The RWA Tokenization Stack

Technology, Governance, and Institutional Constraints

Chung Hei Sing

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Abstract

Tokenization of real-world assets (RWAs) is frequently presented as a technological stack composed of blockchains, smart contracts, and digital tokens. In practice, however, most tokenization initiatives fail to progress beyond pilots or limited deployments. This paper argues that these failures stem from a mischaracterization of tokenization as primarily a software problem. Drawing on institutional finance and market design perspectives, the paper proposes an alternative conception of the "RWA tokenization stack" as a multi-layered system in which technology is only one component. Legal enforceability, governance authority, fiduciary structures, and regulatory compatibility form higher-order layers that constrain and shape the viability of tokenized markets. By explicitly mapping these layers and their interactions, the paper provides a framework for understanding why many RWA tokenization efforts stall and what conditions are necessary for institutional adoption.

1. Introduction

Tokenization has emerged as a recurring theme in discussions of financial innovation, promising efficiency gains, broader access, and improved transparency across asset classes. Advances in distributed ledger technology and smart contracts have made it technically feasible to represent claims on real-world assets in digital form. Yet despite significant experimentation, institutional adoption of tokenized RWAs remains limited.

Prevailing explanations often focus on technical scalability, regulatory uncertainty, or market readiness. While these factors are relevant, they obscure a more fundamental issue: tokenization is rarely constrained by technology alone. Institutions evaluate assets not only by how they are recorded or transferred, but by how rights are enforced, decisions are governed, risks are managed, and accountability is maintained.

This paper advances a different framing. It argues that successful RWA tokenization requires understanding tokenization as a stack of interdependent layers, only one of which is technological. Failure to design and align the higher-order institutional layers leads to systems that may function technically but remain unusable for institutional capital.

2. From "Technology Stack" to "Institutional Stack"

In software engineering, a "stack" typically refers to layered technical components—hardware, operating systems, applications, and interfaces. Applied uncritically to RWAs, this metaphor encourages an overly narrow focus on blockchains, protocols, and code.

For real-world assets, however, the binding constraints lie elsewhere. Asset ownership, cash flows, and risk allocation are constituted through legal and institutional arrangements that predate and supersede any technical implementation. Tokenization does not replace these arrangements; it overlays them.

Accordingly, the relevant question is not whether a token can be created, but whether the entire stack supporting that token satisfies institutional requirements. This stack includes technological components, but also governance mechanisms, legal anchors, fiduciary accountability, and regulatory compatibility.

3. The RWA Tokenization Stack: Six Layers

This paper proposes a six-layer framework for analyzing RWA tokenization. The layers are ordered from lowest to highest, reflecting increasing institutional significance rather than technical complexity.

Layer 1: Distributed Ledger Infrastructure

At the base of the stack lies the distributed ledger or blockchain infrastructure. This layer provides:

- data integrity,
- transaction ordering,
- and cryptographic security.

While necessary, this layer is largely commoditized. Public and permissioned blockchains differ in design choices, but few RWA failures can be traced to ledger performance alone.

Layer 2: Smart Contracts and Execution Logic

Smart contracts encode rules for issuance, transfer, and basic lifecycle events. They automate standardized processes and reduce operational friction.

However, execution logic is inherently limited by what can be specified ex ante. Smart contracts excel at deterministic actions but struggle with ambiguity, discretion, and exception handling — features common in real-world asset management.

Layer 3: Asset Representation and Legal Anchoring

This layer defines what the token represents. Is the token a direct ownership interest, a contractual claim, or a reference to an off-chain arrangement? The answer is determined not by code, but by legal documentation.

Legal anchoring establishes:

- enforceability,
- priority of claims,
- treatment in insolvency,
- and jurisdictional recognition.

Without robust legal anchoring, tokenized representations lack credibility regardless of technical sophistication.

Layer 4: Governance and Decision Authority

Governance determines who can:

- intervene in exceptional circumstances,
- modify parameters,
- halt or unwind transactions,
- and resolve disputes.

In institutional contexts, governance authority cannot be fully automated. Boards, trustees, general partners, and regulators retain residual control precisely because not all contingencies can be anticipated. Tokenization efforts that obscure or eliminate governance mechanisms undermine institutional trust.

Layer 5: Fiduciary and Risk Accountability

Institutions operate under fiduciary obligations that shape asset selection, custody, and risk management. This layer encompasses:

- accountability for losses,
- alignment of incentives,
- auditability,
- and oversight mechanisms.

A tokenized structure that lacks clear fiduciary responsibility may function operationally but remains unsuitable for institutional portfolios.

Layer 6: Regulatory and Market Integration

At the top of the stack lies compatibility with regulatory frameworks and existing market infrastructure. Institutions must integrate tokenized assets into:

- compliance systems,
- reporting regimes,
- capital and liquidity frameworks,
- and operational workflows.

This layer is not optional. Regulatory compatibility is a prerequisite for scale, not a constraint to be addressed after deployment.

4. Why Misalignment Causes Tokenization Failures

Most stalled RWA tokenization projects exhibit vertical misalignment across these layers. Technology advances faster than governance, legal, and regulatory design. As a result, lower layers function while higher layers remain undefined or weak.

This misalignment produces systems that:

- are technically impressive but institutionally unusable,
- shift risk without assigning accountability,
- and obscure authority rather than clarifying it.

From an institutional perspective, such systems increase, rather than reduce, uncertainty.

5. Implications for Institutional Adoption

Viewing tokenization through a stacked institutional lens clarifies several recurring patterns:

1. **Funds tokenize before projects.**
   Financial vehicles with existing governance and legal structures adapt more readily than bespoke assets.
2. **Permissioned systems dominate early adoption.**
   Institutions prioritize control and accountability over maximal openness.
3. **Intermediaries persist.**
   Custodians, administrators, and trustees are reconfigured, not eliminated.

These outcomes are not failures of innovation; they are rational responses to institutional constraints.

6. Design Principles for Institutional Tokenization

The stack framework implies several design principles:

- Start with governance and legal structure, not technology.
- Treat automation as augmentation, not substitution.
- Make authority and accountability explicit.
- Design for exception handling, not just normal operation.
- Engage regulators as design participants, not external constraints.

These principles invert the typical tokenization narrative, but they align more closely with how institutions actually allocate capital.

7. Conclusion

Tokenization of real-world assets is often framed as a technological upgrade. In reality, it is an institutional redesign problem. The RWA tokenization stack extends well beyond blockchains and smart contracts to encompass legal enforceability, governance authority, fiduciary accountability, and regulatory integration.

Recognizing and designing for these layers does not diminish the role of technology. It places technology in its proper context — as an enabling component within a broader institutional system. Only by aligning the full stack can tokenized RWAs achieve durable, institutional adoption.

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