

## Kynetix explains Distributed Ledger Technologies and its future

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By Commodity Technology Advisory LLC

**ComTechAdvisory:** *What is Kynetix' interest in Blockchain technologies?*

**Scott Riley:** There are three primary drivers to Kynetix's interest in DLT:

1. Our mission at Kynetix is to bring total trust to the commodity markets. Given the claims that DLTs are a 'trust machine' we thought we better explore the assertion. Having been at the forefront of technology in our field for over 20 years, technology is in our DNA. Blockchain or DLT technologies are currently attracting huge interest across financial and physical market players. Our experience has taught us that the best way to understand new technologies is to experiment with them and test their capabilities and functionalities; which is what we've been doing with our partners for the last 2 years.

2. Sentinel, our best of breed market infrastructure platform, sits between the physical economy and the financial markets. As such we need to ensure we can interface with any platform in the commodity transaction value chain. We believe DLT will revolutionise aspects of the commodities transaction value chain and therefore we need to continue leading initiatives on this topic.

3. Innovation is a constant in our industry. All our customers, including the likes of LME, ICE, SDiX all demand that we continue to offer them innovative solutions so that they can in turn offer their clients new, market leading services. We are proud of our legacy of collaboration with key clients and we always aim to deliver our clients the latest innovations to help unlock value in the physical markets for their customers.

**ComTechAdvisory:** *What is the Blockchain Consortium and what are its aims?*

**Scott Riley:** At an early juncture we realised the huge potential impact that DLT could have on our stakeholders and users. The first thing to do was to bring this

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community together. Our initial aims remain: educate, then to explore what the technology can offer, to find trust (be it in the Governance, legal framework, regulatory environment etc.), alignment in the business model and then finally consensus within the community. We feel it is important that the consortium represents a distributed community / eco-system – inclusive of producers, users, intermediaries, central market infrastructure etc.

**ComTechAdvisory:** *What is a distributed ledger and how does it work?*

**Scott Riley:** There are many explanations of what a DLT is and how it works. The number of DLTs continues to grow and as DLTs mature (version updates etc.) so too does some of their functionality and operation. We believe that the context of the DLT is critical.

Let's break down each item of DLT or Distributed Ledger Technology. The "D" is about distribution and community. What is it that you want to distribute? Ledgers are great at recording events. So, who do you want to give access to write events in your ledger to? If you're just giving write authority to a central authority then you need to challenge why you need a distributed database at all. But then think of something like a cargo inspection or a warehouse inspection. You might want one authority to confirm location, another to confirm quality, another to confirm conditions (be it humidity to security). As each of these trusted third parties add their 'bit' the quality, transparency and value of the data increases. Next, the "L" for ledgers. Ledger can have different structures. Think of an analysis pad for an accountant, a ruled grid for a mathematician, a blank page for an artist. Each of these can be considered a ledger, just with a different structure. Here the critical element is the data structures. What you're recording...and for whom.

Finally, the "T" for Technology or the chain: One way we put order around the structure of a book is with page numbers – so too it is with DLTs. One block (or page in our analogy) links to the next. This daisy chain of blocks (or pages) gives rise to the term blockchain. The concept is simple; the complexity of course is in the detail.

**ComTechAdvisory:** *What sort of applications might it have in the commodities supply chain and trading world?*

**Scott Riley:** The scope for application is endless. Applications might be Bills of Lading, Customer Identity, Provenance, Location. Bearing in mind a ledger is great for any change of state. As such, use cases abound throughout the transaction life cycle. Think farm gate to

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Generation 10

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dinner plate – anything in the supply chain where greater transparency around title will provide more clarity (and eliminate frictional cost of trade items such as double insurance coverage). Think of any process where there is currently a physical movement of paper to accompany the goods in transit.

In our experience it is not the blue sky thinking or the weird and wonderful ideas that will take hold. It is the applications where a group of stakeholders come together who see alignment in their common goals albeit their individual objectives may be different. It is for this reason we feel bringing likeminded people together, in the consortium, is the best approach to define the models for adoption.

**ComTechAdvisory:** *Isn't the Blockchain thing just a lot of hype and no real substance at the moment?*

**Scott Riley:** Undoubtedly there is a huge amount of hype around DLT – although maybe less so that at the end of 2015. Maybe we have turned a slight corner in that regard. That said, things are happening. New fabrics are being announced, user groups and open source contributions are becoming inevitably richer, the experiences of multiple proofs of concept are being embraced. Real applications, end cases or other, are being either prepared or deployed. The DLT cat is out of the bag.

**ComTechAdvisory:** *What is Kynetix' strategy with respect to this technology?*

**Scott Riley:** Kynetix is excited about technology. With respect to this DLT technology we want to continue to explore what can be done and where the technology will go. We believe academia still has an important role to play as the technology matures. Hence our ongoing work with Imperial College and other institutions. As we see multiple proofs of concepts reported we watch closely to see the path to adoption. We notice that after the excitement of the proof of concept, adoption requires clarity around the governance structure (one of the things we don't like about Bitcoin), confidence in a legal framework that addresses dispute resolution and comfort in the regulatory environment one is operating in.

We believe technology, as ever, is an enabler. What is critical is the context and community that the technology serves. In our 20 years we've been fortunate enough to build a unique position in the commodity markets. We've always embraced technology and we certainly look forward to advancing the technology with our partners.

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## Scott Riley

Scott Riley began his career at Merrill Lynch implementing the changes required in order to comply with the UK's 'Big Bang' Financial Services Act of 1986.

Scott has been an instrumental part of various start ups. From niche broker dealers all the way through to building new central market infrastructures. Be it ADX in Australia or Chi-X in Europe.

Scott has seen and managed the transition from floor trading through to screens. This included closure of a floor presence, bringing all the business 'upstairs', joining new electronic markets and being amongst the very first firms to offer and risk manage direct market access in the new electronic trading environment. The pre-cursor to the commoditised DMA that is available today.

Scott was a founding Director of Chi-X Europe where he was responsible for the Chi-X Post Trade market model and all Post Trade solutions. This included the relationship with Fortis, now ABN Amro, which become known commercially as EMCF, the European Multilateral Clearing Facility. Scott's long history and experience in the post trade arena has seen him participate on various industry bodies including the European Commission MOG (Monitoring Group) for the implementation of an improved Clearing and Settlement framework.

Be it working with the sell side, buy side or central market infrastructure, Scott brings a wealth of post trade experience that can be applied anywhere in the transaction value chain. A market practitioner that has experienced and implemented innovation and proven disruptive technologies always have a place in our industry.

Scott occasionally blogs on Post Trade issues and developments at: [clearingandsettlement.blogspot.com](http://clearingandsettlement.blogspot.com)

You may also be interested in [An Interview with Michael Kirch CCO of Beacon](#)

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