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Commerzbank and Deutsche Börse execute legally binding securities settlement using
distributed ledger technology

- Proof of concept for the generation of digital cash and securities tokens
- Completion of the first repo transaction based on delivery versus payment using distributed ledger technology

Commerzbank and Deutsche Börse have for the first time successfully used distributed ledger technology to execute a legally binding settlement of a repo transaction. The prototype transaction based on delivery versus payment was executed as part of a joint proof of concept examining the possible use of blockchain technology in securities settlement.

For the transaction, digital tokens were generated for both commercial bank money (cash tokens) and securities (securities tokens). Distributed ledger technology was then used to execute the simultaneous swap of the tokens as a legally binding transaction. Deutsche Börse acted as the cash provider, Commerzbank as the borrower and main incubator, Commerzbank's research and development unit, acted as the blockchain platform operator. The technology used and the underlying legal concept were developed jointly by the partners.

The successful transaction shows that a legally-binding, efficient and transparent movement of tokenised securities and cash on blockchain based on a ‘delivery versus payment’ principle is feasible. Distributed ledger technology creates an immediate and simultaneous transfer of assets so that the transaction can be settled in real time. The key benefits of this shortened execution time are the reduced counterparty risk and the corresponding reduction of capital costs. This technology also permits the direct and transparent involvement of regulators and oversight authorities.

The repo transaction is based on a public note of KfW Bank Group (ISIN DE000A2LQSP7) amounting to EUR 10 million and a seven-day term with a negative interest rate of -0.5%. Repos are collateralised money market instruments, which banks use to cover their short-term liquidity requirement by depositing securities.

“Through the systematic development of blockchain technology, DLT is increasingly gaining in importance for a growing market. In past pilots we have focused on new issue projects; with the transaction between Deutsche Börse and Commerzbank we were now for the first time able to convert existing securities into digital tokens. We are delighted to support the transaction as a platform operator and, together with Deutsche Börse, to have reached such an important milestone in the adaptation of this future technology for the capital market”, said Michael F. Spitz, CEO of main incubator, the R&D unit of the Commerzbank Group.

“The successful execution as part of the joint project motivates us to explore the efficiency of distributed ledger technology further. Our particular focus here is on the integrated payment function - cash on ledger - which we have successfully demonstrated. The development of different blockchain applications and setting new standards is a high priority for Deutsche Börse Group, and we will push ahead with this process in close exchange with
partners, supervisory authorities and central banks”, stated Jens Hachmeister, Head of DLT, Crypto Assets and New Market Structures at Deutsche Börse.

The results of the prototype settlement can serve as the basis for further developments. The next steps are linked closely to the creation of underlying legal conditions which are a requirement for a binding assessment of contractual relationships. The parties involved see themselves as trailblazers in this young technology and seek to create cornerstones for the financial market infrastructure.

About Commerzbank
Commerzbank is a leading international commercial bank with locations in just under 50 countries. In the two business segments Private and Small Business Customers, as well as Corporate Clients, the Bank offers a comprehensive portfolio of financial services which is precisely aligned to the needs of its clients. Commerzbank finances around 30% of Germany’s foreign trade and is leading in financing for corporate clients in Germany. Due to its in-depth sector know-how in the German business world, the Bank is also a leading provider of capital market products. Its subsidiaries comdirect in Germany and mBank in Poland are two of the world’s most innovative online banks. With approximately 1,000 branches, Commerzbank has one of the densest branch networks among German private banks. In total, the Bank serves more than 18 million private and small business customers, as well as more than 70,000 corporate clients, multinationals, financial service providers and institutional clients worldwide. In 2018, it generated gross revenues of €8.6 billion with approximately 49,000 employees.

About Deutsche Börse
Deutsche Börse Group is one of the largest exchanges worldwide. It operates markets characterised by integrity, transparency and security for investors wishing to invest capital and for companies wishing to raise capital. On these markets, professional traders buy and sell shares, derivatives and other financial instruments in accordance with clear rules and under strict supervision. Deutsche Börse Group’s services and systems ensure that these markets can operate and all participants have equal opportunities – worldwide.

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