

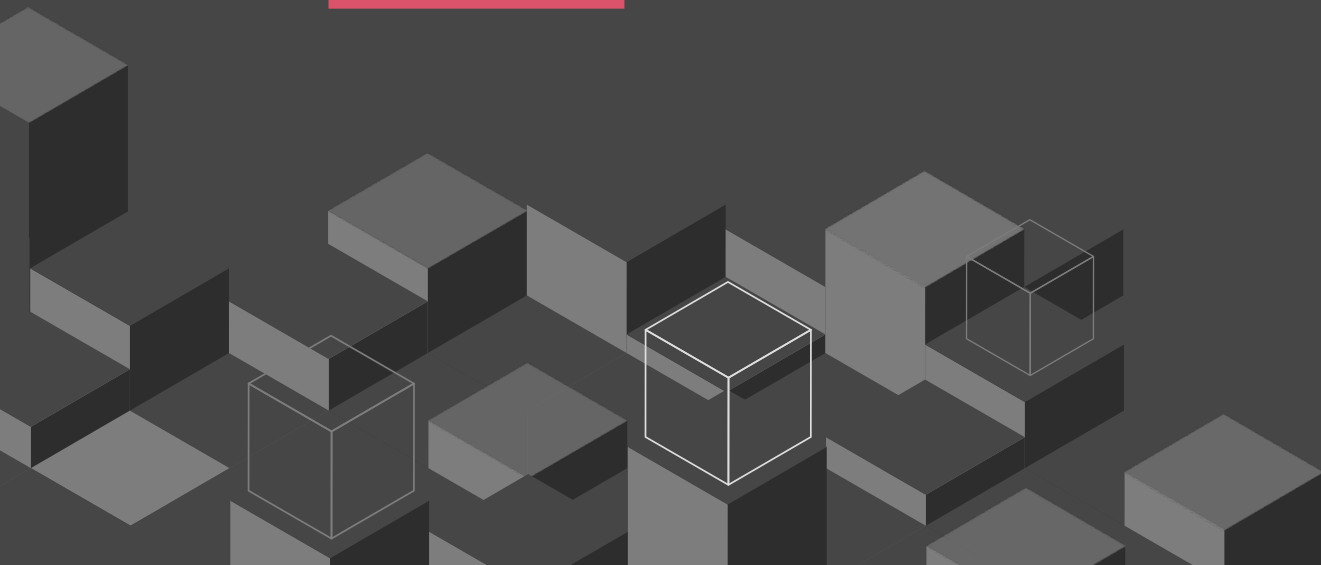
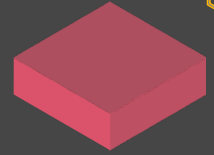
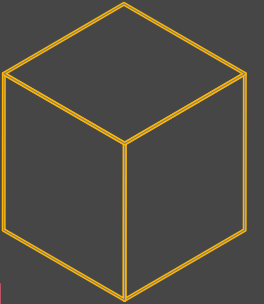
Tokenisation & retailisation

The future of finance &
the power of digital assets

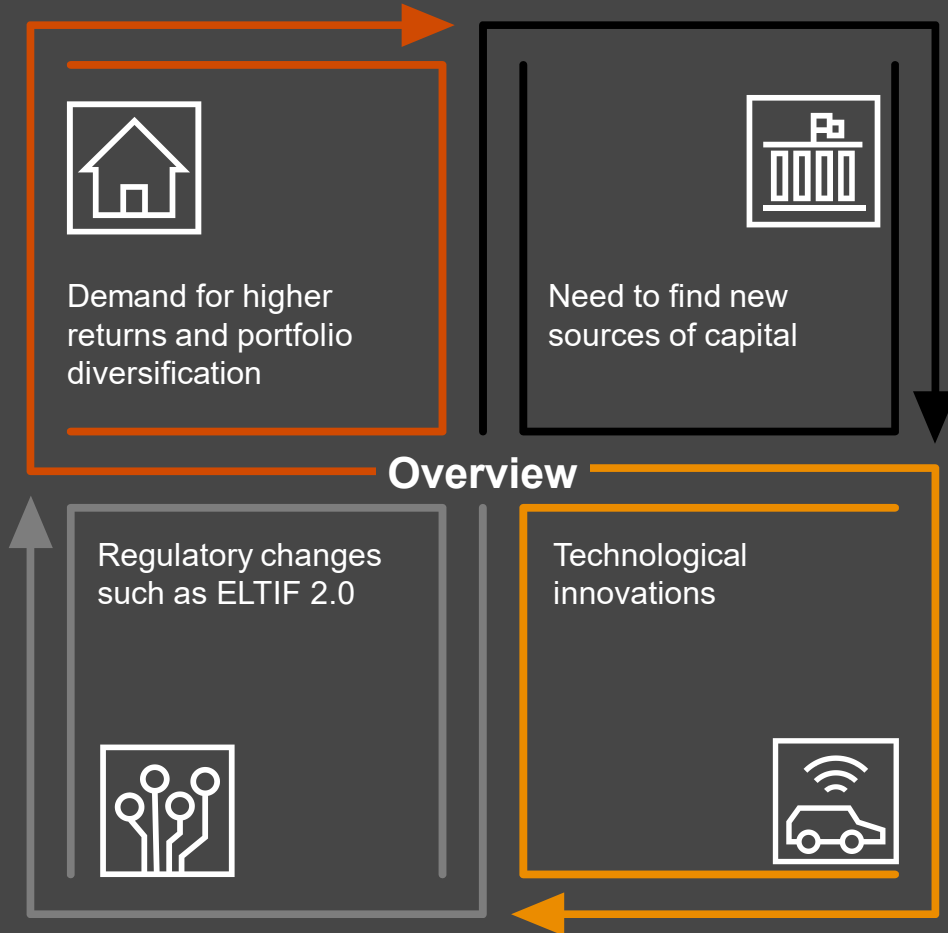


1

Retailisation - What is driving the trend?



What is driving the trend?



Over the coming years, KKR expects between 30% and 50% of fundraising to be from non-institutional investors and Apollo Global Management also aims to raise \$50bn of non-institutional capital

Retail investors are set to drive growth in private investment strategies, with global assets expected to double by 2027

Data provider Preqin forecasts global private assets under management will grow from US\$9.3 trillion at the end of 2021 to US\$18.3 trillion by the end of 2027

Future opportunities from the ELTIFs 2.0 market

Unlocking private investor participation through lighter regulation, fostering flexibility for asset managers and leveraging tax advantages across Europe are pivotal drivers for market growth.

Lighter regulation will enable private investor to get involved in the market (see growth 2021-2022 already)

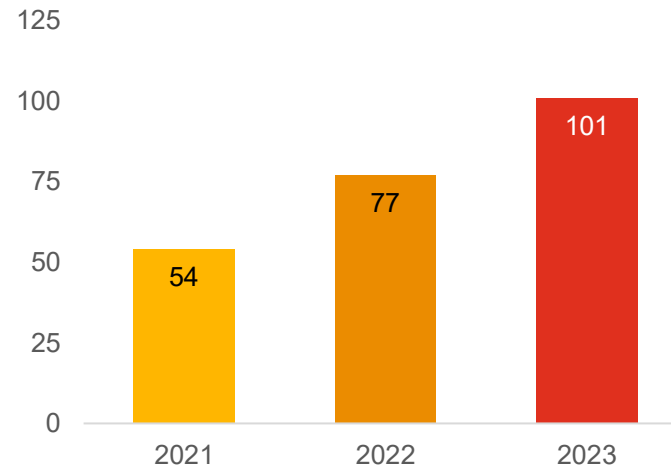
Less stringent regulation will allow asset managers to adopt more flexible strategies (pls. refer to slide 10)

Tax advantages in some European countries are (FR,IT) and will be a main driver for growth in the future.

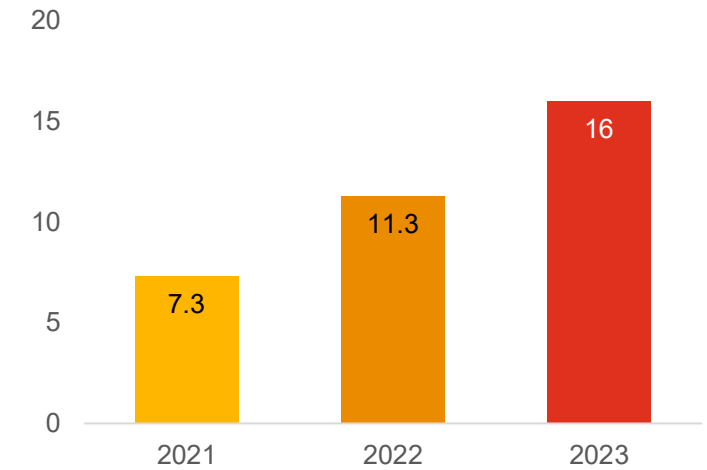
Growth of the overall market and in particular for the retail market is limited since the new regulation has been published but many ELTIFs will adopt the ELTIF 2.0 framework (5 years grace period) in the near future.

The primary reason for the delays in launching new funds targeting private investors is the prevailing uncertainty surrounding the ESMA Regulatory Technical Standards (RTS). Asset managers have opted for a cautious "wait and see" approach, anticipating regulatory decisions before proceeding with their launches. (mainly around redemptions and liquidity).

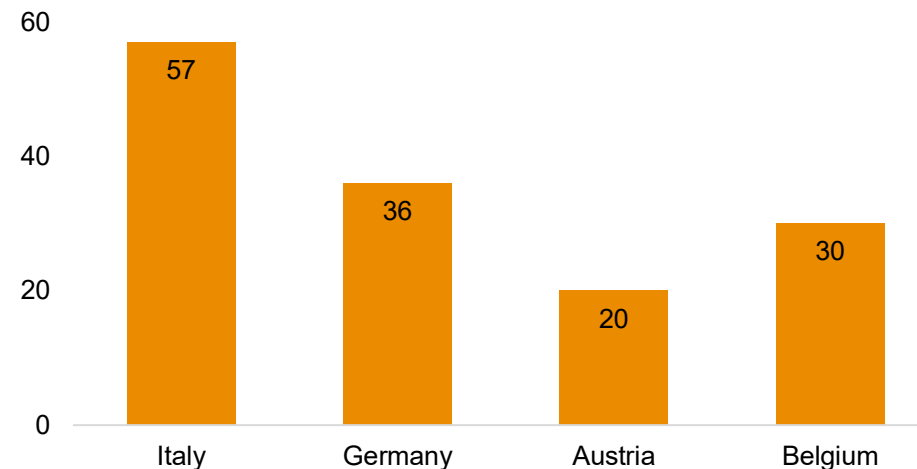
Number of ELTIFs



Market Value in Bn (EUR)



Where the ELTIFs have distributed channels active



ELTIF retail investor perspective

The **portion of eligible ELTIFs tradable by private investors has grown** in 2022 from 54% to 60%.

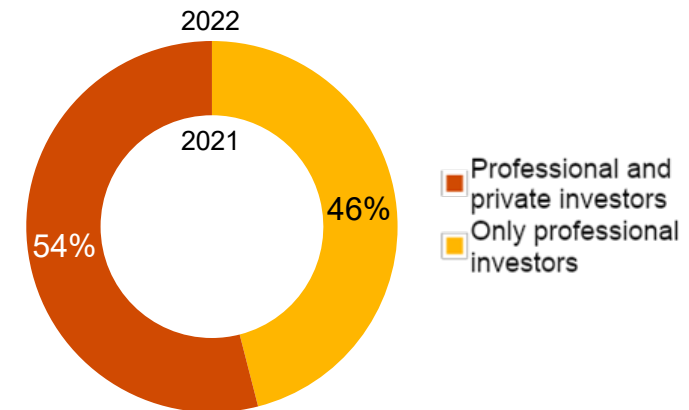
In **Italy**, the main driver are Individual Savings Plan (**PIR**) compliant products. These specific regulations enables ELTIFs compliant with the PIR provisions to grant Italian tax residents with **exemptions from capital gains tax and inheritance tax**. To benefit from this exemption the investor must, besides other rules, invest a minimum holding period of 5 years and they may not exceed a certain investment threshold.

In **Germany**, which is ranked second for the private investor market is dominated by the largest ELTIF currently registered in Europe (1,3 bn. EUR, Commerz Real's KlimaVest) which allocates for more than 2/3 of the market share. But currently no specific tax advantage available.

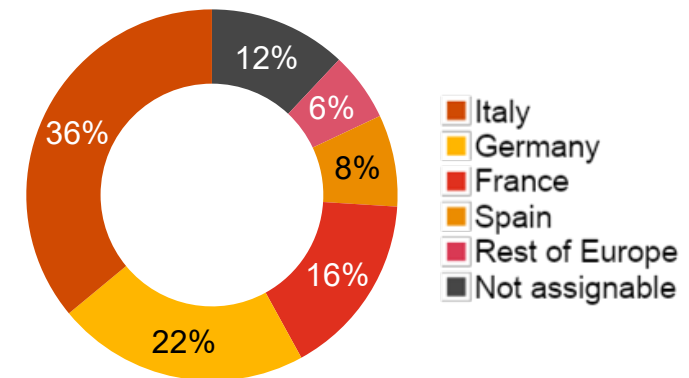
France is following on rank three. The main driver for growth is the possibility of ELTIFs to qualify for **unit-linked life insurance products**.

Luxembourg introduced a **new legislation** (as from 29. July 2023) which provides for the exemption from subscription tax for ELTIFs. This **new incentive** should increase the overall appeal for ELTIFs domiciled in Luxembourg.

Placed volume by target group



Placed volume for private investors by country



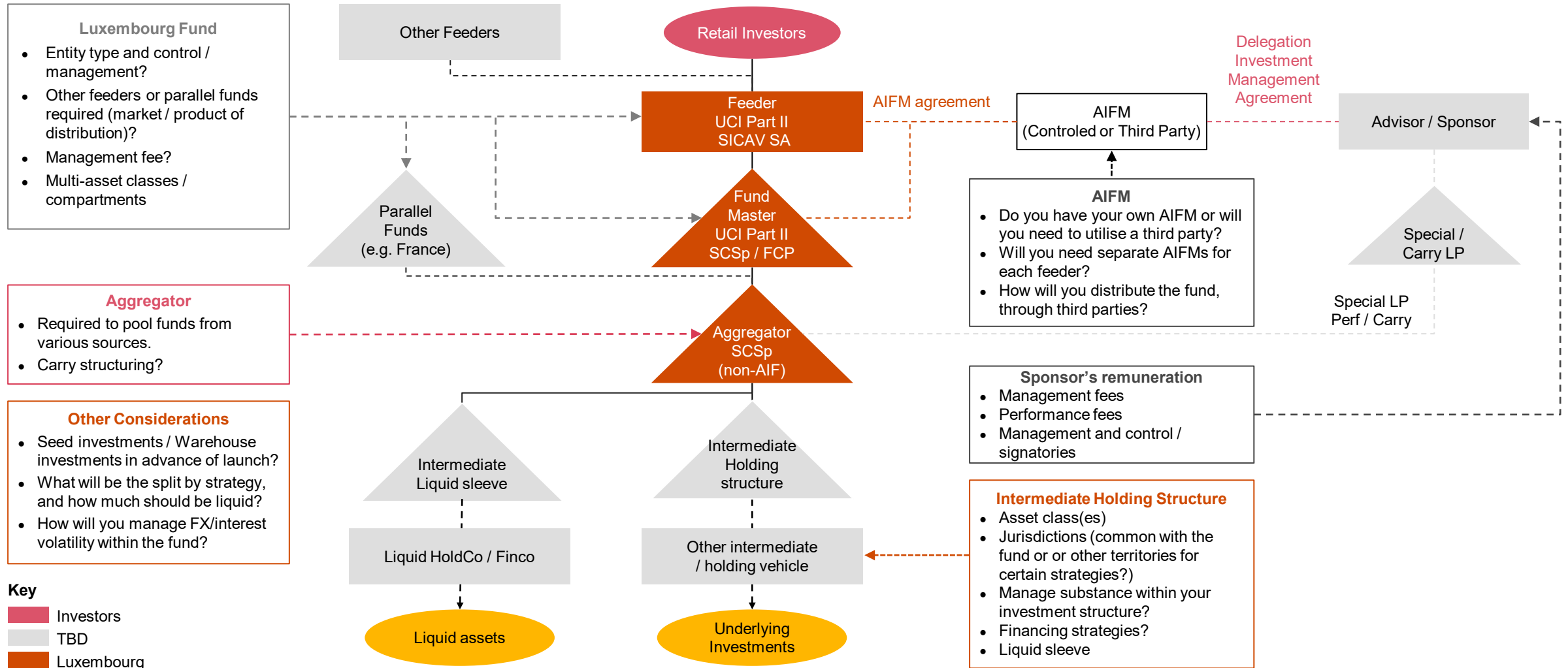
Source: European ELTIF Study Market survey and outlook, Scope fund analysis, 31-03-2023.

Options to take a private market fund to retail investors



	Access Feeder fund	New retail product
Market access	<p>Advised UHNW, HNW and affluent 250k-20m</p> <p>Potential to increase market access to advised as well as professional investors if structured as a complex product.</p>	<p>Mass retail up to 250k</p> <p>Access to mass market retail investors in chosen locations.</p>
Existing investors impact	<p>A feeder that has liquidity managed at the feeder level should not significantly negatively impact existing investors.</p>	<p>Should not impact existing investors as would be a completely separate vehicle. However a mass retail product is more likely to raise questions than a feeder.</p>
Portfolio management	<p>Portfolio management of liquidity instruments and allocation required at feeder. Some impact expected for overall liquidity.</p>	<p>Significant portfolio management required to comply with restriction necessary to comply with mass retail requirements. Significant changes to liquidity, terms and dealing.</p>
Operations (Internal and external)	<p>A new vehicle will bring additional operational requirements in relation to investor volume and portfolio allocation management.</p>	<p>Significantly operational requirements as a result of dealing frequently, volumes and regulatory compliance and reporting.</p>

Typical fund structure & key considerations



Key operational considerations

The shift towards retail comes with increasing regulatory and operational demands

Regulatory driven operational considerations

1

Consideration

- Requirement for liquidity for an illiquid product.
- Requirement to understand target market suitability of the product even when distributed through others under MiFID2.
- Rules relating to distribution costs and inducements.
- Rights to withdraw committed funds after 'cooling off' period post sale.

Potential implications

- Need for ongoing modelling of liquidity in the fund as well as associated Treasury activities.
- Holding of liquidity will reduce the return profile of the fund vs. underlying.
- Potential reputational and regulatory risk from gating the fund in the event of a large retail 'run'.
- Regulatory oversight and processes required to manage retail risks.

Increased operational demands from retail aligned processes

2

- More frequent and voluminous reporting.
- More subscriptions and redemptions.
- Movement of fees through structures.
- Higher volumes of customer queries..

- More frequent NAV calculations required.
- Reporting automation required to deal with volume and timeliness.
- Operational teams required to move money between entities at higher volumes than with institutional.
- More robust processes to deal with transfer agent for subs and redemptions, potentially a different transfer agent?
- Customer servicing operations required for queries.
- Increased cash management and treasury activities.
- Increased dealing volumes impacting on fund operations and the fund administrator.

Investor tax reporting available to retail investors

Depending on the type of Investors, the Structure, Domicile and Distribution of your fund, you should consider investor tax reporting.

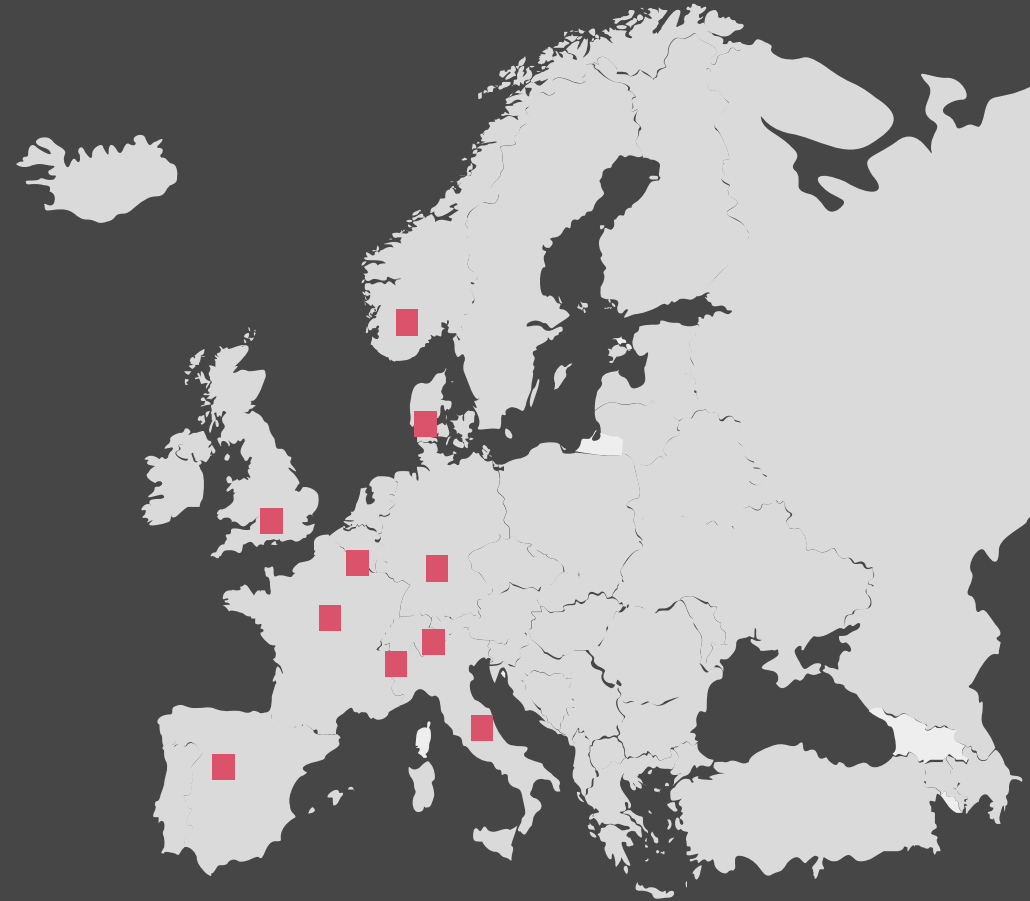
Unless specific tax reporting rules are defined and summarised, investments in funds are treated as any other transferable securities. Income and capital gains are taxed in the hands of the investors, based on local rules of the country of residence as any other transferable security.

Practically, this means that investors are taxed in the majority of countries on a cash flow basis, i.e. dividend distributions, fund redemptions or liquidations.

Nevertheless there are specific **tax regimes** in certain countries of Europe. Those tax regimes will **have different levels of complexity and requirements** (tax representatives, tax registration, daily, periodic or year-end reporting, etc.).

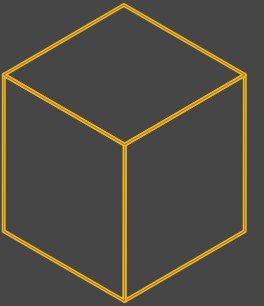
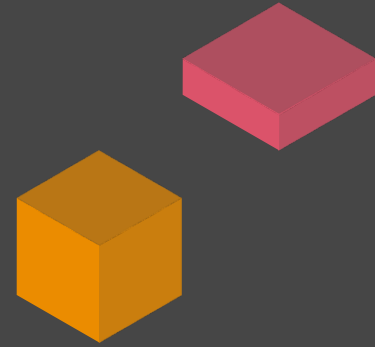
These **regimes are optional** but **offer tax optimisation to investors**.

In most countries, meeting the reporting requirements is seen as a **key success factor for distribution**.



2

Tokenisation of funds



Digital assets will transform the FS landscape



100%

of global FIs intend to use digital assets, such as digital or tokenised securities or commodities. 91% have already done so.*

80%

of global FIs are creating specialised teams focused on digital assets.*

~\$4tn

Tokenization could reach to up to \$4 trillion in value by 2030.**

*GDF survey April 2024, based on interviews with 100 global financial institutions.

**CitiBank research, April 2023, most industry predictions range between \$2-5tn.

The pace and demand for tokenisation will only accelerate

2022



BNY MELLON

Forms Digital Asset Unit for tokenization product building



Design token-based FX settlement approach for retail use cases



Launches research into the digital asset space for tokenization

2023



Implements a tokenization based investment platform



Abrdn issues a tokenised fund with Archax



Develops Blockchain-based Deposit Token



Launches Token Services for blockchain based cash management and trade services

2024

BlackRock.

Launches its first tokenised fund on Ethereum blockchain



Launches Project Agorá to test tokenised deposits for cross-border transfers



Allows peer to peer transaction of its tokenised fund, as well as purchases with stablecoins



Integrated Digital Assets Platform to serve the Group

Blockchain, digital assets and tokenisation



What is blockchain?	Digital assets	Tokenisation
<ul style="list-style-type: none">• Decentralised database where copies of the data are stored on multiple devices. This makes them very secure.• Instead of finding and changing data, the system continuously adds new blocks whilst past records remain unchanged - this makes data immutable.• New blocks are added on a consensus basis – if all parties agree on the state of the blockchain based on pre-set rules. This common source of truth allows parties to interact and transact with each other without needing to trust one another - i.e they are trustless.	<ul style="list-style-type: none">• Digital assets are digital representations of value that are created, or minted, when new information is added to a particular blockchain.• Through smart contracts, users can exchange existing digital assets and/or create (mint) new ones or delete (burn) assets that are no longer represented on the ledger.• Digital assets can exist natively (e.g. crypto currency) on a blockchain, or can be a digital representation of a real world asset (e.g. a fund unit or a security) or a right.	<ul style="list-style-type: none">• Tokens are a representation of something (in fact can represent anything) on a blockchain.• Tokens can take many forms, and can be programmed with unique characteristics that expand their use cases.• Tokens can be representations of value (e.g. digital assets), can be unique (e.g. Non-Fungible tokens (NFT) or can also represent packages of data or even be unique and non-transferable (e.g. Soul bound tokens) to represent things like identity or achievements.

Why is tokenisation exciting?



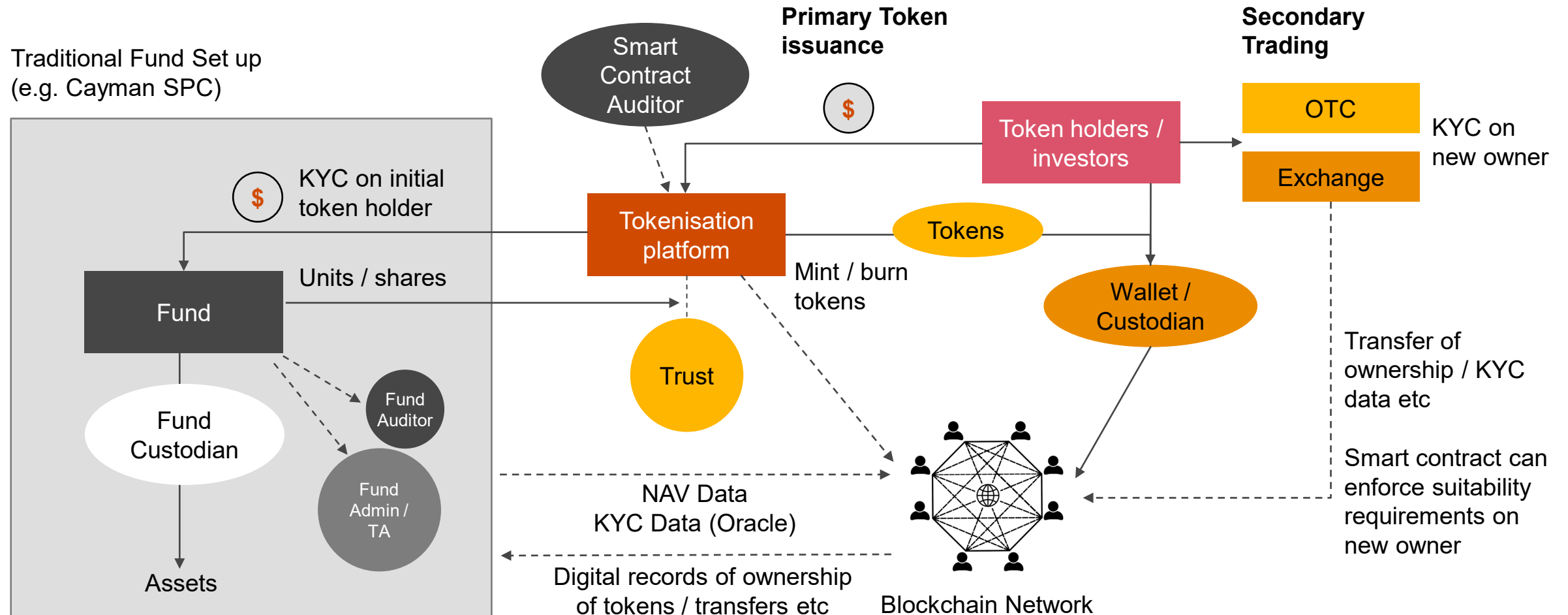
Digital transfer of value	Faster Settlement	Data, payment & asset integration
<ul style="list-style-type: none">• The reduction of friction increases speed of asset transfer and can lower transaction costs.• Fractionalisation can unlock liquidity in previously illiquid assets, making investment opportunities more accessible• Allows cross border transfers of assets more easily• Very flexible so you can attach any rights you want to a token (i.e. multi-share class)	<ul style="list-style-type: none">• Near-instant settlement enhances clearing and settlement processes, boosting efficiency• Trustless DVP can reduce credit risk and allow parties to financially interact without need for intermediaries	<ul style="list-style-type: none">• Data, payment and assets can all be stored and interacted with on the same system increasing efficiency• Smart contract capabilities can make assets programmable• Data that is stored on blockchain is immutable. This can be very useful (e.g. you can see all prior owners of an asset)

◆ ————— ◆ **Increased trust and transparency** ◆ ————— ◆

Looking to the future



How do you actually create a token of a fund today?



The spectrum of tokenisation



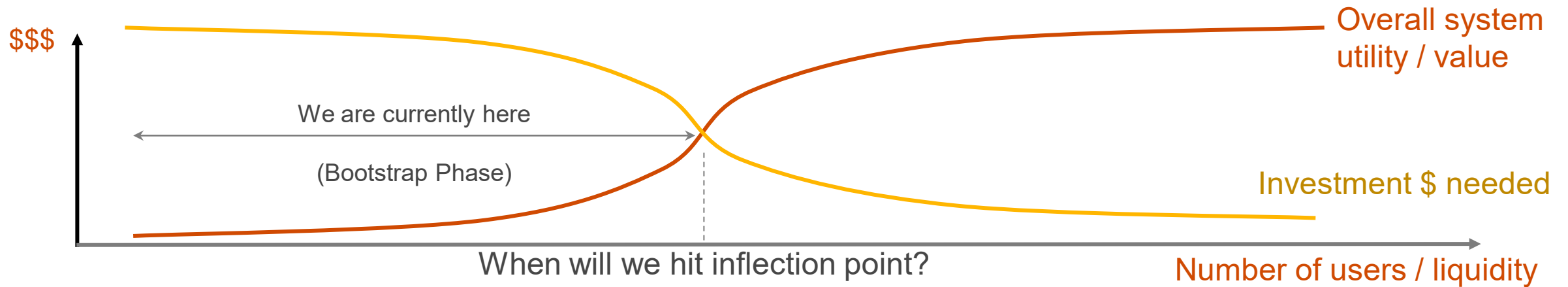
		Offchain Conventional	>>>	Hybrid Digitally Enabled	>>>	Onchain Digitally Native
		Model 1	Model 2	Model 3	Model 4	Model 5
		Status Quo	Onchain Representation	Onchain Integration	Onchain Enforcement	Fully Onchain
Ownership		Assets are represented and enforced offchain	Assets are represented onchain but enforced offchain	Assets are represented onchain but enforced offchain	Assets are represented and enforced onchain	Assets are digitally native and enforced onchain
Value Transfer		Value is exchanged between counterparties offchain	Value is exchanged between counterparties offchain	Value is exchanged between counterparties using both offchain and onchain means	Value is exchanged between counterparties using both offchain and onchain means	Value is exchanged between counterparties onchain

Source: RWA.xyz

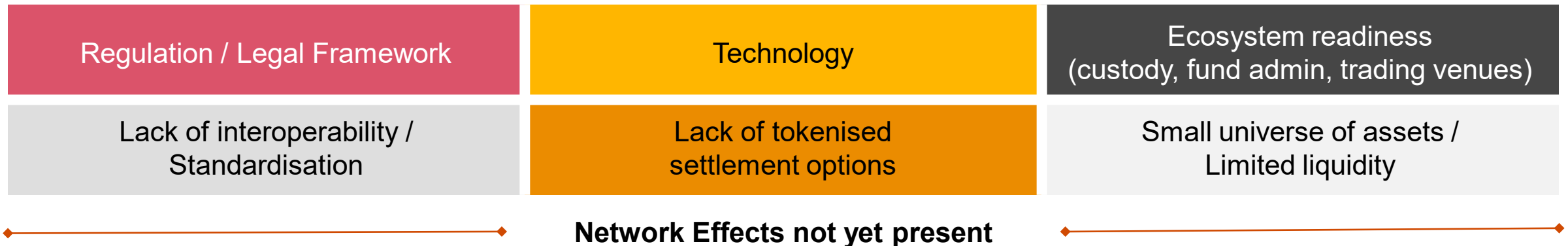
Thinking back a few years



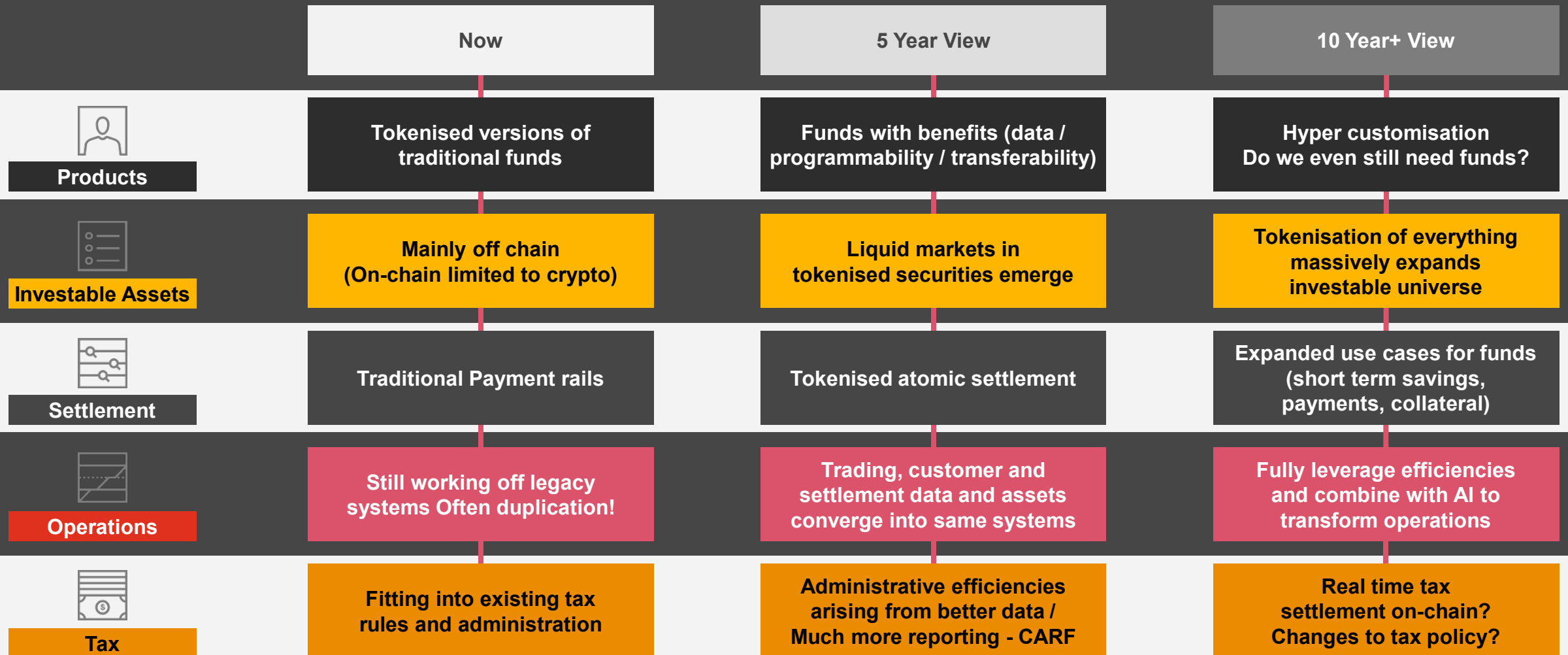
What has to happen for tokenisation of real assets to merge?



Source: Graph adapted from a16z Crypto — Web3 Playbook [link](#)



What's happening now and in the future



What does tokenisation mean for tax?



Direct Tax

How are tokens taxed?
Are they a new type of asset or should treatment mirror the underlying asset that they represent (e.g. are returns from tokenised equity taxed as dividends?)



Indirect Tax

Tokenisation can create financial type markets for assets that are not securities.
How will financial services exemptions be applied to token economies and to new market participants



Tax Reporting

Crypto asset tax reporting (CARF) is coming soon
CRS is also being updated to cover e-money (e.g. stablecoins / CBDC)
Potential for efficiency in tax compliance and reporting on investments (e.g. complete visibility on underlying portfolio for partnership returns)



Tax Administration

Immutability, transparency and data - combined with AI should give tax authorities deep insight
Will tax authorities start to accept direct tokenised tax payments (e.g. withholding)? What might be efficiency benefits of this be?
How do we make sure that tax compliance systems can leverage efficiency of onchain data



Tax Policy

Tax laws will need to be updated as the new economy develops
In a world of real time data availability and transparency will governments also want real-time tax?



Thank you

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