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Security Settles on Ethereum in Blockchain Post-Trade First

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Michael del Castillo

Mar 16, 2018 at 17:00 UTC | Updated Mar 21, 2018 at 14:00 UTC

FEATURE

In a first-of-a-kind transaction happening Friday, all it takes to switch from the old world of centralized clearing houses to the frontier of decentralized blockchains is the press of a button.

A company called Chartered Opus is issuing two separate [structured notes](#). Both notes were created using ResonanceX, an investing platform founded by Guillaume Chatain, a former managing director at JPMorgan Chase. The first note will be settled the old-fashioned way, on Clearstream, the European clearing house.

But the second, otherwise identical note will be registered, cleared and settled on the public ethereum blockchain. All the issuer has to do to change this parameter is select a different option from the drop-down menu on ResonanceX's dashboard.

The parallel issuance will test the idea, on an apples-to-apples basis, that blockchain offers a less expensive way to clear and settle financial instruments. And if that proves true, ResonanceX will allow future issuers to pick one over the other as easily as if they were changing an order on Amazon.

At stake is more than just the business model of Clearstream, but of centralized clearing houses around the the world.

Nevertheless, in interview with CoinDesk, Chatain balked at the idea that anyone was necessarily being disintermediated. Instead, he said his product simply changes the rules of the game.

"The current system is working very well, it's a well-oiled machine," said Chatain, who previously

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worked with JPMorgan's private risk management. "But you have so many intermediaries that it takes time and it's not necessarily the cheapest way to do things." He added:

"I believe blockchain can fix that."



The transaction

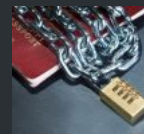
In spite of removing more than a couple intermediaries in today's issuance, the structured product was far from simple.

First of all, it's important to note that the private placement note, the value of which is not being disclosed, was not denominated in ether, the native token of ethereum.

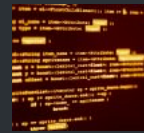
Instead, British pounds were "tokenized," using blockchain startup [Nivaura](#)'s technology, meaning tokens representing pounds were issued to the investors and the cash itself was stored in accounts at Bank of New York Mellon and the U.K.'s Metro Bank. Private key custody for the blockchain clearing and settlement was provided using Nivaura's custody permissions.

The investment itself is linked to the FTSE 100 index and is a principal protected note. That means that if the FTSE is up 2.5 percent when the note matures in two months, the investors get their principal back plus a return equivalent to 13 percent per year. If the index does not increase 2.5 percent, the investors still get their principal back, but no return.

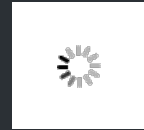
While the note was executed on the public ethereum blockchain, Nivaura hopes to add new options to its dropdown menu, including the bitcoin blockchain, zcash, Quorum, and Chain.



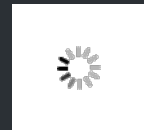
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"It's quite exciting that you can now leverage any clearing system, and it's legally enforceable on even a public blockchain," said Avtar Sehra, founder and CEO of Nivaura, whose technology was used last year to [issue](#) an ethereum bond.

Sehha says it's unclear with the note being issued Friday exactly how much will be saved on the overall cost of the transaction. But he added that in the ethereum bond last year the final cost was reduced from an estimated 40,000 pounds to about 50 pounds, "which is pretty awesome," he said.

Further, law firm Allen & Overy helped ensure the note was compliant, the London-based investment services firm Marex Solutions provided issuance services, helping fix and execute the note within a "sandbox" created by the U.K. Financial Conduct Authority (FCA).

As revealed for the first time to CoinDesk, on March 14, Nivaura also received full regulatory approval from the FCA that removed some restrictions and allows the company to operate commercially. Nivaura charges per transaction for what it considers "utility" services for other platforms to issue and administer financial instruments.



For future instruments using the ResonanceX platform, the composition of the note itself and each of the participants can be customized using the same drop-down menu that lets users toggle between ethereum and centralized settlement systems.

In interview with CoinDesk, the CEO of Marex Solutions, Nilesh Jethwa, said his company has been offering structured notes using the "traditional approach", but that he sees this successful real-world use of the ethereum blockchain as a cheaper, faster, more transparent alternative.

Jethwa said:

"We see blockchain as the future of this product."

However, there is still a long way to go before the trillions of dollars transacted on central clearing houses around the world can move to ethereum, or any other blockchain.

Nivaura CEO Sehra says the biggest limit of the current technology is its interaction with fiat currency, which relies on the services of traditional financial institutions.

"This is the only part of the inefficiency that we've got at the moment," said Sehra.

A new kind of competition

Participants in today's issuance on the ethereum blockchain are quick to point out their technology does not make anyone irrelevant.

Rather than speak of cutting out the middlemen, Chatain and Sehra both focus on a shift in the way financial infrastructure providers and startups compete.

Clearstream parent company Deutsche Börse Group is already exploring blockchain along [three different](#) use cases and the U.S. Depository Trust and Clearing Corporation (DTCC) is [expected](#) to launch a live version of its Trade Information Warehouse using venture-backed Axoni's technology at its core.

From the startup side, traditional investment firm Solidum has already [side-stepped](#) Euroclear by issuing a reinsurance note using the open-source Multichain blockchain. And Axoni has [raised capital](#) from Citi, Wells Fargo and Nex Group (formerly ICAP), and is targeting a number of use cases.

In a year [expected](#) to be filled with live enterprise blockchain launches, Chaitain says the Marex note is most significant, not because it was done without a central clearing house, but because it's cheaper.

He concluded:

"Assuming clients and banks will be willing to adopt the technology, it's something that could work and be commercially viable already."

Ethereum image via [Shutterstock](#)

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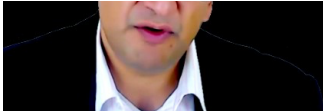
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