Insight INVESTMENT

# GLOBAL MACRO RESEARCH
# DIGITAL ASSETS: A NEW FRONTIER

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Katey Neate is the Global Head of Investor Solutions within the Asset Servicing business at BNY. She leads an international team of expert product professionals in the delivery of market leading solutions to asset managers and their investors across the full spectrum of fund products.

Katey is also the CEO and SMF1 of BNY Mellon International Limited, BNY's UK banking entity.

Katey joined BNY Mellon in 2003 , and prior to her current role was Chief Operating Officer for the Digital Asset Business, leading a global team in the establishment of this pioneering group. Katey's 10 years in Risk Management saw her develop expertise in securities servicing, payments, debt capital markets and depositary receipts, leading to the role of Chief Risk Officer for Securities Services & Digital.

Additionally, Katey sits on the board of BNY Pershing EMEA Ltd, BNY Investments Limited and BNY International Financing Corp.

As a leader in securities servicing, Katey is engaged in driving diversity, equity, and inclusion, particularly in the digital space. Katey is a member of the City of London's 'Women Pivoting to Digital' taskforce, and an active voice in the development of the global digital asset ecosystem.

A Q&A with Katey Neate, Global Head of Investor Solutions within the Asset Servicing business at BNY, hosted by Colm McDonagh, CEO Insight Europe and representing Insight's digital asset strategy.

# SECTION 1
# WHAT ARE DIGITAL ASSETS?

**Q. For those unfamiliar with them, what are digital assets?**

At its simplest, a digital asset is just a digital record of ownership or value. Instead of being tracked in a traditional database, those ownership rights are typically recorded and maintained on a decentralised network like a blockchain. At their most basic level, they're simply a secure, cryptographic record of who owns what.

Broadly speaking, digital assets fall into several main categories.

First, cryptocurrencies: these are the native assets of a blockchain or distributed ledger. They exist solely because they've been created and issued on-chain, and they are not backed by real-world assets. Their value can come from their use as a store of value, a limited medium of exchange, or from the rights they confer within a blockchain network, such as governance or voting rights. Familiar examples include Bitcoin and Ethereum.

Second, on-chain representations of cash. These are assets designed to mirror traditional money more closely. That includes stablecoins, which are typically backed by reserve assets; and tokenised bank deposits, which represent claims on deposits held at commercial banks. A key difference between stablecoins and tokenised deposits is that stablecoins don't pay interest whereas tokenised deposits typically do. BNY has recently announced the launch of tokenised deposits.

Third, central bank digital currencies, or CBDCs. These are digital representations of sovereign currencies issued by central banks. They are the public-sector equivalent of digital cash, representing units like pounds or dollars on digital infrastructure. Some countries have already launched live versions – such as the e-CNY, or indeed even the Bahamian Sand Dollar.

Finally, there are digital assets that represent real-world assets – tokens that may represent a unit in an investment fund, a property, or another tangible resource.

**Q. If I have a bank account with £10 in it, that balance is already digital. Why isn't that considered a digital asset or digital currency? What, specifically, is gained by putting that same £10 onto a blockchain?**

That £10 in your bank account is recorded on a centralised ledger controlled by the bank, which is essentially a modern, highly sophisticated version of a spreadsheet. The bank maintains it, reconciles it, and ultimately decides how and when that balance can move.

If you represent that same £10 on-chain, it becomes a discrete unit created on a blockchain and secured by cryptography, rather than by a single institution. Ownership and transfer are governed by the network, not a central intermediary.

To be clear, you can operate perfectly well in the off-chain, traditional system indefinitely. There's nothing inherently broken about it. The case for digital assets isn't that the existing model doesn't work.

Rather, the argument is that blockchain-based assets unlock additional capabilities. Transferring value on-chain can be faster, programmable, and interoperable across systems in ways traditional infrastructure isn't designed for. It also allows assets to be used outside the conventional financial rails we're used to operating in.

**Q. If we consider an asset like a bond – bonds already exist in a digital form today, recorded through books and records, custodians, and reflected on account statements. Why would it make sense to put a bond on a blockchain?**

A digital bond is what's often referred to as a tokenised real-world asset. Simply put, that's just a traditional asset, ranging from financial instruments to intellectual property, represented on a blockchain.

Bonds were one of the first genuine use cases to emerge a few years ago, largely because they have a clear lifecycle and a series of cashflows and obligations attached to them. As well as transferring ownership or value, it's about whether you can also program what happens to that bond over its life – coupons, corporate actions, settlement, and so on.

That's where the benefits of distributed ledger technology start to show up. It allows many of the processes that are still handled manually in financial services to be automated.

# SECTION 2
# THE BENEFITS OF DIGITAL ASSETS

**Q. Is this then about the plumbing rather than the economics? It sounds like holding a bond on chain doesn't change its performance, but it does change the underlying system that records ownership and manages the bond's payments over its life.**

That's one of the early key benefits. Improving the plumbing makes a material difference to an asset servicer, even if it doesn't immediately change much for you as an investor.

Today, many of the processes involved in moving a bond, holding a bond in custody, and settling a bond, are still manual. They take time and rely on extended settlement cycles, largely because of all the interactions between different parties in the ecosystem and the reconciliations required between them.

If you can shift that process onto a blockchain, with decentralised infrastructure and without layers of intermediaries, you can remove many of those bottlenecks. The need for reconciliation falls away because settlement becomes near-instantaneous, and with that you can significantly reduce, or even eliminate, settlement risk.

As you materially reduce the need for reconciliation, you take costs out of the system.

Then, if you can speed up transactions, it means you can respond quicker to changes in market conditions.

Today, if you want to act on a market opportunity, you typically have to sell an existing position, wait for settlement, wait for the cash to be credited, and only then can you redeploy it elsewhere. That process can take days.

With something like a tokenised money market fund, the dynamic changes completely. If you want to act on a market move, you can sell out of a position and receive stablecoins near-instantly. Those stablecoins can then be redeployed into another tokenised asset almost immediately, rather than waiting for the traditional settlement cycle to complete.

The result is a step change in portfolio agility.

**Q. That sounds very beneficial for investors that need to raise cash quickly or meet collateral calls. Is that right?**

Absolutely. Tokenised instruments can significantly accelerate portfolio rebalancing when market conditions change.

The ability to move almost instantaneously between assets can materially reduce the risks associated with periods of market stress. In environments like the gilt crisis, where timing and liquidity were critical, that speed of execution could make a meaningful difference.

If you can use tokenised instruments as collateral, you can also materially reduce portfolio drag by holding less capital purely to manage settlement risk.

Today, a lot of funds are forced to sit on meaningful amounts of cash simply to facilitate the mechanics we've been discussing. That cash is effectively idle. If you can shorten, or virtually eliminate the settlement cycle, you no longer need to hold as much capital on the sidelines.

Instead, that cash can be deployed more efficiently, improving capital utilisation and, ultimately, portfolio outcomes.

### Q. How important is programmability and can you provide some examples of this?

At its core, this is about creating a set of instructions that say: when X happens, do Y. Using smart contracts, money itself can become conditional and responsive to other events.

Take the annuity life-cycle example for example. This is where programmable instruments start to become quite powerful. If I want a bond to pay out once a year at a specific yield, but only under certain conditions, I can encode all of that directly into the smart contract that represents the bond. Once it's set up, I can "press go" and it runs automatically – without the layers of back-office processes traditionally required to administer those features.

That bond example is deliberately simple. But if you move beyond individual programmable instruments to truly composable portfolios, the implications are much broader. You could imagine holding an entire portfolio of assets that execute based on a predefined set of rules you've specified.

In that world, the roles of many people in financial services start to change quite fundamentally. This is where opinions diverge. Some believe the end state is fully personalised portfolios. These are held in digital wallets and tailored precisely to an individual's liabilities, spending patterns, and objectives, and constructed from customised instruments designed to deliver specific outcomes.

The more realistic near-term application is less radical but still meaningful. As a portfolio manager, you would select instruments designed to achieve particular outcomes and programme portfolio actions based on those objectives. A portfolio could automatically rebalance when specific criteria are met. This then frees the manager up from process oversight, allowing them to fully focus on outcomes.

## SECTION 3
## REAL-WORLD IMPLEMENTATION

### Q. It sounds extremely positive, but is anyone in the market actually using this right now?

There are already several tokenised money market funds in the market today. I'd characterise these as the 'foothills' of the opportunity, though we've definitely moved beyond the proof of concept phase. The demand we're seeing today, particularly from asset managers for whom we provide transfer-agency services, is concentrated at the more liquid end of the market, where the utility of tokenised units is most obvious once they've been created.

Asset managers are telling us that their clients want access to the speed and agility we've been discussing, but they also see an opportunity to reach entirely new pools of capital. That includes a growing base of digital-native investors who operate largely, or entirely, on blockchain based infrastructure.

As a result, most of the early demand has been in highly liquid instruments. However, over the past six to eight months, we've started to see increasing interest from private markets as well. That's not just about tokenising the fund wrapper, but about tokenising the underlying assets themselves.

In that context, things like digital cash can be used to speed up internal fund processes, while distributed ledger technology supports more efficient operation of the fund.

### Q. What is the process to tokenise assets within a fund?

At its heart, tokenisation simply means creating an on-chain representation of something that already exists. Most of the early 'foothill' funds that exist today are tokenised share classes of existing fund structures. But it doesn't have to work that way. You can also tokenise something entirely new. In fact, some of the earliest experiments in bonds were digitally native – bonds that didn't exist in the traditional system at all and were created directly on a blockchain.

Without getting too technical, tokenising an asset involves creating a set of smart contracts that define and publish the ownership rights of that asset on a blockchain. To move assets on a blockchain, two things are required. First, you need a digital wallet, which is effectively where the asset lives. Second, you need a cryptographic private key, which gives you permission to transact. The easiest way to think about this is your house. You share your address freely, but you keep the private key secure. That private key is what gives the authorisation to move the assets.

If I'm tokenising something on behalf of a fund then I can hold that private key for you, enable transactions of those tokenised units on-chain, and do the technical work required to create and maintain that ownership representation.

Conceptually, this isn't that different from what I already do today as a transfer agent, or what your bank does when it maintains records for a cash account. The difference is that the record-keeping and processing move from spreadsheets and back-office systems onto a blockchain.

### Q. Are many market participants doing this today? Is adoption meaningfully more advanced in certain regions or geographies than others?

A few things have happened over the last year that really help answer that question.

The first is regulatory clarity. That hasn't emerged evenly across different jurisdictions. In the US we've seen a material shift over the past 12 to 18 months, with legislation like the GENIUS Act providing clearer regulatory guardrails. These changes have given market participants the confidence to start bringing products to market.

The second factor is the maturation of the underlying technology. We now have around six or seven years of real world experience operating this technology. That has increased comfort around scalability, security, resilience, and financial crime controls – issues that would previously have dominated a conversation like this.

The third driver is investor behaviour. The adoption of stablecoins, which can be used like digital cash, has accelerated interest in tokenised fund units. For a long time, investors were holding large balances in stablecoins, and for regulatory reasons US dollar stablecoins aren't yield bearing and, in many markets, couldn't easily be put to work.

What we're now seeing is those investors looking for places to deploy that capital without giving up liquidity or utility. Tokenised money market funds fit that need very well. Once something is tokenised, its utility can start to compound, it's a bit of a rolling stone effect.

Returning to tokenised money market funds as an example, if you can use that tokenised unit as collateral, it already has more utility than it did in its traditional form. You're no longer just holding a low-risk investment; you're holding something that can actively support other portfolio activity.

If you then extend that further and allow those tokenised fund units to be used for payments, and we're not quite there yet from a regulatory perspective, you start to blur the line between an investment instrument and an on chain representation of cash. In that world, the tokenised money market fund itself could be used as the settlement asset.

You're probably not paying for a pizza with it, but within the financial ecosystem we operate in, that kind of functionality is hugely powerful. And that's where this idea of programmability really comes to life. Assets that don't just sit passively on a balance sheet but can be fully automated to deliver outcomes.

# SECTION 4
# AN INSTITUTIONAL PERSPECTIVE

**Q. This sounds interesting from an institutional investor perspective – so what should firms be doing to start taking advantage of this evolution? Are there any risks that institutions need to consider?**

The first thing to say is that not everything benefits from tokenisation. There are strong use cases, but there are also costs and trade offs. In many situations, a straightforward share class of a fund is still the right answer if you don't need the additional capabilities we've been discussing.

There's no need for everyone to rush out, get a digital wallet, and tokenise everything overnight. But if tokenisation is relevant to your objectives, there are a few important considerations.

The key one is risk management. Take a tokenised money market fund as an example. Economically, it is still a money market fund and carries the same underlying investment risks. However, holding and transacting it on a blockchain introduces additional, incremental risks, while also addressing some of the risks we associate with the old rails.

Not all blockchains are created equal. If you're investing in assets that are represented on a blockchain, you need to carry out due diligence on the chain itself, not just the instrument. There are a few established, household name platforms that stand out because they have scale, liquidity, throughput, and a mature ecosystem around them. Those characteristics matter.

Beyond size, there are several other critical considerations. Security is paramount: is the chain robust and resilient? Then there are financial crime risks – can activity on that chain be effectively monitored using the compliance and surveillance tools available today?

Reputational risk is another factor that's often underestimated. How would your organisation, and your investors, feel about being visibly associated with this particular blockchain?

It's easy to be attracted to new protocols that promise speed and efficiency. But if a chain is later associated with a high-profile financial crime incident, and your name is linked to it, that's a risk few institutions can afford to take. In many cases, the fastest or newest option won't be the right one.

Institutions need to ask whether they have the right tools and frameworks to manage those risks. They need to work with custodians and transfer agents who understand this technology and can operate safely at scale and assess the specific risks of one blockchain versus another. Many organisations today are not fully there yet. Several firms lack the tooling, the specialist talent, and, just as importantly, the institutional awareness of these potential new risks.

For anyone thinking this is something they'll need to engage with over the next few years, the key early-stage analysis should focus on whether the right analysis, governance, and operational toolkit are in place to manage tokenised instruments responsibly.

**Q. Decentralisation can sometimes be a scary word for people – is that fear misplaced?**

I think part of this comes back to trust. But people already outsource a degree of trust to their custodian banks. The question is: does decentralisation ever really become mainstream, or does it remain primarily about people trading cryptocurrencies?

In theory, you could imagine a pure end state where every investor manages their own assets directly, peer-to-peer, on a blockchain. In reality, we're unlikely to go that far, for a mix of financial, practical, and sociological reasons. Decentralisation clearly has an important role to play in enabling many of these innovations, but there are still significant benefits to the centralised structures we have today. Not least because larger financial institutions can invest in best-in-class financial crime controls, risk management frameworks, and cybersecurity capabilities.

These additional layers are not something an individual investor managing assets from a self-hosted wallet can realistically replicate.

Decentralisation is a powerful enabler, but it doesn't eliminate the need for trusted intermediaries, it just changes what they're trusted for.

### Q. Are regulators ahead of the market on this or lagging behind?

Over recent years, regulatory approaches have developed at different paces, with jurisdictions adopting divergent positions.

Early on, places like Hong Kong and Singapore really moved first and positioned themselves as highly accommodating environments for digital assets and tokenisation. Luxembourg, as a fund domicile, has also been notably open to acting as a launchpad for tokenised funds.

In the UK, the FCA's consultation launched late last year marks a meaningful shift. It's progressive in its thinking, clearly informed by what's worked elsewhere, and notably consultative in how it's approaching market development.

That gives real grounds for optimism around the UK's direction of travel. That said, speed still matters. I'd like to see faster progress to market, particularly as funds are already launching in the US and attracting significant inflows, helped by the GENIUS Act.

# SECTION 4
# SEPARATING HYPE FROM REALITY

### Q. There's a lot of excitement right now around digital money and tokenisation, but also a risk of hype running ahead of reality. From your perspective, how should we think about hype versus true medium-term impact?

Some things clearly benefit from being on-chain, and some simply don't.

The most likely scenario is that we're heading into a long-lasting hybrid world. For at least the next 10 to 15 years, we're likely to operate in a system where some activities happen on-chain and others continue off-chain.

That has practical implications. For asset servicers, it means running parallel rails for a long time. For investors, it means making conscious design choices: do you gain enough additional utility from operating on-chain to justify the change, or do you accept today's inefficiencies as the trade-off for avoiding the new risks that come with digital assets?

That hybrid model isn't a sign that this is all hype. There is genuine momentum building. This has started with tokenised money market funds and deposits. From there, it's a short step into tokenised ETFs, tokenised private market funds, and ultimately not just tokenising the fund wrapper, but also the underlying assets themselves.

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