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RWA Tokenization: What Does It Mean to Tokenize Real-World Assets?

The core idea of Real-World Assets Tokenization, hereafter called RWA Tokenization, is basically to create a virtual investment vehicle on the blockchain linked to tangible things like real estate, precious metals, art and collectibles, commodities, etc.

Basically, instead of the deed to a house being a physical piece of paper, the ownership is put on-chain.

This could be traded between two parties directly, or fractionalized and offered to many people to buy.

Imagine you want to buy an Andy Warhol artwork.

Most people can't afford to fork over record-breaking sums like \$195 million for a Marilyn painting.

Many people want to buy art either for pleasure or as an investment but are priced out.

But what if you could buy "shares" of an artwork like you can buy fractions of a publicly traded company?

That's the idea behind tokenization of Real-World Assets.

The Warhol use case is real: a company called Freeport offered fractionalized shares of Andy Warhol paintings, creating 1,000 tokens that represent shares of the work that anyone can buy, making it possible to own a 1/1000th of a Warhol's artwork for just under \$200 USD.

Benefits and Advantages of RWA Tokenization Advantages

Tokenized RWA offer many benefits:

- **Liquidity:** It lowers costs by removing middlemen like lawyers, brokers, banks, and other entities. By enabling worldwide accessible liquidity conditions tokenized RWAs enable increased market liquidity for traditionally illiquid assets, while the barrier to access assets lowers and creates more liquidity.

- **Transparency**

Its transparent process increases trust and accountability for traders.

Since the tokenized assets are represented onchain, transparency and auditable asset management are ensured, which decreases overall systemic risks, as the amount of leverage and risk in the entire system can be more accurately determined.

- **Accessibility**

It allows fast, efficient 24/7 trading of items that traditionally only could be done during "business working hours".

Tokenized RWAs can broaden the potential user base of certain asset types by enabling easier access through blockchain-based applications and allowing a broader set of users to utilize assets that would otherwise be unavailable to them through fractional ownership.

To take it back to the Warhol painting example, if 1,000 people own shares of a single artwork, people can speculate and trade around those shares at any time, without any need to coordinate with the other owners.

Instead of having a single seller have to work with a gallery, appraiser, lawyer and bank, each of whom will charge a fee or commission to sell to a single buyer, the seller and buyer can trade directly with each other and pay only minimal gas fees to instantly transfer the asset ownership.

In the case of fiat currency, stablecoins are the most obvious form of RWA Tokenization. Tokens such as Tether (USDT) or USDC are tokenized dollars.

Each token represents one actual dollar that the company has in reserve, and allows for faster and direct settlements between parties.

On RWAs and their importance within DeFi

RWAs hold substantial significance in DeFi market because they link the digital world of blockchain technology and the physical assets of the real world.

DeFi primarily uses digital assets and cryptocurrencies, but real-world assets like stocks, commodities or real estate are crucial for connecting to the established financial system.

DeFi platforms allow users to access, trade and utilize these assets in a decentralized and borderless manner by tokenizing them and representing them on the blockchain.

DeFi benefits from real-world assets in various ways too.

RWAs open up chances for diversification, lowering risk by enabling DeFi members to invest in assets outside the cryptocurrency sector.

Incorporating assets with well-established values and market behaviors also makes the DeFi ecosystem more stable.

Traditional investors may be drawn to DeFi by the yield-generating opportunities these assets can provide, such as lending and borrowing.

Tokenization and smart contracts facilitate simultaneous settlement for tokenized assets by automating clearing, settlement, payment messages, compliance checks, and account transactions in financial institutions.

RWA tokenization also improves financial inclusivity by lowering barriers to entry for people who might not have access to conventional financial markets to participate in the financial market.

This represents a significant step in the direction of the legitimacy and widespread adoption of DeFi in the worldwide financial system.

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