BUILD AND THEY WILL COME: ACCELERATING MARKET EFFICIENCIES FOR TOKENISED SECURITIES WITH INSTITUTIONAL-GRADE INFRASTRUCTURE

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SUMMARY

The emergence of tokenised securities heralds a transformative shift much like the advent of the internet. Just as the world wide web transformed how we exchange information globally, tokenisation holds the potential to revolutionise how we transact and invest in inancial markets, unlocking new opportunities and driving unprecedented levels of innovation and growth.

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» **With the potential** for increased liquidity, greater accessibility, and enhanced efficiencies and transparency, institutional investors are increasingly recognising the value of diversifying into digital assets. A study conducted by SBI Digital Asset Holdings with institutions across Asia revealed that among those planning to invest in tokenised securities, a staggering 76% cited factors such as lower issuance costs and shorter settlement periods as primary motivators.

The allure of accessing new or global capital was also a compelling factor for 30% of respondents. When asked about the main benefits of tokenising real-world assets, close to half selected reduced intermediaries as the top factor, followed by faster settlement, cost efficiency, and enhanced transparency.

This tells us that institutional investment, as opposed to retail, is poised to drive the digital assets market, as the sheer volume of potential institutional flow will significantly impact the market. However, many challenges stand in the way.

Legacy technologies hinder implementation efforts, presenting challenges for asset managers looking to embrace digital assets. Internal resistance, including concerns from risk and compliance teams, poses significant challenges, while the still-evolving regulatory landscape leaves asset managers uncertain on how to ensure compliance.

Another key hurdle is the genesis of the crypto world, which initially catered to retail investors and operated outside traditional regulatory frameworks. This divergence from institutional

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norms presents obstacles for large asset managers seeking to navigate the digital asset space, with institutional standards often conflicting with the decentralised nature of crypto assets. Whilst crypto remains volatile and unregulated, institutional infrastructure for digital assets stands in stark contrast as it is fundamentally designed to be structured and regulatory-compliant.

The crux of the issue lies in establishing robust institutional-grade infrastructure to realise the full potential of tokenised securities. In our survey, close to a quarter of respondents cited that a top deterrent to institutional adoption was the lack of institutional-grade market infrastructure.

Building such infrastructure is no mean feat. Robust custody solutions are crucial for securely storing digital assets, but structuring deal flows and facilitating asset issuance are equally important. Market infrastructure should also foster liquidity through services like market-making and liquidity pools. Trading platforms must comply with regulations and offer advanced functionalities tailored to institutional needs. Effective market surveillance tools are critical for detecting and preventing manipulation and fraud, while scalability and interoperability are essential to accommodate growing demands and facilitate efficient asset transfer. Last, not least, cybersecurity measures are paramount to safeguard digital assets and sensitive information against cyber threats and breaches.

In the years we spent building institutional-grade infrastructure, it has become apparent that this task cannot be undertaken in silo, and that an end-to-end value chain, built in collaboration with financial institutions, technology providers and regulatory bodies is highly necessary. This was confirmed in our survey where 60% of institutional participants stated that a trusted ecosystem is currently absent.

Built by the right players, and with the right alliances, a trusted ecosystem creates a trading landscape that will capture the full potential of tokenised securities and revolutionise the capital markets. As these entities work together to establish standards and best practices, the market infrastructure will evolve, addressing concerns about reliability and security.

It's also important to recognise that trust is not solely the responsibility of one party but is built collaboratively across the entire ecosystem. Regulatory frameworks play a crucial role in ensuring the legitimacy of tokenised assets, and by working closely with regulators, financial institutions can contribute to the establishment of a robust regulatory environment that instils confidence in market participants.

As financial institutions embrace the transformative potential of blockchain technology, market participants have begun to work collectively to build a secure and regulated ecosystem. Tokenisation will then become a cornerstone of the modern financial landscape, offering unparalleled efficiency, transparency, and access to global capital. The time is ripe for institutions to seize the opportunities presented by tokenisation and propel the capital markets industry into a more secure, efficient, and inclusive future. ■