



## Introduction

LiCuido, an IA Engine member, provides a digital and technical solution to help asset management companies and other financial institutions tokenise their traditional funds. LiCuido's proven smart token technology can improve a fund's value by giving it enhanced utility and liquidity through digitisation with minimal disruption to existing processes.

LiCuido aim to transform a fund's usability in terms of collateral acceptability and immediacy of settlement, thereby enabling a host of potential cost savings and efficiencies for the fund issuers and investors.

The LiCuido solution marries the tokenisation platform, third party, FCA registered digital custody and bespoke Repo and collateral functionality – our objective is to provide an interoperable industry solution to fund tokenisation and all the immediate benefits that this brings in terms of additional liquidity to our issuers and their investors.

**By tokenising the Fund, ownership and rights of that fund unit can be transferred to another legal owner near-instantaneously, thereby enabling its potential to be used for collateral.**

Tokenised MMFs, for example, should then be eligible as a High-Quality Liquid Asset (HQLA) due to the inherent credit quality of their underlying investment pool.

Official recognition of such would further enhance the ability of commercial banks to offer liquidity against them, even under stressed conditions. In principle, central banks should be willing to take tokenised MMF units as collateral and banks would then be able to pass them through routinely, or when market-wide liquidity support is required.

LiCuido believe that we have the requisite legal and technical solution to help to accelerate this process.

The added benefit of using Fund Units in this way as collateral is that they cannot be subsequently rehypothecated into their constituent underlying investments and then leveraged. That restriction has the benefit of reducing systemic risk in the financial system.



### **Fund Tokenisation – phase 1, what’s involved?**

Key to this project is evolution, not revolution: the process to digitisation should work alongside regulators and supervisors. The mandate and recommendations are clear.

- Funds to be tokenised should be authorised by the FCA and in-scope regarding regulatory regimes and industry standards.
- Composition of those Funds should contain only assets consistent with those permitted for UK authorised funds. Ideally, these should be underlying claims on real assets rather than options or derivatives to avoid unnecessary complexity and risk management issues.
- Off-chain investment rules – fund settlement in terms of FIAT currency payment (initially), client money requirements, CASS (client money/safe custody), Unit register maintenance.
- Permissioned and tightly controlled chain access.
- Security and control over the fund register.
- Daily valuation, consistent with existing regulations and market practice.
- Interoperability, our solution encourages innovation and future-proofs development.

### **What is ideally required to issue a Fund as a digital token?**

Blockchain and tokenisation on their own are part of the solution, but not sufficient, LiCuido have a solution which can satisfy the following requirements:

- The underlying investments are of a requisite credit quality and liquidity to qualify for subsequent use as collateral. (CB Money eligibility would be the ideal outcome here to encourage liquidity and to promote endorsement).
- There is legal surety that the token represents one-for-one legal title to the asset.
- Proper investment screening, AML, CDD and secure onboarding are observed.
- There are no impediments to subsequent trading (secondary and repo markets including default language/legal documentation).
- The token is available, via public blockchain in permissioned smart-token form.
- Interoperable solution to ensure industry participation and third-party innovative inclusivity.
- Documented, all-to-all open repo market participation with qualified investor base and other screened financial intermediaries - secondary market liquidity will greatly enhance the Fund’s inherent value through increased collateral utility and operational efficiency.

LiCuido is devising a systemically important operating model, designed to embrace new and existing protocols and intended for industry wide adoption.



### **What are the benefits of tokenisation?**

Where to start... the obvious and immediate benefits can include.

Digitised onboarding AML/CDD/pre-qualified investors - streamlines, codifies and facilitates through efficient process.

Faster settlement and clearing significantly reduces costs of agents and post trade services.

Instant collateral transfers free up capital tied up during clearing and can significantly reduce intra-day exposure banking fees.

Counterparty credit risk, bankruptcy risk, and performance risk are all greatly reduced due to the shortened settlement cycle.

Collateral acceptability and subsequent usage reduce requirements to hold excess HQLA in reserve, reduce cash drag, improves returns.

Ability to create new product within an efficient market structure.

New investment opportunities, products and markets.

Reduction in issuance speed and time-to-market, wider and more diverse investor base.

Reduction in intermediation fees through efficiency.

Smart-contract technology allows for programmable rules which could include automated dividends, tax payments, standardised processes, onboarding, eligibility rules and much more.

### **How disruptive is the LiCuido technology? How easily can tokenisation be adopted?**

**Less disruptive and easier than you might think...**

- Fund's investments remain with global custodian
- Enhanced utility through instantaneous irrefutable ownership at point of trade
- New and existing funds alike can be tokenised
- Collateral and repo platform documentation simplified and scalable

Using LiCuido's solution, many of the benefits of tokenisation can be accessed with relatively little disruption to existing processes.



## **Tokenisation – why does the UK need to speed adoption and get ahead of the game?**

*Tokenisation represents the biggest wealth creation opportunity of our lifetime*

Digital transformation is the key technology adoption which is vital to the UK's competitiveness and gives an opportunity for our financial markets to be global leaders.

The UK Fund management industry has an immediate opportunity to be global leaders in this space through industry, regulatory and technological participation and collaboration.

Globally, the market is moving to a paperless, friction-free financial system through evolution, the benefits in terms of security, cost-savings, efficiency, transparency and utility are multiple and transformative.

LiCuido believe that it is ideally qualified to help navigate the industry towards a successfully implemented solution.

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