

# The Future of Securities: A Digital Asset Securities Study

An investor and financial services perspective on digital asset securities adoption.

# Executive Summary

Arca, an asset management firm investing and innovating in digital assets, presents the first digital asset securities survey, “The Future of Securities: A Digital Asset Securities Study” in partnership with Coalition Greenwich—a leading global provider of data, analytics, and insights to the financial services industry.

Digital assets broadly refer to an asset issued and/or transferred using distributed ledger or blockchain technology<sup>(1)</sup>. A digital asset security is a digital representation of an asset that is a security, whereby ownership is verified and recorded on a distributed ledger<sup>(2)</sup>. The regulation of a digital asset security varies based on jurisdiction; the U.S. Securities and Exchange Commission (SEC) is responsible for securities regulation in the United States.

Digital asset securities—a meaningful and growing sector of the digital asset industry—are often overshadowed by other verticals in the digital asset market, like gaming and NFTs. While digital asset securities may only be a fraction of the digital asset universe today, we believe that every security will eventually be digitized. Most study respondents agree: 77% of all participants in this study say that most securities will be digitized and settled on the blockchain within the next 5-10 years. That reality may be closer than we think.

For decades, capital markets have been ripe for disruption due to outdated processes and infrastructure that limits growth and innovation. With the emergence of blockchain technology, regulated financial institutions, market infrastructure providers, and regulators have been exploring the potential benefits of this technology.

## Potential benefits of blockchain technology include:

- Streamlining security issuance
- Integrating programmability
- Updating clearing and settlement processes
- Leveraging data immutability
- Automating regulatory compliance
- Improving trade inefficiencies

The important role digital asset securities will play in the evolution of financial markets cannot be overstated. Securitize—a fully digital end-to-end platform for issuing, managing, and trading digital asset securities—in conjunction with Ashurst—a multinational law firm—and Kearny—a leading management consulting firm—estimate that the future market capitalization of digitized securities is close to \$1.6 trillion<sup>(3)</sup>. The growth and opportunity potential cannot be overlooked when considering the current market capitalization for digital asset securities just crossed the \$1 billion mark<sup>(4)</sup>.



# 1

## How focused is your company on implementing blockchain-based solutions for capital markets?

The Future of Securities: A Digital Asset Securities Study” includes participation with varying knowledge levels from multiple geographic areas. While the study results show there is knowledge of and a desire to pursue digital assets and blockchain-based solutions in financial services, additional education on digital asset securities specifically, and the benefits of regulated digitized tokens are essential.

**Key Ranking:**

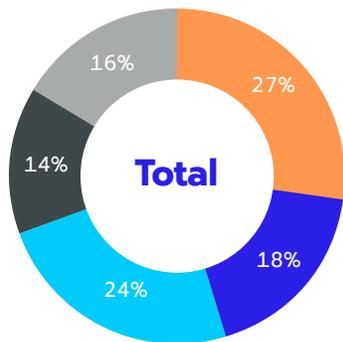
**5** Extremely focused

**4** Very focused

**3** Somewhat focused

**2** Not very focused

**1** Not at all focused



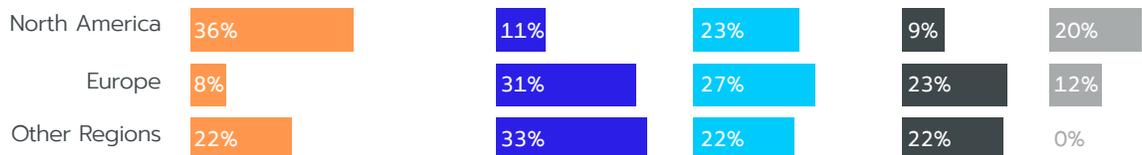
### 69%

of respondents are focused on implementing blockchain for capital markets, with

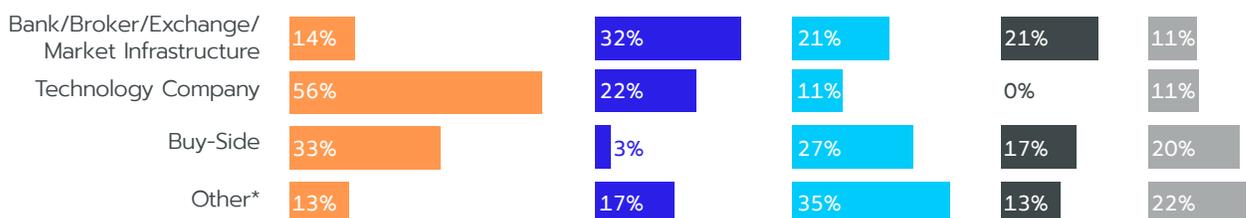
### 45%

citing they are very focused to extremely focused on such a deployment

### By Region



### By Business Type



\*Other organizations consist of consultants, law firms, academia, systems integrators, corporates, and other institutional market participants



## Methodology

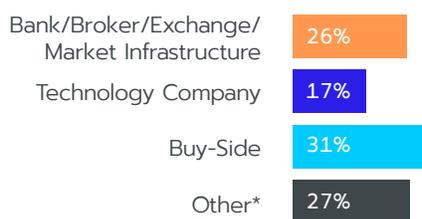
The global online survey of more than 100 financial service professionals was conducted by Coalition Greenwich in July 2021 to better understand digital asset securities sentiment and adoption.

Blockchain, distributed ledgers, and regulatory changes are all driving the digital asset securities market forward, with blockchain networks playing an increasingly important role in capital markets activities. The research was performed as part of a larger initiative to highlight how technological innovation has led to new investment structures.

### Respondent Profile:

The 108 respondents hail from a variety of organization types (Buy-side, Bank/Broker/Exchange/Market Infrastructure and Technology), with differing functional roles (Front Office, Tech/Ops/Risk and Management/Strategy). Respondents represent all geographic regions and average more than 3 years of active industry experience.

How would you describe your organization?



In what region are you located?



*\*Other organizations consist of consultants, law firms, academia, systems integrators, corporates, and other institutional market participants*

How long have you been active within digital assets and/or blockchain technology?

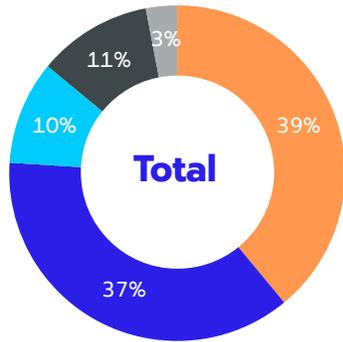


## Findings

The interest in and implementation of blockchain is significant considering the number of financial incumbents actually offering digital asset exposure to their customers<sup>(5)</sup>. The respondents indicate that 70% of companies are currently focused on implementing blockchain-based solutions and 71% are interested in investing in digital asset securities. We believe that numbers will continue to increase as more digital asset securities are available, education continues, and liquidity grows.

# 3

## Are you familiar with Digital Asset Securities?

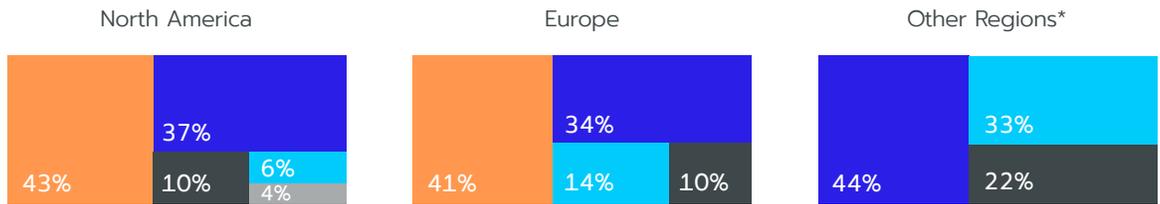


**76%**  
are familiar with  
Digital Asset Securities

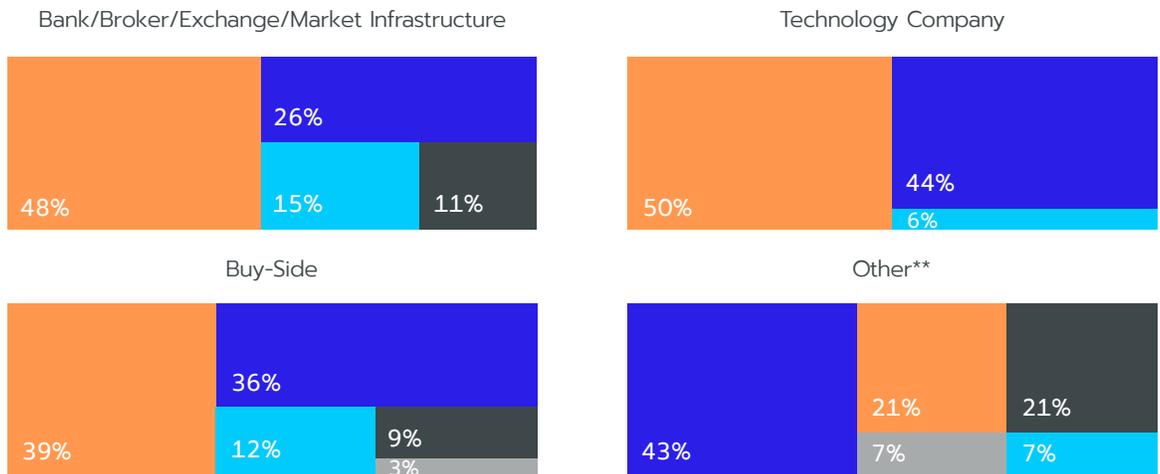
**Key Ranking:**

- 5 Very familiar
- 4 Somewhat familiar
- 3 Neutral
- 2 Somewhat unfamiliar
- 1 Not very familiar at all

**By Region**



**By Business Type**



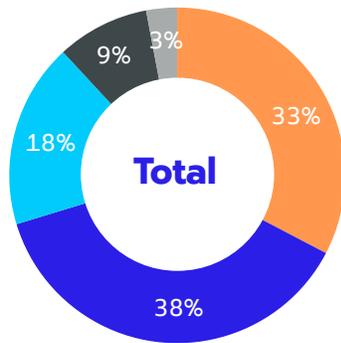
\*Other Regions = Mostly Asia Pacific | \*\*Other business types consist of consultants, law firms, academia, systems integrators, corporates, and other institutional market participants

# How interested are you in investing in Digital Asset Securities?

Institutional views on digital assets are generally positive and optimistic, with many seeing the underlying technology implemented more rapidly than other financial technologies. According to the Harvard Business Review, "It took more than 30 years for TCP/IP [internet] to move through all the phases—single use, localized use, substitution, and transformation—and reshape the economy<sup>(6)</sup>." The Bitcoin blockchain is only thirteen years old and Business Insider already cites 21% of banks incorporating blockchain technology into their businesses<sup>(7)</sup>. The implementation of blockchain technologies by corporations insinuates the inclusion of digital assets in their long-term business plans, furthering the belief that blockchain based technologies are the future.

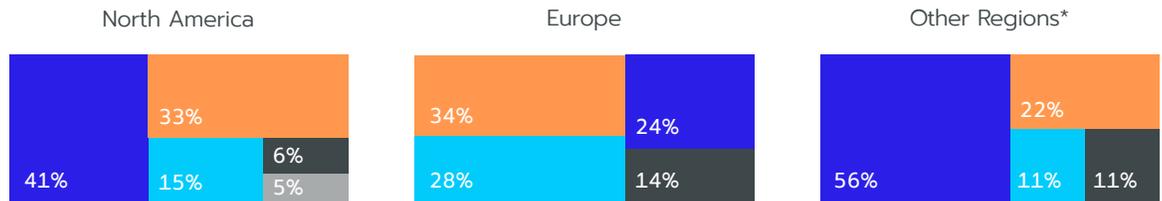
**Key Ranking:**

- 5 Very interested
- 4 Somewhat interested
- 3 Neutral
- 2 Somewhat uninterested
- 1 Not very interested at all

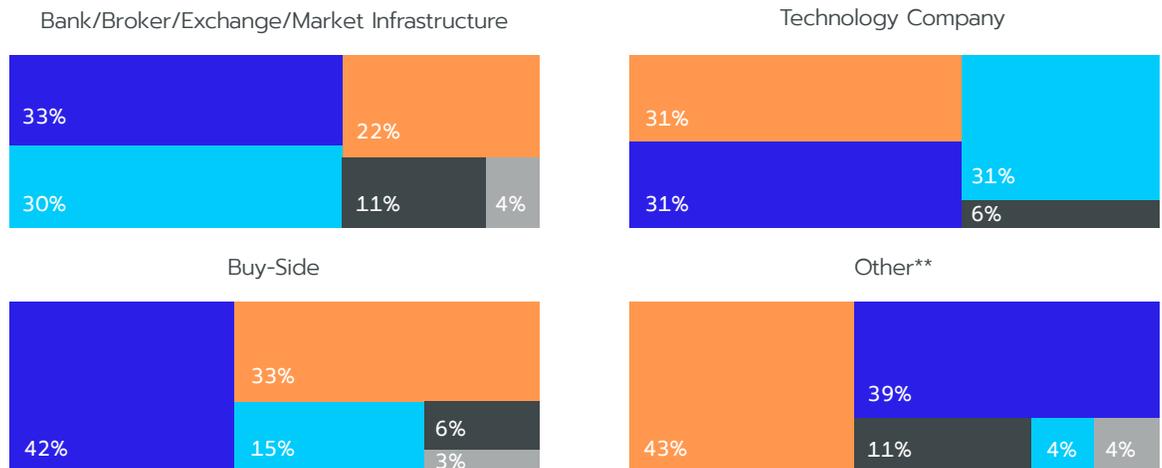


**71%** are interested in investing in Digital Asset Securities

**By Region**



**By Business Type**



\*Other Regions = Mostly Asia Pacific | \*\*Other business types consist of consultants, law firms, academia, systems integrators, corporates, and other institutional market participants



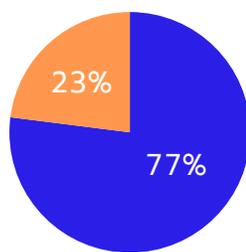
# 4

## Do you agree that most securities will be digitized and settled on a blockchain in 5-10 years?

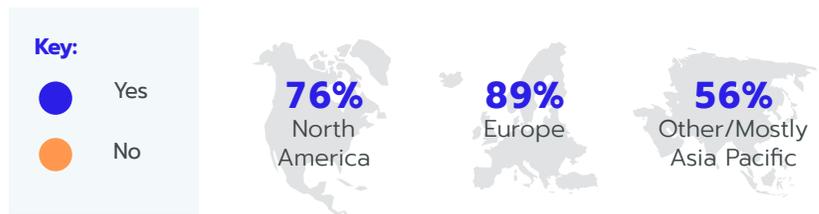
Technology-led disruption of capital markets has been contemplated and implemented with limited success in the past. Blockchain technology is making this new technology a reality. Various roles and functions within financial service companies, such as Banks/Brokers/Exchanges/Market Infrastructure, Technology, and Buy-side businesses have all cited that the key benefits of blockchain are real-time settlement, transparency, liquidity, and fractional ownership. Our current capital markets either partially meet these needs or do not meet them at all, opening the door for blockchain-based solutions and leading to a more efficient and flexible securities infrastructure.

**“If I had asked people what they wanted, they would have said faster horses.”**

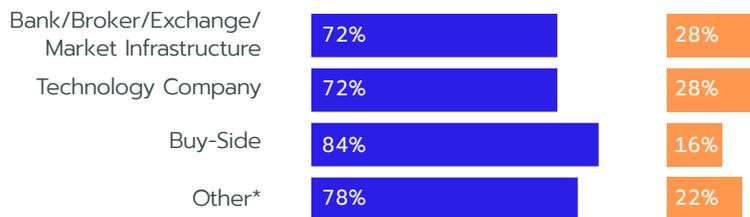
*Henry Ford, HBR<sup>(8)</sup>*



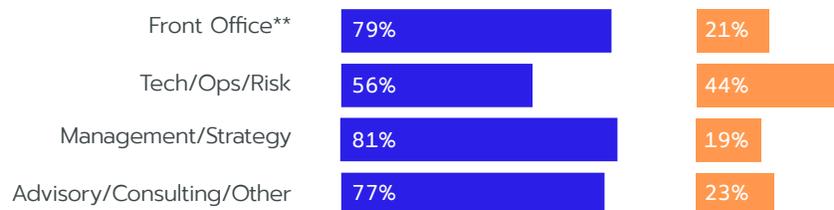
**77%** believe most securities will be digitized and settled on a blockchain in the next 5-10 years



### By Business Type



### By Role



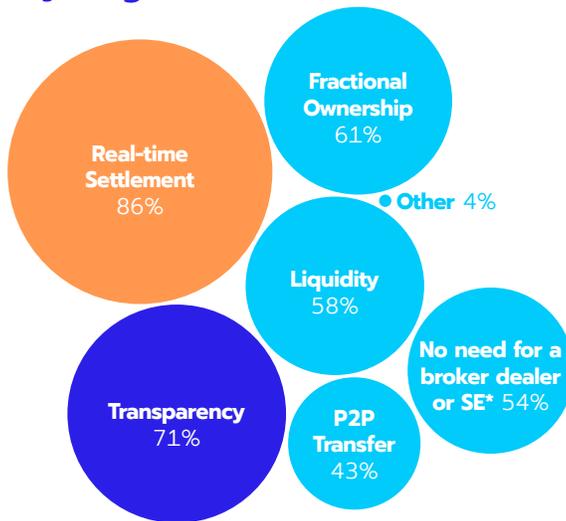
\*Other = Consultants, law firms, academia, systems integrators, corporates, and other institutional market participants  
 \*\*Front Office = Brokerage, sales/trading, investments and research

# 5

## What do you see as the key benefits of blockchain-based settlement for Digital Asset Securities? (Select all that apply.)

Institutional investors regularly seek ways to reduce costs and streamline processes. 61% of participants surveyed would like to see investment funds as tokenized assets because it enables peer-to-peer transfers, eliminates intermediaries, and enhances operational efficiencies. Additionally, tokenized investment funds could allow issuers to offer traditionally illiquid assets, like art, to new investor cohorts.

### By Region



\*SE = Stock Exchange

### Transparency and real-time settlement

are named the top benefits of blockchain



**“Capital markets are ripe for disruption. There’s no question that operational processes are archaic and clunky. The value that blockchain technology and digitized securities bring to the industry is straightforward. It’s only a matter of time before the world fully adopts digital asset securities for their inherent benefits, such as ease of transferability, real-time settlement, transparency, and liquidity.”**

*Jerard David, President, Arca Labs*

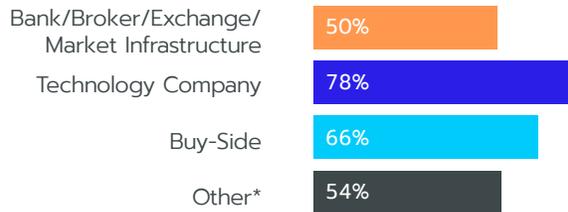
# 6

## What other kinds of tokenized assets would you like to see represented as Digital Asset Securities and transferred on the blockchain? (Select all that apply.)

### Top Tokenized Assets Represented as Digital Asset Securities

- |                           |                   |                           |                      |
|---------------------------|-------------------|---------------------------|----------------------|
| <b>1</b> Investment funds | <b>3</b> Equities | <b>5</b> Fixed income     | <b>7</b> Commodities |
| <b>2</b> Real estate      | <b>4</b> VC/PE    | <b>6</b> Art/Collectibles |                      |

### By Business Type



### By Role



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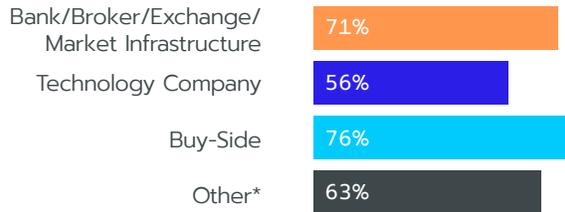
# 7

## What main problem could tokenized funds solve for you over the next 3-4 years? (Select all that apply.)

### Top Benefits of Tokenized Funds Over Next 3-4 Years

- 1** Fund administration efficiency
- 3** Settlement certainty
- 5** Secondary liquidity
- 2** Transparency of ownership
- 4** Fractional ownership
- 6** Regulatory clarity

### By Business Type



# #1

benefit of tokenized funds is **fund administration efficiency**

### By Role



\*Other = Consultants, law firms, academia, systems integrators, corporates, and other institutional market participants  
 \*\*Front Office = Brokerage, sales/trading, investments and research



## Final Thoughts

Most survey respondents seemed to understand the benefits of digital asset securities and how digital securitization can be advantageous. However, securities transactions are currently—and appropriately—regulated to incredibly high standards. This makes innovating in this space costly and time-consuming. Even so, we believe that the magnitude of the opportunity and the corresponding benefits will continue to drive this transformation forward.

Traditional securities can be found in many shapes and sizes, from varying asset classes—such as equities and fixed income—to different financial instruments like REITs and ETFs. However, the current infrastructure for issuance and transacting in these securities types is inefficient and limiting. The new technology could allow issuers and intermediaries an automated, efficient, and cost-effective way to issue and settle securities. We believe that the tokenization of securities offers benefits to almost every type of financial services organization, and enables the creation of new structures and products that further improve the investor experience. We are confident that it is only a matter of time before all securities become digital asset securities.

In July 2020, the registration of the first Blockchain Transferred Fund (BTF<sup>1</sup>) registered under the Investment Company Act of 1940 became effective. Stay tuned for our paper, “Blockchain Transferred Funds: The New Frontier for Investment Funds,” which will explore the evolution of financial vehicles from mutual funds to ETFs to the newest structure, BTFs. The paper will discuss how blockchain is not only improving financial vehicles currently offered in the market, but how blockchain-based structures have the ability to completely revolutionize finance and other industries.

## Important Information

**An investor should carefully consider the investment objectives, risks, charges, and expenses of the Arca U.S. Treasury Fund before investing. This and other information is available in the Fund's prospectus, which should be reviewed carefully prior to investing. To obtain a prospectus, please call 1-888-526-1997.**

**Investment Objective.** The Fund's investment objective is to seek maximum total return consistent with preservation of capital. There can be no assurance that the Fund will achieve its objective.

The Funds Annual Operating Expense Ratio, as reflected in the current prospectus is 3.22%, however Management has agreed to an expense cap of .75% through an expense limitation agreement for the first year after effectiveness of the Fund's registration statement. For more details relating to the Fund's expenses, please review the prospectus.

No assurance can be given that the Fund will achieve its investment objective, and investment results may vary substantially over time and from period to period.

An investment in the Fund involves risk including

loss of principal. An investment in the Fund is suitable only for investors who can bear the risks associated with limited liquidity in the shares and the uncertainty of emerging technologies, and should be viewed as a long-term investment.

You may not have access to the money you invest for an extended period of time, and you may not be able to sell your shares at the time or in the quantity of your choosing regardless of how the Fund performs.

Investors should understand that the Fund's shares are not currently listed on or available for trading through a national securities exchange or any other exchange, and a market for trading on an exchange may never be available to investors. Except for individually negotiated peer-to-peer transactions, there is currently no secondary market for ArCoins, and no such market is expected to develop.

Because you may not be able to sell your share at the time or in the quantity of your choosing, you may not be able to reduce exposure to the Fund in a market downturn.

Other risks specifically associated with the Arca U.S. Treasury Fund are detailed in the prospectus and include no history of operations risk, conflict of

interest risk, interval fund risk, no minimum amount of proceeds risk, fund closure risk, liquidity risk, tax related risks, credit and non-payment risk, interest rate risk, portfolio management risk, market risk, call risk, valuation risk and issuer risk.

The Arca U.S. Treasury Fund is one of the first registered funds to offer digital securities and there are additional risks associated with this feature of the fund, including regulatory risk, liquidity risk, emerging technology risk, operational and technology risk, and risks specifically associated with the Ethereum blockchain. There is the risk that management may be unable to successfully use blockchain technology to validate ownership and transfer ArCoin. ArCoins are not currently tradable on any public exchange; they may only be traded directly from one of the Fund's existing shareholders to another eligible investor in a peer-to-peer transaction.

For details regarding all of the risks described above, please review the prospectus.

Arca Capital Management, LLC “Arca” serves as adviser to the Arca US Treasury Fund, distributed by UMB Distribution Services, Member FINRA/SIPC. Arca and UMB are not affiliated. Member FINRA/SIPC. Arca and UMB are not affiliated.



## Sources

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Arca is an asset management firm investing and innovating in digital assets. Arca is headquartered in Los Angeles, with an additional office in New York City. Our mission is to offer asset management products that meet the operational, compliance, legal, and regulatory standards needed for professional investors to gain exposure to digital assets. Arca Labs is the innovation division of Arca focused on using the transformative power of blockchain and digital assets to create a more efficient and democratized financial system. Arca Labs is leading the effort to build financial infrastructures, networks, and products for the digital age through research and development, partnerships, advisory, and community building. Arca Labs pioneered the BTF structure in July 2020 with the launch of the Arca U.S. Treasury Fund—the first registered '40 Act fund to issue shares as digital asset securities. Arca's founders and senior team members have worked in traditional finance and FinTech across many asset classes and are working to bring the best of traditional finance practices to digital assets to deliver the right product to the right investor at the right time.

### Coalition Greenwich A division of CRISIL

Coalition Greenwich, a division of CRISIL, an S&P Global Company, is a leading global provider of strategic benchmarking, analytics, and insights to the financial services industry. We specialize in providing unique, high-value, and actionable information to help our clients improve their business performance. Our suite of analytics and insights encompass all key performance metrics and drivers: market share, revenue performance, client relationship share and quality, operational excellence, return on equity, behavioral drivers, and industry evolution.