Corporate Finance using Blockchain Technology

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The realm of technology is developing at a much-needed accelerated rate in view of the recent changes happening across the globe.

The advancement technology is also getting infused in the corporate world gradually. A prime example of the same is the blockchain method. The author in this article discusses about the use of blockchain method in the corporate segment.

Introduction

The blockchain method albeit being used extensively recently, dates to 1982 wherein, cryptographer David Chaum came up with the concept. It was however officially conceptualised by a pseudonym personality - Satoshi Nakamoto.

Blockchain methodology follows a protocol wherein a network of computers is voluntarily added to a group and are provided with the same existing list of records called blocks. Subsequently new records or blocks are added to the said block which creates a chain of blocks, hence the name – blockchain.
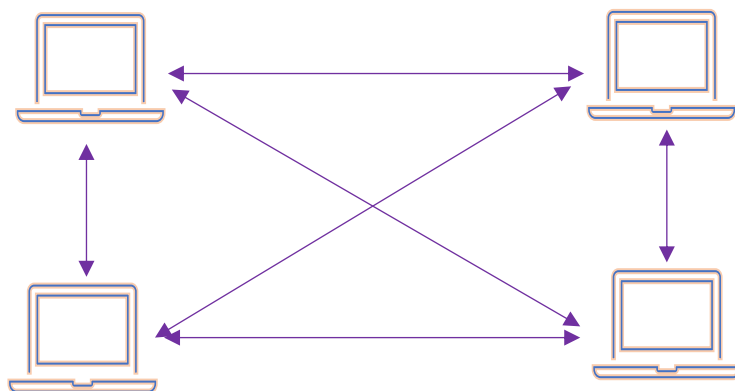
The structure is framed in such a manner that new blocks are added on top of the old blocks which does not per se alter the technology but only acts as a modification, thus makes the entire iteration difficult to alter and thereby retaining its authenticity. This technology can be and is being used in the financial segment given the "iron-clad" protection and resistance against data tampering that is provided.

Smart Contract

Smart contracts are contracts which are based on a programming language using the blockchain technology. The network of computers used in this format ensures verification, control and execution of an agreement. The computer network executes the action on a pre-determined conditions as stated in

the terms of the contract written in the block by way of coding (commonly known as peer-to-peer distributed ledger system).

The contract is automatically executing when all such terms specified in the code are met with. Thus, instead of parties physically signing two sets of contracts, a smarter solution is developed using the said technology and avoiding the involvement of unnecessary intermediaries, thus operating on a peer-to-peer environment. The features comprise the following –

a. Doing away the physical copies of the document.
b. Once the transaction has happened, the same shall remain irreversible
c. The user of the technology may remain anonymous but all the records get registered on the blocks.
d. The terms and conditions of the contract cannot be altered by anyone including the owner or the creator.

A secured way ahead

The risk factor is mitigated to some extent since smart contracts does away with the involvement of any intermediaries and that once the code with respect to such contract is iterated, the same cannot be altered while traditional mode of contract could be altered easily since the same is executed physically and therefore easier to replace the documents.

Additionally, while the contracts which are executed physically faces challenges with respect to non-performance of the same, however, it is fundamentally impossible to execute a smart contract in case of non-performance since such contract is executed on a predetermined set of conditions (discussed later) which leads to avoiding such obstacle.

Drafting of such contracts

Smart contract run on a set of program, therefore, the most likely scenario is that the person behind drafting of such contract may be technical experts who may not be well versed with the law.

On the contrary, the traditional contracts involved several professionals/ lawyers who were privy to the terms and legality of the contract which in this situation is unlikely. Thus, it shall be essential for the parties to the contract to ensure that the technician implementing such codes is aware about all the necessary details. Further, in view of the fact that such program once executed cannot be modified, it shall be essential to ensure that the coding of such program is full-proof from the beginning.

Tenability in India

For a contract to be valid, the prominent test would whether such type of contract can be legally binding in terms of the Information Technology Act 2000 ("IT Act") and the Indian Contract Act 1872.

Indian Contracts Act, 1872

The basis terms for a contract to be valid are-

a. Offer and acceptance;
b. Intention to create a legal obligation;
c. Lawful consideration;
d. Free consent of all the parties and
e. Lawful object of the contract

The aforementioned is vital for a contract to be considered valid therefore, terms such as intention, offer, acceptance, consideration should be embedded in the code being executed in the blocks which shall render such contracts to be valid.

A basic iteration may compose if/else functionality when it comes to a contract. of the technology that is used. The contract is executed only when all of the predetermined clauses as mentioned above are met with.

Information Technology Act, 2000

Given that smart contracts are executed by means of technology, the involvement of any paper is done away with. therefore, in order to authenticate such contract the only means would be affixing of one's digital signature.

As per Section 2(p) of the IT Act, 2000 "digital signature" means authentication of any *electronic record by a subscriber by means of an electronic method or procedure.* The next question to be addressed is whether such use of digital signature a valid format when it comes to a contract?

The answer to the above is stated in Section 5 of the IT Act which recognizes the use of digital signature-

> *"Where any law provides that information or any other matter shall be authenticated by affixing the signature or any document shall be signed or bear the signature of any person (hence, notwithstanding anything contained in such law, such requirement shall be deemed to have been satisfied, if such information or matter is authenticated by means of digital signature affixed in such manner as may be prescribed by the Central Government."*

In furtherance to the above, the IT Act also gives legal recognition to the use of digital signature and electronic records.

Therefore, one may opine that the validity of a smart contract would not be tarnished just because the same is not executed on a piece of paper.

Judicial enforcement

The enforcement of a smart contract may prove to be tricky in terms of its acceptance before the court of law.

The blockchain technology runs on a fundamental system which involves a network of computers. These computers may be located across the globe, therefore, raising complex questions relating to cross jurisdictional boundaries.

Conclusion

With the advancement of technology in the corporate sector, it is about time to see what its impact in the corporate world shall be.

While India is mulling on the legality of cryptocurrency and the platform/ technology it is running on – blockchain method. It shall be rather interesting to see what the future holds in terms of paperless contracts and the acceptance of the same in the legal world.