**R3 Corda**

David Rutter founded R3 in 2012 after leaving his post as CEO of British company – ICAP Plc, an electronic brokerage firm. Mr. Rutter’s first hires for the company included Jesse Edwards and Todd McDonald. The company was started to introduce more effective technology into the bank ecosphere, and mainly to solve the pain points of the banks such as, clearing, settlement, and record keeping of financial assets. Rutter saw an opportunity to move this non-proprietary back office function out of the individual banks and into the “cloud”. Expenses shared across firms along with cryptographic principles of R3’s blockchain can create trust among acting participants. With past knowledge and success, in the first three years R3 was able to concluded on financing itself through a collective bank consortium which included many of the top banks globally. This would be accomplished though the Corda/banks join venture which included financing through an initial membership to the Corda/bank platform with three differing levels of one, five, and ten million dollars per bank. A ten-million-dollar payment to Corda for membership will also result in a board seat, an attractive chess piece to offer for seasoned bankers with little additional time. There would be no equity issues to the banks in this relationship in relation to financing.

Based on the roundtable discussions and supplemental case information, banks and other investors major pain points was the expensive time consuming process of clearing, settling, and recording when trading any slew of financial assets both in and out of house in origination. Banks specifically also wanted to slash back office costs and enhance security issuance and its effectiveness. Instead of any one bank running their own DLT, by creating a truly shared ledger the back end costs can be distributed according to network usage by the banks. The security of transactions would be visible for notaries to confirm and thus make it immutable on the blockchain. With the advent of smart contracts, the banks can take a lot of the intermediary steps away from the process of clearing and settlement. Clearing will be enhanced with the Corda DLT “blockchain” because shared computing power will work to push the transaction through the system as long as the transaction(s) are confirmed and not fraudulent as deemed by the assigned notary of the blockchain. Security issuance becomes as simple as a few lines of code, thus cutting intermediary costs that would have been pushed to an IB division where unnecessary fees would rack up. Smart contacts on the R3 blockchain will allow for the banks to confirm their personal requirements are met before any value is transferred from one peer to another. The common misconception is that banks always want equity this couldn’t be farther from the truth especially considering the experience Mr. Rutter has with consortiums. Banks would want to join the consortium for their long-term success. Joining the consortium in conjunction with fellow banks allows them to continue with their daily bank functions while having highly specialized and trusted party “R3” work hard and make the underlying banking industry more effective. If they were to create their own DLT not only would it take immense time, but more importantly force them to reach outside their conventional business model and company to hire the experts needed in the young-aged industry field of blockchain. Banks inherently have vested financial interests and may not even realize the full potential of their DLT ‘s due to the engrained nature of the Bank business model and “way” in their head. Banks would also want to join the consortium, because their membership will have repeatable value that will cut costs and raise profits for the banks if R3 is successful in the long-term. Since the Banks will not be holding the equity they can assume less risk if the R3 grand idea fails at any time. Corda is the solution for the problems aforementioned; it is a DLT that offers a unique set of attributes. The Corda platform would not bundle transactions then validate much like that of the BTC blockchain, but rather have a notary validate each individual transaction which speeds things up. The introduction of an untrusted node to the blockchain will lead to a different core truth for the network and lack of trust is the source of most of the costs and difficulties with post-trade processes for banks. The main way the Corda blockchain is different from the BTC blockchain is the aforementioned validation strategy. Notaries on the Corda chain will record facts on the immutable ledger, this differs from bitcoin where consensus of the transactions is accepted across the 10,000+ full nodes. On the BTC blockchain everyone is sharing the overall data “actions on the blockchain” to everyone else, while on the Corda, consensus occurs only between the two parties with the notary as a verifier. The Corda chain also differs in that it does not need a common source of value other than electricity due to its lack of public ability. There is no cryptocurrency or token on the Corda DLT.

In terms of a recommended business model for R3 to monetize Corda, I believe the membership is a great way to start off initially. This offers a way to get off the ground to a working product, which can then make money for you, without giving away the ability to claim cash flows of the venture in the future. From this point I propose that Corda negotiate a deal as a Notary where they can collect gas for notarizing the transactions between banks who usually turn a profit off the failures of the other. By collecting gas Corda has an incentive to keep the blockchain in pristine shape with constant iteration to meet Bank needs. I also believe as a supplementary addition to the business model, Corda should track event data through time since the data can only be viewed by the two parties. From here they can actually place this event data on their own bank partnered sidechain where the data can be anonymized and encrypted to then show trends within the banks and their transactions at large while giving away any identification factors to any one party. The reason you would use separate chain in this case instead of a database is that the source of truth is the data presented and the trusted nodes can grab the updated truth at any time, based on the quality of the data and amount, the price can be automatically calculated. In my opinion this is a way for R3’s Corda to make constant money while not changing their underlying actions whatsoever once up and running. There is an option for Corda to also sell this data for the bank’s vested stock options in case banks don’t want to pay in addition to the membership on the side chain.