

# Tokenization of real-world assets

Do digital assets REALLY threaten to disrupt your industry? Has the hype blown the benefits of digitization out of the water? Are companies really likely to adopt tokenized assets as a new form of ownership?

**Let's ease those concerns, shall we?**

# What is tokenization?

Tokenization is the representation of real pre-existing assets (digital or physical) as tokens that carry the same value and ownership rights.

A validating online database (a blockchain) then allows the tokens to be exchanged safely and securely without the need for a paper trail to validate ownership.

And the world is adapting to this tokenized way of working...

Tokenized assets are expected to be worth \$16 trillion by 2030<sup>1</sup>, representing 10% of global GDP according to a recent report published by BCG as illustrated here:

As an alternative investment mechanism, tokenization has already been adopted by a broad set of investors. Specialist tokenization firms such as Figure and Securitize have also partnered with fund managers in a demonstration of the rapidly increasing adoption of digitally native assets.

**Highly conservative forecast;** tokenization potential of \$68 trillion by 2030 in best-case scenario

Tokenized asset **potential differs across countries** due to variation in maturity of regulations and size of asset classes



total tokenized market projected to be 10% of global GDP by 2030

<sup>1</sup> <https://www.bcg.com/publications/2022/relevance-of-on-chain-asset-tokenization>

## Tokenization Ecosystem

Within the tokenized securities ecosystem, a variety of different players exist, ranging from trading venues and broker dealers, to issuers and custodians. Certain organisations span across multiple categories, offering a full-suite solution.

	Trading	Issuance	Broker-Dealers	Custodians
EXAMPLE PLAYER	   	   	   	   
DESCRIPTION	<p>Platforms falling under this category serve to create secondary markets for Security Tokens.</p>	<p>Issuance platforms typically provide a protocol for entities looking to launch their own STO.</p>	<p>These platforms primarily focus on providing brokerage services for large investors.</p>	<p>Custody providers are responsible for the safekeeping of the tokenized / digital asset.</p>
PRIMARY REVENUE MODEL	<p><b>Trading fees</b></p>	<p><b>Issuance fees (% or fixed value)</b></p>	<p><b>Dealers spread</b></p>	<p><b>% fee on AUM</b></p>

# What can be tokenized?

Hedge fund assets, funds, real estate, expensive art and even sports teams. You name it.

Illiquid, non-bankable assets with high capital requirements have proven to be most popular, but many key industries have tokenized their assets.

## REAL ESTATE:

- + Tokenization project for the construction of the IBN Highlands City-Fortune towers in Malaysia.
- + Liquefy, a blockchain technology provider, announced a deal to tokenize a \$600m luxury hotel located in London.



## PRIVATE FUNDS:

- + Hamilton Lane recently announced a partnership with Securitize to tokenize 3 funds.
- + KKR's Health Care Strategic Growth Fund II (HCSG II) will be tokenized on the layer-1 blockchain Avalanche by digital asset securities firm Securitize.



## COMMODITIES:

- + Santander has launched Loans Backed by Tokenized Commodities such as soy and corn.
- + Pax Gold (PAXG) is a digital asset with each token backed by one fine troy ounce (t oz) of a 400 oz gold bar.



# What are the benefits of tokenization?

Enhanced operational efficiency, improved liquidity and democratized access for investors through fractionalization are just some of the key benefits from tokenization...

1

## Democratizing Access

Greater access to certain assets to a wider pool of investors through the lowering of capital requirements.

2

## Improved Liquidity

Tokens can be traded on secondary markets and help mitigate concerns from investors around length lock-up periods.

3

## Atomic Settlement

Tokens can be traded 24/7 with near instant settlement compared to traditional T+2/3 settlement times.

4

## Transparency & Immutability

As each record is maintained on a shared and immutable ledger, no one can claim to own assets fraudulently

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## Operational Efficiency

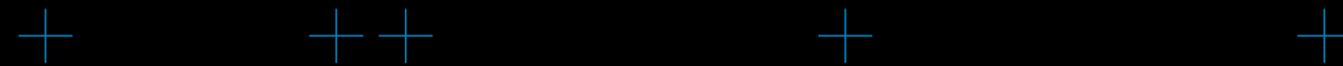
Utilizing a shared ledger can streamline the flow of data reducing the need for reconciliation and risk of data duplication.

6

## Compliance Adherence

Compliance rules can be encoded into a smart contract issuer can set compliance rules and automate enforcement.

# What are the challenges of tokenization?



The technology and process underpinning tokenization is becoming increasingly more defined, with several solutions in the market readily available to tokenize a wide variety of assets (e.g., Securitize, Polymath, Tokeny).

However, as with any new emerging tech, there are a variety of risks and challenges present. One key challenge regarding tokenization is navigating the complex legal and regulatory landscape, which also differs across jurisdictions. Understanding legal and regulatory expectations is crucial to enable wider adoption and avoid industry pushback.

# High-level challenges of tokenization

Whilst tokenization has the potential to create a variety of benefits, it's important to consider that various other complexities also exist..

1

## Regulation & Compliance

Digital securities token must fit into the existing securities framework, which is not completely fit for purpose.

2

## Legal Restrictions

Depending on the asset type, regulatory limitations may prevent proposed liquidity benefits through volume cap restrictions.

3

## Custody

Custody of tokenized assets differs from the traditional custody of regular assets. e.g., the safe storage and protection of private keys.

4

## Technical Risk

New technical challenges exist such as reliability of smart contracts, issues with integration, reliability of oracles for on-chain to off-chain connectivity.

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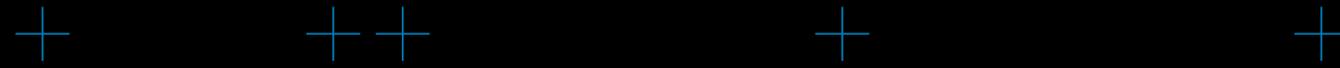
## Industry Adoption

The success of tokenization is highly dependent on the adoption from wider ecosystem participants and their willingness to integrate with the underlying ledger.

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## Accurate Valuations

Illiquid assets are often not valued in real-time, and listing tokenized assets on a secondary marketplace may create difficulties around accurate valuations.

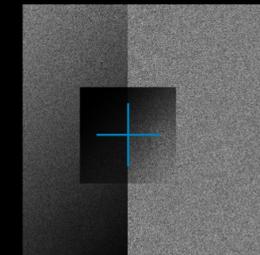


# Conclusion

Tokenization of real world assets is bringing new actors, services and roles to the market and offers an array of benefits to both corporates and the end-investor.

With tokenized assets forecast to reach \$16 Trillion by 2030, the race is on for market participants to determine how best to seize the opportunity laid before them.

At Motive Create, our experience in designing and implementing tokenization is second to none. We've worked with clients to tailor bespoke tokenization solutions to provide value utilizing our experienced team of strategy experts and blockchain developers.



## **Have any further questions?**

All you have to do is ask. Please get in touch with

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