

THE FUTURE OF SECURITISATION AND TOKENISED ASSETS

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Securitisation through tokens is a process aimed at creating digital financial securities negotiable on blockchain, which has been gaining ground in the banking industry for some years now.

WHAT IS SECURITISATION?

Securitisation is the process of converting contractual rights into negotiable securities, and by which one can package the legal effects of a defined contractual scheme to third parties not originally involved in the underlying legal construct.

Usually linked to prominent examples like asset-backed or mortgage-backed securities, the securitisation technique plays a much larger and basic role within the financial markets. Being simply a repackaging of receivables into tradable securities, it can be applied to any underlying valid and enforceable legal agreement. A standard bond is an example of securitisation whereby the underlying debtor-creditor relationship is securitised into a note.

LEDGER-BASED-SECURITY & TOKEN

Up to the materialisation of digital technologies like Blockchain, securitisation has been mainly implemented through dematerialised security certificates, equipped with an ISIN code, and usually custodied with common depositaries (EUROCLEAR, etc.). A new securitisation vessel is available nowadays, the token, and a new type of security has been created, the “ledger-based security”. How? The contractual conditions related to the relevant contracted object of securitisation are “translated” into programming codes contained into digital contracts (the so-called Smart Contracts) which are registered on a blockchain and accessible at a specific address.

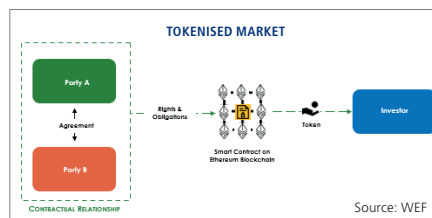
WHAT IS BLOCKCHAIN AND A SMART CONTRACT?

Blockchain is essentially a new way type ledger, a digitally distributed, decentralised ledger that exists across a computer network

and facilitates the recording of transactions. As new data are added to a network, a new block is created and appended permanently to the chain. All nodes on the blockchain are then updated to reflect the change. This means the system is not subject to a single point of control or failure.

"The tokenised market is expected to grow by 10% and reach ~ USD 24trn of financial assets in 2027."

Smart contracts can be defined as software programmes which are automatically executed when specified conditions are met, like the terms agreed on by a buyer and seller. Smart contracts are established in code on a blockchain. The information contained into Smart Contracts and registered on (Ethereum) blockchain represents the ledger underlying the new tokenised security.



Switzerland introduced the ledger-based securities as a new category of securities in accordance with the Swiss Code of Obligation (art 973) and enacted the Federal Act of the Adaptation of federal Law to Developments in Distributed Ledger Technology (DLT bill) in 2021. Tokens differ from cryptocurrencies as the former represents a claim against the issuer, while the latter does not.

BENEFITS OF SECURITISATION THROUGH TOKENS

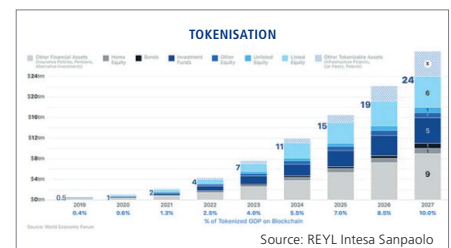
- Operational cost savings: particularly useful for asset classes where servicing or issuing tends to be highly manual and hence error-prone, such as bonds, asset-backed securities, and sukuk, (the Islamic alternative to a fixed income security, more precisely an asset-based shariah compliant security) etc.
- Liquidity: easy negotiability leading to more efficient pricing.
- Transparency: all transactions are recorded on blockchain.
- Democratisation of access: service providers can grant access to a wider range of investors

by lowering the minimum investment size and reducing transaction costs. By streamlining operationally intensive manual processes, servicing smaller investors can become economically attractive.

- Security: the tamper-proof nature of the blockchain ledger can reduce the risk of fraud and facilitate the application of anti-money laundering policies.

TOKENISED ASSETS AND THE TOKENISED MARKET

Tokenisation allows almost any real-world asset, and any legal effect originating from commercial relationships to have a digital representation on a blockchain. This tremendous transformational potential is expected to exert a big influence on the economy, innovation, and social environment. A new terminology comes into play, “Tokenised Market” operating in a “Tokenised Economy”. According to the World Economic Forum the tokenised market is expected to grow by 10% and reach ~ USD 24trn of financial assets in 2027.



Banking and financial industries are one of the many economic segments impacted by tokenisation. Healthcare, retail/e-commerce, and government, energy & utilities are also among the sectors more profoundly influenced.

In the light of the path outlined by the Swiss Authorities, we can expect to see more assets being tokenised and traded on blockchain-based markets. REYL Intesa Sanpaolo has been recently appointed as structurer and arranger of a Shariah compliant ledger-based certificate.



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