



FINANCIAL AND MONETARY SYSTEMS

How tokenization is transforming global finance and investment

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The World Bank and other major financial institutions are building out technology to manage the tokenization of assets.
Image: Flickr/World Bank

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- The tokenization of financial assets on the **blockchain** is gaining momentum at an institutional and governmental level.
- The process could help overcome fragmented financial flows and foster greater industry collaboration.



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One of the major [financial discussion themes at 2024's Annual Meeting](#) was how physical and financial assets can be 'tokenized', meaning that a digital representation of the asset is created on the blockchain to allow them to be exchanged securely in real time.

Now after years of investment, proof of concept and testing, the planets are aligning and tokenization of financial assets is finally happening at an institutional and governmental level. This shift will forever change the way that nations trade and promote more inclusive financial participation.

Overcoming financial fragmentation

The world is increasingly interconnected across financial and trade flows, yet every asset class is traded on a different, fragmented pyramid of ageing technology systems. This creates a real challenge for banks and governments to get a full picture of exactly who owns how much of what at any one time.

Have you read?

- [Code as Law : The tokenization of financial assets and the paradox of programmability](#)
- [Digital tokens could transform the economies of the Middle East and North Africa if the governance keeps up](#)
- [The new cryptocurrency: digital tokens that raise millions in minutes](#)

Tokenization could be the solution and governments and institutions are making moves. Only last month, [the Bank of England signalled its intention to move ahead with a central bank digital currency](#), while Belgian financial services company [Clearstream](#), the US' Depository Trust & Clearing Corporation (DTCC), the European

The business case for tokenization

Smart contracts and automated processes in different areas could propel [estimated annual global infrastructure operational cost savings of ~\\$15-20 billion](#).

The need for shortened settlement cycles – which improve liquidity, enhance market efficiency and lower systemic risk – and the demand for 24/7 market operations will require a new infrastructural backbone. This will address the risks in today's systems, which use different technologies and lack the atomic network connectivity of blockchain networks, thereby creating technology silos that create friction when processing of transactions. Furthermore, by using distributed ledger technology for collateral management, financial institutions can free up substantial capital [estimated at more than \\$100 billion annually](#).



Industry collaboration is crucial to mobilizing tokenized assets and connecting cross participants and global markets. Technology developments in financial

Distributed ledger technology can bring our capital markets infrastructure into the 21st century by streamlining and automating manual and time-consuming processes.

Reducing operational costs, improving efficiencies and eliminating settlement risks are among the biggest reasons why tokenizing assets has generated so much interest from major financial institutions.

Moving from theory to practice

Asset tokenization can unlock collateral mobility on a scale that was never possible before. Today [there are \\$255 trillion in marketable securities that are in demand for use as collateral](#), but only \$28.6 trillion are actively being used. Unlocking even a small percentage would have a transformative impact on how trades are finalized, reducing risk, freeing liquidity and opening new ways for investors to earn returns. Euroclear and the World Gold Council recently tokenized gold, Gilts and Eurobonds for collateral management.

We have already moved beyond the exciting theoretical opportunity and started to deliver the actual transformation of financial systems through tokenization. Hong Kong Monetary Authority's (HKMA) [Project Evergreen](#) with its initial genesis in 2021, has since demonstrated the first green bond issuance in February 2023, followed by the world's first multicurrency issuance in [February 2024](#) involving the HSBC Orion and Goldman Sachs DAP technology.

An end-to-end tokenized asset infrastructure that supports the digital life cycle across securities, funds and bonds [has been in operation at Goldman Sachs for over a year](#). HSBC Orion has a similar tokenized asset platform through which the [European Investment Bank](#) chose to issue its first digital bond in pound sterling in January 2023.



On the asset manager side, Blackrock and Franklin Templeton have launched tokenized mutual funds. Bitcoin and Ether exchange-traded funds (ETFs) have attracted billions of dollars from investors. However, that's nominal compared to the opportunities to come. The digitization of investments is poised to expand cost savings, distribution and 24-hour access to a wide array of assets for end investors.

Meanwhile, the institutional crypto-sector is adopting traditional finance practices to mitigate risks and improve yields on tokenized assets. There is a rising demand for secure, private transactions in crypto-markets, where data permissioning is critical to protect trading strategies and scale investment flows.

As we enter 2025, we are at an inflection point. These systems will start to come together in synchronized transactions that bring tokenized securities and deposits into seamless capital flows, connecting global markets in ways unbound by traditional finance's cutoff times. I am excited to see the potential for financing and capital efficiency take shape and define new standards for modern financial markets.



Questions to answer



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use of this technology while balancing it with their individual privacy and compliance needs?

Then there is the question of who governs a distributed ledger for financial services. The obvious answer is an independent organization with solid, international governance credentials.

The governance of the [Global Synchronizer Foundation](#), an independent entity governed by leading market participants and technology providers, for example, is supported by the Linux Foundation. It provides transparency to governance actions carried out by the operators of the decentralized infrastructure. This ensures openness and organizational neutrality in the development and deployment of the Global Synchronizer and its related applications.

We are in the period of adoption, where connectivity and digital assets are finding liquidity and scale. This progress will create the mechanics for a digitally-native, global economic network. The benefits of tokenization in capital markets will increase exponentially as more institutions and infrastructures see the advantages for themselves.

The exploratory phase is over; real-world applications of tokenization are here and will deliver a seismic shift in how our capital markets operate, connecting people and institutions across borders and improving the flow of money, and create systems that are fairer, more efficient, and more resilient.

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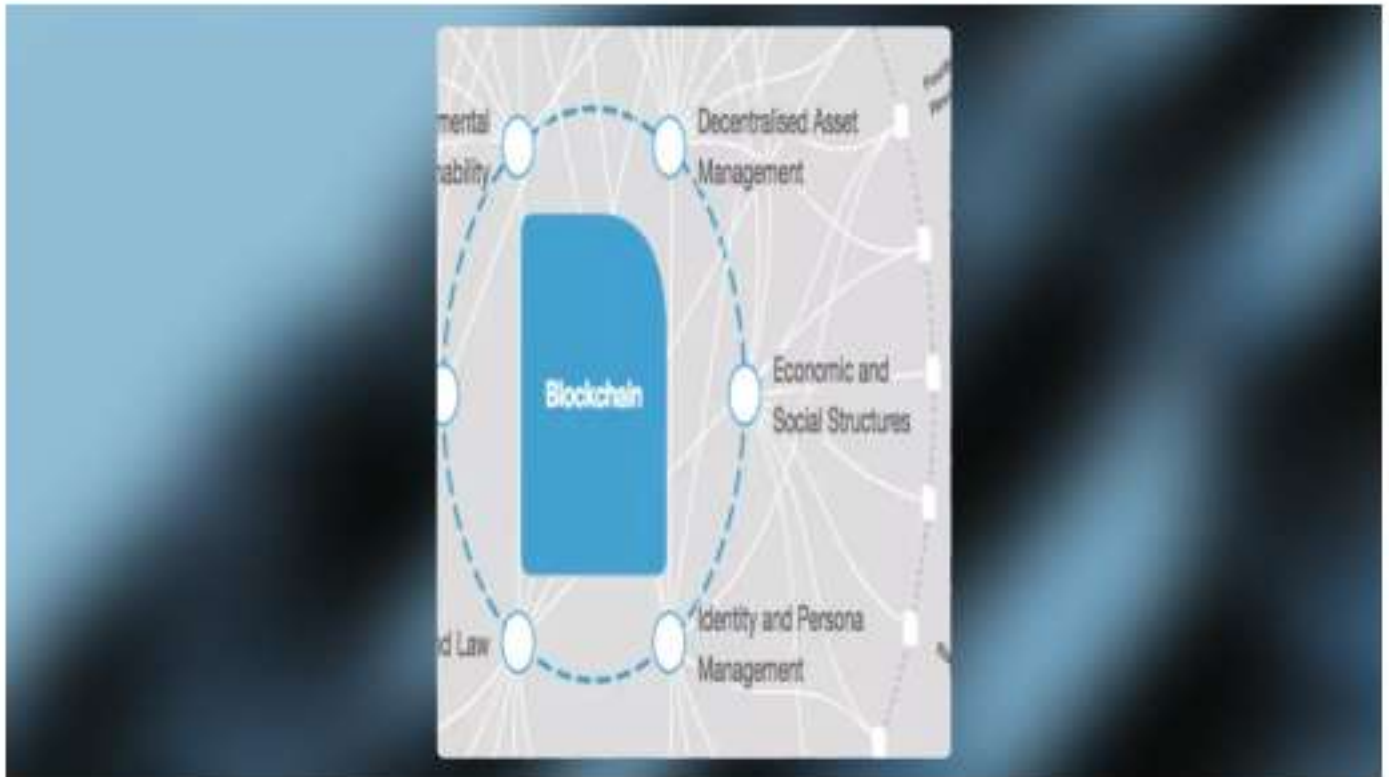
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