

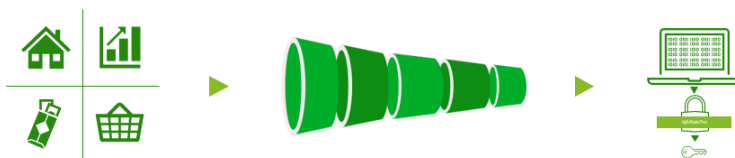


# Tokenization Checklist for Financial Institutions

Practical checklist for Financial Institutions approaching the trends of tokenization and sale of security tokens



## TOKENIZATION AND SECURITY TOKENS RESEARCH SERIES



### EXECUTIVE SUMMARY

Following the technical and market insights provided in previous articles on tokenization and security tokens, this research series from Deloitte now aims to furnish a concise and practical checklist for financial institutions venturing into these new technologies. The objective is to provide guidance for those seeking a structured approach to navigate the dynamic landscape of tokenized securities.

In doing so, this article presents a series of pertinent and thought-provoking questions for each topic of interest, including the rationale behind the desire to tokenize, the selection of security tokens, the implementation of the solution, regulatory considerations, organizational structure, and custody concerns. In conclusion, the article briefly outlines the current Deloitte network operating in the field of security tokens and tokenization; this last section may be of interest to institutions seeking practical recommendations or implementation guidance for their tokenization efforts.

# Tokenization Checklist for Financial Institutions

## What is this checklist and who is it for

This checklist is a practical tool to be employed by institutions looking to expand their portfolio of products/assets to the digital realm of security tokens. It aims at raising a non-exhaustive list of provocative questions and attention points to be considered and requiring decisions to be made, while maintaining objectivity and without suggesting a preferable direction.

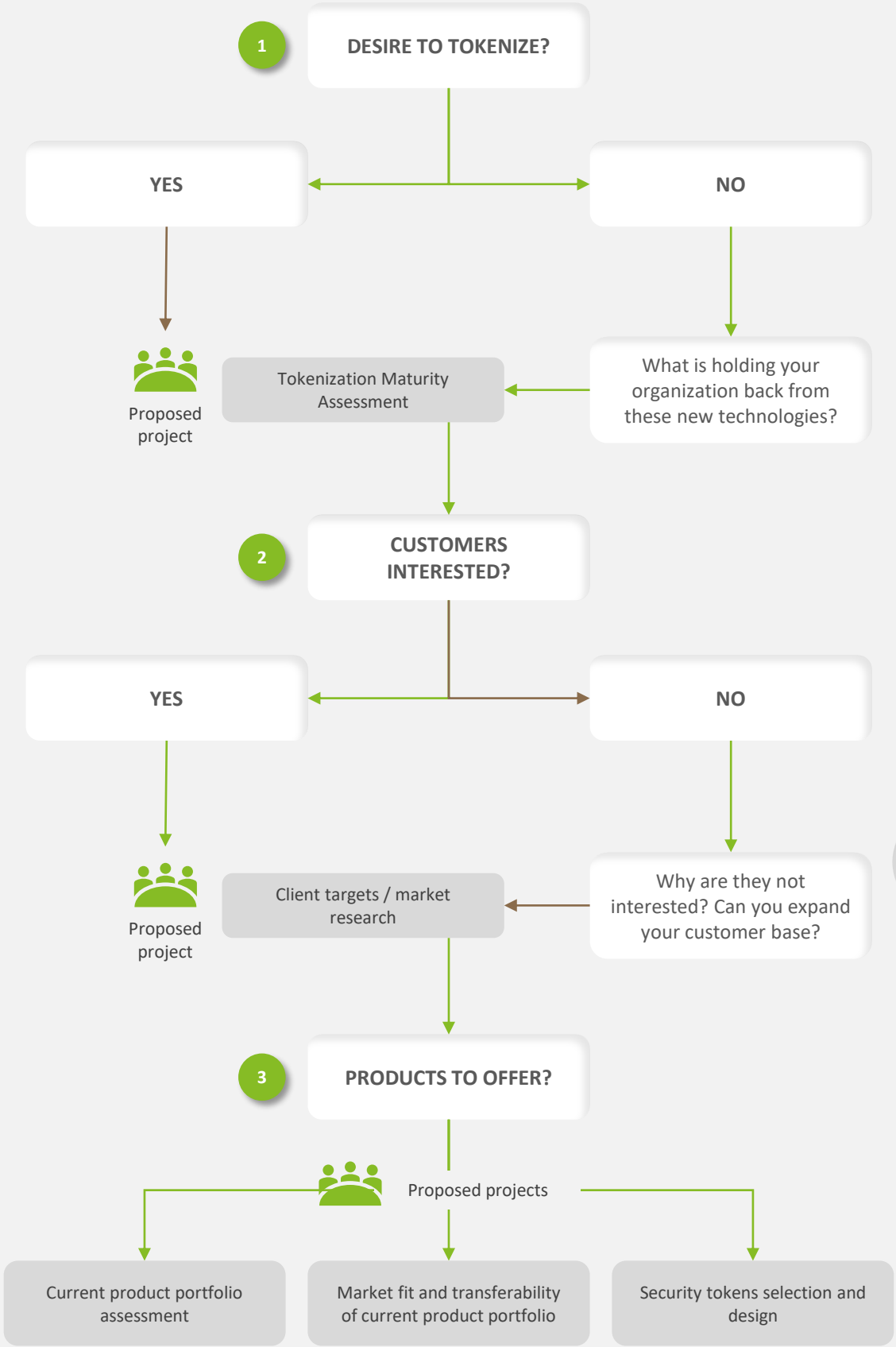
## Checklist structure

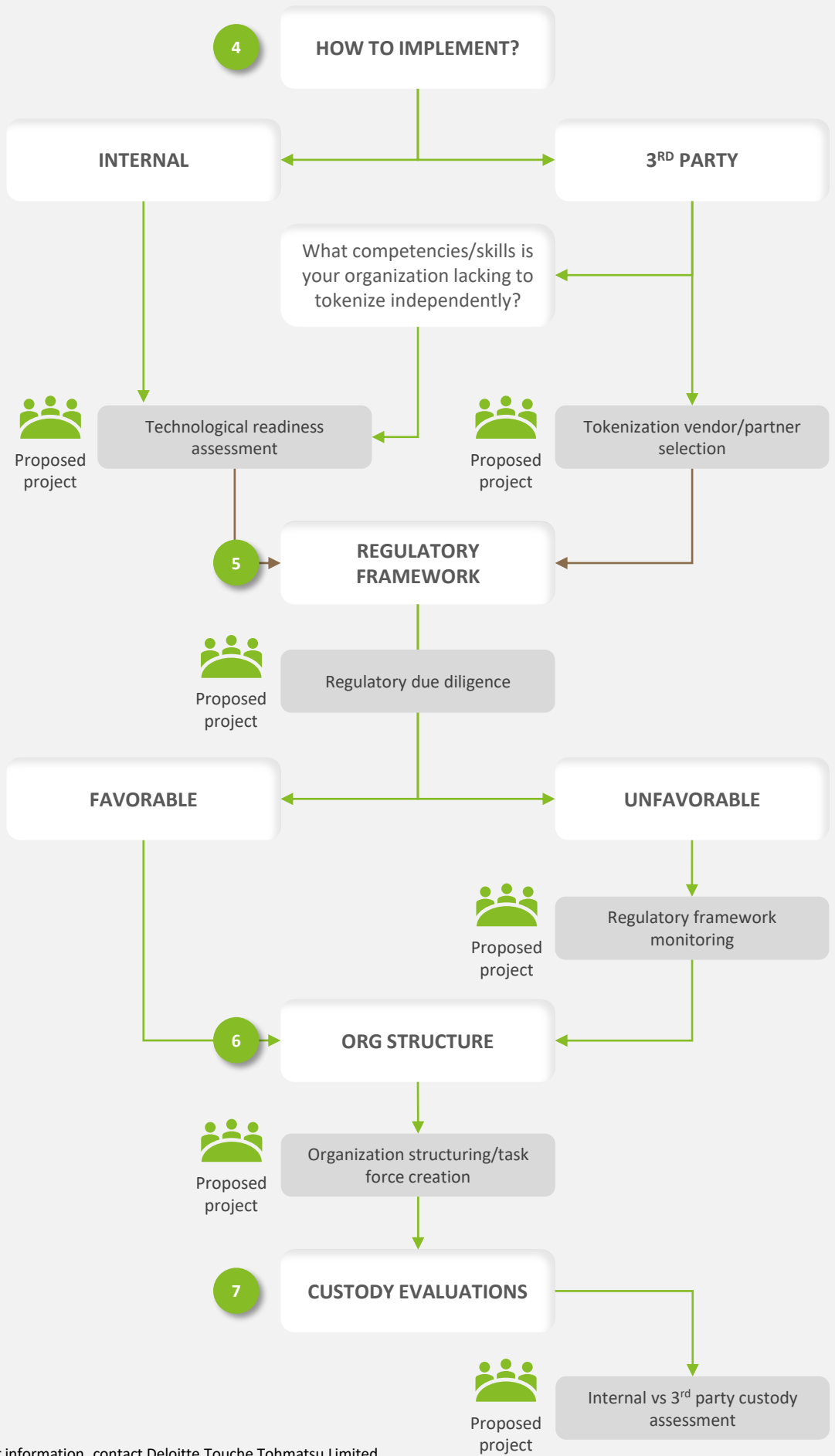
The way this checklist is structured is conceived in a chronological fashion, for the institution to follow a logical path in order to achieve the desired end objective: distributing security tokens in the market.

### Checklist structure overview

Why do you want to tokenize?	Is the interest in tokenization and digital securities just driven from curiosity or is there a long-term vision?
Are your customers interested?	Is the tokenization effort aiming at capturing current customers' attention or to expand your customer base?
What should you offer?	Among the many types of security tokens existing, how to be sure of the appropriate one to offer for your business?
How should you implement this?	Starting operating with a new technology is scary, what should your organization consider in the implementation?
Regulatory framework	Is the regulatory framework your organization operates in favoring the creation of security tokens / tokenization?
Organizational structure	Is your organization structured in a way that creates synergies for the generation of security tokens?
Custody: internal or external?	Should your organization look into custody? Should this effort be extended to 3 <sup>rd</sup> party tokens?

STRATEGY CHECKLIST FLOW





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### Why do you want to tokenize?

- **What is the intention behind the decision to tokenize/add security tokens to your institution's portfolio?**
- **Are direct competitors entering the tokenization and security token markets as well?**
- **What are the ambitions related to tokenization and distribution of tokens in your institution?**
- **Is the interest in tokenization and security tokens driven from bottom-up (customers and market) or top-down (executives, leadership)?**

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### Are your customers interested?

- **What is the degree of digital maturity of the currently served customer base?**
- **What is the current profitability of digital products as compared to traditional assets in your institution?**
- **Which product(s) in your institution's portfolio currently proportionate greatest profitability kpis?**
- **How well would your current customers accept the distribution of tokenized assets?**
- **What are the expectations of customer base growth when considering launching security tokens?**
- **Which new types of customers would your institution attract from distributing security tokens?**

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### What should you offer?

- Based on previous insights, **which commonly distributed token(s) should your institution commercialize?**
- **How fragmented should each security be?** (Based on, for ex., A sensitivity or demand's elasticity assessment)
- **Which of the selected products has higher priority in your institution's strategy agenda?**
- **What should be the roll-out plan and timeline for the selected priority product(s)?**

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### How should you implement this?

- **What is the expected volume of tokens to be distributed in the first year? And in the next five years?**
- **What is your institution's policy with confidentiality of data related to securities?** (This might direct your institution's decision to either internal or 3<sup>rd</sup> party tokenization)

#### If the intention is to tokenize internally:

- **Does your institution possess the necessary technological capacity and product know-how to withstand the process of securities tokenization?**
- **Is the degree of cybersecurity of your institution enabling or obstructing your desire to tokenize internally?**
- **Can you leverage existing related digital products to decrease your institution's tokenization efforts?**
- **Which sto platform is your institution envisioning to commercialize the security tokens with?**
- **Are there any impeding restrictions to tokenize internally?**

**If the intention is to let 3<sup>rd</sup> party entities to tokenize:**

- **Which 3<sup>rd</sup> party tokenizer** in your regulatory jurisdiction **has the greatest fit** in terms of previously tokenized products as compared to the securities your institution is willing to commercialize?
- **Which potential partner promises faster time-to-market** figures?
- **What is the proposed cost structure** of the tokenizer entity? Is it a fixed fee or a “per-issuance”/”per-sale” variable payment?
- **What would be the degree of your institution’s involvement** in the tokenization process? (if the goal is to develop an internal tokenization practice, a partner your institution can closely follow may be a better fit)
- **Are there any impeding restrictions to formally delegate control** over securities to a 3<sup>rd</sup> party tokenizer?

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## Regulatory framework

- **What are the current norms and regulations** held in your institution’s jurisdiction? **Are they favoring or challenging** your institution’s tokenization agenda?
- If in Brazil, **what is the current framework proposed by CVM? How can your institution comply with it?**
- **Has your institution a devoted legal team with experience** in monitoring regulatory topics? **Is it specialized in securities and digital assets?**

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## Organizational structure

- **What is the desired organizational structure** to make the most out of tokenization inside of your institution?
- By looking at your institution’s security token agenda, does it make more sense to **keep tokenization** and distribution of securities **as a cross-functional matter or is it best to open a dedicated service line?**
- **What resources should be focusing** on tokenization and which ones on sale of tokens?
- **What is the minimum viable team size to start a tokenization practice** inside of your institution?
- **Does your security token agenda permit contracting external experts** to accompany your efforts?

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## Custody: internal or external?

- **What are your institution’s aspirations with regards to custody** of security tokens? (this includes proprietary tokens and external ones)
- **How fundamental is custody for your institution as a currently offered service?** (this includes both physical assets as well as digital securities)
- In your institution, **is current custody of digital securities a matter handled with internal software** and teams **or something that has been outsourced** to a 3<sup>rd</sup> party custodian?
- **Can you leverage on existing custody practices in your institution to alleviate the efforts required** for the custody of security tokens? (this may include, if applicable, strengthening ties with existing 3<sup>rd</sup> party custodians)
- **What type of custody best fits the expected security tokens to be stored** from your current and expected future customer base? **Would your institution be willing to diversify between hot and cold wallets to accommodate diverse customer profiles?**
- **Is your institution planning to make custody a central piece** of its security tokens agenda?

## Deloitte's support

Deloitte currently offers global support to both financial and non-financial institutions exploring efforts in tokenization, sale of security tokens through primary markets (STOs) as well as the custody of customers' security tokens (proprietary and not).

To accompany clients and organizations express their maximum potential and fully unlock their digital channels, Deloitte assisted in numerous projects with several different scopes, ranging from mere **strategic advisory** to **full-on implementation** of a **tokenization solution**. The following project credentials corroborate the state of development of our strategy and technology practices.

### INTERNATIONAL BANK (HQ: GER)

Identified, analyzed, and prioritized use cases around tokenization to address current market challenges. Client intended to explore the benefits and challenges of tokenizing real-world assets through the newly established legal framework in the EU.

### EUROPEAN CENTRAL BANK

Deloitte has been chosen as one of the few consulting firms assisting the ECB in the development of the Digital Euro.

### INTERNATIONAL BANK (HQ: US)

Designed and conducted a blockchain and tokenization workshop discussing the strategic, operational, and legal implications for the bank's operations in the near and distant future



## Wrap-up and conclusion

Financial institutions entering the realm of tokenization and security tokens might experience a sense of **paralysis** and **indecision** due to the **novelty of the technology** and the seemingly vast array of solutions available. To address this uncertainty and offer structured guidance, Deloitte introduces a **seven-step checklist** with this publication, featuring **thought-provoking questions** aimed at instigating deliberation among organizational decision-makers.

Consider this checklist as a **preliminary step** for financial institutions to declare their intention to participate in the transformation. When organizations feel ready to embrace this challenge, Deloitte positions itself as a **strategic partner**, providing a comprehensive range of professional service solutions. These solutions span from **strategy labs** to the **implementation** and **monitoring** of technological tokenization applications.

Innovation is ingrained in the DNA of many modern companies, and tokenization presents another opportunity for organizations worldwide to distinguish themselves from the competition. However, every institution is unique, differing in terms of product portfolio, client segments, and various other dimensions. Considering this diversity, the upcoming publications will take a more practical approach, examining sectors with recent developments in tokenization and security token practices.

# Contacts

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**Sergio Biagini**  
Financial Advisory Leading Partner



**Luiz Caselli**  
Partner  
Strategy & Business Design – Management Consulting



**Roberto Cacopardo**  
Senior Consultant  
Strategy & Business Design – Management Consulting



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