**WHAT IS IT?** A token is a new way to represent an asset such as a currency or a financial instrument. A token has the particularity of being registered and transferred electronically on a blockchain system.

Tokenisation refers to the process of issuing a token. Tokenisation can also mean the securitisation of an asset, when an illiquid asset such as real estate portfolio is transformed into a dematerialised security such as tokens.

- Tokens represent a fungible or non-fungible asset that is often found on a blockchain.
- A token can be issued in very different ways. There can be an *issuer* (such as a private company) or it could be distributed *without an issuer*, for instance when generated through mining.
- A token prevents double spending. Generally, the owner of a token is certain to own it once the token is received.
- No intermediary is required to hold or move the ownership of the asset. The usual intermediary is dematerialised through a decentralised infrastructure.
- When a token is built through a *smart contract*, it can be programmed to *enforce rules*. For instance, an equity token can include a shareholder’s agreement rule that will automatically be enforced.
- When there is an asset backing a token, tokenisation is either the *digitalisation* of this asset as a whole or the *securitisation* of this underlying asset.

**IN A NUTSHELL**

- Tokens are in an *early stage of development*. While the technology is gaining maturity, their legal recognition remains nascent.
- We see a number of *new market infrastructures* that use tokens to represent assets.
- Tokens are an *alternative approach* to dematerialising financial instruments. The industry is only starting to understand how they could complement Central Security Depositaries – the most common dematerialisation platform for financial instruments.
- One of our main business principles is safety of assets and as such, cybersecurity is a cornerstone of our digital transformation. The technical, legal and regulatory environment for these matters is increasingly complex, hence our continuous investment in data and information security.

**WHAT ARE WE DOING?**

- We invested in companies that develop the core technology required for tokenisation such as R3 and Digital Asset Holding.
- We are actively driving market changes and have invested in initiatives such as Liquidshare.
- We are partnering with academics and working with them on research papers to better understand the long-term impact on the financial industry.
- We are running engaged leadership groups at BNP Paribas to imagine how our business will evolve with the development of token-based infrastructures.

**OUR VISION**

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A LEGAL FRAMEWORK IN CONSTRUCTION

Tokens are recorded and exchanged on a new type of electronic bookkeeping infrastructure that relies on distributed ledger technology, i.e. blockchain. In the last five years, the technology has gained such momentum that regulators started actively studying how tokens could fit in the existing regulatory frameworks, or alternatively, how current rules could be adapted to include tokens within their scope.

At European level, ESMA (European Securities and Market Authority) has been actively monitoring the topic, consulting the industry and publishing several advisory reports on the matter. ESMA’s work provides the legal groundwork on which to build the European “token” regulatory framework of tomorrow. In its latest recommendation of January 2019, ESMA has drawn a distinction between two types of tokens: those qualifying as financial instruments, and the others. For the first type, the full set of EU rules governing financial instruments is deemed applicable by the EU regulator. However, ESMA also highlights the lack of an appropriate legal regime for tokens not qualifying as financial instruments, recommending the creation of a dedicated harmonised European regime.

In France, the introduction of the Sapin II law and of the ‘Blockchain ordinance’ in 2017, meant that the legal existence of certain financial securities (e.g. non-listed securities, shares of mutual funds) registered on a blockchain was recognised for the first time. In parallel, the PACTE law – which is to be adopted later this year – will create a regulatory framework for utility tokens and crypto-asset service providers, notably by establishing an optional certification process for token issuers willing to conduct an ICO.

Elsewhere, tokens have attracted regulatory attention from countries all around the world. Many regulators are actively looking into, or have started developing their own ‘crypto’ legal framework. Examples of such initiatives can be found on all continents, ranging from countries like Liechtenstein, Malta, Switzerland and Estonia, to South Africa, Japan and Venezuela. Undoubtedly, 2019 will be a year of significant regulatory developments in the blockchain and crypto arena.

GLOSSARY

• Crypto-asset and Digital asset: synonym of token in most instances
• ICO (Initial Coin Offering): this is the public offering of a Utility token, which does not have the characteristics of a financial security
• TGE (Token Generation Event): it can an be an ICO, an STO or an Airdrop
• STO (Security Token Offering): this is the offer of a Security token to investors, i.e. of a financial security
• AirDrop: free distribution of tokens
• Mining (or forging, baking): refers to the distribution or redistribution of tokens to the entities that maintain the blockchain infrastructure by validating transactions and maintaining the integrity of the ledger
• ERC-20: A standard for tokens on the Ethereum blockchain system

WHERE TO LEARN MORE

• ESMA Report
• Louis Bachelier on token and ICO

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NOTES

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