

Digital Asset Forum | Briefing Note

2024's Outlook for Digital Assets Brightens

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The Digital Asset Forum is a senior-level global network of financial institutions that meets periodically to discuss developments in digital assets and perspectives on enterprise-level implications for technology, business, and strategy. The IIF convenes the Digital Asset Forum with our knowledge partner, the Oliver Wyman Forum. This briefing note summarizes the discussion held on January 4th, 2024 respecting that the forum is conducted under the Chatham House Rule and does not represent the official position of the IIF or its membership.

There are reasons to be optimistic about the digital asset market in 2024

Despite challenging market conditions in 2022 and 2023, recent technological and legislative advancements signal a potential turning point. Tokenization of traditional assets is gaining traction, supported by government, regulatory, and investor interest. The potential approval of new investment vehicles for digital assets, like ETFs, may continue to feed investor interest (note: this discussion was held before the U.S. Securities and Exchange Commission approval of Bitcoin spot ETF).

Tangible use cases are showing how digital assets can solve real problems

Blockchain technology has potential applications in addressing cross-border payment challenges. Delivery versus Payment (DvP), asset delivery occurring after or at the same time as payments, and FX Payment versus Payment (PvP), final transfer in one currency depends on final transfer in another, strategies may be of particular use in non-G7 currencies; FX PvP helps reduce settlement risk and could support more local currency use. Blockchain technology also has a role to play in optimizing liquidity management and post-trade processes, which could reduce capital needs and execution risk. The lowest-risk version of these use cases requires on-chain digital cash, otherwise risk can be reintroduced at settlement. Finality going live in the UK, the first regulated, private-sector digital cash system on blockchain, was a major milestone in the ecosystem's evolution.

Pilots are becoming increasingly sophisticated

Early pilots focused on testing technology feasibility, while current projects address multiple dimensions of functionality covering nuanced questions and include multiple stakeholders. Increased focus and resources are being spent on refining legal, regulatory, and compliance understanding. One of the challenges is that private sector participants must be willing to invest in the short term, while returns may only be realized in the long run, in order to further develop these markets. This next generation of pilots are reflecting a better understanding of business models, community needs, fund structures, and impacts on existing infrastructure. 2024 could be a tipping point in market developments.

Partnerships between the public and private sectors are gaining momentum

Collaborative partnerships between policymakers, central banks, and the private sector are critical to addressing evolving questions and maintaining efforts to build common infrastructures. In November 2023, the Monetary Authority of Singapore announced its intent to expand Project Guardian and pursue a Global Layer 1 initiative that would theoretically involve multiple forms of digital assets. In the coming month, the U.S. Office of the Comptroller of the Currency will host a conference on tokenization of real-world assets, which will convene global participants across industries. Overall, there is a sense of momentum, activity, and progress in the new year, with growing interest in launching joint/coordinated initiatives between public and private institutions.