



# DeFi Talents

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## Assignment 8

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# DeFi is largely untapped by institutions...

Arguably real-world adoption by institutions requires real-world assets (RWAs) to be available on-chain.

## Describe the regulatory landscape

**Lack of Clear Regulations:** The regulatory environment for DeFi and asset tokenization is still evolving, with many jurisdictions lacking clear guidelines on how digital assets should be treated, especially real-world assets (RWAs).

**Legal Uncertainty:** There's uncertainty regarding the legal status of tokenized assets, including how they should be classified (e.g., securities, commodities). This creates challenges for institutions trying to integrate RWAs into DeFi.

**Securities Laws:** In many jurisdictions, tokenized securities must comply with securities laws. Regulatory bodies like the U.S. SEC and the European Securities and Markets Authority (ESMA) are beginning to issue guidance, but it remains a gray area in many countries.

**AML/KYC Compliance:** Institutions are required to comply with anti-money laundering (AML) and know-your-customer (KYC) regulations when dealing with RWAs on-chain. This could add complexity to DeFi protocols that are typically pseudonymous and decentralized.

# DeFi is largely untapped by institutions...

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## Describe the challenges

**Interoperability and Standardization:** For RWAs to be tokenized on-chain, there needs to be a standardized framework for tokenizing and managing diverse asset classes (real estate, stocks, bonds, etc.). This involves ensuring that various DeFi platforms can interact seamlessly with traditional financial institutions.

**Valuation and Collateralization:** Tokenized RWAs need to be accurately valued and easily collateralized in DeFi applications. There are challenges around how traditional assets (such as real estate or equity) are priced in the blockchain ecosystem, as well as ensuring that they can be used as collateral for loans or other financial products.

**Trust and Transparency:** Institutions require a high degree of trust in blockchain systems. The decentralized nature of DeFi, combined with the complexity of RWAs, creates the need for transparent and auditable processes to ensure that tokenized assets are properly managed and secured.

**Market Liquidity:** RWAs need to have sufficient liquidity on-chain to make them useful for institutional investors. This might require broader adoption of tokenized assets and deeper integration with traditional financial markets.

# DeFi is largely untapped by institutions...

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Describe the future outlook of asset tokenization as it pertains to DeFi and institutional use of blockchains.

**Increased Regulation:** Over time, regulatory bodies will likely provide more clarity on how RWAs should be treated in the context of DeFi. As regulations are developed, institutional players will be able to engage more confidently with DeFi protocols.

**Integration of DeFi with TradFi:** Financial institutions are gradually exploring ways to bridge the gap between traditional finance (TradFi) and decentralized finance (DeFi). Partnerships with platforms like Ethereum, Polygon, and others could enable institutions to tokenize RWAs and participate in DeFi.

**Improved Legal Frameworks:** Tokenization projects may eventually lead to the development of clearer legal frameworks around asset-backed tokens, offering more secure and regulated markets for RWAs in DeFi.

**Rise of Stablecoins Backed by RWAs:** As demand for stable assets rises, we may see more stablecoins backed by tokenized RWAs (such as tokenized bonds or real estate). This could provide a secure and regulated method for institutions to integrate into DeFi while reducing volatility.

**Innovative Use Cases:** Tokenized RWAs could allow for new use cases in DeFi, such as enabling liquidity for traditionally illiquid assets (e.g., real estate), fractional ownership, and globalized access to institutional-grade assets.

# Tokenized assets

What tokenized assets are already available to be traded publicly on chain? Hint: Ondo

## Real Estate:

1. **RealT**: Offers tokenized real estate assets, allowing fractional ownership of properties through tokenized shares on Ethereum and Polygon.
2. **Meridio**: A platform that focuses on real estate asset tokenization, enabling fractional ownership and liquidity in real estate markets.

## Bonds:

1. **Ondo Finance**: Ondo allows institutions to tokenize fixed-income assets, such as bonds, making them available to be traded in decentralized markets. They use their "Tokenized Bonds" to enable liquidity in the bond market.
2. **Centrifuge**: Tokenizes real-world assets, including invoices, real estate, and loans, and brings them onto the blockchain to be used as collateral in DeFi protocols.

## Commodities:

1. **Tether Gold (XAUT)**: A tokenized version of gold, where each token is backed by one ounce of gold, offering a way to invest in gold while maintaining the benefits of blockchain's transparency and liquidity.
2. **Paxos Gold (PAXG)**: A tokenized gold product, allowing users to trade gold-backed tokens on Ethereum and other blockchains.

## Art and Collectibles:

1. **CurioInvest**: This platform enables the tokenization of art and luxury assets, allowing fractional ownership and investment in high-value items such as rare cars, watches, and art.
2. **Verisart**: Verisart offers tokenized certificates of authenticity for artwork, allowing art collectors to trade and invest in authenticated digital art on-chain.

## Equities:

1. **Tesla Stock Token (FTX)**: FTX (prior to its collapse) offered tokenized versions of Tesla shares, allowing users to buy fractions of the stock using blockchain-based tokens.
2. **Fractional Art**: Allows for tokenizing art pieces, enabling fractional ownership of high-value art assets.

## Stablecoins Backed by Real-World Assets (RWAs):

1. **TrueUSD (TUSD) and Paxos**: These stablecoins are often backed by real-world assets like cash and short-term government debt, providing transparency and regulatory oversight.

**Ondo Finance specializes in tokenized bonds and fixed-income assets, making them accessible to the DeFi market, targeting institutions and DeFi users who want more traditional asset exposure.**

# References

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