The Reality of Blockchain for CFOs and Auditors

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Blockchain technology’s ability to record any form of data makes it malleable for use in many industries. Despite its vast potential for financial services, in particular, its adoption by that sector has taken on a more measured pace, hindered in many ways by the reality of implementation.

The reality is, long-term, successful implementation of blockchain for finance will require much clearer understanding of the technology, to begin with.

The benefits, after all, are specific to each industry. For financial reporting and accounting, for instance, these extend to enabling synchronisation, or data verification in real time.

“What blockchain allows you to do is create a ledger maintained by the Internal audit team that receives immediate and secure data from the business lines, which can then be potentially validated by external auditors in real time,” explained Campbell Harvey, Professor of Finance at the Fuqua School of Business, Duke University.

He was quoted in the report, “Blockchain For Financial Leaders: Opportunity vs Reality” prepared by the Financial Executives Research Foundation, which interviewed stakeholders for their insights into how far adoption was underway.

“When you go into real time you actually eliminate all the negative incentives that exist at the end of the quarter to make the numbers look good, because there is no end of quarter.”

Standardisation of accounting processes is particularly valuable as a way to minimise error and therefore, risk. Yet as will be seen later, this is also a double-edged sword insofar as blockchain is concerned: use of a digital ledger enhances accountability but it simultaneously reduces flexibility.
Blockchain for Finance: The Switching Costs

Contrary to how blockchain for finance is often touted as a way to cut down on operational costs, switching will in fact first incur costs. Financial institutions would need to perform the switch at the right time, as well as with the right budgets in place in order to keep the switching cost manageable.

“I think organisational inertia, and the lack of budgets for hardware and software, are probably the biggest impediments,” notes David L. Yermack, who is Chairman of the Stern School of Business at the New York University.

Financial institutions may be reluctant to make a quick switch to the blockchain seeing as it presents its own set of unique hurdles to be reckoned with.

Integration with Existing Systems

For one thing, a switch of processes onto the blockchain entails entertaining a whole new set or risks, most of which have never been faced or successfully overcome. The blockchain technology, after all, has only been around for about ten years.

The challenge for accounting systems, however, pertains to whether blockchain is even suited for the field.

Experts argue, for instance, that blockchain, by confining accounting to the reality of holding down every transaction to what is recorded in the ledger, limits the idea behind financial reporting, which is to capture real world events alongside it.

Eventually, the constantly evolving nature of finance would also make total, blockchain-centered consensus difficult to pin down.
How would all participants on the blockchain, for instance, necessarily know if GAAP or IFRS accounting standards have been met?

“We (then) can’t have average retail investors participating in this network because they would throw up their hands and say, “Well, I don’t know accounting standards. I can’t tell you whether this was correct,” says Joshua Coyne, assistant professor at the University of Memphis School of Accounting.

**Problems with Scaling Blockchain-based Processes**

Scaleability in the long run is also an issue posed by the inherent structure of blockchain, which relies on multiple nodes acting as entry points for new entrants to participate in the ledger.

“Keep in mind that a chain is only as strong as its weakest link, which is equally true of blockchains. If one node has performance, scale or security problems, they can impact the other nodes,” tech consultant Bernard Golden, has warned before.

“A blockchain can be a powerful solution, but organisations should use it only when they have challenges that aren’t addressed well by existing technology,” he said.

The other scaleability issue pertains to how much information each party is in reality, comfortable with sharing, especially where the difference could often result in holding to, or giving away, a strategic advantage.

“The desire to make that information available for other parties to see is something companies will need to think through for each case,” opines Jon Raphael, Audit Chief Innovation Officer for Deloitte & Touche LLP.

**Bridging The Talent Gap**

Blockchain talent shortages also poses a risk to any immediate implementation of blockchain in the field.

“The size of the blockchain talent pool is one of the biggest factors that will be important to scale its adoption,” comments Darhini Dalal, US Blockchain Lab Leader at Deloitte Consulting.

In Switzerland, this problem is caused by two main factors: the high cost of hiring experienced blockchain experts, and the high cost of living in Switzerland itself.

The average annual salary for a Swiss blockchain developers can range from anything between US$120,000 to US$180,000 according to Thomas Bertani, CEO of the Swiss multicurrency wallet Eidoo.

Additionally, with their expertise and experience, it simply makes better business sense for blockchain experts to offer consultations instead. Mary, as it were, have been around in the industry long enough to reap financial independence, which frees them from the need to work under employment.

Job ads for blockchain experts grows at more than 40% each quarter, LinkedIn data suggests. Since growing a sustainable amount of talent is likely to happen only in the longer run, the
additional risk this poses is to incur inflated hiring costs in the short run.

Interested to learn more about blockchain and its implications for financial professionals? Here’s an event you can check out:

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