

Smart Contracts in Practice

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Smart contracts in practice

- I seem to be one of the few people that have issued smart contracts in actual business transactions.
- Five loans to three SME's in Hong Kong. Total value is HKD 500,000. Over the next six months, I intend to issue a total of HKD 1 million in loans, and I am currently applying for a money lenders license so that I can raise capital from other sources.

Use case

- Money to be used in 2-3 years
- Do not want to put it into banks or to buy property.
- Zero percent interest + pushes up the property bubble
- Want to move capital from property to SME's

Issues with SME lending in HK

- High transaction costs – Cannot recover costs with standard fixed interest rates
- SME's need flexible loan conditions
- Needs to be a debt based instrument
 - Equity is unsaleable in HK
 - Manufacturing firms need working capital
- Need mechanism to be able to package loans for resale
- Need borrower to understand the terms of the loan

Build the car before you build the road

- I can't wait for a platform. The companies need the money now
- The contracts have to be usable independent of the platform

Smart contracts

- English common law
- Javascript
- Inspiration from
 - Derivatives technology in major banks
 - Islamic finance
- Legal issues (anticipating the OKCoin/Ver issue)
 - Where is the contract situated?
 - What is part of the contract?
 - How do you record the contract?
 - How do you execute the contract?

Grumpy comments on smart contract platforms

- A platform based business model will not work as a substitute for ordinary commercial agreements
- One reason that smart contracts have not taken off is that they are not addressing real issues
 - Contract law is not complicated or inefficient
 - Contract enforcement does not depend on governments
 - Overuse of automation
 - Restrictions that make the contracts unusable – i.e. escrow
- Reinventing the wheel
 - DAO's already exist. They are called SPV's and were critical in the creating the 2008 financial crisis

Complete automation increases inefficiency

- Vending machine problem
- Breach of contract calculations
- Overspecifying irrelevant details.
Underspecifying important ones.

What next

- Money lending license is pending
- Beta testing and bug fixing
- Create convertible note example for RISE
- Think through insolvency and near insolvency issues
- Work on user interface
- Test cases to HK courts????

Hong Kong is going to lead in smart contract technology

- Very strong legal/finance background
 - Manufacturing
 - Maritime law
- Cross cultural/cross border issues
- Near centers of technology