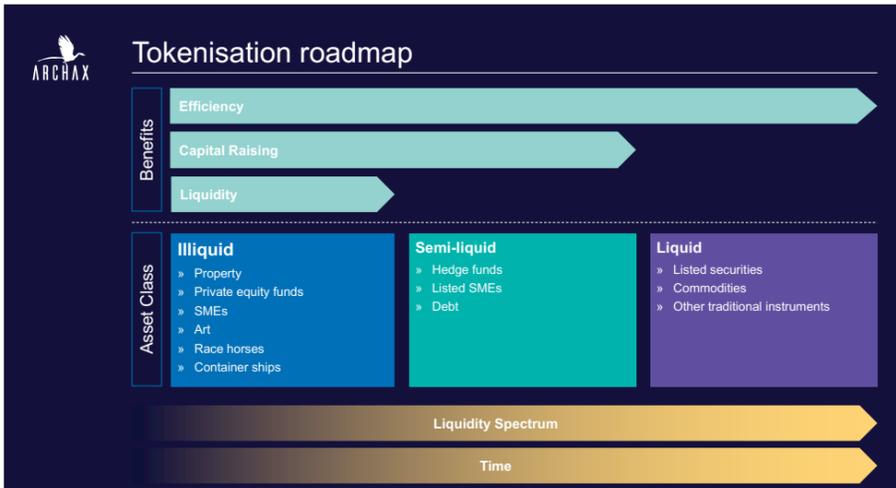


As we've explored in the last two articles in this series on "Disrupting Financial Markets", there seems to be enough justification for digital securities, tokenisation and blockchain technology to be considered as financial markets disrupters, and not just an idea supported by a few cryptocurrency advocates. So why then are we only seeing tokenised illiquid, esoteric or SME based assets? We believe the answer lies in the liquidity spectrum, which also serves as a roadmap of where and when we think adoption will take place.



The diagram above represents our thoughts and experiences so far. We plotted assets on a spectrum, with illiquid assets on the left and liquid assets on the right. We also consider this as a good representation of time too. At the moment, we are seeing a lot of the assets being suggested as potential token opportunities feature on the left-hand side of this spectrum. The reason being that for these assets there exists the largest number of benefits from tokenisation.

Firstly liquidity. For illiquid assets, there is the opportunity to facilitate liquidity. We are not saying that everything will suddenly become highly liquid, but if there is natural interest then having a secondary market will attract market depth, and as a result, generate price discovery. It may also be the case that a 24/7 central limit order book isn't the ideal market model for every type of asset. A property that currently trades once every several years may benefit from a quarterly periodic auction, for example.

Secondly capital. These assets often have access to some capital, but typically have limited raising ability. Landmark buildings, as an example, trade at size and are only looked at by large institutional investors. It's not that other investors aren't interested in participating, it is a question of accessibility and size. A fractional share in a landmark building and a venue on which to trade it, would make an interesting investment for a lot of investors (and result in democratised price discovery underpinned by true market forces instead of single investor buying power too).

Finally, efficiency. All of the efficiency points we discussed in previous articles are beneficial to the issuer. Therefore, an efficient issuance with the potential for increased liquidity and capital raising is probably appealing to most.

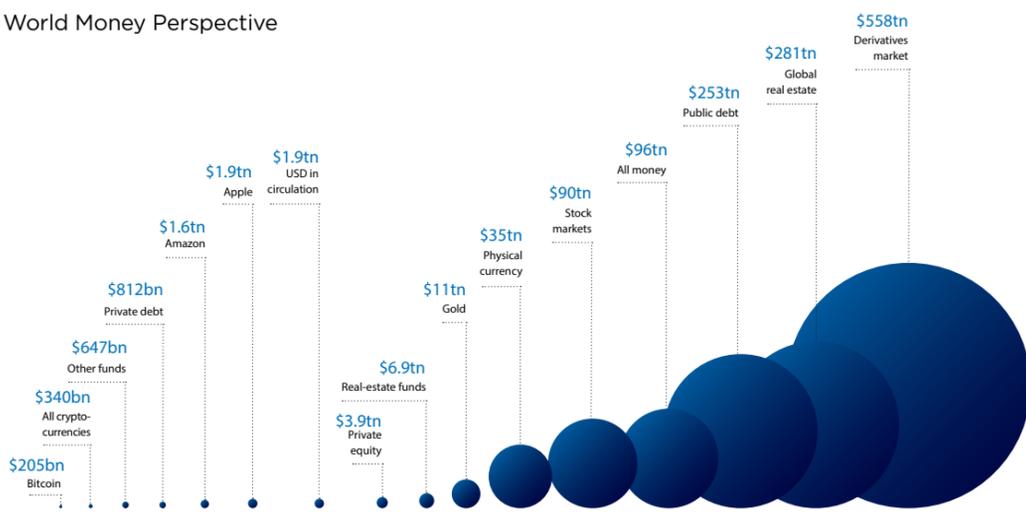
If you then look at semi-liquid assets like hedge funds, they don't necessarily need the liquidity as much as the illiquid assets. They may already have monthly redemption cycles or are listed on a junior market like AIM. However, they could still benefit from the efficiencies we have discussed and the access to new pools of capital that digital securities may offer.

For liquid securities like Apple, Amazon, Vodafone, etc., they don't need any more liquidity and they probably don't need to raise capital from new sources either. However, they can still benefit from efficiencies, such as streamlined corporate actions handling or cap table management. For these types of companies there is also interest in benefitting from the technological efficiencies that distributed ledger technology brings to market infrastructure providers, such as the traditional regulated markets, too.

We think a lot of the pressure on the left-hand side of the diagram will come from the issuers, and companies like Archax, who are trying to democratise financial markets. Whereas on the right-hand side, pressures will come from current market incumbents, like LSE or SIX, who are looking to improve the efficiency of their workflow.

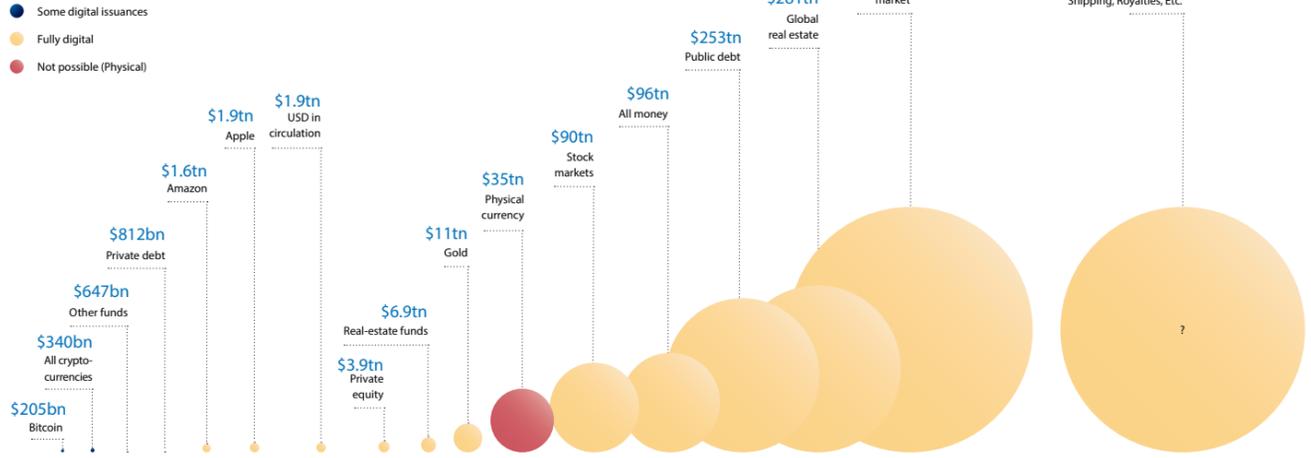
If you believe, as we do, that this means all asset classes everywhere can benefit from tokenisation and will move on chain in the medium term, the market opportunity is actually every tradeable asset class in existence

World Money Perspective



Whilst that may seem farfetched, if you walk through those assets, many of them have already started to transition to digital, either actively or in a test environment. This is highlighted in the diagram below, along with the additional asset classes that can be added into the mix through tokenisation.

World Money Perspective



Digital assets are obviously natively on chain, central bank currencies are being considered and Sweden has launched their e-krona project, on R3's Corda. Individual stocks are being looked at by companies like SIX, who are reimagining the way existing securities should trade. And commodities, such as gold, are being expressed with products like Coinshares DGLD and Tether Gold. Finally, real-estate is probably one of the most often talked about tokenisation opportunities. Therefore, when you start walking through the products out there, you realise that it is happening a lot faster than many think.

In addition to this, there are other assets and securities that are being conceived that previously didn't exist, these represent a whole new area of financial innovation. We are already seeing this from our analysis of the global STO marketplace and through the interest we are seeing from companies interesting in issuing on our exchange.



Archax and market traction

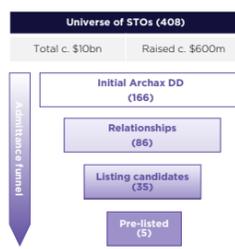
STOs by Asset Type



STOs by Region



Archax Market Funnel



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