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## UK Financial Conduct Authority Publishes Discussion Paper on Distributed Ledger Technology

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The **UK FCA** has published a discussion paper (DP) on the potential uses of distributed ledger technology (DLT) in [financial services](#). The purpose of the DP is to start a dialogue on the risks and opportunities in relation to DLT. The FCA has gained exposure to DLT through its Regulatory Sandbox initiative.

The FCA describes DLT as “*a set of technological solutions that enables a single, sequenced, standardised and cryptographically-secured record of activity to be safely distributed to, and acted upon by, a network of varied participants.*” It states that industry efforts to investigate DLT have become especially concentrated over the past 24 months and, in the second half of 2017 into 2018, it expects to see firms moving on from “Proof of Concept” to “real-world” deployment of this kind of technology.

The FCA outlines a number of potential benefits and risks associated with DLT including in respect of governance, resilience and smart contracts.

Focusing on smart contracts, these have been around for many years and pre-date DLT and Bitcoin. The FCA defines smart contracts as “*blockchain functionality to execute pre-determined commands without further human intervention.*” One of the firms that participated in the Sandbox applied smart contract technology to enable charitable donations. Under this proposal, donors transferred money to a charity donations platform using traditional payment means. The platform then sent the funds to the Sandbox firm, which issued a corresponding sum of electronic money via DLT. The funds were then “tokenized” and, conditional on the verification of a third party that a charity had fulfilled certain objectives, the tokens were transferred to the charity for redemption for fiat currency. This aimed to provide assurance to existing and potential donors and increase donations as a result.

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