



Councilmember Ben Bartlett  
City of Berkeley, District 3

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COUNCIL MEETING OF:  
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OFFICE OF THE CITY CLERK  
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## SUPPLEMENTAL AGENDA MATERIAL

**Meeting Date:** May 1, 2018

**Item Number:** 22

**Item Description:** Berkeley Microbond Blockchain Initiative – Pilot Project

**Supplemental/Revision Submitted By:** Councilmember Ben Bartlett

**“Good of the City” Analysis:**

*The analysis below must demonstrate how accepting this supplement/revision is for the “good of the City” and outweighs the lack of time for citizen review or evaluation by the Council.*

Responses to questions posed by Councilmember Lori Droste at the April 24, 2018 5pm Council Worksession concerning this proposal.

***Consideration of supplemental or revised agenda material is subject to approval by a two-thirds vote of the City Council. (BMC 2.06.070)***

A minimum of **42 copies** must be submitted to the City Clerk for distribution at the Council meeting. This completed cover page must accompany every copy.

Copies of the supplemental/revised agenda material may be delivered to the City Clerk Department by 12:00 p.m. the day of the meeting. Copies that are ready after 12:00 p.m. must be delivered directly to the City Clerk at Council Chambers prior to the start of the meeting.

Supplements or Revisions submitted pursuant to BMC § 2.06.070 may only be revisions of the original report included in the Agenda Packet.

**1. The proposal being presented sounds like two different proposals. There's a microbond bit and the blockchain bit. Why incorporate blockchain?**

There is a heavy administrative burden involved with operating a microbond program. Blockchain will reduce much of the administrative burden.

Applying blockchain – effectively a digital book keeping system -- could lower costs for municipal borrowers, as well as make it cheaper and easier for local residents to invest. Blockchain has the potential to massively reduce the administrative costs involved with operating a microbond program. The SEC and other regulators will be able to audit data on their own, without any aid or support from the host platform. Individual investors will be able to verify their bonds in the same manner. This has never been possible in the past, and today we can enable this level of transparency with blockchain technology.

**2. Are the loans tradable?**

Yes, the same as a regular bond. Since the loans are unitized, we generally use the term bond rather than loan to describe the security.

**3. Are the loans themselves liquid assets?**

Depends on the level of interest in trading them but no reason why not. They are securities, the same as a regular municipal bond. Whatever liquidities are held by a normal municipal bond are held here too.

**4. Where would the SEC weigh in on this?**

Please refer any legal questions to the City Attorney.

**5. What is the point of the private scrip? Do we save on transaction costs?**

The private scrip was just an idea of something fun we could do with tokenized interest payments, a local scrip, a buy local campaign, etc. The private scrip would be something we could consider at the next stage in the process, after moving forward with a pilot project of blockchain-based microbonds. At this point, the private scrip is not part of the proposal and is not relevant to this evening's vote.

**6. How do you authenticate the transfer of ownership of a MicroBond?**

The following is our understanding: If a Microbond is operating on blockchain technology the transfer of ownership would be recorded on the blockchain which will form an integral part of the Master Security Holder File. If the ownership is registered with the Transfer Agent, then the title to the bond will be recorded in the Master Security Holder File directly. Transfer in both cases takes place through the cancellation of the old certificate in the sellers name and the creation of a new certificate in the buyers name. This is indelibly recorded and cannot be altered.

**7. How often will these bonds be involved in financial transactions?**

Municipal bonds traditionally trade infrequently. It is unknown if they will trade more frequently in this new form. They are not subject to speculation just like normal municipal bonds.

- 8. Is there a widespread problem of Berkeley issuing a municipal bond and losing the records of who owns that bond comes maturation?**

The Transfer Agent, which is regulated by the SEC, is responsible for maintaining the ownership records.

- 9. How can Berkeley do this better than another Muni-Bond division**

The City of Berkeley would not issue the bonds or serve as a bond dealer. The goal is for Berkeley to complete a Pilot Project in collaboration with a vendor. The vendor should have experience underwriting municipal bonds and have experience with blockchain technology.