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Via email to [pubcom@finra.org](mailto:pubcom@finra.org)

Marcia E. Asquith  
Office of the Corporate Secretary  
Financial Industry Regulatory Authority  
1735 K Street, N.W.  
Washington, D.C. 20006-1506

Re: Distributed Ledger Technology: Implications of Blockchain for the Securities Industry

Dear Ms. Asquith:

Fidelity Investments<sup>1</sup> (“Fidelity”) appreciates the opportunity to comment on the Financial Industry Regulatory Authority’s (“FINRA”) recent report, *Distributed Ledger Technology: Implications of Blockchain for the Securities Industry* (the “Report”).<sup>2</sup> The Report, among other items, discusses governance, operational structure and security concerns with Distributed Ledger Technology (“DLT”). The Report does not suggest new rules or guidelines, but instead seeks comment on key implementation and regulatory considerations for broker-dealers associated with DLT and is intended to be an initial contribution to an ongoing dialogue with market participants about the use of DLT in the securities industry.

Fidelity is well positioned to comment on the Report because innovation is at the heart of our company. Much of Fidelity’s research on early-stage technologies is currently accomplished through Fidelity Labs<sup>3</sup> which identifies and explores emerging technologies that incubate new products, services, and businesses. Recent examples of Fidelity innovation include: Fidsafe (2014), our cloud-based electronic vault which permits users document-by-document access control; the first-of-its-kind financial services application on the Apple Watch (2015); and the first stock market

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<sup>1</sup> Fidelity Investments is a leading provider of investment management, retirement planning, portfolio guidance, brokerage, benefits outsourcing and many other financial products and services.

<sup>2</sup> See *Distributed Ledger Technology: Implications of Blockchain for the Securities Industry*, a FINRA Report (January 2017) available at: [http://www.finra.org/sites/default/files/FINRA\\_Blockchain\\_Report.pdf](http://www.finra.org/sites/default/files/FINRA_Blockchain_Report.pdf)

<sup>3</sup> Fidelity Labs is a subsidiary of FMR LLC and provides innovative products, services, content and tools as a services to its affiliates, including National Financial Services LLC, a FINRA member and Securities and Exchange Commission (“SEC”) registered clearing firm, and its affiliate, Fidelity Brokerage Services LLC, a FINRA member and SEC registered introducing retail broker-dealer.

updates on the Amazon Echo (2016). This work gives our customers access to leading-edge products and services that empower their financial lives.

As the Report indicates, over the past few years FINRA has actively engaged with market participants to monitor developments related to DLT and its potential impact in the securities industry. We appreciate FINRA's commitment to work with the securities industry to better understand DLT. Going forward, we urge FINRA to fulfil its investor protection mandate in a manner that does not impede the development of DLT, such as through the development of certain core regulatory principles for DLT that might include FINRA's continued: (i) support for private sector innovation; (ii) knowledge of market developments on DLT; and (iii) coordination with other regulators both domestic and international. Each of these points is discussed in more detail below.

### Support for Innovation

FINRA should continue to support private sector innovation with respect to DLT. DLT is a nascent technology that has the potential to decrease processing times, reduce costs and create efficiencies to the benefit of both member firms and their customers. As the technology is still in its early phases, and given uncertainties with respect to the specific technology that will ultimately be used, it is difficult for us to comment on specific DLT use cases at this point in time. While regulatory consideration should be given to the different issues presented by private - and public - chain schema, from a development standpoint, we believe that an open source common standard for DLT will be important going forward because it will provide the greatest opportunities for application layer innovation.

During this initial phase, we seek regulators that welcome an entrepreneurial spirit and provide "a predictable, consistent and straightforward legal environment"<sup>4</sup> in which DLT can flourish. As DLT develops, we anticipate that the existing regulatory framework of the securities laws will remain fundamentally unchanged, but specific updates and changes may be required to accommodate DLT. During this development phase, FINRA might consider several different approaches to support innovation, including the following:

- 1) FINRA might consider the creation of a dedicated group of staff that would both provide support to FINRA member firms as they work through DLT issues and increase awareness and training activities for FINRA staff on DLT issues. For example, we note that the Office of Comptroller of the Currency ("OCC") recently released its Responsible Innovation Framework, a key component of which is the establishment of the OCC's Office of Innovation which will provide outreach and technical assistance to banks and non-banks

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<sup>4</sup> See Special Address of CFTC Commissioner J. Christopher Giancarlo Before the Depository Trust & Clearing Corporation 2016 Blockchain Symposium (March 29, 2016) *available at*: <http://www.cftc.gov/PressRoom/SpeechesTestimony/opagiancarlo-13>

while also providing awareness and training activities to OCC staff.<sup>5</sup> Similarly, we understand that the SEC has a Distributed Ledger Technology Working Group.

- 2) FINRA should develop safe harbor concepts around testing of new DLT technologies. Such concepts could provide a dual benefit of permitting member firms to experiment with new technologies and increase regulator's awareness of new products and how they are developed.
- 3) FINRA should consider the application of DLT to its own internal processes. For example, we encourage FINRA to consider the application of trusted networks in such areas as the recording of securities licenses and/or filing of advertising as a way to create efficiencies for FINRA membership.

### Continued knowledge of market developments on DLT

To regulate DLT effectively, FINRA will need to keep informed of market developments in this emerging technology. We observe that from time to time regulators create advisory committees or hold public roundtables on specific topics to help keep apprised of emerging areas. Advisory committees are typically comprised of a cross section of market participants and are typically charged with providing the regulator diverse perspectives on specific topics as well as advice and recommendations on matters related to those topics. Public roundtables are similarly comprised of a cross section of market participants and are often used as a forum to discuss specific topics. We note that the SEC recently held a well-received Fintech Forum to discuss innovation in the financial services industry and at which topics such as blockchain technology were discussed.<sup>6</sup>

Fidelity is fortunate to have a number of diverse business lines that have been considering blockchain issues. If FINRA creates an advisory committee or holds a public roundtable on DLT, we would be happy to serve in any manner FINRA believes appropriate.

### Coordination with other regulators

Given its regulatory scope, any actions by FINRA on DLT would necessarily only affect FINRA rules. However, based on their activities, most broker-dealers are subject to a patchwork of rules from the SEC, self-regulatory organizations ("SROs") such as the MSRB and national securities exchanges, and registered clearing agencies. Also, many broker-dealers are subsidiaries of larger, international organizations. Thus, in seeking to implement DLT, firms would not be limited

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<sup>5</sup> See Office of the Comptroller of the Currency *Recommendations and Decisions for Implementing a Responsible Innovation Framework* (October 2016) available at: <https://www.occ.treas.gov/topics/bank-operations/innovation/comments/recommendations-decisions-for-implementing-a-responsible-innovation-framework.pdf>

<sup>6</sup> See Securities and Exchange Commission *SEC Announces Agenda, Panelists for Nov. 14 Fintech Forum* (November 3, 2016) available at: <https://www.sec.gov/news/pressrelease/2016-234.html>

to considering FINRA rules, but would also need to consider rules by other financial regulators, both domestic and international, to which they are subject.

To this end, we encourage FINRA to work with the SEC, as well as the SROs, on DLT issues to help promote consistency of regulatory approach. Regulatory coordination should also include other federal financial regulators and potentially international regulators. A coordinated regulatory approach will result in a more competitive financial services industry by creating a level playing field for all market participants.

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We thank FINRA for considering our comments and would be pleased to provide any further information or respond to any questions that you may have.

Sincerely yours,



Ralph C. Derbyshire

cc:

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Robert Colby, Chief Legal Officer, FINRA  
Haimera Workie, Senior Director, Office of Emerging Regulatory Issues, FINRA  
Kavita Jain, Director, Office of Emerging Regulatory Issues, FINRA

Michael Piwowar, Acting Chairman, SEC  
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