

2025 Policy Briefs:

TOKENIZATION

From payments to investments

What Comes Next in the Tokenization Journey

After the tokenization of money, notably the US dollar, the time is ripe for the tokenization of investments. Stablecoins in circulation have surpassed \$200bn¹, and 99% are denominated in dollars.² They effectively became the 'digital dollar' and are easily and instantly available almost anywhere. But although they can be used to protect against depreciating local currencies, their low-to-no-interest income makes them less appealing as an investment.

Securities are the natural next step in the asset tokenization journey. Contrary to assets that are more complex to be fully brought onchain because of their physical presence and specific ownership rules, like real estate and vehicles, securities can be more easily tokenized with immediate benefits for issuers and investors.

For issuers, the reduction in bookkeeping and reconciliation costs is real. With its onchain money market fund on the Stellar blockchain, Franklin Templeton, a global investment firm, cut its recordkeeping costs for every 50,000 transactions from \$50,000 to \$120.³ Franklin Templeton also reduced the initial investment required for the onchain fund to \$20⁴, greatly improving financial access.

In turn, consumers not only gain increased access to investments not typically available at the retail level but can also trade shares instantly, 24/7. For some onchain funds, like Franklin Templeton, institutional investors can even transfer fund shares directly between them, peer-to-peer, facilitating liquidity management and reducing intermediation costs.

The Technical Hurdles

The biggest technical hurdle for widespread tokenization is interoperability. Converting rights to an asset into a digital token on a blockchain opens up a world of possibilities, giving consumers more options to invest their savings and issuers, public or private, more options to secure funding.

If, however, issuers are using different blockchains to tokenize assets that cannot be easily and securely traded on other blockchains, consumers are forced to have multiple blockchain addresses and wallets. The process gets complex and costly, leading to increased risks (such as numerous private keys) and fragmented liquidity.



The problem is exacerbated with private, permissioned blockchains. These closed networks are created and controlled by a single party that can unilaterally define the applicable rules and arbitrarily decide what can be built on it, who can do so, and whether there is any degree of interoperability with other networks.

Public blockchains, in contrast, favor openness and interoperability, guarding against entrenched forces driving out competition and interconnection. Much like the internet, public blockchains are based on standardized protocols that facilitate the interaction between different systems.

While more work needs to be done to improve the development of cross-chain communication solutions, using public blockchains like Stellar is still a decisive step towards a more widespread and seamless adoption of tokenization.

The Regulatory Challenges

The tokenization of securities in the US is already happening in a regulated way under the supervision of the Securities and Exchange Commission (SEC). In 2021, Franklin Templeton launched on Stellar the first US-registered blockchain-based fund.⁵ WisdomTree also has 13 blockchain-enabled mutual funds running on Stellar.⁶

All these funds are registered with the SEC and governed by the same rules and regulations as other SEC-registered investment products. Moreover, SAB-121, an infamous accounting guidance by SEC staff that effectively prevented banks from providing crypto custody, was recently rescinded.⁷

Despite these positive signs, a significant regulatory challenge for widespread tokenization remains: the international standard developed by the Basel Committee on Banking Supervision for banks' exposures to crypto assets.⁸

The standard is set to be implemented globally by the end of 2025 and explicitly applies to tokenized securities. However, the standard leaves a lot of room for financial supervisors in each jurisdiction to decide the risk profile of each crypto asset based on a varied and subjective set of requirements.



Therefore, applying the standard could lead financial supervisors to treat tokenized securities as riskier than their traditional (non-tokenized) counterparts and, in turn, require banks to increase their capital in the same amount as their holding of tokenized securities. So, for each \$1 in tokenized securities held, banks would have to add \$1 in capital.

The fear of facing this highly punitive capital requirement could force banks to avoid any exposure to tokenized securities until they have more clarity on how supervisors will treat tokenized securities. Holders of tokenized securities could then have trouble using them for basic financial operations, like posting margin or collateral for trading and borrowing. This regulatory threat could slow the pace toward broader tokenization.⁹

To minimize this threat, the blockchain industry must work with banks, which are responsible for making the initial assessment of the risk profile of the crypto assets they hold.

The blockchain industry must ensure that banks have all the information they need not only to properly perform this assessment but to defend their reasoning before financial supervisors, who have the final say on cryptoassets classification according to the Basel standard.

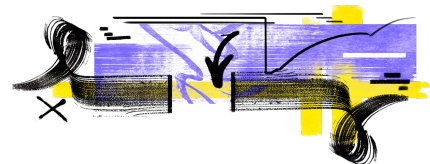
The Role of the Stellar Network

Stellar can be seen as the 'batteries-included' network for asset tokenization.¹⁰ From the beginning, it was optimized for asset issuance and payments. Asset issuance is native to the Stellar protocol and doesn't require additional coding. In practice, this means shorter development times and less room for error, allowing tokenization to happen safely and at a lower cost.

The Stellar protocol also comes with built-in features and controls for distributing, freezing, and clawing back assets, ensuring precise asset management. Any asset issuer can easily use embedded configurations to, for example, require users to get KYC/AML clearance before they can hold the asset.

So, while Stellar is an open and public blockchain, issuers can fully customize their assets and choose the degree of control they have over them according to compliance needs and regulatory requirements. And this is all transparent to users, who can view the profile of each asset and decide which ones they are willing to hold or use.

Finally, tokenized assets on Stellar are added to a global network of exchangeable tokens with over 475,000 crypto-to-cash ramps in 180 countries, making assets on the Stellar network globally accessible and useful.



THE STELLAR DEVELOPMENT FOUNDATION

The Stellar Development Foundation (SDF) is a US-based nonprofit organization focused on working with and supporting changemakers to create equitable access to the global financial system through blockchain technology. Founded in 2014, SDF supports the continued development and growth of the Stellar network and also serves the ecosystem of NGOs, corporations, universities, small businesses, governments, and solo entrepreneurs building on the Stellar network through tooling, funding, and strategic collaborations. The Stellar network is a decentralized, fast, scalable, and uniquely sustainable blockchain built for financial products and services.



Find out more at the SDF Policy Hub
<https://stellar.org/policy-hub>