

Continental, Commerzbank and Siemens Successfully Field-Tested Blockchain Technology on Money Market

- **Commercial paper transaction processed in minutes rather than days thanks to blockchain technology**
- **Project is a major step toward fully blockchain-based securities trading**

Hanover, Frankfurt, Munich, February 21, 2019. For the first time, Continental, Commerzbank and Siemens have carried out a test transaction as part of a pilot project to process a money market security between the companies using blockchain technology. The transaction took place in January. It had a volume of €100,000 and a term of three days. Continental was the issuer of the money market security, which was in the form of a euro-denominated electronic commercial paper according to legal requirements stipulated in the Luxembourg law. Commerzbank provided the Corda-based blockchain platform through its research and development unit, Main Incubator, and acted as a service partner. Siemens subscribed to the money market security as an investor. Corporate law firm GSK Stockmann provided legal advice on the transaction.

The main motivating factor for Continental and Siemens to carry out this project was to experiment with blockchain technology in practice with a view to using it in the medium to long term for regular financial transactions as well. In this pilot project, the transaction was initiated and settled directly between the two companies. A regular securities transaction between two companies was used as a starting point. The companies not only generated the money market security, but also processed the trade (including payment processing) in a legally binding manner using blockchain. The documents and funds were exchanged in a matter of minutes rather than days using this process. Unlike with conventional transactions, Commerzbank was no longer acting as a broker between contracting parties for this particular transaction, but as a platform operator and service partner. It provided the platform and all the technical requirements for blockchain trading, the legal structure and the digital money for direct trading of the money market security (based on e-money as financial collateral, “cash on ledger”).

Stefan Scholz, head of Finance & Treasury at Continental, was pleased with the successful outcome of the project, and commented, “Blockchain made the process even quicker and more effective. Working with our project partners, Siemens and Commerzbank, we tested the feasibility of using blockchain in the Finance department and it proved to be a success. I’m proud of this pioneering achievement. We gained some new experience across various areas of our companies in both a technical and legal respect and also in terms of interlinking between the specialist departments.” Direct contact (including with investors in short-term bonds), considerable flexibility and efficiency combined with increased security, as well as enhanced transparency, are some of the advantages that Continental sees in using blockchain technology in the Finance department.

Peter Rathgeb, corporate treasurer at Siemens, added, “It was important for us to test this technology at an early stage and develop action points for the future. There are clear advantages of using this technology, including significantly shorter processing times and faster time to market. Some of the major challenges revolve around the security and performance aspects and the legal area, such as the importance of creating a consistent European understanding of the standards and legal points involved when it comes to blockchain-based transactions.”

“While markets and technologies are constantly changing, established relationships with customers remain an important asset. We are pleased to be assisting our customers with the process of digital transformation through transactions like these. Blockchain technology has tremendous potential in making capital market transactions quicker, more straightforward and more efficient for our customers,” said Roman Schmidt, Commerzbank’s divisional board member for capital markets.

Processing money market securities usually takes up to two days

Money market securities are used to satisfy companies’ short-term financing requirements. Traditional aspects such as affordable financing costs and flexibility are particularly important with this form of short-term liquidity management. Blockchain will change aspects such as transparency, direct contact with investors and prompt settlement of transactions. The latter will change particularly with regard to the very short terms typically seen for money market securities. Payment and payment processing normally take two days. This is because of clearing systems, which are used to settle payments between accounts and involve a certain time lag.

Blockchain technology enables direct contact and more efficient processing

Blockchain is a special form of distributed ledger technology (DLT). It involves a local database that is used to store replicated, shared and synchronized digital data. All users of a DLT network have access to the same data at the same time. They also have shared write and read rights to the data and shared transparency. This causes a shift in the role of central broker – which is usually performed by banks in the context of financial transactions. State-of-the-art encryption and signature processes based on asymmetric cryptography are used, and are now considered to be practically tamper-proof.

The first dematerialized transaction of money-market securities

For the first time a digital money market security transaction was processed in a legally binding manner. This also made the transaction a lot faster and more efficient to process than before. It was possible because unlike similar blockchain transactions that have been processed previously, this transaction involved a security displayed entirely in blockchain form. The money market security was issued purely in digital form, with the purchase price amount in euros converted by Commerzbank – which has an e-money license – into digital money, so that payment could be made using blockchain. All requirements relating to this transaction were handled by digital and legally binding means using blockchain technology. Immediate value dating and real-time settlement were also possible. This is being regarded as the first step toward technical scaling of automated securities issues.

In the pilot transaction, the security was issued in accordance with Luxembourg law. Consequently, the security was issued, signed and traded digitally using a qualified electronic signature. In addition, for the security trade to be displayed directly and digitally as a delivery vs. payment transaction, the e-money held as financial collateral by Commerzbank was furnished digitally via blockchain, enabling the companies to exchange the security instantly for e-money.

Continental develops pioneering technologies and services for sustainable and connected mobility of people and their goods. Founded in 1871, the technology company offers safe, efficient, intelligent and affordable solutions for vehicles, machines, traffic and transportation. In 2018, Continental generated preliminary sales of around €44.4 billion and currently employs approximately 244,000 people in 61 countries and markets.

Commerzbank is a leading international commercial bank with branches and offices in almost 50 countries. In the two business segments Private and Small Business Customers and Corporate Clients, the Bank offers a comprehensive portfolio of financial services which is precisely aligned to its clients' needs. Commerzbank finances approximately 30% of Germany's foreign trade and is the leading finance provider for corporate clients in Germany. Due to its in-depth sector know-how in the German economy, the Bank is 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, Commerzbank 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.

Siemens AG (Berlin and Munich) is a global technology powerhouse that has stood for engineering excellence, innovation, quality, reliability and internationality for more than 170 years. The company is active around the globe, focusing on the areas of electrification, automation and digitalization. One of the largest producers of energy-efficient, resource-saving technologies, Siemens is a leading supplier of efficient power generation and power transmission solutions and a pioneer in infrastructure solutions as well as automation, drive and software solutions for industry. With its publicly listed subsidiary Siemens Healthineers AG, the company is also a leading provider of medical imaging equipment – such as computed tomography and magnetic resonance imaging systems – and a leader in laboratory diagnostics as well as clinical IT. In fiscal 2018, which ended on September 30, 2018, Siemens generated revenue of €83.0 billion and net income of €6.1 billion. At the end of September 2018, the company had around 379,000 employees worldwide. Further information is available on the Internet at www.siemens.com.

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