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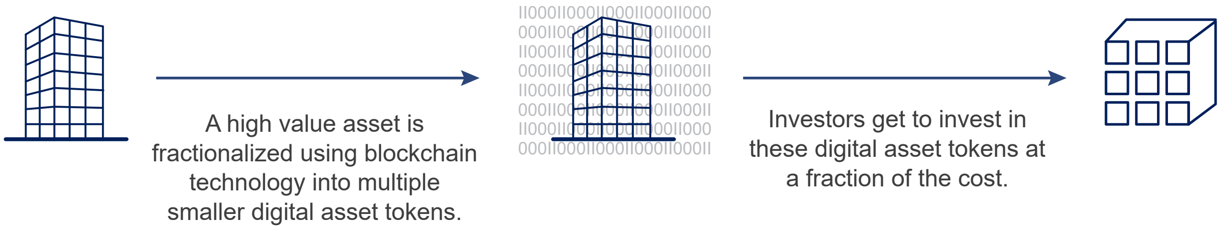
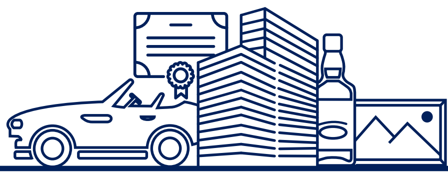
Digital Asset #5
Asset Tokenization: The Next Step In Evolution of Capital Markets

What is Asset Tokenization?

Asset tokenization is the process of converting ownership rights in a particular asset into digital tokens.
Each token is basically the representation of a proportional part of the digitized asset.



What Are The Potential Assets For Tokenization?



Capital Market Instruments
Loans, debt, securities,
private equity, funds and green bonds

This is the most direct use case for digital asset tokenization as it adds diversity to the traditional fund raising process via equity and debt instruments.

Typically, these take the form of a Security Token Offering (STO), where each Token represent a share of the underlying financial instrument.

Real Estate
Commercial, Industrial
and Hospitality

Real estate tends to be rather chunky and illiquid. Tokenization adds a new avenue to invest in real estate, on top of existing approach via Reits and allows participation in both capital appreciation as well as rental income distribution.

One of the earliest use case of digital asset tokenization in real estate was in 2018 whereby part of a leading ski resort in the USA was tokenized.

Precious Collectibles
Paintings, fine art,
whisky and super cars

These precious collectibles typically cost millions of dollars or more. Without digital asset tokenization, they are essentially out of reach to most investors.

Digital asset tokenization allows regular investors to participate in the returns of these precious collectibles at a fraction of the original cost.

What Are The Advantages of Asset Tokenization?

Fund Raising Avenue

A new way to raise capital and monetize the value of existing assets that would otherwise be illiquid.

Transparency

The tokenization process hardcodes the provenance of the underlying asset into blockchain and realizes its underlying value.

Efficiency

The underlying blockchain technology supports a smooth distribution and efficient payment of funds and coupons.

Liquidity

Liquidity is injected into the otherwise illiquid real asset as the tokens that are generated can be easily traded in the secondary market.

Accessibility

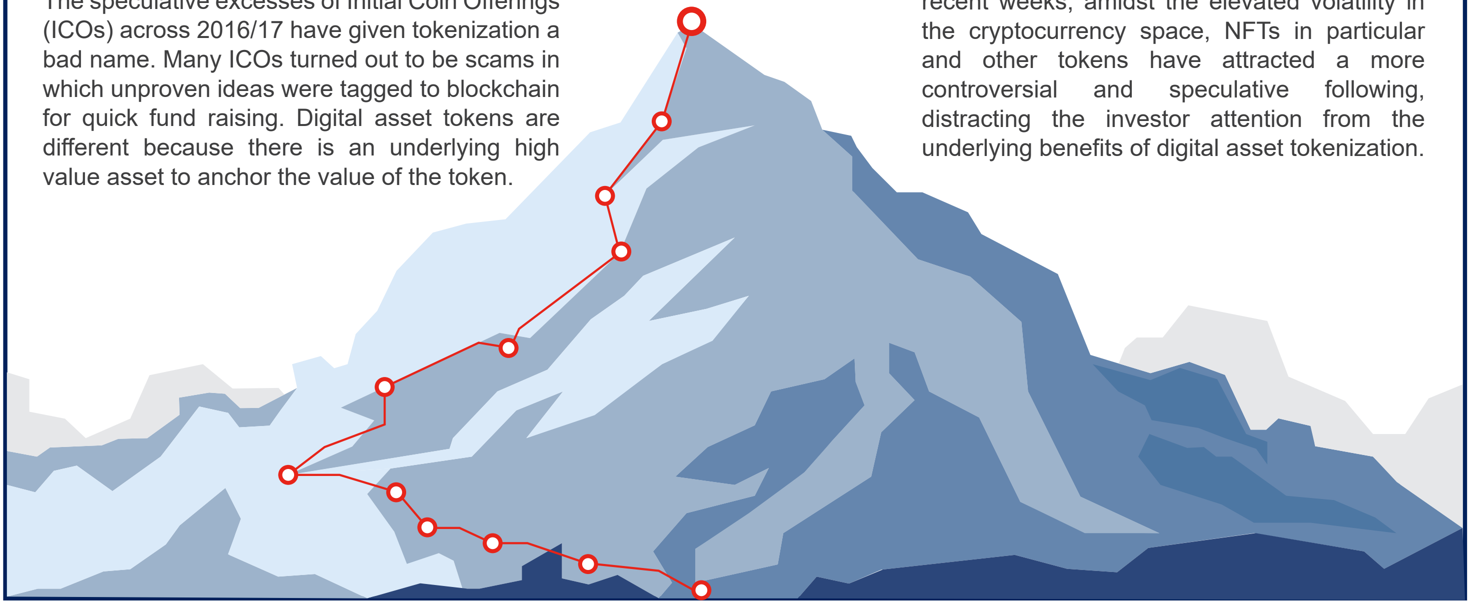
The barriers of entry to investment is lower and allow investors to invest in high value asset at a fraction of the original cost.

What Are The Challenges?

For digital asset tokenization to take off, there is a need to improve regulation for investor protection, so as to reinforce the provenance, value, custody and linkage of the physical asset to the digital token. Protecting the ownership rights of the digital token owner is critical.

The speculative excesses of Initial Coin Offerings (ICOs) across 2016/17 have given tokenization a bad name. Many ICOs turned out to be scams in which unproven ideas were tagged to blockchain for quick fund raising. Digital asset tokens are different because there is an underlying high value asset to anchor the value of the token.

There are many types of tokens beyond these digital asset tokens that we highlighted here. There are Native Tokens like Bitcoin, Utility Tokens like Ethereum and most recently Non-Fungible Tokens (NFTs), whereby the underlying asset by definition are non-exchangeable and unique in nature. In recent weeks, amidst the elevated volatility in the cryptocurrency space, NFTs in particular and other tokens have attracted a more controversial and speculative following, distracting the investor attention from the underlying benefits of digital asset tokenization.



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