

## Nick's Corner



### The 10x Potential of Tokenisation - Democratising Investment Opportunities

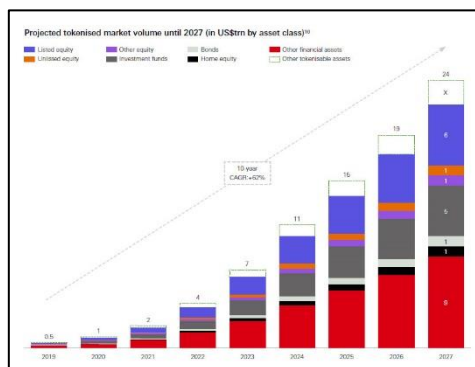
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*Tokenisation has the potential to unlock access to a wide range of assets for a new demographic of investors.*

Tokenisation, powered by distributed ledger technology (DLT), has the potential to accelerate progress on one of the most pressing challenges facing the world today – reducing global wealth disparities.

The total market size for global fixed income and equity was worth approximately USD178 trillion in 2019. Currently, 43.9 per cent of global wealth is held by 0.9 per cent of the world's population. Tokenisation could open investment opportunities to large, under-banked populations.

#### Rapid growth of tokenised assets.



More than 84 per cent of the world's population will need to save for more than two years to be able to afford a share in each of the top five market cap companies.

#### So how do we get there?

Through DLT, a broad range of assets can now be issued as tokens (programmable assets) via smart contracts on a distributed ledger. Each

token represents legal ownership of the underlying asset. As tokens are highly divisible, **each token can represent a tiny fraction of any asset**. This enables fractional ownership, increasing accessibility to the securities market by allowing for a wider scope of eligible investors due to pared down minimum investment amounts.

#### Challenges

**Compliance** - Transactions involving tokenised assets would need to meet the same standards on 'Know Your Customer' (KYC) and Anti Money Laundering (AML) as transactions carried out via traditional means. The speed, efficiency, and irreversibility of transactions on a distributed ledger means that current highly manual operational controls and checks need to be replaced by automated compliance checks.

**Regulatory environment** - International regulatory alignment is essential for the growth and development of tokenisation. There has been growing clarity in recent years as regulators globally implement governance frameworks and policies to regulate the emerging tokenised economy.

**Qualified custodians** - Custodian services in the tokenised securities world are important in giving issuers and investors confidence that their assets are managed securely. The custodian's role of safekeeping would be very different with tokenised assets. Ownership of tokenised assets is authenticated by means of a 'private key', which prevents theft and unauthorised access to tokenised assets. The custodian's role would be to securely store and manage these keys.

**Executing a shared vision of change** - We believe DLT is at a tipping point. Within the next five years, we expect DLT to achieve adoption at scale in the capital markets, and potentially replace core market infrastructure.<sup>16</sup> This will change the shape of technology spending – and in the process, exert growing influence over the way market's function, ultimately improving inclusion for the under-banked.

We see tokenisation as the enabler to lower the barrier of entry to investing for more than half of the world's population, by paring down the minimum investment amounts required. DLT can also give investors access to assets that traditionally would require high capital investment (real estate, private securities, art), augmenting the universe of investment options available.

In the words of Astro Teller, Captain of Moonshots, Google X: "It's often easier to make something 10x better than it is to make it 10 per cent better."

DLT has arrived, propelling the rise of tokenisation, and thus enabling the market to be 10x more efficient, 10x more inclusive, 10x more resilient. The past decade of banking focused on making the 10 per cent improvements; now is the time for the industry to pull together to commit leadership and governance to tackle challenges proactively and pursue the opportunity to make the 10x difference.

## Client Services

### Blockchain Go Live

- Estimated Q4 2022 – end Nov, else client testing mid Jan- March

### Blockchain Testing

#### API Testing

- API to be made available post go-live
- API testing is available for trades, confirmations, and prices
- Contact FinSwitch if you are interested in testing

#### Frontend and Web Services Testing

- A test site will be made available for testing
- A date and period of testing to be communicated as soon as possible

### Blockchain Sign Off

- Sign off** forms will be sent to Security Custodians
  - ✓ Configuration of your company and users
  - ✓ Testing of uploads and downloads
- Have your users received their Blockchain password to login?
- Are you familiar with the blockchain UI platform?
  - ✓ Training
  - ✓ Documentation
  - ✓ Videos
- Is your company and are users set up correctly?
- Have you tested your daily procedures?
  - ✓ Downloading files e.g., fund accounts, trades, confirms, prices, etc.
  - ✓ Holding balances (which are no longer in the CT file)

### Blockchain Changes

- FinSwitch will provide all **web services** clients with **new login credentials**
- Investigating changes for **default setting** to only allow **process valid lines** via web services
- ISO standards** required for currency codes i.e., ZAR and NAD
- FTP** will be **discontinued** for price downloads
- TER** file template must include **"Status"** column
- Manual trades being confirmed in CT file will **require holding balances** going forward
- Holding balances in a separate download file from front-end
- All codes (fund, company, product etc.) to be in Upper Case – *change now*.

### Blockchain Training

- 7 Teams training sessions completed (6 System Navigation, 1 Feature Access functionality introduction)
- Training material available on existing site – "Communication"
  - ✓ Presentation
  - ✓ Videos
- Next one TBC

### Best Wishes

Tasneem Gydien

Manager: Client Relations