

Key Facts Berlin Hyp's Blockchain Pfandbrief

Berlin Hyp is the first bank in Germany to announce the issuance of a digital covered bond (Pfandbrief) on a blockchain. By doing so, the Bank is once again proving itself to be a pioneer when it comes to innovative and forward-looking financial products.



Digital bonds

- ➞ Issuing traditional bonds and Pfandbriefe involves a complex procedure with many steps and participants, whereby the latter include issuers, cover pool monitors, central securities depositories, custodian banks and paying agents.
- ➞ Every transaction – from the purchase order to the redemption – must be documented and entered into various registers.
- ➞ The digital process for bond issues is much more efficient, as transactions can be executed on the blockchain in real time.
- ➞ This lowers costs – for example costs for interim funding, paper documents and numerous manual processes are eliminated.
- ➞ Digital covered bonds are nevertheless secure due to the fact that blockchains have an irreversible structure that provides protection against manipulation and errors.

Technology

- ➞ Smart contracts on blockchains play a key role in terms of issuing and managing digital bonds.
- ➞ A blockchain is a distributed data ledger that records transactions in a growing list of records (blocks).
- ➞ Each block contains information about the previous blocks, effectively forming an irreversible chain.
- ➞ A smart contract functions like an automated program on a blockchain: every time a certain if-then condition has been met, the program autonomously executes a previously agreed-on step.
- ➞ Such steps include, for example, the registration of a digital bond on the blockchain, the transfer of ownership to investors, or the execution of interest and principal payment transactions on the dates defined in a bond's terms and conditions.

Creation process

1. The issuer enters the parameters for the digital bond in the distributed data ledger that runs on a network operated by SWIAT GmbH.
2. A smart contract is then created and used to register the bond in a crypto securities register licensed by Germany's Federal Financial Supervisory Authority (BaFin). At this point, proof of sufficient assets in the issuer's cover pool is also provided.
3. The transfer of ownership to investors is then performed on the blockchain. In the case of Berlin Hyp's Blockchain Pfandbrief, interest and principal payment transactions are executed off-chain, i.e. via conventional channels.
4. The digital bond itself is not created until it is entered into the crypto securities register and ownership of the first bond is transferred to the first investor.

Background

- ➞ Pfandbriefe are covered bank bonds that are collateralised by mortgage loans.
- ➞ Such bonds are particularly safe due to the cover principle employed and the insolvency-remote nature of the cover pool.
- ➞ Up until recently, German law required that a certificate has to be issued whenever any type of security (i.e. a stock, bond, or other financial instrument) is brought to the market.
- ➞ However, nowadays the German Electronic Securities Act now makes it possible to issue, process and manage bonds, including Pfandbriefe, in a purely digital manner.