



**GLOBAL
DIGITAL
FINANCE**

2023 | Year in Review

SCALING FOR SUCCESS IN 2023:
*RWA TOKENIZATION MOVES FROM POC TO
PRODUCTION WHILE CRYPTO POSITIONS
FOR GREATER ADOPTION*

- **Challenging Financial Services Landscape** - The year posed significant challenges in global financial services, marked by the failures of Silicon Valley Bank and Credit Suisse, substantial job losses in the banking sector, and echoes of the 2008 financial crisis. However, the market experienced a softer landing than anticipated, with falling inflation and a robust performance by the S&P, fuelled in part by the emergence of ChatGPT and bullish sentiment toward Generative AI.
- **Counter-Intuitive Trends and a Soft-Landing** - Despite the significant challenges, 2023 has defied expectations, evolving from a period of uncertainty to a soft landing, with the potential for falling interest rates early in 2024, and a robust performance by the S&P, fuelled in part by the emergence of ChatGPT and bullish sentiment toward Generative AI. In the digital assets and tokenization space, the industry has surprised observers by quietly forging a path to production, contrasting with high-profile court cases involving FTX and regulatory actions against Binance.

- **Unprecedented Global Policy and Regulation Development** - 2023 witnessed an unprecedented surge in publications and developments in global policy and regulation for digital finance. Jurisdictions globally raced to establish frameworks to attract new capital, talent, regulated firms, and innovative business models, such as the multi-faceted approach to stablecoins in the UK, the continued progress of MiCA's Level 2 measures, and APAC's mature experimentation with Central Bank Digital Currencies (CBDCs), and Dubai's Virtual Assets Regulatory Authority (VARA) which in 2023 set out a comprehensive Virtual Assets (VA) Framework in the Emirate of Dubai.
- **Challenges and Opportunities in DLT Regulation** - Despite notable regulatory progress, challenges persist in DLT policy and regulation. Achieving genuine technological neutrality is crucial, ensuring a comprehensive understanding of benefits and risks while avoiding undue influence from the legacy of cryptocurrency. The need for balanced risk assessment and a nuanced approach to leveraging new technology for efficiency were highlighted as essential components for mature market development.
- **Co-Regulatory Models and Safe Harbour Sandboxes** - As frameworks are implemented, ongoing monitoring for necessary co-regulatory models is crucial. While sandboxes have seen global success, the introduction of Safe Harbour Sandboxes becomes vital for untested regulations, firms new to financial regulation, or innovative products requiring unique approaches. These mechanisms play a crucial role in fostering growth, job creation, social inclusion, and overall prosperity in the evolving era of digital finance. Successful jurisdictions will not only address regulatory challenges but also lead collaborative efforts for cross-border equivalence and harmonization, positioning themselves at the forefront of the digital space race.

- **Real-World Asset Tokenization in Production** - The tokenization of real-world assets has moved beyond the realm of proof-of-concepts (PoCs) to full-scale production. The industry has shifted towards a middle ground mindset, focusing on using both public and private networks to create efficient, fair, and transparent markets. Regulated financial institutions (FIs) are increasingly adopting private and public networks, with numerous production projects underway, signalling a maturation of the digital asset space.
- **Decentralized Finance (DeFi) Industry Progress with Regulators** - Progress was made in understanding and regulating decentralized finance (DeFi), with notable publications and efforts by jurisdictions and international organizations like the Autorité des marchés financiers (AMF), French Prudential Supervision and Resolution Authority (ACPR), and the International Organization of Securities Commissions (IOSCO). However, there is ongoing work needed to achieve clear and appropriate policy and regulation for permissionless DLT and DeFi, emphasizing the importance of bottom-up collaboration between the public sector and industry.
- **Digital Currencies Shifted Course** - In the past year, central bank digital currencies (CBDCs) have evolved from a standalone innovation to a crucial component in broader financial digitization efforts. As we progress into the next phase, the focus is on improving the infrastructure and ecosystem surrounding CBDC issuance. However, challenges in incentivizing consumer spending and the need for a better understanding of public perception remain key considerations in ensuring the feasibility and widespread adoption of CBDCs in 2024.

- **Tokenization Beyond Cryptocurrencies** - While cryptocurrencies and stablecoins currently dominate the digital asset market, the real potential lies in asset tokenization, representing a shift from traditional ownership systems to decentralized digital ledgers. Forecasts suggest that by 2030, up to 10% of financial assets will be tokenized, leading banks and financial institutions to focus on building capabilities for issuing, custodizing, transferring, and settling tokenized assets.
- **Custody is the gordian knot of the tokenization of the real economy** - As the digital asset landscape matures, the spotlight shifts to the foundational role of custody services. Digital asset use cases, particularly those built around custody, emphasize the critical importance of compliant custody platforms integrated with advanced technologies, robust governance frameworks, and blockchain agnosticism. Regulated custodians are expected to play a central role, ensuring asset segregation, bankruptcy remoteness, and investor protection. The strategic focus for 2024 lies in recognizing the essential nature of custody services in facilitating the broader adoption and scalability of tokenized assets, underpinning the entire digital asset ecosystem.
- **Re-Centralization for Mainstream Adoption** - The shift towards re-centralization and specialization along the value chain is anticipated as the digital asset market matures. Regulated banks, custodians, and securities services firms are expected to dominate digital asset custody services, fostering mainstream adoption by prioritizing compliance, risk management, and governance processes. The focus is on building a scalable, standardized, and interconnected infrastructure to enable seamless communication and data sharing across capital markets, unlocking the benefits of tokenization and facilitating institutional collaboration.