

# THE DIGITAL WRAPPER OF VALUE TRANSFER: TOKENIZATION OF ASSETS



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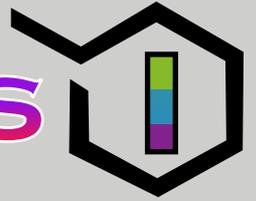
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'Tokenization of Things' is the current buzzword within the blockchain and cryptocurrency industry. Large conglomerates and financial giants have begun moving into Tokenized Asset Offerings (TAO) and providing Tokenization as a Service (TaaS). Expanding cryptos into asset tokenization is a natural progression as it enables luxury assets to move into blockchain. Financial asset tokenization is an evolving trend among investors and entrepreneurs seeking to liquidate their real-world assets. Tokenization refers to the conversion of the asset to a digital token on the blockchain system<sup>1</sup>.

A token serves as a digital wrapper that enables us to create, configure and trade any imaginable assets peer to peer, without friction. In brief, tokenization can streamline existing financial markets and enable us to create a world filled with the seamless transfer of value. This may have a major impact on our future economy. There are 3 main types of tokens: payment tokens, utility tokens and security tokens<sup>2</sup>.



# STO

## PAYMENT TOKENS

Payment tokens have a blockchain of their own and are considered as a payment medium. They are simply "cryptocurrencies," and work as digital cash. The inherent value of these tokens can be used in financial operations, while any cryptocurrency constructed on its own blockchain and serving as a payment medium falls under the payment tokens category. Bitcoin and Ethereum are some of the most common payment tokens.

## SECURITY TOKENS

A token that passes the Howey Test is known as a security token. Basically, any cryptocurrency that pays dividends, profits or invests in a potential profit project is considered a security token. Security tokens can be described as a Blockchain-based digital representations of any value and are subject to regulation under a particular jurisdiction's securities law.

## UTILITY TOKENS

A utility token refers to a cryptocurrency issued to fund the development of a blockchain project. It may be used to buy goods or services related to that project. Therefore, utility tokens provide users with future access to a product or service and can be seen to represent the core purpose of crowdfunding within themselves. The price of value of a utility token is based on the principles of supply and demand.



## SECURITY TOKEN OFFERINGS ARE BOOMING

In Q1 2019, the number of Security Token Offerings worldwide observed an incredible increase of over 130%. This was expected due to increased pressure from regulators to ensure compliance with security standards, which made a public token offering extremely difficult to launch. In addition, there has been a proliferation of businesses providing security token services, allowing more businesses to launch Security Token Offerings (STOs)<sup>3</sup>.

Security Token Offerings comply with the regulatory standards of jurisdiction, which implies that the regulatory risk concerned is relatively less than that involved in Initial Coin Offerings (ICO).

All kinds of safety tokens share one common characteristic - they will continue to be valid even if the issuer fails to meet the aims which they set out to achieve. And, unlike utility tokens, this value can be acquired through traditional legal instruments. This encourages investors to buy security tokens that are beneficial to both issuers and token holders<sup>4</sup>.

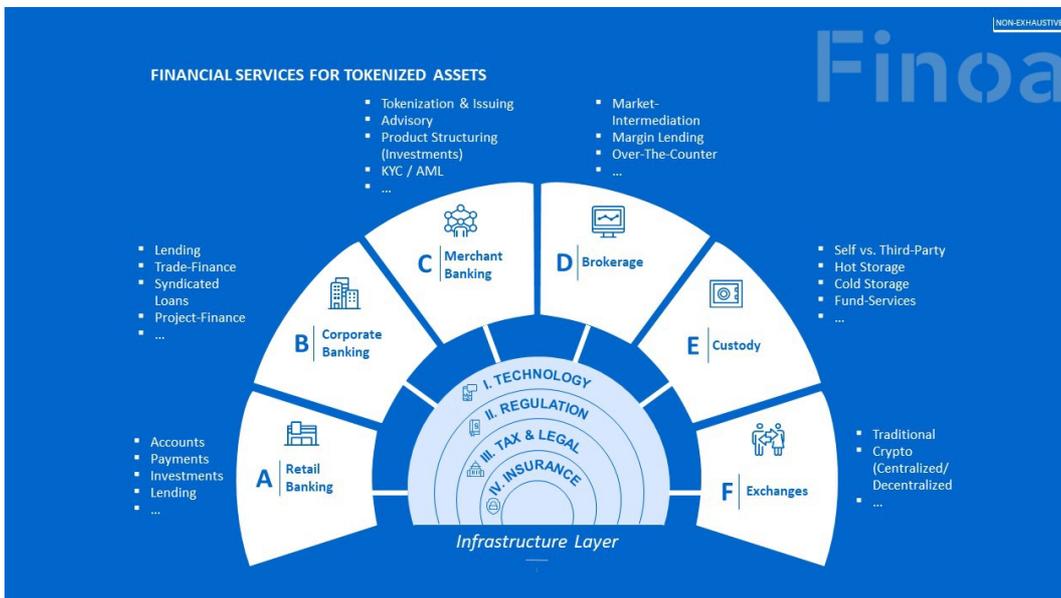
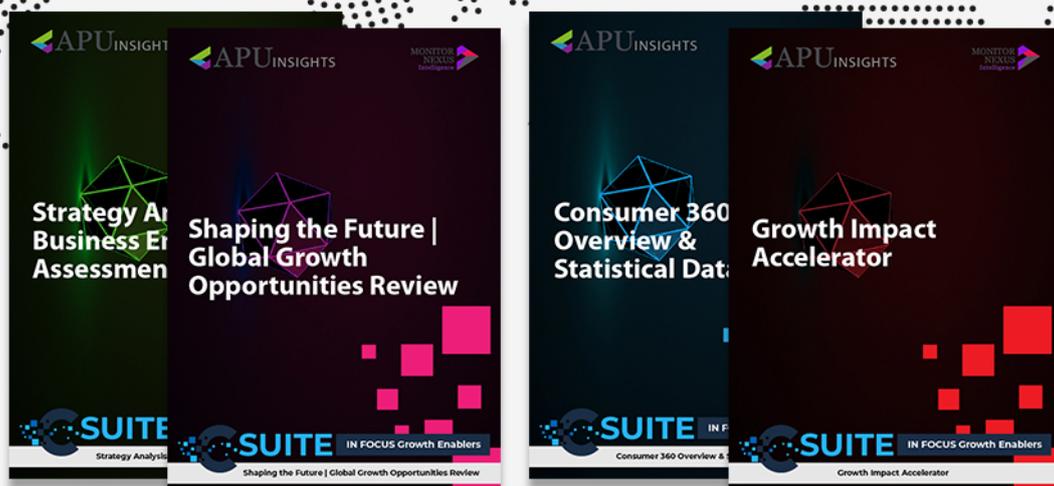


Fig 1. Financial services landscape for tokenized assets.

Governments are partnering with private firms on an increasing basis to develop infrastructure alternatives. One typical example is the cooperation between NASDAQ, the Singapore Monetary Authority and Singapore Exchange to create delivery versus payment capabilities for tokenized asset settlement across various blockchain platforms to enhance operational efficiency and decrease settlement risks. Moreover, multiple projects have identified the need for compliance and are developing solutions that target automated compliance and Anti-Money Laundering (AML) and Know Your Customer (KYC) laws and processes. For example, more blockchain projects are building tokenization alternatives for distinct asset classes and specific models of structured finance by issuing debt and equity tokens. Real estate has always been utilized as an example to provide real-world applications of tokenization projects, due to the framework of real estate investment trusts (REITs), which could be related to tokenized structures more readily<sup>1</sup>.

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