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Deloitte CIS supports the first Russian blockchain letter of credit transaction

Moscow, Russia, 23 December 2016. *Deloitte CIS advised S7 Airlines (PJSC Siberia Airlines) on blockchain technology application, and provided legal support to the project.*

On 20 December, S7 Airlines and Alfa-Bank closed a deal with the use of smart contracts.

Currently, many innovative companies are engaged in blockchain technology research and development. However, today we witnessed a practical application of the technology for letter of credit settlements. Only a few similar transactions have been completed globally and this is the first one in Russia.

The use of smart contracts allows for a significant reduction in transaction costs. In this project, smart contracts were used to capture in the blockchain the bank's actions with respect to the opening and execution of the letter of credit. The objective of closing the deal with blockchain technology was to test smart contract operations and their capability in order to improve business processes, as well as to increase the reliability and quality of information exchange between parties to a deal.

Blockchain is a special method of record keeping in a distributed public register. Records have specific meaning and relate to objects that are referred to as values. In this particular case it was information about a letter of credit; however, it may also be money, things or intellectual property. From the legal perspective, a record in the register may confirm a discharge of an obligation, e.g. payment of cash or transfer of ownership. Each record arises as a result of a transaction, which may be initiated by a party to the deal, or, as is the case with S7 Airlines and Alfa-Bank, generated automatically, following actions by a smart contract agreed by the parties in advance.

Due to cryptographic methods of information processing used in blockchain, the status of a letter of credit may be seen in the blockchain record only by those persons that have information about the original parameters of the deal. In this transaction, in addition to Alfa-Bank and S7 Airlines, the information is available to a service company that receives money under the letter of credit.

"We are glad that the blockchain technology is becoming more and more popular with innovative companies in the Russian jurisdiction. We welcome the readiness of S7 Airlines to experiment with smart contracts in business processes and feel confident that further application of the technology will help to significantly reduce costs and increase efficiency. Legally, this transaction meets all the requirements for a letter of credit as a form of bank settlement, and demonstrates the potential of smart contract application in the framework of Russian legislation", said **Artem Tolkachev, Director, Legal Services for Technology Projects, Deloitte CIS**.

Dmitry Kudelkin, Deputy General Director, S7 Group noted: "S7 Airlines is the most technologically advanced airline on the Russian air transport market. We have been using cutting-edge solutions and technology in developing our business as well as passenger service. The transaction enabled us to test

the capabilities of smart contracts and understand how the technology helps to improve business processes and document flow efficiency. We are planning to continue cooperating with Alfa-Bank in this area.”

Deloitte CIS is committed to building on its extensive knowledge of digital technology and innovative approach and extending the range of services related to the implementation of optimal technology and innovative solutions for various projects, including fintech.

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