Traditional bond issuance processes are complex and opaque, with multiple intermediaries required to allow for investment in and custody of a bond. Relationships between issuers, registrars, and paying agents must be agreed upon and documented. While this is the accepted status quo for capital market veterans, it can be confusing and expensive for new issuers to engage in the process. Blockchain technology creates a vastly simplified process with no intermediaries between issuers and investors.

Under the UK Financial Conduct Authority’s (FCA) regulatory sandbox, Nivaura (a UK-based fintech company) and LuxDeco (a buying and selling platform for luxury home goods) collaborated on the “first-ever cryptocurrency bond fully settled on an open public blockchain using smart contracts.” The ether-denominated bond allowed for issuance and payment without relying on traditional financial systems. Investors simply transferred ether to LuxDeco, which then transferred the bonds to investors. This transaction was time-stamped and included on the Ethereum blockchain. This relatively easy process gives issuers significantly more control over the bonds they issue when compared to traditional processes. Further, it allows for more investors to participate in bond markets, improving liquidity.

Bond issuance is one of the most clear-cut examples of blockchain technology improving legacy systems. Instead of relying on multiple intermediaries, investors and issuers can transact directly with one another, reducing both transaction times and fees. The successful issuance of this bond in a regulatory sandbox is a promising step forward to a complete revamp of bond markets.