MEAG´s experience with Blockchain Technology
Proof of Concept of a security trade in DLT

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MEAG is the asset manager of Munich Re (Group)

Size, expertise and reliability make us the ideal partner for private and institutional investors.

- 278 billion euros of assets under management
- Of which 17 billion euros from private and non-Group investors
Highly innovative

We generate value for our clients with innovative investment solutions.

We have opened up entirely new asset classes and are today invested in renewable energies and infrastructure, and in the more traditional fields of sustainability such as forest and agriculture. We invest in new technologies like blockchain, setting milestones within the finance industry.
A (very) short introduction on the idea of Distributed Ledger Technology

1. Bilateral Reconciliation
- Parties manage their own records and create duplications
- Individual perceptions require reconciliation

2. Third Party Reconciliation with Market Infrastructure
- Parties delegate control and responsibility to 3rd party
- Matched perception created by centralized utility

3. Shared Ledger with no need for Reconciliation
- Parties collaborate to maintain a shared record
- Consistent perception by shared ledger

Source: corda-platform-whitepaper
MEAG DLT Pilot is pioneering a trade and complete settlement of a security in Distributed Ledger Technology

Facts
- Digital issuance of Asset Bucket Commercial Paper by Weinberg with program volume of € 5 bn
- Purchase of a partial amount of € 1 Mio on Feb. 14th 2019 with duration of 5 days
- Complete process of purchase and redemption successfully executed in a Corda DLT (in R3)
- Positive rating of digital security by Fitch & Moodys similar to previous rating (F1 & P1)

Features

- **INCREASED EFFICIENCY**: Acceleration of settlement from t+2 to t+0 leads to increased efficiency & raised performance
- **LEGAL VALIDITY**: Trade of digital ABCP realized according to Irish law and regulations
- **CASH* ON LEDGER**: Settlement included cash transfer triggered out of DLT by exchange of cash vs. security token

*Payment Order on Ledger
With the asset management company of Munich Re and ERGO
Process in DLT with three nodes

1. Issuer
   WEINBERG

2. Investor
   MEAG

3. DLT Bank
   LBBW

- **A** Creation of Security Token by Issuer
- **B** Cash funding by investor and creation of Utility (Cash) Token by DLT Bank
- **C** Exchange of Utility Token vs. Security Token after confirmations
- **D** Utility Token sent to DLT Bank by issuer
- **E** Utility Token triggers transfer of € amount

**Delivery vs. Payment triggered by Smart Contract**

**Process**

1. Issuer creates Security Token
2. Investor funds with Utility (Cash) Token
3. Exchange of Utility Token vs. Security Token
4. Issuer sends Utility Token to DLT Bank
5. Utility Token triggers transfer of € amount

**Flow**

- Utility Token sent to DLT Bank
- Payment Order on Ledger
- Transfer of Cash €
DLT radically decreases number of intermediaries in a trade process *

Roles in conventional process

- Investor MEAG
- Dealer
- Issuer WBG
- IPA
- Clearing
- Custodian
- Account Bank

Roles in DLT process

- Investor MEAG
- Dealer
- Issuer WBG
- IPA
- Clearing
- Custodian
- DLT Bank

*eg. issuance and primary trade of a ABCP
R3 Corda DLT interface / screenshots
DLT reduces settlement time

Traditional issuance of commercial paper involves a number of parties, including dealers, issuing/paying agents and clearing systems. As a result, the settlement process typically can take up to two days.

In contrast, the process for DLT ABCP notes takes less than one hour, because the transaction consists of an electronic exchange of tokenized items through the DLT platform.

DLT improves efficiency

In addition, the DLT platform makes the process more efficient by reducing the likelihood of errors arising from the complexity and number of intermediate parties involved in the traditional process.

Given that maturing ABCP are usually rolled-over, i.e. repaid with the issuance proceeds of new ABCP notes, a more streamlined issuance and settlement execution also allows for a smoother refinancing process.
Benefits of trading securities in a DLT

1. Increase of performance & optimized conditions on buy side
   due to lean issue- and sale- processes

2. Minimized settlement & counterparty risks
   due to immediate settlement

3. Interest advantages: Payment of interest on investment starts immediately
   due to settlement t + 0
Future of DLT in the investment industry

OUTLOOK
- Emerging asset-class-specific DLTs in the next 1-5 Years
- General shift from conventional to DLT Market will require some time

CHALLENGES
- Legal framework
- Interoperability among platforms and between applications
- Standardization of platform technologies and DLT specific documentation (eg. security identifiers) will support acceptance
- Interfaces to legacy systems
Contact

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