



SWIFT Institute

CALL FOR PROPOSALS

Is there value in the tokenisation of securities assets over existing market infrastructure mechanisms?

The SWIFT Institute invites proposals for research on the tokenisation of assets, whether the digital representation of real assets on distributed ledgers or the issuance of traditional asset classes in tokenised form. Leveraging distributed ledger technologies and its inherent features, the tokenisation of assets is possibly the next evolutionary step in the dematerialisation journey of securities and a potential accelerator of the settlement cycle.

Originally viewed as a 'niche', retail, crypto-asset speculative segment, the tokenisation of assets and implications on core financial market activities and the underlying market infrastructure (MI) is now firmly on the institutional agenda.

Diversification into alternative revenue streams in a search for less correlated investments, the drive towards market efficiencies and the enabling effect of new technologies means that commercial and MI-based initiatives in the tokenisation of assets and the build out of supporting infrastructures are underway in some jurisdictions. In parallel some central banks are debating and exploring the use of a tokenised form of central bank currency or stablecoin for the payment leg of securities settlements (DvP).

Policy makers are tasked with ensuring that tokenised markets are consistent with the regulatory and legal frameworks that ensure financial stability, and the protection of the end-investor. In a cross-border context, transactions of tokenised assets require international cooperation to limit regulatory arbitrage and to foster the safe development of the tokenised markets to include the market participants.

To date academic research has primarily debated the benefits and technical features of native crypto-assets, decentralized digital currencies, and their related ecosystem(s), while less attention has been paid to tokenised securities assets¹. DLT and related technologies across the securities lifecycle have been attributed with benefits such as efficiency gains driven by automation and disintermediation, transparency, the potential for improved liquidity and faster and more efficient clearing and settlement. In practice however, there is little **quantitative** research available to support these claims.

Equally, many questions remain over the operational impact on transaction flows regards the coexistence of existing practice and interoperability with an infrastructure that supports tokenised assets, especially in the case that DLT-based ecosystems have to be interlinked with other DLT platforms and/or with legacy systems through the existing rails. Concerns also exist related to potential challenges that may arise around access, governance and information security of any tokenised system. What rules will apply and can these be enforced in different jurisdictions? Who will reassure the user about effective performance?

For many industry participants the underlying question remains, in that, given the enormity of moving to an infrastructure that supports tokenised assets, does the 'perceived value' merit the 'cost'?

Research and conclusions on this topic will bring valuable insights to the financial community and contribute to the wider policy and regulatory debate.

1. By tokenised securities assets we refer to both digital native assets (e.g. a tokenised bond issuance) and asset-backed tokens (tokenisation of an existing asset).



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Research proposals can be theoretical or empirical, but would greatly benefit from a model of quantitative cost / revenue impact. The focus of the research could look at the following (other suggestions are welcome):

- Development of a comparative and quantitative analysis between traditional mechanisms versus a tokenised environment. Such an analysis could include a documentation of the end-to-end application landscape involved in the processing of securities, highlighting the changes a tokenised platform will bring, versus its savings and improvements.
- Using a scenario-based approach, analyse the likely economic advantages and disadvantages across market participants and the transaction cycle, to determine the likely benefits for end-investors, and the likely impact on market participants in terms of disintermediation, redundant processes and new entrants.
- How is a tokenised environment different to existing securities settlement systems? Within a scenario-based approach, what would be the impact on the settlement of tokenised assets, for example, account based versus token based, benefits over fiat (particularly with new capabilities such as instant payments) and the potential inclusion of a CBDC or Stablecoin for DvP?
- Does the business case for / investment in tokenisation of securities assets rely on the “cash leg” also being tokenised?
- On the understanding that the notion of cross-border will disappear in a DLT-based ecosystem, how would the scenarios differ in the context of a cross-border transaction and what potential risks may be introduced, in particular with regard to aspects such as the Asset Protection regime?
- What business and regulatory opportunities or challenges are likely to arise in the wider ecosystem with asset token applications, for example related to the demand for custodial services (eg, secure storage of private keys), insurance, derivative financial products and hedging, and dispute resolution mechanisms and services?
- From an infrastructure and technical perspective, what would an evolution towards tokenisation of securities assets entail regards interoperability, integration, resiliency and compatibility? For instance, how would the number, size and scope of securities market infrastructures evolve in the various scenarios?

Grant & Working Paper

A grant of EUR 20,000 will be awarded to the author of the selected proposal. 50% will be paid immediately; the remaining 50% will be paid on acceptance of a final working paper and a two-page executive summary.

The paper's intended audience is the financial services industry, it must be written in a clear concise manner and provide clear thought leadership for use by the decision makers of this industry. It should be no more than 40 pages, including the Abstract and Table of Contents.

The SWIFT Institute will publish the working paper and summary to the global financial industry. The author is free to submit the paper (or variation thereof) for publication in academic journals and other publication outlets of their choice.

The author may be invited to present their findings at a SWIFT Institute event related to the theme of the research.

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Proposal Submission

Please submit your research proposal as follows:

1. CV / bio including education, work history, research experience, publications, etc.
2. Description of your research project (2,500 words maximum) to include the following:
 - Objective of your research
 - Methods by which you intend to undertake your research
 - Timeframe by which you intend to complete your research
3. By email in MS Word / Excel / PowerPoint format and / or pdf.

Deadline: Proposals must be submitted no later than 02 October 2020.

Email: Send submissions to: Louise.agar@swift.com

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