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Please note that One River Digital, a subsidiary of One River Asset Management, was acquired by Coinbase as of March 3, 2023. Read more [here](#).

market notes: Tokenization... Dream Big, Execute Small



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Tokenization is the epitome of dreaming big. All assets on digital rails seamlessly exchanged from peer-to-peer. Businesses with high asset turnover are natural unlocks.

Marcel Kasumovich,
Deputy CIO

coinbase ASSET MANAGEMENT

One River Digital Asset Management has been acquired by Coinbase and is now Coinbase Asset Management. Additional details on the transaction may be found on the [Coinbase blog](#). References to One River Asset Management and One River Digital Asset Management may be contained herein during the transition period but are subject to change.

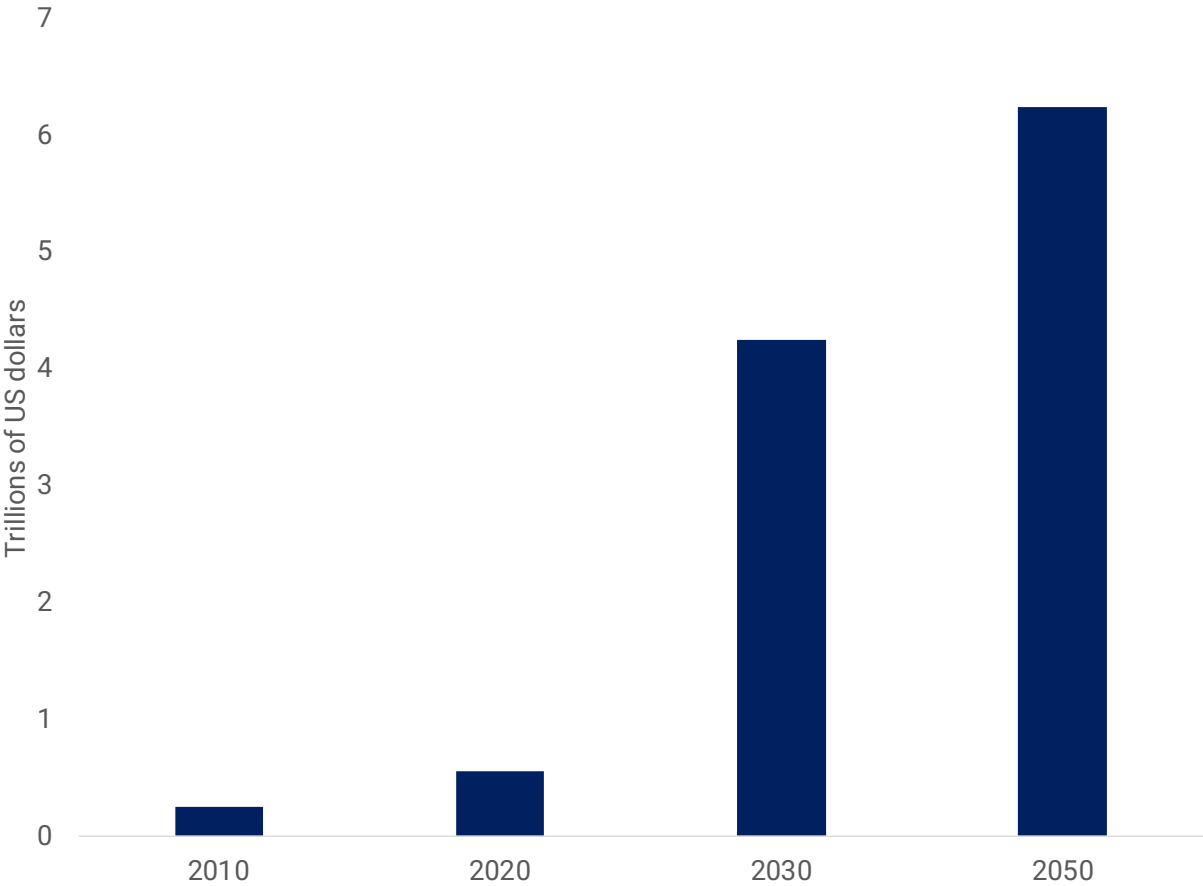
market notes... Tokenization...Dream Big, Execute Small
6/2/23 - Marcel Kasumovich, Deputy CIO

1. Dream big. Use Mike Hearn, an early Bitcoin adopter, as a role model. Mike evaluated Bitcoin interacting with Satoshi, engaged in core development, and elegantly [articulated](#) the “Future of Money” in 2013. He asked his audience to imagine the world in 50 years. Financial cryptography and advanced robotics would allow autonomous agents to work independently, with Bitcoin wallets their “bank” and peer-to-peer their method of exchange.
2. It's an intriguing vision for economic flows. But what about the stock of capital? After all, global financial wealth is [\\$464 trillion](#), with 54% tied to financial assets and 46% in non-financial. If technology drives convergence to decentralized value transfer, surely the same will be true for existing assets and liabilities. And that’s the excitement about tokenization. Converting existing assets and unlocking new ones through tokenization is dreaming (really) big.
3. Big dreams require a lot of small execution. Tests on asset tokenization range from bond issuance to vacation homes and litigation claims. None have created an unlock as the barriers to entry are high. The [size](#) of the US fixed income market, for instance, is \$51 trillion; \$34 trillion is [held](#) by domestic financial institutions. Owners are concentrated and cautious, likely more attentive to liquidity than driving changes to the plumbing of capital markets.
4. Tokenization is most likely to be led by users with the greatest incentives. We see two natural avenues:
5. The first is tied to high-velocity asset turnover. Atomic, or [simultaneous](#), settlement can greatly reduce cash buffers. Counterparty and settlement risk evaporate, leading to a decline in capital reserves to guard against those risks. It translates into rapidly expanding capital returns. The Tel Aviv Stock Exchange “[Eden](#)” program is a leading example, [utilizing](#) the Ethereum blockchain and Fireblocks. Investor adoption of digital rails will follow the liquidity.
6. The second is via areas that unlock a new user experience, where barriers to entry are low. Gamification of loyalty programs is a simple example. Starbucks is issuing non-fungible tokens called “[stamps](#),” prioritizing the most loyal users. The most recent airdrop froze the website. Seven NFT collections account for a modest \$2 million in volume to date – not the value of mainstream finance but a back door into crypto asset adoption.
7. Lines between digital and real assets will increasingly blur by compelling user experience. Tokenization in payments is already the norm, just not executed on

crypto asset rails. And the US dollar is also the most successful tokenized asset in the ecosystem – stablecoin – because of its resilience and utility. Regulatory obstacles emerge, and arbitrage follows as seen with this week’s launch of the First Digital US dollar stablecoin in Hong Kong.

8. Blockchains, smart contracts, and tokens are the three core pillars to build upon. Digital wallets will be at the core for user experience, and key for raising comfort levels with tokenized assets. Again, the blurred lines between conventional and digital payment rails are increasingly evident. Magic, a wallet-as-a-service engine, is smoothing onboarding to Web3 experiences. And PayPal Ventures led their latest funding round.
9. Will you hold your tokenized home in a digital wallet? Eventually, but it’s probably not the first step. Real estate is the largest asset held directly by households. Financial assets are mostly owned indirectly, through pensions and the like. Homes are all about title, and title transfers are costly and slow. Blockchain technologies are surely more efficient. But housing turnover is slow, at roughly 4% per annum. Once every 25 years. There is no urgency for improving efficiency.
10. New market segments, like climate, are ripe for the technologies. The World Economic Forum featured 10 sessions on blockchain technologies in January and recently [showcased](#) how the technologies scale to climate policies. It centers on the voluntary carbon market – one anticipated to expand 15-times through 2030 and 100-times through 2050 to an estimated \$250 billion on the pathway to net zero emissions, as shown in Figure 2.
11. One of the greatest challenges of the carbon market is the legitimacy of the ledger. Blockchain technologies provide a solution. Then, smart contracts allow for the secondary market revenue to be delivered directly to project developers. It has been two years since we enabled on-chain carbon offsets to neutralize the Bitcoin climate footprint; [solutions](#) have accelerated since. It’s the type of small execution that will allow tokenization to keep dreaming big.

Figure 1 – Climate Financing Investment Consistent with Paris Accord



Source: Buchner, Barbara, et al., Global Landscape of Climate Finance 2021, Climate Policy Initiative, 2021.

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