

Responsibility Without Power?

The Governance Of Mutual Distributed Ledgers (aka Blockchains)

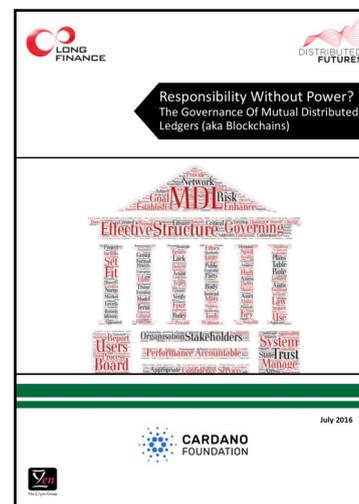
Although Mutual Distributed Ledgers (MDLs) are often referred to as ‘trustless networks’ due to the way that transactions are managed, in reality, trust and effective governance are critical factors in the success of an MDL.

Overview

Mutual Distributed Ledger (MDL, aka blockchain) technology is, still, in an emergent phase. New applications are under development; new uses are being researched; new consortia are being formed to explore MDL applications. Considering appropriate governance structures has had a lower priority so far, but trust in the increasingly popular systems will depend on their incorporating good governance principles. It was the aim of this study to identify those principles, in order to provide a roadmap for developers and users alike.

An analysis of the material collected through desktop research, as well as several discussions with practitioners and stakeholders including a conference and webinar on the subject, has revealed that effective governance in Mutual Distributed Ledgers (MDL) systems relies on people rather than software and should seek to answer four critical questions:

- How are rules created for the ledger and who oversees their application?
- What happens in the case of dispute?
- Who is allowed to change the software application and the data?
- How are security, risk, and performance managed and reported?

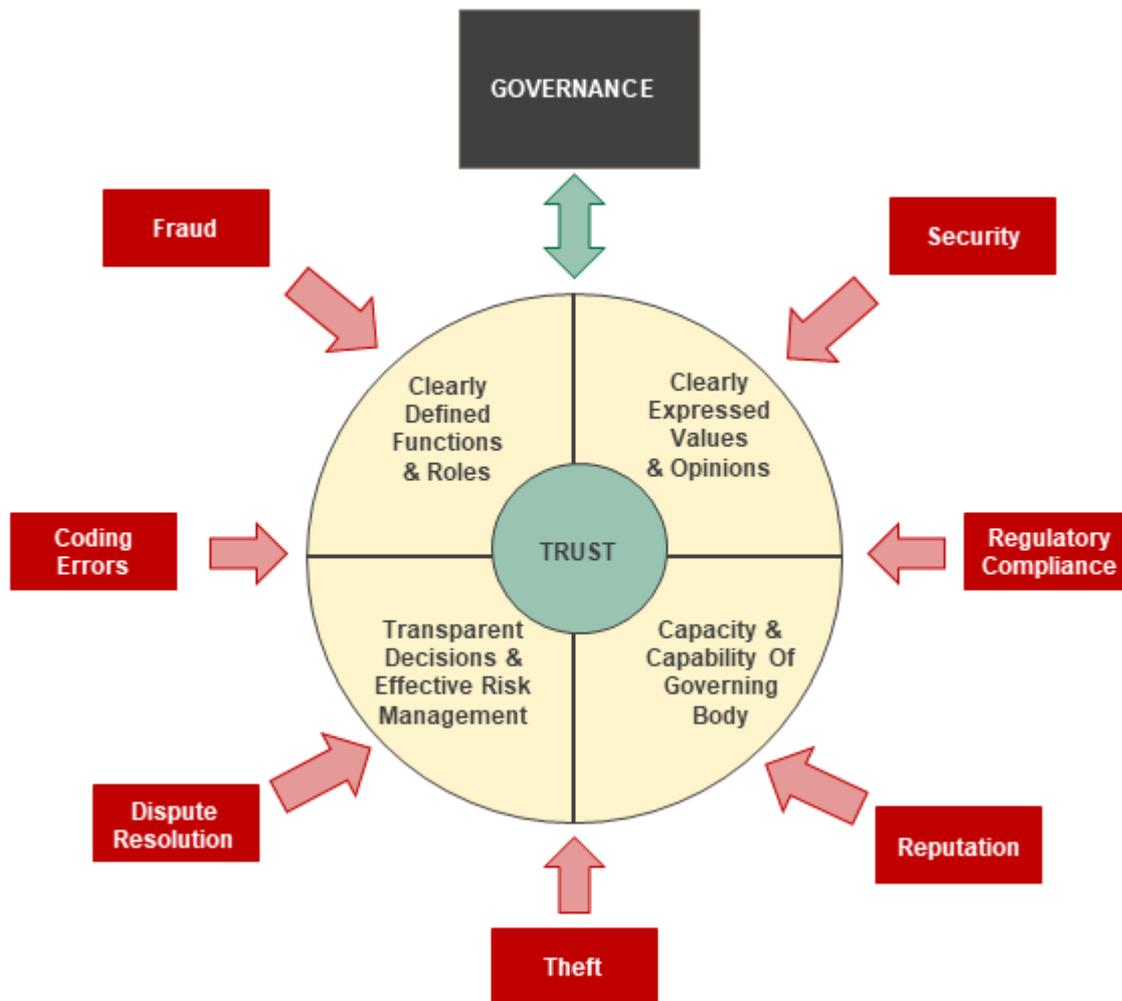


Report Extracts

| Governance Structure | Use Class |
|--|--|
| Co-operative: An autonomous association, jointly owned and democratically controlled. | Public MDLs (Un-permissioned): Little formal governance structure, <i>e.g. Crypto-currencies.</i> |
| Appointed Board: Board members are appointed by stakeholders, or the board itself, to bring particular knowledge and skills to the table. | State sponsored MDLs (Permissioned): Governance structures of sponsoring agencies grafted on, <i>e.g. land registries or identity.</i> |
| Oligarchy: The individuals that comprise the board are the owners or stakeholders. | Private MDLs (Permissioned): Highly defined governance structure, <i>e.g. platforms for blockchain</i> |
| Membership: Board members are elected to their positions and tenure is for a fixed period. | Consortium MDLs (Permissioned): Established and managed by a group of organisations rather than a single entity, likely to have a complex governance structure, <i>e.g. Financial Services or Internet of</i> |
| Representative: For organisations that wish to have members who are enterprises instead of individuals. This structure may be appropriate for | State-Sponsored and Consortium MDLs (Permissioned, see above) |

Report Extracts

Factors Affecting Trust In MDL Networks



Conclusions

Governance, which enhances trust in MDL systems, rests on three pillars:

Architecture: The role of the governance structure, its composition, remit, powers, responsibilities, and relationship with users is a critical component.

Accountability: Effective governance of MDLs creates confidence for stakeholders. Appropriate confidence is enhanced when a governance structure is accountable to its stakeholders, transparent and predictable in its decision-making, and has strong ethical foundations, particularly with respect to access to justice.

Action: The governance structure must develop strategic and risk management plans, which are delivered through effective performance management frameworks. Confidence can be enhanced through the use of voluntary standards to verify independently performance metrics and systems created to compile them.

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