Defining Digital Assets
Past, present, future

SWIFT INSTITUTE

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Digital assets are virtual records of value directly held on and transferred across a shared cryptographically secured ledger.

Introduction

This briefing paper tells the story of digital assets: where they came from, what they are now and what they may become in the future.

It compares and distinguishes the key features underpinning the different digital assets to include examples such as cryptocurrencies, stablecoins, central bank digital currencies (CBDC) and the possibility of bonds and equities held directly and exchanged through shared ledgers. The report further reviews the principal developments and discusses what is really new about digital assets.

Key takeaways

1. **The key drivers of the recent emergence of digital assets are as much social and economic as technological.** The supporting technologies have been around for many years, some can be traced back more than four decades. These drivers include the ‘cypherpunk’ philosophy of extreme distrust of all institutions, both government and private; enthusiasm for trading new, lightly regulated crypto assets; techno-enthusiasm for new technologies and also the opportunity to address gaps in mainstream financial services provision.

2. **A defining feature of digital assets** is that – unlike commercial bank money or securities accounts held with custodian banks – they are directly held, rather than indirectly held on the balance sheets of financial intermediaries. However, in practice most holders of digital assets will still use intermediaries for purposes of safety and secure management.

3. **A central distinction is between ‘permissionless’ and ‘permissioned’ digital assets.** Permissionless digital assets are the ‘crypto assets’ held and exchanged using purely software-based architectures in line with the cypherpunk vision of fully disintermediated financial exchange. Anyone with internet access can acquire, hold and transfer them. Other digital assets, developed by regulated mainstream institutions, are permissioned to support compliance requirements.

4. **Regulatory compliance currently limits the ability of mainstream regulated intermediaries** to engage with these largely unregulated investment opportunities. How this plays out is still unclear because of uncertainty about the ‘regulatory perimeter’.

5.

The most advanced developments in permissioned regulated digital assets are various new forms of digital money. Alongside these monetary digital asset developments have been various experiments with using digital assets and their supporting distributed ledger technologies to improve operations in financial markets and financial services.

6.

The rise of digital assets poses challenging questions for the business models of regulated intermediaries in banking, capital markets and asset management. in financial markets and financial services.

7.

A broader challenge for all financial intermediaries is financing the investments in new systems and interfaces required to meet customer demand for holding digital assets and to benefit fully from the application of digital ledger technologies in their financial operations in financial markets and financial services.

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