

FROM ASSETS TO TOKENISATION

THE RISE, POTENTIAL, AND CHALLENGES
OF RWA TOKENISATION IN WEB3





OVERVIEW OF REAL-WORLD ASSETS (RWA) TOKENISATION

BY TOKENIS3 RESEARCH

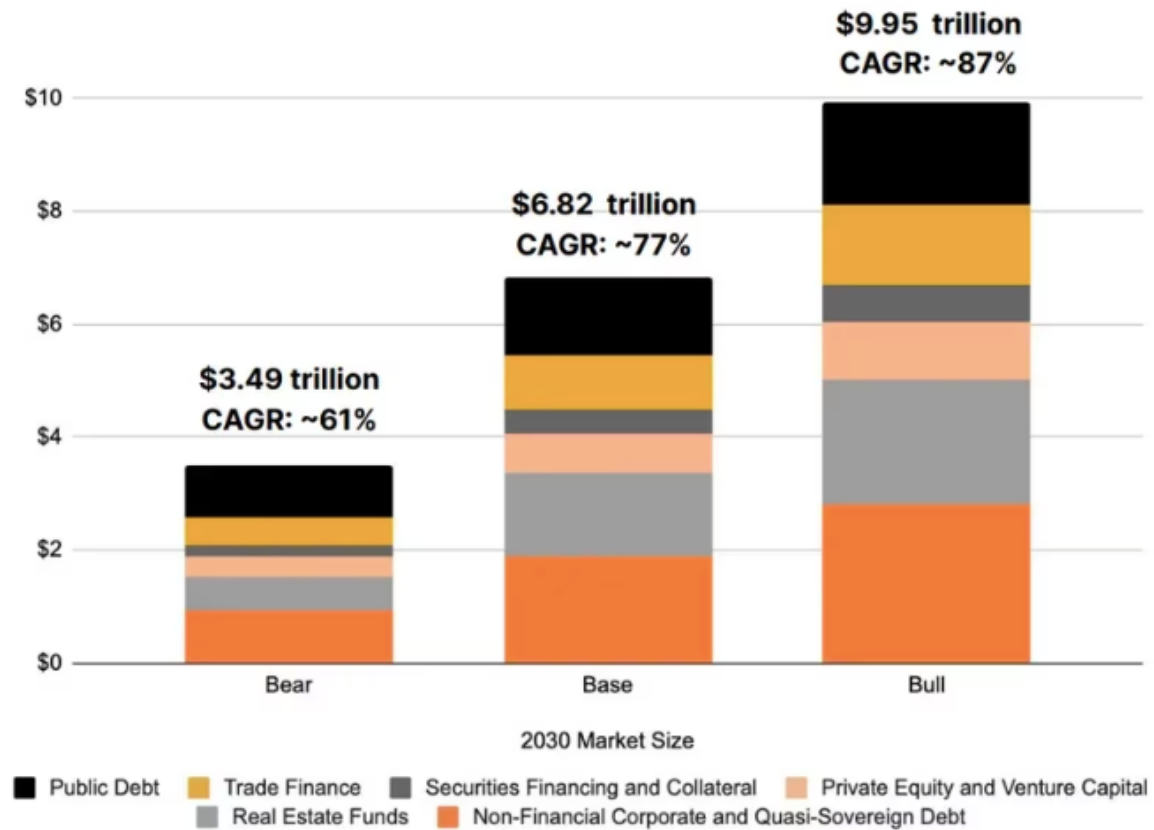
Web3 represents the evolution of the internet, moving towards a decentralized system underpinned by blockchain technologies instead of being dominated by corporate interests.

The journey has not been without its challenges. Notably, the cryptocurrency market witnessed significant turmoil in 2022 due to various failures and fraudulent activities. As a result, regulatory scrutiny has intensified, and public interest has surged.

However, Web3 transcends beyond the realm of cryptocurrencies. Core components like blockchain, smart contracts, and digital assets - birthed through the tokenization process - have the potential to revolutionize how we interact, transact, and share information.

Based on a report from Binance Research, more stakeholders (including large financial institutions) are showing interest in turning real-world assets ("RWAs") into digital tokens. Due to the low returns in decentralized finance (or "DeFi") and rising interest rates, more are looking into these digital tokens, particularly those tied to government funds.

The Binance Report also estimated that the value of the RWA tokenisation market could be as large as US\$16 trillion by 2030. This projection signifies a dramatic leap from its US\$310B valuation in 2022, underscoring a "significant potential for growth" in the rapidly evolving RWA tokenization landscape. For the early adopters and enterprises, this means that substantial value awaits those who are willing to be "first movers".



Forecasts of tokenised assets market size by 2030

(Source: 21.co)

MISSING PIECES FOR RWA TOKENISATION

In another report published by 21.co, they foresee the broad adopting of RWA tokenisation in the following 6 sectors: (1) public debt, (2) trade finance, (3) Securities financing and collateral, (4) private equity and venture capital, (5) real estate funds and (6) non-finance corporate and quasi-sovereign debt - as shown in the figure above.

Despite the optimistic forecasts, 21.co has identified several factors that could hinder the widespread global accessibility of tokenized RWAs. These factors include socioeconomic challenges such as limited internet penetration, regulatory restrictions, legal recourse as well as the absence of standardized processes. In other words, whoever can address most (if not all these issues), will stand a good chance of quickly scaling up and capturing large market share of the nascent tokenised RWA market.

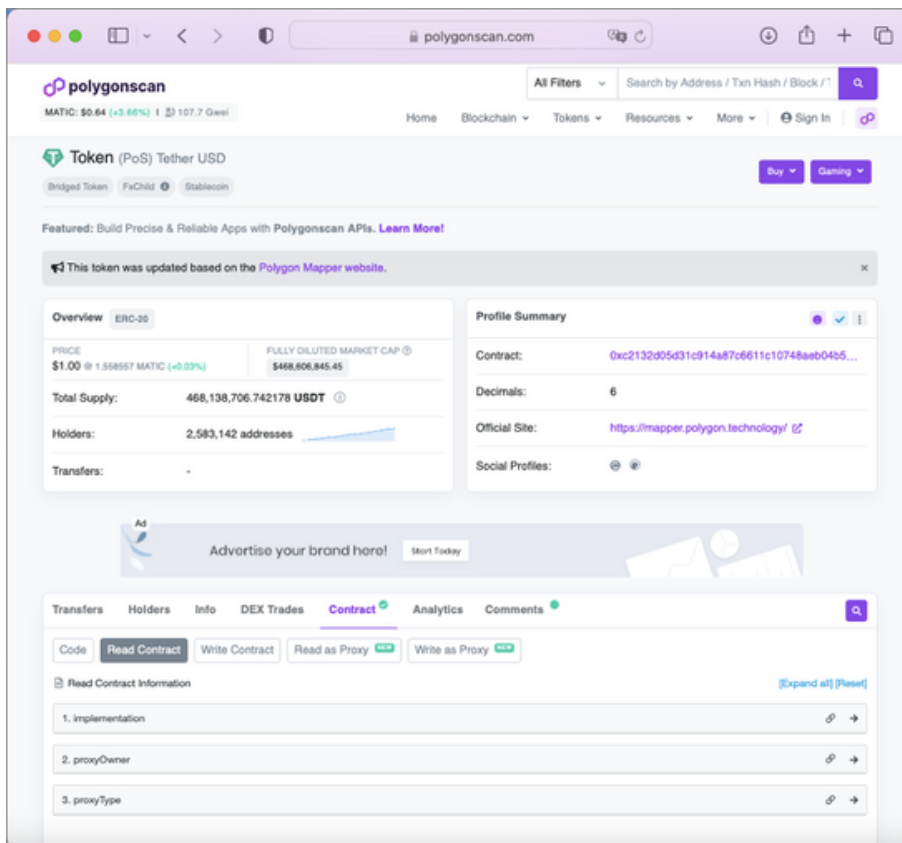
WHERE ARE THE LEGAL RIGHTS DOCUMENTED WITHIN THE TOKEN?

Based on the Global Fintech Institute, it states, "Tokens and securities have a lot in common. Both are claims on assets. The developments of these instruments have also benefited from advances in computer technology operationalizing the concepts underlying the instruments."

"Like the securitization process, the tokenization process creates claims on assets. These claims are represented by digital tokens which reside on a blockchain or distributed ledger. Ownership of a claim is recorded on the distributed ledger, which provides security for proof of ownership since the record cannot be erased or changed. The digital nature of the token creates flexibility for this financial instrument, as one can own a fraction of the asset."

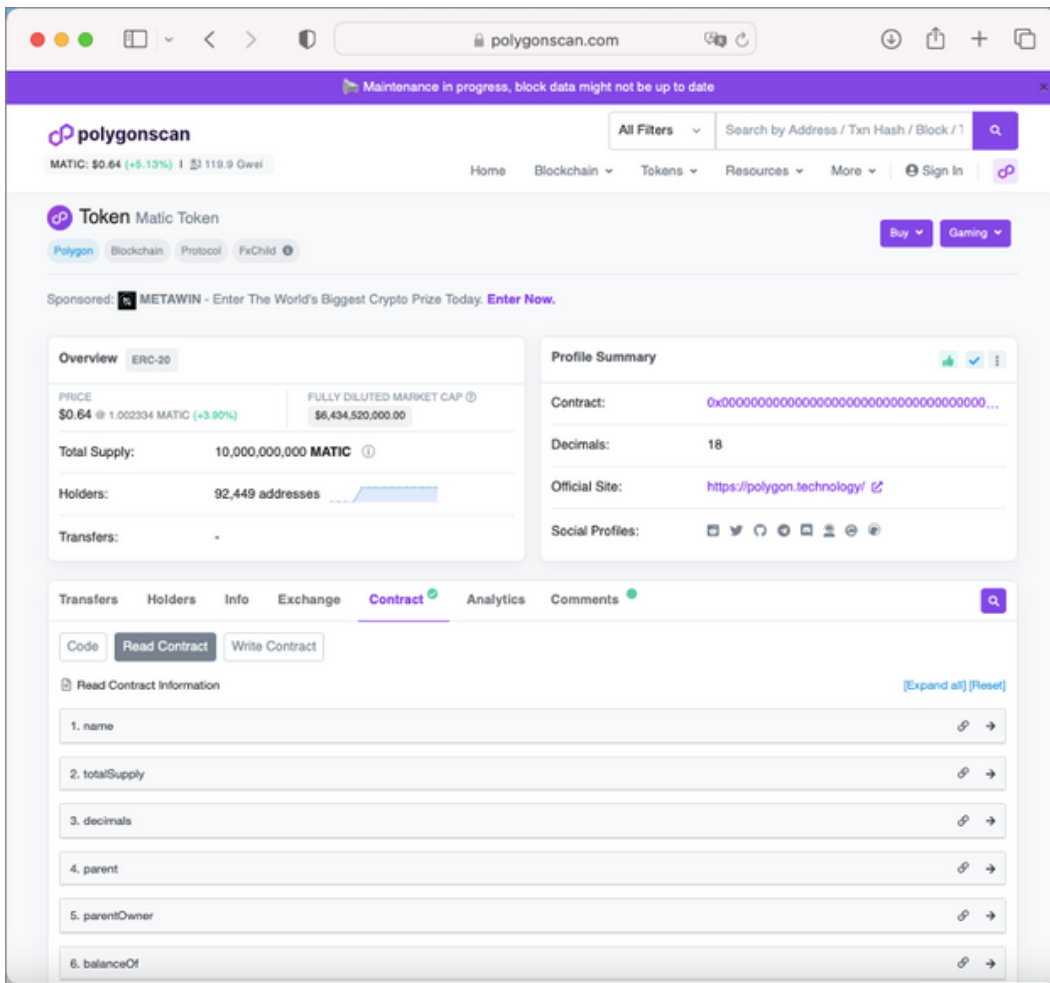
"Fractionalization makes the asset more liquid as the cost of ownership is more affordable with smaller bite sizes."

Based on the above, one might expect that prominent tokens like Tether USD and Matic Token would incorporate the rights of their holders, along with pertinent terms and conditions. Such provisions would ensure that, in legal disputes, these tokens could serve as evidence in a court of law. However, according to data from Polygon scan, these tokens do not appear to embed any such terms, conditions, or legal frameworks (refer to figures below). Consequently, holders of these tokens face potential risks, lacking definitive legal pathways should issues arise concerning their tokens. Legally speaking, similar considerations apply to the tokenisation of RWA.



Polygon Scan for Tether USD

No holder rights embedded within the token

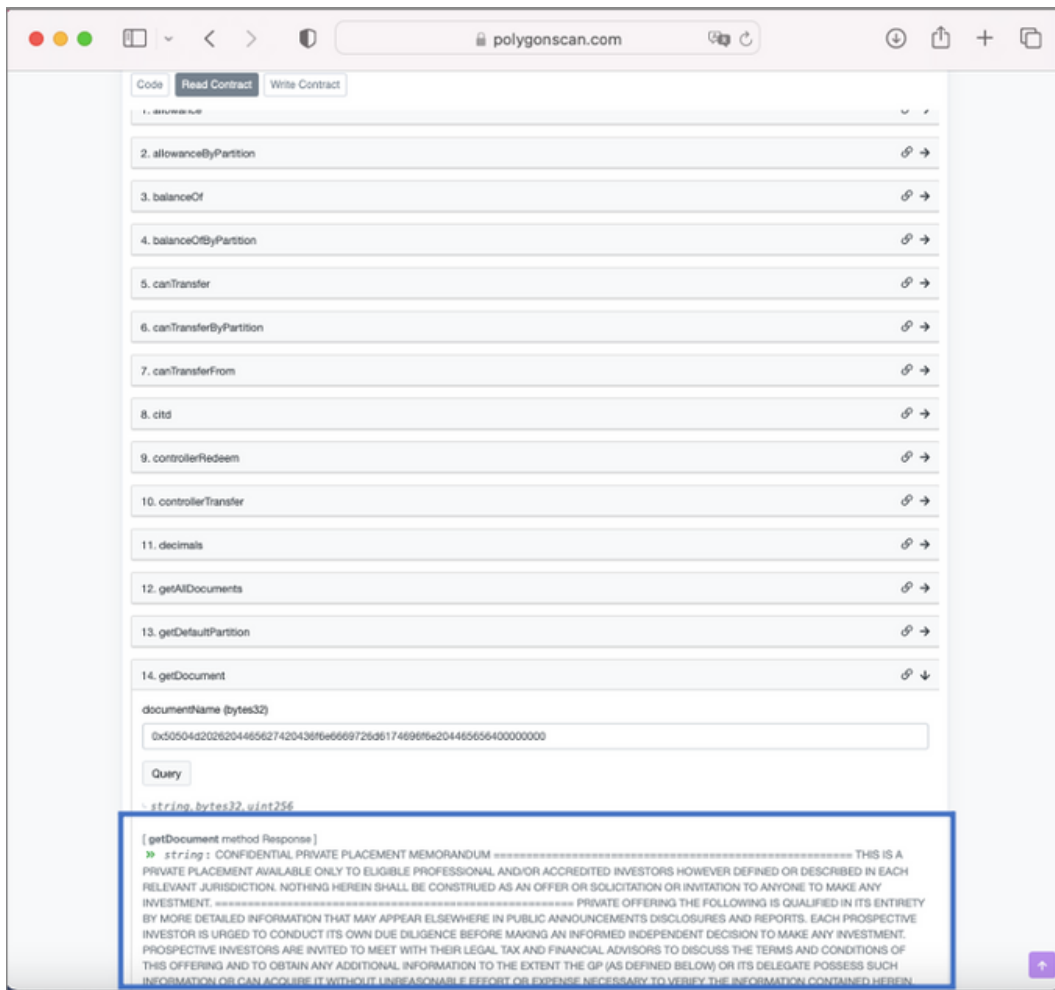


Polygon Scan for Matic Tokens

No holder rights embedded within the token

In contrast, the inaugural Digital Ownership Token (DOT) standard security token launched by China Information Technology Development (CITD) Limited (HKEx: 8178) in Hong Kong incorporated pertinent documents, including the Private Placement Memorandum, within the token itself (refer to below).

This token issuance was accompanied by a comprehensive suite of reviews and audits: (1) regulatory opinion, (2) legal opinion, (3) technical, security, and code audit, and (4) token audit. Such rigorous process ensures that the bond security token issuance aligns with Hong Kong's regulatory standards. It's anticipated that such meticulous documentation and audit processes are essential components that will bolster the adoption of RWA tokenization.



Polygon Scan for CITD Bond STO (CBS)

Terms of the Private Placement Memorandum embedded within the token

Currently, around \$120 billion of tokenized cash, primarily in the form of fully-backed stablecoins, circulates the financial market. While significant strides have been made since tokenization's inception five years ago, it hasn't yet reached a transformative scale.

With increasing legal clarity, the prevailing financial climate, and burgeoning expertise in digital assets within financial entities, we may stand on the brink of the next blockchain revolution. From this juncture, whether interest will soon wane or mass adoption will be realized remains to be seen – only time will tell.

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