EIGHT REASONS WHY IN-HOUSE COUNSEL CAN NO LONGER IGNORE BLOCKCHAIN

Blockchain has been called the most important technological innovation since the Internet—and for good reason. The existence of a shared, immutable and cryptographically secure ledger has wide-ranging application for virtually every industry. Much as the Internet revolutionized the way we communicate, blockchain is transforming how we transact. Payments can be transmitted without the need for third-party validation, and goods within a supply chain can be publicly tracked and traced, profoundly reducing the potential for fraud and counterfeiting.

Blockchain use cases don’t stop there. The technology can be deployed in virtually any industry to make processes and transactions more efficient. Thanks to the development of smart contracts and other blockchain innovations, the legal field is one of the sectors ready for blockchain disruption. In that vein, below we’ve listed eight reasons why in-house counsel can no longer afford to ignore blockchain technology.

1. BLOCKCHAIN DISRUPTION EXTENDS FAR BEYOND DIGITAL CURRENCY

While blockchain was created to help realize the goal of creating a decentralized digital currency, the applications of the technology are vastly broader. Don Tapscott, a bestselling author and leading technology authority, calls the development of blockchain the “second era of the Internet.”

Whereas the first stage provided us with unprecedented access to information, now we’re transitioning to an Internet where value is a defining feature. Thanks to blockchain, anything of value (from money to cultural assets) can be securely stored, managed and transacted upon chain.

Blockchain represents a major shift for organizations—one that may rival the introduction of desktop computers, email and the Internet in terms of impact. Speaking at the Association of Corporate Counsel’s annual meeting last year, Tapscott said that blockchain will be the “biggest driver of change” for in-house counsel in the coming decade.

2. THE ROLE OF IN-HOUSE COUNSEL IS EVOLVING

The days of having a siloed legal department are quickly ending. Today’s corporations expect legal department operations to be integrated into overall business goals and strategies. Innovation and disruption are creating extraordinary changes within the legal sector, a development that’s causing organizations to reconsider the optimal method for in-house legal operations and the purchasing of legal services.

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Efficient management of legal workloads, closer scrutiny of outside counsel relationships and the seamless integration of new technologies have all emerged as top priorities for organizations within this new landscape.

“Blockchain is going to have an impact on how we do business and how we live on a scale similar to the Internet,” says Judith Rinearson, a partner in K&L Gates’ New York and London offices. “Clients want lawyers who understand it, and who can help them adapt.”

3. THE EMERGENCE OF SMART CONTRACTS

Smart contracts are computer protocols that allow contracts to be digitally verified, facilitated and enforced without the need for third parties. Because of their wide range of potential applications, smart contracts have been hailed as one of the most exciting uses of blockchain technology and one of the most relevant for fields such as law where contracts are a routine part of doing business.

Because blockchains offer cryptographic security, smart contracts are more secure than traditional contracts. They also reduce transaction costs, as they eliminate the need for a middleman in the form of third-party verification. Once the terms of a contract are met, it is automatically enforced.

It should be noted, however, that blockchains are only as good as the information that’s encoded. A blockchain does not have the ability to verify the accuracy of information.

4. SECURITY AND PROTECTION OF CORPORATE DATA ARE TOP PRIORITIES

The rise of Big Data and cloud computing were accompanied by a corresponding rise in malicious security breaches. Today, in-house counsel are shouldering greater responsibility for such breaches. Cybersecurity is now a paramount priority for organizations and in-house counsel.

Because blockchains are supported by strong and complex cryptography, they are less vulnerable to the actions of hackers or other bad actors. Last year, Lockheed Martin announced that it was using blockchain in its cybersecurity efforts: “These new cyber security approaches will enhance data integrity, speed problem discovery and mitigation, and reduce the volume of regression testing, which results in reduced schedule risk.”

While no technology is one hundred percent secure, the presence of powerful cryptography makes it very difficult for blockchains to be altered by an outside party with malicious motives.

This has wide-ranging applications for security professionals. Because data breaches are such a critical challenge for modern organizations, it’s highly likely that blockchains will play a key role in securing the most sensitive information for corporations in the years ahead.

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5. SERVICE OF PROCESS IMPROVEMENTS

Providing proof that process was served (or that there was an attempt to serve) is one of the fundamental challenges of service of process. Blockchain is well-positioned to help address this issue as it offers several key benefits.

First, it allows for the posting of server data (such as GPS coordinates, timestamps and device data) to the blockchain. This in turn generates a unique blockchain ID. This blockchain ID—which cannot be tampered with—then serves as verification that certain service of process data has remained unaltered since entry.

This improves service of process by making it more transparent, easily verifiable and efficient.

6. MORE EFFICIENCY IN REGULATORY COMPLIANCE

Maintaining compliance with evolving regulatory environments is a key organizational mandate. This mandate has grown more challenging in the wake of the financial crisis of 2008, when new regulations were issued necessitating the structured and well-defined reporting of risk data. However, the presence of often outdated legacy IT systems—and backlogs of data within systems separated by legal and regulatory barriers—may make the process of aggregating and automating data quite difficult.

Blockchain technology can alleviate many of the bottlenecks and challenges organizations are confronting in their quest to maintain compliance. All transactions are immutably recorded on the ledger, providing a precise, secure and

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permanent audit trail. The presence of a single, shared permanent record also eliminates the need for organizations and regulators to maintain private records—something that should lead to substantial cost savings across the industry. The speed and quality of the regulatory review process are also improved, as the need for reconciliation is eliminated.

Know Your Customer (KYC) rules are another area where blockchain is poised to make a significant impact. Tasks associated with KYC are often repetitive and result in duplicate processes and inconsistent information. Blockchain offers the ability to quickly and inexpensively verify customers—something that greatly improves the KYC process.

The security and immutability of blockchain make it ideally suited for meeting new regulatory requirements and serving as a trusted identification repository. This is an idea that can be scaled significantly, as evidenced by Singapore’s efforts to create a national KYC utility.

7. **OTHER INDUSTRIES (AND YOUR POTENTIAL COMPETITORS) ARE ALREADY DEPLOYING BLOCKCHAIN**

Blockchain has established a strong foothold in a wide array of industries and the legal field is no exception. Legal professionals who make an effort to stay perched at the vanguard of this technology will be poised to earn a powerful competitive advantage.

Real estate offers an excellent example of the power of blockchain in action. It’s a highly complex industry with many moving parts; the combined activities of buyers, sellers, agents, brokers and the processes of title and escrow can make real estate transactions slow and potentially risky.

Blockchain technology, however, can eliminate the need for paper recordkeeping. Instead, ownership can be tracked and confirmed on the blockchain, something that will confirm the accuracy of documents while streamlining property transfers. Recently, an apartment in Ukraine became the first property to be *bought and sold* using blockchain, as developer Mark Ginsburg sold his Kiev property to TechCrunch founder Michael Arrington for $60,000. The transaction occurred via smart contract on the popular Ethereum blockchain.

Retail supply chains provide another relevant example. IBM and Walmart recently partnered with Fortune 500 online retailer JD.com to launch the Blockchain Food Safety Alliance. This new initiative, which will help track and trace food products through the supply chain, was started with the assistance of Tsinghua University. The goal is to improve the overall food safety ecosystem within China.

8. **MORE STATES ARE RECOGNIZING SMART CONTRACTS**

The legal recognition of smart contracts continues to gain traction as several U.S. states have signed blockchain legislation into law. Delaware was the first state to offer a legal basis for trading equities on a blockchain in 2017, while in the same year Arizona passed a bill recognizing blockchain signatures and smart contracts. Tennessee followed with similar smart contract legislation shortly thereafter.

While this is a positive development, it should be noted that these legislative efforts are not uniform. For example, Tennessee’s smart contract law language differs from Arizona’s, as the former is more opaque in terms of how terms such as “contract” and “executed” are defined.

As more states develop their own legislation, organizations will have greater certainty and guidance when deploying their own blockchain-based solutions.

**IN CONCLUSION**

Blockchain technology holds the potential to radically disrupt industries and fundamentally change the way we transact. The legal field is an especially strong candidate for this kind of transformation, as blockchain-related innovations such as smart contracts offer the ability to create profound new efficiencies.

To derive maximum competitive advantages from this technological shift, in-house counsel should make a concerted effort to keep informed of the latest developments in blockchain, while also pursuing careful and well-considered integration of the technology when the opportunity arises.

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