

Tokenization

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What is Tokenization?

- Tokenization represents real-world financial assets on blockchains to improve settlement speed, liquidity, and capital efficiency without changing the underlying economics.

Why?

- Current T+2 Inefficiencies: Traditional settlement takes two business days, causing capital to be locked, increasing counterparty risk, and requiring complex reconciliation.
- Tokenization Solution (T+0): Tokenization represents assets (stocks, bonds) on a blockchain, enabling simultaneous trade execution and settlement (T+0).

**T denotes Trade Date*



Benefits of Tokenization



1. Faster settlement

- T+2 → near-instant
- Lower counterparty risk
- Less capital tied up

2. Capital efficiency

- Collateral reused faster
- Better balance sheet utilization

3. Access & liquidity

- Fractional ownership
- Secondary markets for traditionally illiquid assets

4. Automation

- Coupons, dividends, compliance via smart contracts
- Fewer operational errors



Drawbacks of Tokenization



1. Regulatory uncertainty

- Securities law still applies
- Jurisdictional fragmentation

2. Legal enforceability

- Token $\neq$ asset unless courts recognize the claim
- Heavy reliance on off-chain legal wrappers

3. Custody & technical risk

- Smart contract bugs
- Key management failures

4. Liquidity illusion

- Tokenized does not automatically mean liquid
- Market depth still matters



Tokenization in Practice

1. Tokenized Cash & Treasuries

Why:

- Lowest regulatory friction
- Clear legal claims
- Immediate institutional demand

Examples:

- Tokenized Treasury funds
- On-chain money market funds
- Tokenized cash equivalents

2. Tokenized Private Credit & Funds

Why:

- Private markets are illiquid
- Manual settlement is painful
- LP onboarding is slow

Examples:

- Private credit funds
- Fund shares
- Structured notes

3. Early-Stage / Experimental

Examples:

- Real estate
- Carbon credits
- Equities (outside US)



Institutional Adoption

BlackRock

What they're doing

- Launched tokenized money market / Treasury funds
- Using blockchain as a settlement and ownership layer, not speculation

Why it matters

- World's largest asset manager does not experiment casually

JPMorgan

What they're doing

- Built Onyx, a blockchain platform for:
 - Tokenized deposits
 - Repo settlement
 - Intraday liquidity

Why it matters

- JPMorgan is creating market plumbing
- They see tokenization as **internal efficiency**, not customer-facing hype



Institutional Adoption

Depository Trust & Clearing Corporation (DTCC)

What they're doing

- Piloting tokenized settlement and clearing infrastructure

Why it matters

- DTCC sits at the center of U.S. securities markets

Franklin Templeton

What they're doing

- Tokenized mutual funds with on-chain transfer agent records
- Investors hold **on-chain fund shares**

Why it matters

- Proves this isn't just for private markets

BNY Mellon

What they're doing

- Custody for digital and tokenized assets
- Integrating tokenization into traditional safekeeping

Why it matters

- Custody is the biggest institutional choke point
- BNY involvement lowers adoption friction across the industry



Why is Tokenization a Big Deal Now?

1. Interest rates exposed inefficiencies

- Higher rates = higher cost of idle capital
- Slow settlement and trapped collateral suddenly **matter**
- Tokenization improves **capital velocity**

2. Regulation finally caught up (somewhat)

- Clearer guidance on:
 - Digital securities
 - Custody
 - Transfer agents
- Institutions can experiment without career risk

3. TradFi demand for private market access

- Private credit, PE, real assets are growing fast
- These markets are:
 - Illiquid
 - Manual
 - Operationally expensive

4. Blockchain infrastructure matured

- Stablecoins work at scale
- Institutional custody exists
- Smart contracts are extremely good now



How Tokenization Works?

How Tokenization Works:

From Asset to On-Chain Token



Technical Aspects



Token

- ERC-20 / ERC-1400
- Represents ownership claim

Smart Contract

- Transfer rules
- DvP logic
- Corporate actions

Ledger (Blockchain)

- Immutable ownership record
- Settlement finality

Custody

- Qualified custodians
- Multi-sig / HSMs(Hardware Security Module)

Compliance Layer

- KYC / AML
- Wallet whitelisting
- Transfer restrictions

Off-Chain Layer

- Legal contracts
- Asset custody
- Courts & enforcement

