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Implication of Blockchain Technology

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Abstract

In order to securitize assets, the blockchain technology is utilised to tokenize assets and issue a blockchain token that digitally represents a genuine, marketable product. The security tokens which are issued in the form of initial coin offering (ICO) or security token offering (STO). It stands for legally required financial instruments (equities, bonds, loans, and money), physical assets (real estate, works of art, precious metals), or intellectual property.

Keywords: Blockchain technology, ICO, STO, equities, marketable product

INTRODUCTION

Meaning of Securities

The sort of financial instrument with a monetary value and the ability to be traded is called a security. Using security to symbolise stock ownership in a corporation is another option. It could also be interpreted as the bond a creditor has with a certain thing. It is categorized into three broad categories.

1. *Equity:* It signifies that the investor, whether a public or private body, is investing in shares of the company. Investors become owners of entities in the form of securities and have some amount of influence via voting.
2. *Debts:* Debt is a type of security that deals with money that was borrowed by the company and is subject to repayment. According to the terms of the agreement, the corporation is required to pay the interest amount at predetermined periods.
3. *Investment fund:* Investor-supplied capital for the acquisition of securities is referred to as an investment fund. The shares allocated to the investor in the investment are still fully his property.

Meaning of Tokenization

Tokenization is defined by the Financial Stability Board as the representation of conventional assets on distributed ledger technology (DLT), such as financial instruments, a basket of collateral, or actual assets (FSB, 2019) [1]. Asset tokenization represents pre-existing real assets on the ledger by connecting or embedding the economic value and rights generated from these assets into blockchain-created digital tokens [2].

It is the process of making assets available digitally on a distributed ledger. This concept's goal is to develop blockchain technology, which assures that transaction and balance records cannot be tampered with.

It involves the creation of digital tokens which are like real assets issued on the blockchain. Asset tokenization is potentially limitless, as any actual asset can purportedly be "put on the blockchain".

Significance of Tokenization

The ability to conduct financial market trading operations using tokenized securities has shown to be a viable choice. Tokenized securities may be in the form of debts, bonds, equity, or investment

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funds. Security refers to any asset that may be exchanged for the express purpose of earning money for an investor through a third party.

A new token economy provides a more likely, efficient, and fair financial world by significantly decreasing the friction required in the production, purchase, and sale of securities. It provides greater liquidity, more transparency, and more accessible.

SECURITY TOKENS UTILITY TOKENS AND REGULATED DIGITAL ASSETS ARE DISTINCTIVE IN NATURE [3]

A foundation or business may issue tokens for contributors to use in exchange for a service that an organisation is offering. In contrast to security tokens, which relate to a future stream of cash flows resulting from the actions of the token issuer, utility tokens refer to the right to consume a certain service or product.

When it comes to transferring or trading an item completely or in part, digital assets, which are tied to intellectual property and serve primarily as a means of expressing ownership of the asset. It improves liquidity and permits to increased access to such assets. Tokenization extends beyond financial applications and has the ability to revolutionise and enhance various sectors, ranging from a company's or real estate ownership to art and video game goods. Although the idea of tokenization is still relatively new, it is quickly gaining traction in the field of financial technology.

Aspects of Financial Institution While Participating in Token Economy

Financial Institution has to choose where to play in the value chain. For example, by advising the issuer on how to structure their token or could act as a safe keeper of the tokenized asset. Choosing a proper platform integration which further help them to choose with whom they will work and collaborate with.

Proper security measures must be implemented to maintain a high level of cyber security. Any financial institution must comply with MifID, Anti-Money Laundering (AML), Know Your Customer (KYC), and other standards in order to operate [4]. The tokens must continue to be compliant from the standpoint of the issuer and the investors, according to the financial institution.

Scheme of Standardization of Tokenization and it’s Procedures

Each minted currency was backed by a brand-new, independent smart contract on the Ethereum network. Because each customisable token ecosystem's implementation of smart contracts differs, friction with stakeholders like as custodians or exchanges who must do technical due diligence grows.

The ERC1400 standard is the outcome of an industry-led project that promoted the creation of a standardised framework for the tokenization of securities. This standard enables for the automated compliance of the tokenized asset with pre-defined standards integrated into the code and is designed to automatically enforce certain criteria relating to legal and regulatory regulations applicable to securities in various countries.

In accordance with the legal tokenization blueprint it released in 2018 and the minimal standards set out by Swiss legislation, the Swiss Capital Markets and Technology Association is now contemplating the issuing of its own standard security token (CMTA, 2018) [5].

DIFFICULTIES FACED WHILE ADOPTING ASSET TOKENIZATION

Given the considerable throughput needed for the size of the global financial markets, a technological issue with DLT-enabled networks exists that is pertinent to asset tokenization. The identification of a single owner or node responsible for the whole network is made more challenging by governance difficulties and decentralised ledgers.

Another issue that occurs when governing DLT networks or when the network demands are not met is the lack of a single responsible point. For market players, there is a risk that the legal and regulatory status of some tokenized assets may be unclear. This risk may be reduced by financial regulatory and supervisory bodies being explicit and interpreting the law(s) and regulations already in place.

Legal Status of Crypto Assets and its Enforceability of Smart Contracts Under Private Law

Under private law (English Law), cryptocurrencies are regarded as property [6]. The Taskforce's goal is to publish a legal opinion on the legal position of digital currency and smart contracts under English private law.

Future of Tokenized Securities

Blockchain services will significantly advance in the near future, for instance, Amazon Web Services, a subsidiary of retail behemoth Amazon that provides a cloud computing platform.

Market Size of Tokenization

When compared to the conventional flat industry, the market for digital currencies is still quite small. A tiny amount of traditional global finances must flow into the fintech space in order to for the fintech business to develop and embrace rapidly. The promotion of financial stability, the protection of financial customers, and the maintenance of market integrity are regulatory goals that must be consistent with tokenized markets.

CONCLUSION

Tokenized assets have undergone several cycles since the spectacular rise of initial coin offered in 2017. Tokens have previously been security tokens, utility tokens, and now non-fungible tokens, or NFTs. The majority of financial institutions adopted the idea of security tokens, and some of them have even finished auditing tokenized real estate investment trusts. However, the issues with tokenized assets have proven to be more challenging than expected.

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