

Liquidity in the Swiss Security Token Market

Initiative of the Digital Assets Working Group of the Swiss
Blockchain Federation

Purpose: Positioning paper to strengthen the
Swiss digital assets market

Date of Publication: February 2025

Authors:

Nicola Plain, PLAIN GmbH

Cédric Lüscher, zeb

Claudio Tognella, BX Digital

Daniel Rutishauser, Inacta Ventures

With an increasing trend, approximately 40 established financial institutions in Switzerland are offering services and products in the context of digital assets¹ according to the FINMA 2023 Annual Report². Access to digital assets for private and institutional investors is improving but continues to be largely restricted to payment tokens (cryptocurrencies). A different picture emerges in the area of security tokens (or investment tokens). It can be noted that (a) the market share of tokenized assets (or security/investment tokens) compared to traditionally represented assets and (b) the liquidity of tokenized assets remain negligible. A few committed players, including some fintechs, trading platforms, and a handful of banks, are steadily advancing the adoption of the security token infrastructure with their live projects and test transactions. However, investment tokens have not yet achieved widespread acceptance. Established financial institutions in Switzerland appear to be more cautious about creating offerings around security tokens than many of their foreign counterparts. Even UBS Bank predominantly drives its tokenization projects through the Singaporean "Project Guardian." This initiative is a joint effort by policymakers and the financial sector to improve the liquidity and efficiency of financial markets through asset tokenization³, apparently with success. A significant portion of large-scale tokenized asset issuances takes place within this project's framework. This raises the question of what prerequisites need to be fulfilled in order to finally realise some of the performance promises of security tokens, in particular excellent divisibility and increased settlement efficiency (e.g. through atomic settlement, elimination of intermediaries such as central custodians). Both potentials can only be fully exploited with sufficient liquidity.

In this context, a working group of the Swiss Blockchain Federation formulated eight recommendations in Q4 2023 in the position paper "Liquidity for Markets in Security Tokens"⁴ to enhance liquidity in the market for Swiss/international security tokens. Complementing this paper, the present position paper outlines the current state of the Swiss security token market and addresses the potential for development.

The authors consider it important to emphasize that the liquidity of security tokens does not originate solely in the "market" but is influenced by legal, technical, and economic factors along the entire value chain of tokenized assets. Only by harmonising these factors can the liquidity of the (Swiss) security token market be increased in a sustainable manner. The value chain for tokenized assets consists, at a high level of aggregation, of the same four steps⁵ for (almost) all asset classes: issuance, custody, administration (token life cycle), and secondary market. As outlined below, different aspects need to be considered along these four steps:

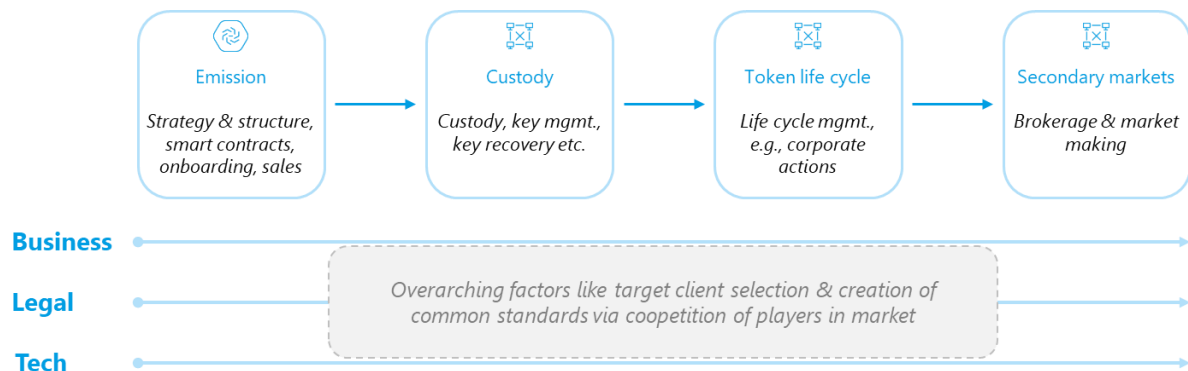
¹ The term 'digital assets' here covers all types of tokenized assets

² Source: [FINMA Jahresbericht](#), 2023

³ Source: [MAS](#), 2024

⁴ Source: [Swiss Blockchain Federation](#), 2023

⁵ Source: Swiss Blockchain Federation, 2024, Working Group Liquidity



Standards

Since liquidity does not arise solely in the market, the relevant factors must be coordinated across the entire value chain with all involved actors. Otherwise, as is currently the case in Switzerland, liquidity fragmentation occurs. Fragmentation can be observed on three levels:

- **Choice of blockchain:** Since interoperability between different blockchains is still relatively limited, issuing security tokens on different chains inevitably leads to liquidity fragmentation.
- **Choice of token standard:** Even if security tokens are issued in the same blockchain environment (e.g., on an EVM), using different token standards (ERC-20, ERC-1400, CMTA, etc.) results in fragmentation as wallets and secondary markets need to support the various standards⁶.
- **Legal frameworks:** Depending on the legal framework, either no or differing legal requirements exist that must be met during the issuance, custody, and trading of security tokens. This complicates the aggregation of existing liquidity across different legal frameworks.

The fragmentation of liquidity can be counteracted by agreeing on standards across the entire value chain. At the blockchain level, there is hope for protocols ensuring “interchain operability” (e.g., CCIP, IBC, or Wormhole). Additionally, efforts are being made to agree on which blockchain(s) should generally, or at least for certain asset classes, be used for security tokens. At the token standard level, various attempts have been made to establish such standards, many of which are found in the EVM domain⁷ (Ethereum Virtual Machine). This includes efforts such as those by the Swiss [CMTA](#), which is now also internationally engaged in Project Guardian⁸. At the legal framework level, a significant patchwork⁹ with numerous gaps can be observed. While some countries like Switzerland introduced laws for issuing security tokens several years ago, the EU still lacks overarching legislation (MiCAR does not regulate security

⁶ Sources: zeb 2024 [article](#); McKinsey 2023 [article](#)

⁷ [Here](#) is an overview of the EVM RWA token standards

⁸ Source: [Ledger Insights](#), 2024

⁹ See [Guardian Fixed Income Framework](#) p. 13

tokens, but stablecoins). Although work is ongoing¹⁰, only a few member states, such as Germany, currently have analogous approaches. Similarly, in the USA, clear legislation is missing, but the SEC lately has approved certain trading platforms for security tokens, such as [INX](#). With president Trump's potential influence, legal conditions could change rapidly. Larry Fink, CEO of BlackRock, recently addressed his expectations in this regard¹¹. Harmonization across jurisdictions will likely be easiest to achieve through technical alignment and recognition of respective standards. Despite security token-friendly laws, the Swiss industry has not yet managed to agree on standards enabling a continuous value chain. Consequently, a global agreement on standards also remains a distant prospect.

Issuance

During the issuance of a security token, it is determined whether it will be compatible with the rest of the value chain, such as whether it can eventually be traded on a secondary market. Furthermore, the framework for cash flows in the context of the token life cycle is set during issuance. As long as chain interoperability remains a hurdle, issuers must choose a blockchain and a token standard, necessarily with a view to future liquidity. Since different asset classes have highly heterogeneous issuance mechanisms¹², the asset class should be considered when selecting standards. Established distribution channels via asset managers, etc., are largely unavailable due to a lack of technical infrastructure. As a result, the issued products have not yet experienced the desired demand from investors. Additionally, the legal framework must be taken into account. Depending on the markets where the token should be tradable, different legal requirements must be met, some of which can already be addressed at the token level (e.g., whitelisting). Issuance currently occurs exclusively with the help of tokenization platforms. While many Swiss platforms struggle, major funds are processed through players like [Securitize](#). Furthermore, established financial institutions such as UBS¹³, Visa¹⁴, and the stablecoin giant Tether¹⁵ came up with their proprietary tokenization platforms. Local banks interested in issuing security tokens would have a wide range of issuance platforms to choose from but often face high requirements for due diligence and risk assessments (legal, technical, financial). Cost efficiency, unfortunately, only results from scaling. However, as long as the "cash leg" of a DLT transaction is not settled on-chain, scaling is unlikely to occur. Liberal stablecoin regulation could provide relief. Too often, dual listings (traditional and tokenized) are performed, leading to high costs for issuers.

Custody

Another factor in the creation of liquidity is the integration of custodians (e.g., banks) into the value chain, as many investors feel overwhelmed with self-custody or are even excluded from self-custody by regulations¹⁶. The custody of tokenized assets could open up new ways to

¹⁰ Source: [EU Finanzkommission](#), 2024

¹¹ Source: [investing.com](#), 2025

¹² Source: translated from [Guardian Fixed Income Framework](#) p. 17, 2024

¹³ Source: [UBS](#), 2024

¹⁴ Source: [Binance](#), 2024

¹⁵ Source: [Crypto Briefing](#), 2024

¹⁶ Source: e.g: Custodian bank requirement for contractual investment funds / SICAVs or prudentially supervised custodians for simple asset managers

meet customer demand¹⁷. New technological developments, such as “account abstraction,” create new possibilities for conducting business with “safe-keeping” assets in a broader sense. The potential fear of losing access to tokenized assets can be a barrier to additional liquidity and must therefore be addressed by relevant actors with market-appropriate solutions. Since banks traditionally enjoy the trust of financial investors, custodians could play an active role in the tokenized capital market. This role could evolve. Liberalization of the market in the custody of securities tokens would be worth considering, as it could increase the supply and indirectly improve liquidity. Additionally, a custody infrastructure for security tokens must also enable access to complementary services such as deposits, withdrawals and trades.

Besides a variety of wallet solutions for retail customers, various local and foreign actors offer custody solutions for financial institutions. However, both are currently almost exclusively used for the custody of cryptocurrencies. Delegating the custody of security tokens is currently only possible in isolated cases in Switzerland, and when it is, only one or a few chains are supported for economic reasons. Recent studies¹⁸ show that banks are indeed interested in DLT & digital assets but still have many questions regarding business cases, customer demand, training, costs, and especially risk frameworks. Furthermore, there are significant questions concerning privacy on public chains, which are partially addressed with private Ethereum L2 chains¹⁹. However, such solutions are hardly compatible with the DeFi world. Established financial institutions who want to create a security token custody service, must be able to navigate the existing complexity. This requires corresponding expertise at the management and board levels. While initially, greater financial efforts may be required, the potential savings with increased scale are considered enormous²⁰.

Token Life Cycle

Depending on the asset class, more or fewer corporate actions occur during an asset's life cycle. Capital providers naturally want assurance that they do not have to forfeit their rights, such as receiving dividends, coupon payments, or voting rights at a general meeting, when investing in tokenized assets. Questions remain open here, for example, regarding the automatic return of a token buyer's data to the share register for tokens listed on DLT trading platforms. Despite open questions, the token life cycle cannot be understood as the primary reason for low liquidity.

Due to the programmability of smart contracts, there is significant potential for the automation of cash flows within the token/asset life cycle. However, a seamless process also requires coordination among the involved actors.

Secondary Market

The secondary markets for security tokens also show significant fragmentation, negatively impacting overall liquidity. While some are still working on obtaining approval as DLT trading systems, the only currently operational marketplaces ([TDX](#) & [SDX](#)) show significant development potential with regards to liquidity. Few issuances and limited buy-side demand

¹⁷ Source: translated from [Guardian Fixed Income Framework](#) p. 19, 2024

¹⁸ See [HSG](#) and [ZEB](#), 2024

¹⁹ See e.g. [Project Dama](#) from Deutschen Bank

²⁰ Source: translated from [Guardian Fixed Income Framework](#) p. 19, 2024

have been observed so far. Since SDX operates on a private blockchain (Corda R3) and TDX does not process transactions on-chain, liquidity from the DeFi space is currently excluded. Once FINMA approval is obtained, DLT trading systems with on-chain transactions will also contribute to market liquidity. For instance, BX Digital announced its plan to become the first regulated Swiss DLT trading facility. It aims to create liquidity for security tokens by following many of the recommendations laid out in SBF's first liquidity paper²¹. It will go to market via banks (as opposed to "direct to retail"), which allows for efficient scaling, but at the cost of dependence on the bank's adoption rate for digital assets. It remains to be seen to what extent BX Digital will be able to increase liquidity in the Swiss market for security tokens.

Additional liquidity potential would lie in the use of DeFi protocols. These have developed splendidly over the past few years and currently serve almost exclusively for trading cryptocurrencies and decentralized lending. Issuers like BlackRock demonstrate that it can work. The BUIDL token is partially used as an underlying by various yield token projects²². It is desirable for more tokenized traditional financial instruments to be transferred to the DeFi world. The Swiss pioneer project "[Frankencoin](#)" demonstrates how this can work.

Target audiences

In the discussion about liquidity, the question inevitably arises as to which type of investors should be addressed. Institutional investors, responsible for about 90% of all transactions in financial markets, face high switching costs to transition from the "old" to the "new" world. This transition is likely to take some time. In the meantime, it is worth looking at the needs of a digitally savvy target group that has increasingly left traditional banks in recent years: young people. These individuals are open to new technologies and consist of highly interesting subgroups, such as gamers. Since they are already accustomed to virtual assets (in-game assets like skins, etc.), they seem predestined for digital assets. With digital assets tailored to such target groups, they could potentially be brought back to the traditional financial world.

Meanwhile, early crypto holders have shown little appetite for tokenized traditional assets with high risk/return profiles. For now, they seem to be going for the 10-1000x that can be found in crypto and parking their money in yield-generating stablecoins (aka yieldcoins). That's part of the reason why tokenized money market funds have been doing so well lately: issuers of yieldcoins use them as underlyings and pass on the yield to token holders. At least one Swiss fintech, [Backed Finance](#), is active in this market. Traditional financial institutions now need to be increasingly creative to regain liquidity from lost customer segments. So far, we see little of this in the Swiss market.

Conclusion

In summary, the adoption of security tokens in the financial world accelerated significantly worldwide in 2024²³ but will still take several years. Current forecasts estimate a USD 2 trillion

²¹ e.g. by building on public blockchains, widely accepted smart contract standards (CMTA), simple interfaces for banks/market makers and cash settlement via the commonly used Swiss Interbank Clearing system.

²² Source: [Etherscan.io](#)

²³ Source: [rwa.xyz](#)

market by 2030²⁴. The legacy systems to be replaced have grown over many years and benefit from enormous network effects and STP rates. At the same time, a parallel world is growing with DeFi, whose principles are partly incompatible with existing ideas of control and power. Blockchain technology is likely to prevail in the long term, but many questions remain unresolved in detail.

Nevertheless, the security token market is slowly but steadily developing with the entry of new players and a globally growing number of established legal frameworks (e.g., German eWpG, etc.). If the designated new President of the USA follows through on his words, competition from the USA, which is already strong, is likely to increase further. In Switzerland, two types of initiatives are currently being observed. First, fintechs/startups driving the tokenization of various assets (e.g., T-Bills, stocks, bonds, and precious metals). Second, established financial service providers such as banks²⁵ and trading platform operators²⁶ conducting pilot projects in the field of tokenization. Collaboration between these parties exists but is insufficient and not seamless. Consequently, little liquidity is generated for assets issued in Switzerland, while large issuances occur where demand exists. Crucial to increasing the liquidity of security tokens in Switzerland seems to be the coordination of all actors along the entire value chain of specific asset classes to address the major infrastructure-related questions. Currently, we perceive significant uncertainty²⁷ and confusion in the market, which could be avoided with proper coordination. A blueprint for banks (e.g., business & risk framework, technical infrastructure, offering integration, research, education), could help them recognize and actively assume their role in the issuance, custody, and trading of security tokens and decide which asset classes they want to prioritize.

In Singapore, the Monetary Authority of Singapore (MAS) took the lead in 2022 with "Project Guardian" and has since been coordinating the efforts of financial actors in the digital assets sector with increasing success. MAS ensures, in particular, that network interoperability is guaranteed (interlinked network model), integration with DeFi protocols is enabled, and international coordination with global government agencies and institutions takes place. This project not only provides the Singaporean financial center but also the participating financial institutions with a competitive advantage. Issuances are usually coordinated with suitable buyers.

Switzerland should take inspiration and establish a coordinating force. In a participatory framework, modeled after and in exchange with Project Guardian, the Swiss financial center should strive to prepare for the future. Here, the Swiss Blockchain Federation (SBF) would like to initiate coordinated discussions with SIF, FIND, FINMA, CMTA, and SBV (possibly also SNB) to define the broader vision, the end state of the DLT-based financial market infrastructure, the necessary standards and useful tools for the industry, e.g. Blueprints. SBF is happy to take an active role in this regard.

²⁴ Source: [McKinsey](#), 2024

²⁵ e.g. BEKB, Vontobel, UBS

²⁶ e.g. SDX und BX Digital

²⁷ Example (source: C. Tognella): there was even a call from one bank for a concrete "blueprint" as to why and how a bank should participate in the digital asset ecosystem. From the working group's perspective, there are various dimensions that could be of interest to a bank, e.g: To give its customers access to a new, innovative asset class, to generate trading turnover with it, to create new advisory services and to create its own digital products (e.g. lending for STOs....).