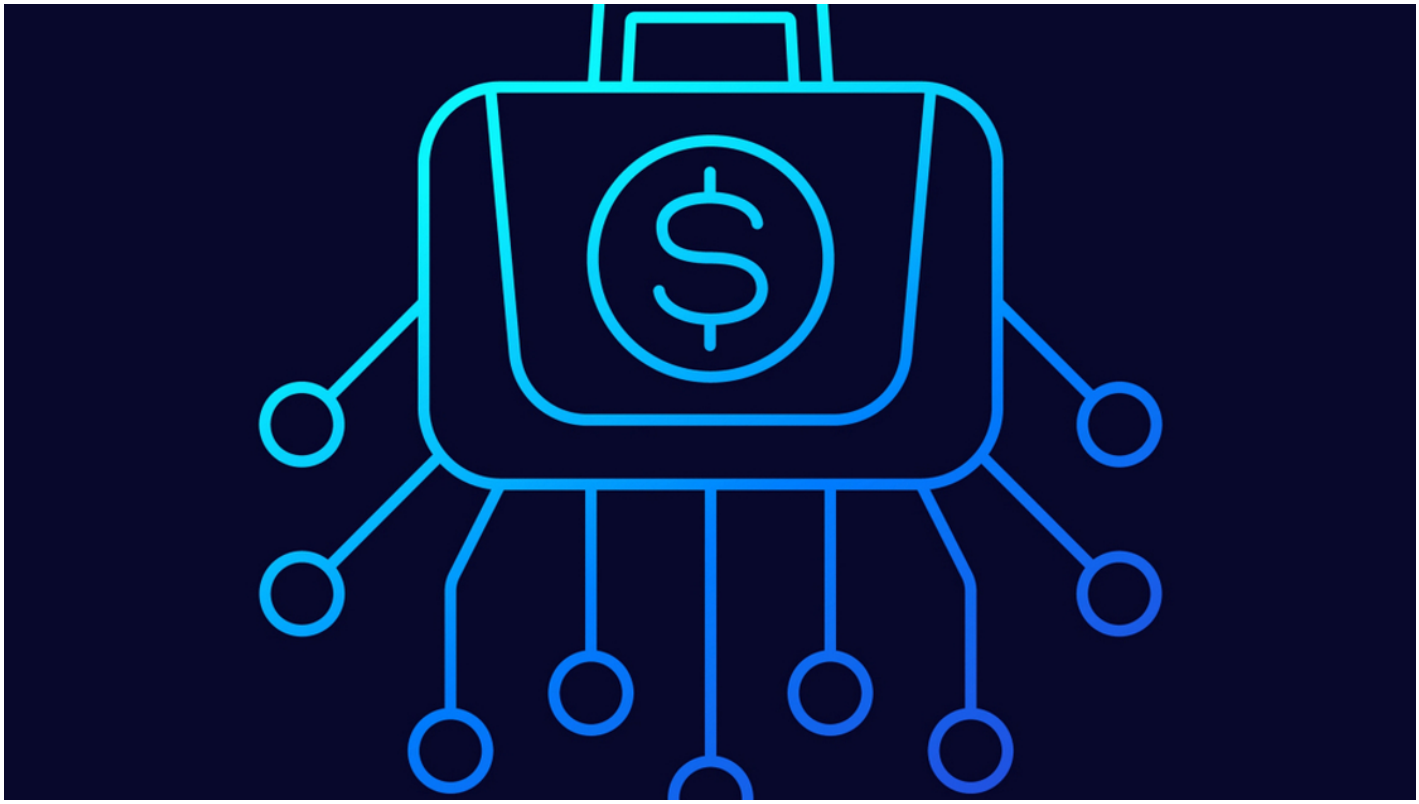
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Asset tokenisation in Asia: Building on flawed foundations?

Padraic Convery
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Much has been made of the potential for asset tokenisation, yet some institutions and family offices believe a persistent reliance on current financial infrastructure is holding it back.



It's been roughly one year since Blackrock chief executive Larry Fink pronounced that asset tokenisation represented the future of markets and securities.

Almost five years have passed since the world's first real estate asset token offering, which saw a chunk of the St. Regis Aspen resort hotel sold to investors who were keen on acquiring a portion of the prestige Colorado property.

And it's been roughly 22 years since the foundations of tokenisation in its digital form were laid by US payments firm TrustCommerce in a token-based data security system designed to protect credit card information.

So, why hasn't tokenisation taken off as the new asset ownership paradigm that its advocates say it represents?

FLAWED FOUNDATIONS

"The tokenisation industry has just not been living up to its potential," Tuck Meng Yee of Singapore-based single-family office JRT Partners told *AsianInvestor.* "There's been lots of talk, but because of the fact that tokenisation has to fit into TradFi [traditional finance] in order to take off, it's not giving you the benefits that it could provide."



Tuck Meng Yee
JRT Partners

"Governments and existing finance institutions are not willing to go purely digital — outside of the existing TradFi infrastructure — so that's why it's been hobbled," he said.

"Unless governments say it's ok to go completely digital and that they'll sign off on that, tokenisation will not take off, because right now, for it to work, it has to sit on top of the existing infrastructure, and so a lot of its cost and speed benefits aren't realised."

The potential benefits of tokenising an asset, by creating a digital representation of it on a blockchain, include lower transaction costs, immediate 24/7 settlement, and the ability to use smart contracts that activate when conditions predetermined by different parties are met.

Tokenisation can bring liquidity to a wide range of illiquid assets, such as real estate, art and rare objects, in addition to financial assets such as stocks, bonds, and other securities that Blackrock's Fink sees as an inevitable and eventually ubiquitous application.

RUBBERY ECOSYSTEM

But Yee said the paradigm shift that tokenisation — and, by extension, other forms of digitalised assets — represented was currently too much of an adjustment for authorities and the finance sector to make.

"Governments want the advantages of blockchain technology without the speculation of cryptocurrencies and the rubbery ecosystem that's characterised that universe to date, and that's why they're trying to fit digital assets into a system that they can accept," he said.

Irfan Ahmad, head of digital asset commercialisation for Asia-Pacific (APAC) and the Middle East & North Africa at State Street Digital, took a more sanguine view of the development of asset tokenisation and the infrastructure required to realise its potential benefits.

> "Regulatory updates have happened in jurisdictions such as Luxembourg, Switzerland, and a few states in America, where they've allowed assets to be issued on blockchain without the usage of a central securities depository," he said.



Irfan Ahmad
State Street Digital

"So, these changes as far as infrastructure is concerned, are maybe a mechanism for how we may see the infrastructure for financial markets change over time – and these changes happen iteratively."

FORGED UNDER PRESSURE

Henry Chong, the founder and chief executive of digital securities trading platform Fusang, said tokenisation was already gaining traction among traditional finance businesses and their asset owner clients.

"The interesting shift that's happening right now is that, post the collapse of [cryptocurrency exchange] FTX, there's been a sea change in the market landscape. A lot of TradFi institutions now think there's something interesting to be done in this market," he told *AsianInvestor.*

Ahmad said State Street had been focusing on developing tokenised products for institutional investors that were differentiated from the offerings of the digital native providers typically servicing retail customers, creating an avenue for institutional investors to jump in with more than one foot.



Henry Chong
Fusang

"Tokenisation has actually happened in real terms with cryptocurrency. If you take something like a Bitcoin and tokenise it onto another network, it changes the profile of the asset. So, you'd lock that Bitcoin in a smart contract and it would then have additional characteristics and capabilities that it didn't have as the original token. It sounds like a derivative, but you've given it a completely different flavour.

"That's something that we on the conventional side of finance are looking at, how we [can] potentially transform the way in which we think about wrapping a token or wrapping an asset in a tokenised sleeve."

But Ben Caselin, vice president and chief strategy officer at Dubai-headquartered digital asset exchange MaskEX, and a former executive at now-shuttered Hong Kong crypto exchange AAX, said the way in which tokenisation was being framed was fundamentally flawed, and that it represented less a means of freeing up investors to exercise greater control in an ecosystem characterised by an expanded range of choices, than a means of locking them into the same structures as currently exist in TradFi.

MISSING THE POINT?

"Tokenisation is often presented as the end-game and most transformative application of blockchain technology, but that's a very desperate, ill-informed perspective," Caselin told *AsianInvestor*. "Tokenisation can be part of the 'new finance', but it's not really addressing the deeper problem – the problem is that we rely too much on gatekeepers, to the detriment of our financial autonomy."



Ben Caselin
MaskEX

He said that tokenisation would not give asset owners any more control over their investments than they currently had.

"With tokenisation, what we're doing is just cementing the existing custodians that are going to hold those assets and tokenise them, so investors remain dependent, and assets remain 'permissioned' and therefore limited," he said.

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