

A Practical View of Digital Assets for Bond Traders

June 4, 2021

I wouldn't call myself a crypto skeptic. I fully appreciate the opportunities presented by distributed ledgers, smart contracts, Ethereum, and even some cryptocurrencies. Further, creating new infrastructures that allow institutions to trade cryptocurrencies safely or a new market structure that provides liquidity and transparency to private markets is smart. But I believe some of the ideas being thrown around to "transform" and "revolutionize" existing parts of the capital markets are solutions in search of a problem.

More Liquid and Transparent Markets

Nevertheless, traditional capital markets professionals trading and working around centuries-old products like stocks and bonds shouldn't completely write off the impact these innovations can have over time. We don't need to scrap hundreds of years of market evolution to create something brand new, nor should the potential of digital assets and the ecosystems that support them be thought of that way.

I'd suggest we think of distributed ledgers, smart contracts and all of their cousins not as innovations poised to take over capital markets, but as new technologies that, over time, will play a role in helping markets to become more liquid and more transparent—just as cloud computing and unstructured-data databases have already done.

DLT-Enabled Issuance

For instance, I was intrigued by the [recent issuance of bonds in Europe](#) on the [Ethereum blockchain](#) (one of the biggest distributed ledgers). It was interesting because it wasn't just some tiny company doing a tiny offering because it makes for a good press release. Instead, it was a real firm ([European Investment Bank](#)) borrowing real money (€100 million)—they just happened to record the deal on Ethereum.

A solution in search of a problem? Maybe. Relational databases have gotten us this far, after all. But one of the biggest challenges facing global bond market investors and liquidity providers is knowing where to find the bonds you want to sell or who holds them when you want to buy.

Billions of dollars have been poured into AI and all manners of analytics to provide informed suggestions to traders looking to buy or sell bonds. Ethereum, at least in theory, could eliminate most if not all of that, acting as a golden source repository of bond issuance and ownership. Furthermore, [a host of lending solutions have been introduced](#) that come with intriguing business models and technology underpinnings (albeit mostly retail-focused). And if global regulators can put guardrails around stablecoins – digital representations of real US Dollars and other hard assets – lending and borrowing in this decentralized world could start to look more interesting.

I know what you're thinking. Moving all issuance and trading of corporate bonds or U.S. Treasuries onto Ethereum is nuts and will never happen. While the last 20 years have taught me never to say never, you're probably right. Even so, if this new form of issuance proves cheaper and easier, regulators approve (which is no small assumption), and more issuers borrow this way, there is no reason DLT-enabled bond issuances can't grow.

These bonds could still trade on the traditional bond-trading platforms. All that would be needed is a different settlement workflow that sends the transaction to Ethereum rather than traditional settlement mechanisms (again, no small assumption). Heck, the traditional settlement systems could even take on the task of routing to Ethereum themselves.

A Better Way or Just Buzz?

What I and the market still need to better understand is whether this new way is a better way or simply a new way that is appealing because it's based on buzz-worthy technology. Despite the valuations of digital-asset-related companies worldwide, I don't think anyone really knows the answer yet. But the existence of [SEC approved 40 Act bond funds launched via Ethereum](#) show the rubber is starting to meet the road.

What we do know for sure is that completely ignoring these technological advancements isn't a good idea. Markets don't tend to evolve quickly, but they most certainly do evolve. And history has shown that some of the biggest winners of the past 20 years started their journey being told, "It's never going to work."

www.greenwich.com | ContactUs@greenwich.com

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.

About CRISIL

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better. It is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics, and data to the capital and commodity markets worldwide.

CRISIL is India's foremost provider of ratings, data, research, analytics, and solutions with a strong record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights and efficient solutions to over 100,000 customers

through businesses that operate from India, the U.S., the U.K., Argentina, Poland, China, Hong Kong, and Singapore.

For more information, visit www.crisil.com

Disclaimer and Copyright

This Document is prepared by Coalition Greenwich, which is a part of CRISIL Ltd, an S&P Global company. All rights reserved. This Document may contain analysis of commercial data relating to revenues, productivity and headcount of financial services organisations (together with any other commercial information set out in the Document). The Document may also include statements, estimates and projections with respect to the anticipated future performance of certain companies and as to the market for those companies' products and services.

The Document does not constitute (or purport to constitute) an accurate or complete representation of past or future activities of the businesses or companies considered in it but rather is designed to only highlight the trends. This Document is not (and does not purport to be) a comprehensive Document on the financial state of any business or company. The Document represents the views of Coalition Greenwich as on the date of the Document and Coalition Greenwich has no obligation to update or change it in the light of new or additional information or changed circumstances after submission of the Document.

This Document is not (and does not purport to be) a credit assessment or investment advice and should not form basis of any lending, investment or credit decision. This Document does not constitute nor form part of an offer or invitation to subscribe for, underwrite or purchase securities in any company. Nor should this Document, or any part of it, form the basis to be relied upon in any way in connection with any contract relating to any securities. The Document is not an investment analysis or research and is not subject to regulatory or legal obligations on the production of, or content of, investment analysis or research.

The data in this Document may reflect the views reported to Coalition Greenwich by the research participants. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Coalition Greenwich compiles the data received, conducts statistical analysis and reviews for presentation purposes to produce the final results.

THE DOCUMENT IS COMPILED FROM SOURCES COALITION GREENWICH BELIEVES TO BE RELIABLE. COALITION GREENWICH DISCLAIMS ALL REPRESENTATIONS OR WARRANTIES, EXPRESSED OR IMPLIED, WITH RESPECT TO THIS DOCUMENT, INCLUDING AS TO THE VALIDITY, ACCURACY, REASONABLENESS OR COMPLETENESS OF THE INFORMATION, STATEMENTS, ASSESSMENTS, ESTIMATES AND PROJECTIONS, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT. COALITION GREENWICH ACCEPTS NO LIABILITY WHATSOEVER FOR ANY DIRECT, INDIRECT OR CONSEQUENTIAL LOSS OR DAMAGE OF ANY KIND ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT.

Coalition Greenwich is a part of CRISIL Ltd, an S&P Global company. ©2024 CRISIL Ltd. All rights reserved.