or Morgan Stanley kind of going into that market.”

Wall Street’s Blockchains May Be Held Back by Regulation

R3CEV General Counsel Jacob Farber, who was also featured on the panel, shared the current perspective of financial institutions that are experimenting with distributed ledger technology. Although Farber noted financial institutions are not religious about their focus on nonpublic blockchains, he also pointed out the main reasoning behind their current point of view:

“There’s this not very specific but probably reasonably correct sense that, from a regulatory perspective, knowing who the entities are that are running a network is important if you’re a regulated financial institution using the network.”

Farber added that it makes sense for banks to look at permissioned ledgers when the systems they’re attempting to upgrade are already based on a permissioned model. He also claimed permissioned ledgers may be preferred over open systems for some specific financial applications for technical reasons.

In terms of whether Wall Street may eventually switch to a public blockchain, such as Bitcoin, Farber noted, “[If] we’re presented with a solution that solves all of our problems, is regulatorily acceptable, is better, and it is an open system, I don’t know [whether] that wouldn’t be just as appealing.”

Permissioned Ledgers Are Not Unbreakable Chains

With the conversation moving back to Chou, the LedgerX CEO stated that there’s definitely room in the market for permissioned ledgers.

“Certainly, our clients’ account balances and the fees we charge them are not on some public ledger that anybody can view at any time,” Chou said. “I think the real elephant in the room when we talk about this debate is whether elements of the Bitcoin proposal make sense in a permissioned environment.”

Chou noted that mining is a crucial aspect of the original Bitcoin proposal. He indicated that a lack of mining in a supposed blockchain proposal changes the implications of the distributed ledger technology one is building:

“I know a lot of people are taking the approach where they channel transactions and their blocks together, but there’s no mining at all. But they still think it’s some sort of unbreakable chain when, in fact, that’s not the case.”

This gets back to Farber’s point about regulation. To many, Bitcoin’s core value proposition is censorship resistance, and it appears that (for now) forms of bank-powered distributed ledger technology will not threaten this use case. In this regard, the centralization of mining power may be amore serious, existential threat to Bitcoin’s usefulness.