EY's Mark Wightman on Developing the Right Strategies for the Evolving Universe of Digital Assets

Mark Wightman, Asia-Pacific Wealth and Asset Management Consulting Leader at EY, has a bird's eye view of the evolution of the wealth management industry in Asia, including advances in digitisation and key priorities for the private banking sector. He has over several years been a regular speaker at Hubbis events and recently joined our panel for what proved to be a fascinating discussion on the evolution of digital assets, such as cryptocurrencies and digital tokenisation. In Asia, EY is advising both the banks and EAMs, as well as a rapidly expanding array of institutional investors, helping them understand the digital assets universe and enter the market securely and with the right level of confidence. We have summarised his insights from the event in this short report.

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Wightman opened his commentary by remarking that it is roughly since 2016 that EY has been helping clients navigate the emerging cryptocurrency universe in Asia, first helping hedge funds and others such as family offices set up digital asset's infrastructure.

More questions than answers

"And today, I would say that most of our wealth clients either provide exposure in some shape or form or are looking at it," he reported. "There are many questions they want to address. Should we go beyond Bitcoin into a wider range of cryptocurrencies? Look at stable coins? What is the world of DeFi? What are non-fungibles (NFTs)? So, first of all, it is all about the 'what', and then you get into what services can be provided around all this, for example partners, the fastest way to market, building capability in-house or in collaboration, custody, staking, and so forth."

But as yet, there are, in reality, more questions than definitive answers, such is the early stage of the development of the universe of digital assets.

Wightman remarked that one of the core questions that comes up time and again is the vital matter of trust. "There is the trust from an AML perspective, but as we see crypto native firms coming into the fold, clients increasingly ask for our help to come in and validate controls, governance, cyber-security, and even getting into areas such as the SOC 1 and SOC 2 compliance, as for traditional financial service providers," he explained.

"It is a different world, a different operating model, so they need to become comfortable with all the practicalities and nuances before they enter the fray. In short, I would say that the majority of wealth managers that we talk to now are seriously looking at providing access in some shape or form, that is, if they don't do so already."

Trillions at stake

"This is already a USD2 trillion-plus market, there is incredible excitement around it, and it is growing at a phenomenal rate," he remarked. "However, for wealth management providers and for investors to venture into it compliantly, securely and confidently there are key issues on which we have been spending a lot of time with clients over the years. And this is very important as more and more players come into the market, or want to enter the market. Some years ago, it was largely the hedge funds who we worked with, but now a lot of the private banks are providing services in this area, or looking at entering this space, and we also have a number of our institutional investor clients now looking at this universe as well."

Some banks and institutions remain very wary

Wightman conceded that many banks still prefer not to get involved in cryptocurrencies, citing a variety of reasons, including the difficulty in the valuation of these assets, tax & regulatory clarity, and issues around AML.

"But we are seeing more and more come into this space, and ultimately, as an industry, we're all here to provide services to the clients, and as more of them demand more and better coverage, we expect more institutions to follow ," he reported. "Clearly, private clients are not going to be throwing lots of money from their portfolios at this segment, but they are increasingly taking some exposure."

He expanded on these comments, remarking that the world of private banking is highly competitive, and there is a significant risk in not competing in selected areas, especially those growing so rapidly where there is client demand.

Conservative approaches, and growing confidence

"Yes, we certainly see that some private banks and wealth managers prefer to remain extremely conservative, they want to do things in absolutely the right way, but whereas historically, they may have said 'no', now more of them are

saying 'maybe' because clients are demanding it," he observed. "But it is a different world, a different operating model, so they need to become comfortable with all the practicalities and nuances before they enter the fray. In short, I would say that the majority of wealth managers that we talk to now are seriously looking at providing access in some shape or form, that is, if they don't do so already."

Wightman also observed that in the handling of digital assets, the chosen jurisdiction is particularly important.

"If we can leverage tokenisation to provide access to some of these private assets, and then allow them to be distributed through the wealth managers, the enlarged ecosystem is going to potentially provide wider and more diverse access to investors."

Choose the jurisdiction wisely

"Certain jurisdictions have been very clear on the regulatory guidelines, the licenses, and the protocols to follow. From an EY perspective, we have many conversations centred on Switzerland, the US, and here in Singapore. Some jurisdictions are less accommodating to digital assets, so that is naturally driving the hubs where we see things coming together."

He added that certain jurisdictions are successfully building their digital assets ecosystem, whether that is through wealth providers offering these services, whether FinTech firms are in the mix, or specialists providing institutional level digital custody and other services, such as staking and yield enhancement.

Leveraging the ecosystem

"More and more of the clients we talk to are looking for speed to market, and in many cases, that comes down to the right partnering or leveraging components from other service providers, such as technology firms, or others," he explained. "And it's good to see that even many of the crypto native technology firms & service providers that originally started up in the US are here now in APAC as well; we see more such entrants here as the market advances."

Wightman reported that EY is increasingly busy in this area, especially consulting on the operating model, the controls, the governance, and other key areas so that the core trust is built and maintained.

Tokenisation – expanding access for investors

He also offered his views on the expansion of tokenisation. "These are very early days still in what is really a new ecosystem, and within that the whole concept of tokenisation is emerging," he observed. "Clearly, tokenisation allows us to create tokens and we can fractionalise anything, but for example, why do this for real estate when you can buy into REITs? So, it is really about the application of tokenisation, as areas such as collectibles, art, fine wines, private assets, classic cars, and so forth become more relevant; NFTs provide access to an even wider ecosystem of collectibles although this is more nascent Tokenisation effectively allows wealth management businesses to offer some unique or at least differentiated ideas to their clients."

He also observed that there are many assets that are not available in manageable sizes for many investors beyond the very large institutions or UHNW type investors so this may help with the democratisation of wealth.

A new universe of exposures

"If we can leverage tokenisation to provide access to some of these private assets, and then allow them to be distributed through the wealth managers, the enlarged ecosystem is going to potentially provide wider and more diverse access to investors," he commented. "The banks and wealth management firms can then participate in a variety of areas, from origination to trading, custody and so forth. This whole sphere of tokenisation is opening the doors to new assets, new exposures, and we certainly see growth in both the supply and demand sides ahead." ■