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Traditional Note Offering Settled on the Ethereum Blockchain: Securitization in the Age of Digital Assets

In early March 2020, FAT Brands, which includes Fatburger, Buffalo's wings, Bonanza Steakhouse, and Ponderosa Steakhouse, among others, issued two tranches of asset-backed notes worth an aggregate of \$39.7 million.^[1] The Class A notes were rated BB by DBRS Morningstar, while the Class B notes were rated B, and sold at a discount. The notes average 7.75% per year and are backed by the initial franchisee fees paid by those in the FAT Brands enterprise. Thus far, nothing about these notes seems particularly noteworthy.

But then you notice something about settlement of the notes: it was done on the Ethereum blockchain. Nearly \$40 million worth of stablecoins (cryptocurrency tied at a fixed rate to a fiat currency, in this case, the U.S. dollar) were transferred to the wallet of the trustee (UMB Bank; Kansas City, Missouri). FAT Brands held 40 million tokens for the two tranches in its wallet. One set of tokens was used for the Class A notes, another for Class B, and the third for the stablecoin. On settlement of the transaction, the trustee distributed the payment waterfall via three different ERC-20 tokens issues on the blockchain.

Now, after distribution, anyone can go to a Bloomberg terminal and see who the holders of the notes are immediately—not when someone reports the sale. The sales are immediately recorded on the Ethereum blockchain and linked into Bloomberg. In an industry like trading, where time is clearly of the essence, this level of transparency and timeliness may reconfigure the whole industry. As Cadence (New York, New York), the structuring consultant serving on this transaction has noted, it has already issued 65 smaller unrated securitizations on the blockchain with 40 more in the pipeline.

If you have any questions about the interplay between banks and blockchain—or the regulatory environment applicable to both—please contact John Wagster or Courtney Rogers Perrin.

[1] del Castillo, Michael, Morningstar Rates First Ethereum Security in \$40 Million Fatburger Deal, *Forbes*, available at <https://www.forbes.com/sites/michaeldelcastillo/2020/03/08/morningstar-rates-first-ethereum-debt-security-in-40-million-fatburger-deal/#26799b082abd> (Mar. 8, 2020) (last accessed Apr. 7, 2020).

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