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Blockchain: Should CFOs Believe the Hype?

Blockchain has the potential to transform our world, and for CFOs it has the potential to revolutionize the way the finance function works.

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Tipped as one of the technologies set to revolutionize how business is done across a range of industries, blockchain has risen to prominence in recent years. In Gartner's 2016 Hype Cycle for Emerging Technologies, which listed blockchain as an "at the peak" technology, the firm estimated that it would take five to 10 years before there's mainstream adoption of blockchain, demonstrating the high level of interest in its potential. But is it really all it's cracked up to be?

Blockchain is a way of recording transactions in a distributed database or ledger that holds a continuously growing list of data records in real time. Each set of transactions is stored

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together as a block, in chronological order and using a digital signature that makes them verifiable, permanent, and transparent.

It has three inherent traits that make it special. All transactions are verified by consensus from other parties on the blockchain; everyone who takes part in the blockchain has a synchronized record of all transactions that have ever occurred; and special rules, called "smart contracts" can be built into each transaction to create automatic responses to certain outcomes.

Why the Hype?

Blockchain has the potential to transform our world, and for CFOs it has the potential to revolutionize the way the finance function works. By removing duplication of effort and unnecessary processes and by guaranteeing greater integrity of data, blockchain could lead to a more efficient and secure way of doing business than ever before.

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OPINION

Much of the discussion about blockchain has focused on the financial services sector. But blockchain's potential for transformational impact will redefine the role of the CFO across all industry sectors.

In fact, we're already seeing high demand for the application of blockchain in the health care, life sciences, logistics and transportation, and power and utilities industries. That's because it has huge potential to be integrated across both financial settlement operations and business operations, enabling more informed business structures and transactions.

The goal is to allow processes to be integrated across current business architectures. For example, there are smart contracts that automate payments when products are delivered, thereby transforming enterprise working capital requirements and administration costs.

That's why blockchain, while still in its infancy, could drive new business models, improve risk mitigation, and provide greater predictability within business processes. With all parties in a transaction verified by digital signatures, new trusted networks, markets, and value could emerge. With credit risk reduced, there would be valuable cost and time-saving benefits that would help improve the speed and transparency of doing business.

How Will It Redefine the Finance Function?

Potentially, we could see an environment in which third-party transactions are shared on a public, private, or semi-private blockchain and verified for integrity. Blockchain could provide significant improvements in clarity of company information and allow companies to communicate how they are performing overall by creating an environment in which every transaction can be verified in almost real-time. Companies would be able to provide extensive verification and data instantaneously.

An evolution to the blockchain will happen step by step. Initially, companies could start to migrate suppliers and distributors to blockchain using smart contracts. They could also manage such processes as billing and tax declarations through the technology.

Internally, finance departments could also start to capture some transactions via blockchain, allowing for more consistent, accurate, and up-to-date reporting across the business and with external stakeholders, including investors.

Further into the future, blockchain could enable the continuous, real-time auditing of accounts, with transaction history reported instantly. With transactions executed and automatically validated in real-time, investors and auditors would have an accurate snapshot of a company's finances at any given moment. This would provide greater transparency, confidence, and trust, while increasing efficiency for all involved.

If it fulfills its early promise, blockchain will have significant implications for the role of the finance department, the CFO, and the wider business. With the ever-evolving risk landscape, new business models, the changing nature of competition and increased business complexity, blockchain presents a huge opportunity to increase the efficiency and value of the finance function, while freeing up staff to focus on more value-added activities.

What Kind of Assurance Will CFOs need?

Even with the high level of security promised by blockchain, CFOs will need assurance regarding the systems and processes involved before implementing this relatively untested technology. At a fundamental level, they would need to be confident about the existence and accuracy of all the users in the blockchain network and would require checks to verify the digital signatures and counterparties involved.

Standards regarding financial accounting and reporting would need to be introduced, providing guidance on how blockchain transactions should be managed. From a legal perspective, CFOs also will likely need guidance on how existing laws and regulations would apply to the use of the technology.

There would be an increasing need for cyber and software auditing to help ensure blockchain transactions have the necessary security and encryptions. Similarly, the integrity of IT systems, applications, and controls would need to be verified through governance and risk assessment. Third-party providers also would have to be thoroughly vetted and audited to help ensure they are trusted and compliant.

With new demand for assurance, blockchain could also change the nature of auditing, reducing the auditor's role in checking and validating account transactions and moving them further up the value chain. Auditors would be able to provide further counsel about overall business processes while designing the audit strategies to be used in complex technology systems.

What do CFOs Need to Do?

Ignore blockchain at your peril, since blockchain will have a useful impact in every business. CFOs have a unique opportunity to define the blockchain agenda and embrace the hype – albeit in a controlled and risk-balanced manner – before it's forced upon them.

Companies must not, however, focus only on how this technology fits into their current business and operation. Instead, they should also look at what their products and services look like in a blockchain-enabled world moving forward.

Jeanne Boillet is EY's global assurance innovation leader.

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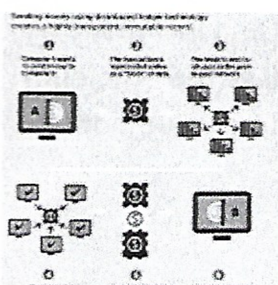

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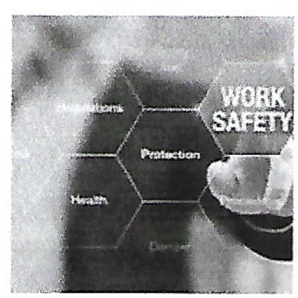

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