Real World Asset, paving the way for the future of the fund industry

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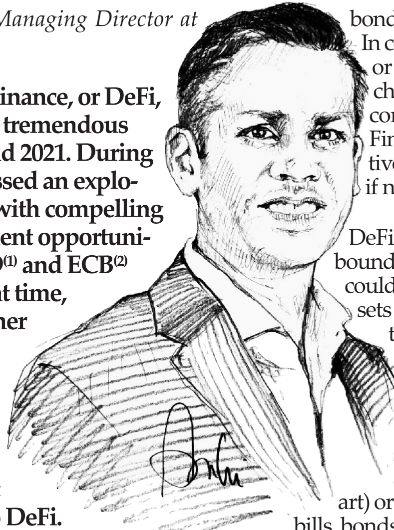

Decentralized Finance, or DeFi, experienced a tremendous rise in 2020 and 2021. During that period, we witnessed an explosion of DeFi projects with compelling use cases and investment opportunities. Indeed, with FED[1] and ECB[2] rates close to 0% at that time, investors seeking higher yields turned to the world of DeFi, where they could achieve returns of 20% to 30% on stablecoins. Such returns led significant amount of capital into DeFi.

However, the high yields paid by DeFi protocols were sustained by the strong on-chain activity, which generated massive transaction fees and interest income from lending protocols. For some projects, this model was supported by the fact that a certain percentage of the total supply was used to pay high yields to users. With the conclusion of the bull market by the end of 2021, on-chain activity rapidly decreased, and tokens allocated on yield farming/staking activities lost momentum.

These factors have drastically changed the Defi landscape. In the current environment, traditional finance (TradFi), looks more competitive compared to investments offered by the DeFi ecosystem. Interest rates have significantly increased in the EU and the US, reaching 4%-5%, and enabling investors to access investments such as Treasury bonds yielding a fair return with low risk. In contrast, obtaining a fixed return of 3% or 4% on Ethereum (ETH)has become challenging. Additionally, DeFi lost its competitive advantage on Traditional Finance (TradFi), as there are less incentives to take higher risks for equivalent, if not lower, returns.

DeFi must find new growth areas to rebound and regain its competitive edge. This could be achieved through Real World Assets (RWA)[3] which allow DeFi to harvest the potential of Real World Assets. In a nutshell, RWA are all assets that exist off-chain that can be tokenized and brought on-chain to serve as a source of yield for DeFi. This represents the digital version of a tangible asset (e.g., gold, real estate, piece of art) or intangible asset (e.g., shares, treasury bills, bonds) that is transferred and registered on a blockchain through token issuance and then utilized on a Defi protocol.

The surge of the RWA sector would benefit a wide range of actors, such as protocols supporting digitalization of RWAs on the blockchain (i.e., Layer 1 and Layer 2 protocols), who will derive fees for blockchain transactions. Beyond the immediate benefits for the various protocols and the blockchain ecosystem, the emergence of RWAs as a market trend could have massive application in a wide range of sectors, including asset management.

Indeed, tokenization and the use of blockchain offer a wide range of advantages and opportunities. Beyond the opportunity to create fractional ownership or the increased security of transactions, one of the main benefits of bringing RWAs on the blockchain lies in the expectation that tokenization will remove intermediaries, thus creating significant gains in efficiency and costs. This promise seems to raise a lot of interest, as indicated by a Boston Consulting Group survey[4], projecting the RWA sector could reach $16 trillion by 2030, with the potential of going up to $68 trillion in their best-case scenario.

To illustrate, we have observed emerging trends in the real estate sector where companies decided to tokenize real estate properties and launched platforms through which investors can acquire a fraction of a property, allowing them to benefit from reduced costs/fees. This provides the opportunity for a larger range of investors to pursue an investment type that was previously inaccessible to them. Similar projects have been implemented with respect to the tokenization of art works or debt. Notably, tokenization technology is now used by world class asset managers to transform private debt into a tradable instruments.

Tokenization is definitely a game changer for the asset management industry. No wonder some of the biggest asset managers in the world are betting on blockchain and tokenization as the future of securities. Tokenization of shares or funds has the potential to unlock an unprecedented levels of liquidity and distribution. In addition, asset managers will be able to identify every beneficial owner and every seller with instantaneous settlements. This changes the entire ecosystem asset managers are used to and offers significant opportunities, including the development of new business models through the creation of captive platforms.

For alternative asset management specifically, we have recently seen instances of tokenized funds being launched, particularly in the US. Private equity players are establishing proof of concept on real-life funds launches (tokenizing part or all of the fund). Given the current environment, there is no doubt that more and more fund products will be launched and distributed as tokenized products. Currently, distribution channels adhere to traditional methods, where alternative investment funds are reserved to a certain category of investors reaching certain criteria.

Tokenization should become extremely appealing when it comes to facilitating access to retail investors especially if it is coupled with retail-oriented structured products such as European Long Term Investment Funds 2.0.[5] The potential is great, especially considering the possibility of creating an open secondary market where limited partners can buy and sell fund units instantaneously.

Luxembourg has positioned itself as one of the leading financial places in the world when it comes to alternative investment funds thanks to its capacity to successfully implement a solid framework built around the Alternative Investment Manager Fund Directive and UCITS Directive. Replicating this exercise, Luxembourg has also developed its regulatory framework around digital ledger technology (DLT) to become a regulated hub for digital securities, such as tokenized funds.

The most recent example of this development is the passage of the Blockchain III law in March 2023[6] complete the toolbox already available and regulating the security token issuance. With this blockchain toolkit, Luxembourg is very well placed to embrace the upcoming revolution for the fund industry.

1) US Federal Reserve funds rates: https://urlzs.com/NgSTw
2) European Central Bank interest rates: https://urlzs.com/mCihr
3) Real world assets
4) https://urlzs.com/UDxV3
5) https://urlzs.com/F7U8z
6) Loi du 15 mars 2023 : https://urlzs.com/1un4x

Europe’s energy security and revenues from Russian frozen assets – two topics for one goal?

By Ivaylo MARKOV, Managing Partner of Thales Capital

The revenues from the seized assets in the EU due to the war that Russia is waging in Ukraine will reach €50 billion by 2027. This was announced by the European Justice Commissioner Didier Reynders, quoted by world agencies. The main question now is where these funds will be directed. Brussels hopes that Belgium’s example can be followed by many other countries.

The country directed the seized funds to the benefit of Ukraine. Belgium holds the bulk of the seized Russian assets and this year will provide Ukraine with €1.7 billion. Part of these funds will be used to provide ammunition for the Ukrainian armed forces. The seized assets in the EU are of two types. The private one is about €25 billion and belonged to oligarchs. The second type is the reserves of the Central Bank of Russia. Belgium’s position is that private funds can be confiscated in certain circumstances, for example in the event of attempts to avoid EU sanctions.

The reserves of the Central Bank of Russia, which are held in the EU banks, amount to around €208 billion. Normally, the proceeds from the taxation of these funds go to the national budget. It is expected that there will be an agreement at the European level on the use of the proceeds of the taxes on the reserves of the Central Bank of Russia.

Let’s remind that the EU and the G7 countries froze a total of more than €330 billion of assets of the Central Bank of Russia after the country invaded the Ukraine in February 2022. For its part, Moscow claims that any attempt to use frozen Russian assets as a compensation for Ukraine will be considered by the Russian authorities as unlawful and will be challenged.

Two thirds of the frozen securities are held in the EU, mainly held by the Belgian Clearing House Euroclear.

The EU decided to use the profits from the Russian assets. Who will manage them?

The Council of the European Union has adopted a law to store the expected profits from frozen assets of the Central Bank of Russia, and as first concrete step to the blocking goal, the usage of the money to fund the rebuilding of Ukraine, Reuters reported. The EU and G7 have been discussing for more than a year whether and how these funds could be used, the information agency recalled.

The United States has raised the idea of a direct confiscation, but EU representatives consider this too risky, legally speaking. So far, only taxes on assets held in Belgium have been earmarked for a special fund for Ukraine managed by the Belgian government.

The adopted law in February stipulates that central securities depositories (CSDs), such as Euroclear, will be prohibited from using net profits and must keep the proceeds of the securities separately. The EU estimates that around €15 billions of such gains could be reserved and dedicated to Ukraine over the next 4 years. Separately, the EU agreed to allocate 50 billion euros in aid to Kiev.

The EU Council explained that the adoption of such a decision would in the future allow the profits from the Russian assets to be directed to the interests of Ukraine. This regulation enables the Council to decide on the possible establishment of a financial contribution to the EU budget, collected from this net profit, in the interest of Ukraine and its reimbursement, and country reconstruction at a later stage. The law clarifies that, taking into account the risks and costs associated with the storage of the Central Bank of Russia’s assets, any central depositary may apply to the supervisory authorities for authorization to release part of the net profit. “subject to the authorized capital and the requirements for the management of the risk.”

The EU Council’s decision emphasizes that depositaries will not be able to use the income from the said assets at their discretion. In addition, depositaries are prohibited from disposing of the resulting net profit in any case. In an online interview with Foreign Policy, the IMF’s First Deputy Director, Gita Gopinath, said that the IMF would assess the impact of the EU Council’s decision on seized Russian assets, on individual countries and the global economy too. She clarified that the IMF would not be involved in discussions of this initiative.

The United States welcome the EU Council’s decision on the frozen assets and continue to discuss further steps of this kind with partners, the State Department’s press service chief, Matthew Miller, was quoted by RIA Novosti, as one of the main local medias. According to him, these measures aim to force Russia to stop the special military operation in Ukraine and to ensure compensation for the damage caused. If we go back to the second half of January, Blomberg reported that the leaders of the EU countries approved the introduction of a tax on profits from frozen assets. With the help of this scheme, the EU expects to receive annual revenues of approximately €3 billion. These funds are expected to be used to support Ukraine without any doubt.

Valdis Dombrovskis, First Deputy of the European Commission’s President, believes that the EU is entitled to recognize the revenues from frozen sovereign assets of the Russian Federation as not belonging to Russia. During a speech to members of the US Chamber of Commerce, he said that the EU could take such a decision unilaterally, with the mutual consent of all its member states.

According to Dombrovskis, the assets held in European depositaries, which according to various estimates amount to around €200 billion, should remain frozen until reparations are paid to Ukraine. The question that immediately raises is how do we manage the Russian gas dependency. And a solution from unexpected jurisdiction may be the solution.

The Europe operating company that could end Russia’s gas dominance over Europe

Europe’s energy industry is evolving rapidly and is attracting more attention every day. The energy boom that came after Russia’s war in Ukraine started, put an end to decades of dependence on cheap natural gas supplies from Russia. This means significantly higher energy prices across Europe, with energy costs rising at 40.8% per annum in the EU already in September 2022.

Europe needs a long-term solution for its natural gas supply. This has stimulated interest in developing potentially significant reserves in Europe, which have been largely neglected for decades, writes the Oilprice. The EU has already declared natural gas as “green” and as a transitional fuel as we move towards renewable energy. At the same time, Germany has moved away from nuclear power generation, which has increased its need for natural gas.

In this not so pleasant situation for Europe, one company has emerged as a potential leader in the race for energy solutions: MCF Energy Ltd. It is a player well implemented in Europe, with activities that offer a unique exposure to the domestic natural gas market. MCF is likely to quickly seize the opportunity to help improve Europe’s energy security. The company has extensive experience in the European energy markets, as well as impressive experience in the oil markets.

Because most of Europe was so dependent on cheap russian gas, many potentially huge resource opportunities in Europe were truly neglected. Now the two most prioritized company’s projects have a clear path to market and are located in two of the most suitable jurisdictions in Europe. One is located at the foot of the Austrian Alps and is called Welchau Gas Prospect - carrying the potential for up to one trillion cubic feet of natural gas.

Another well was drilled in 1980 just five miles from the Welchau, the Molln well with a potential of 1,000 cubic feet of natural gas. This well was never developed for economic reasons at the time, when companies were mainly looking for oil.

The company approached the Welchau project and agreed to finance the costs of the Welchau-1 pipeline up to 50% of the €5,1 million maximum estimated cost. The Welchau gas field has significant gas resource potential, located in the heart of Europe at relatively shallow drilling depths and close to pipelines. ADX Energy, which is a partner of MCF Energy, drilled the Welchau well on 24 February 2024. The drilling is expected to take 39 days onwards.

In april 2023 MCF Energy has acquired 100% of Genexco GmbH, a privately held German oil and gas company. This acquisition could make the company a leader in natural gas exploration in Germany with 100% ownership of four German natural gas exploration licenses. These are Lech - a Bavarian concession covering 10 km² with three previously drilled wells. Another project is the Lech East, a natural gas exploration prospect covering approximately 100 km² in southwestern Bavaria. The other two are the Reudnitz gas field, located approximately 70 km southeast of Berlin, and Erlenwiese, covering 87 km² in western Germany.

Before the war, the EU was 45% dependent on natural gas imports from Russia. This share has fallen to 15% by 2023. Europeans have also stopped buying Russian coal and drastically reduced their imports of Russian oil. In August 2021, the EU was buying 14.9 million tons of oil from Russia, a figure that plummeted to 1.7 million in the same month of 2023.

And if MCF Energy Ltd and the REPowerEU plan could bring a piece of solution Europe is expecting for so long?