

Blockchain-Transferred Funds Bring Traditional Investments “On Chain”

February 28, 2022

The evolution of investment funds happens slowly—sometimes at a glacial pace. While U.S. securities laws and regulations that apply to investment funds are time-tested, they were written decades ago and do not take into account the market structure and technology of today. And while technology innovation often changes how we invest and trade, until recently, it has rarely shifted *what* we trade.

Investment Funds in a Digital Asset World

Coalition Greenwich recently conducted wide-ranging research examining how blockchain technology has the potential to create disruption and challenge assumptions in the global capital markets industry. We examined both the evolving market structure for trading crypto assets and how blockchain technology can help to transform the traditional finance (TradFi) market.

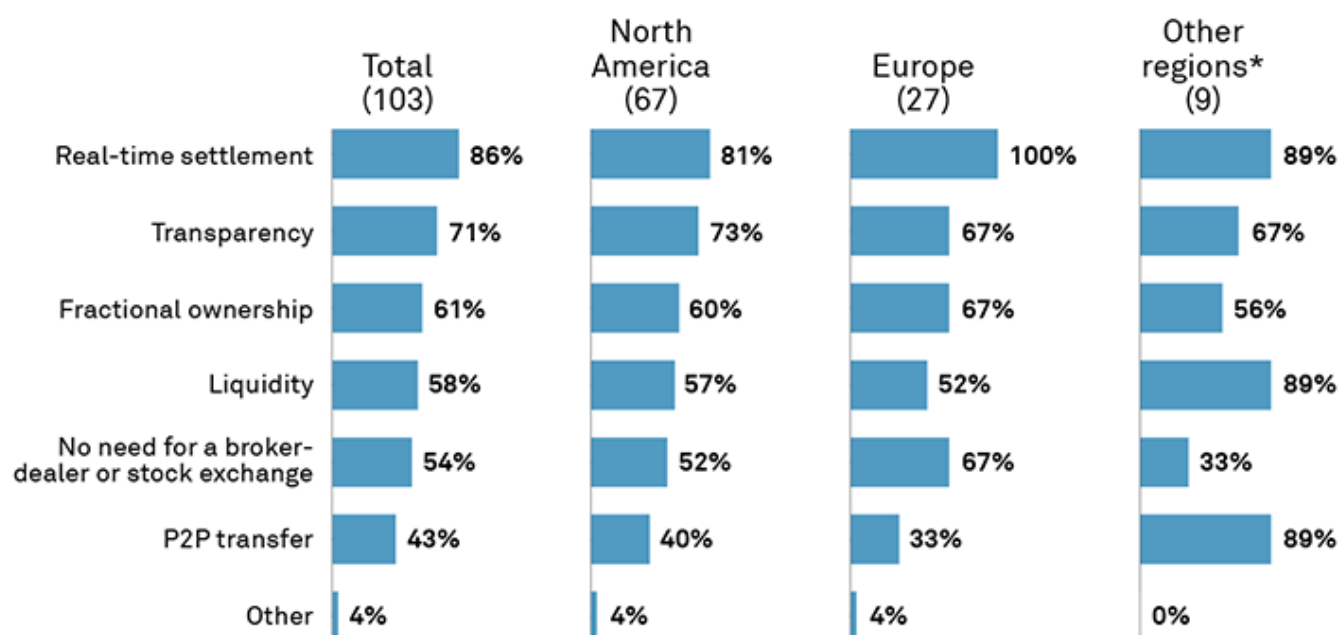
From our research and conversations with market participants, it has become increasingly clear that greater regulatory certainty is needed before traditional investors can further embrace the digital asset ecosystem. Tokenized investment products, including investment funds and other pooled investment vehicles created under the Investment Company Act of 1940 ('40 Act) are a step toward greater institutional adoption of blockchain technology. The first iteration of a pooled investment vehicle combining blockchain technology with regulatory clarity is the blockchain-transferred fund (BTF).

BTFs Challenge ETFs

Today's investment structures were designed in a different technological, legal and cultural context. While exchange-traded funds (ETFs) are almost 30 years old and still growing their asset base, digitization is starting to introduce competition to existing fund structures. For the investment fund industry, blockchain technology has now fully arrived on the scene, with real, tangible benefits for investment funds—including real-time settlement and an immutable, transparent, distributed ledger.

Key Benefits of Blockchain-Based Settlement for Digital Securities

By Region



Note: Numbers in parentheses represent number of respondents. *Other regions are mostly Asia-Pacific.
Source: Coalition Greenwich 2021 Digital Asset Securities Study

Beginning in 2020 investment vehicles built atop blockchain technology set out to challenge the assumption that, for many investors, ETFs will remain the preeminent investment vehicle of choice over the next decade. ETFs were originally designed to address some of the flaws of mutual funds and offer low-cost investment opportunities to retail and institutional investors alike. But the rise of blockchain, 24/7/365 markets and broader digitization efforts offers a new approach.

Benefits of BTFs

The BTF is defined as a Securities & Exchange Commission (SEC)-registered investment fund that is both natively issued and transferred entirely through a blockchain. The Arca U.S. Treasury Fund, and the fund's digital asset security shares called ArCoins, is a prime example.

Put simply, BTFs are investment vehicles that are natively created on the blockchain and registered with the SEC as '40 Act funds—combining regulatory certainty with innovative technology.

Blockchain Transferred Funds



The next evolution of '40 Act products



Source: Arca Lab

Like the ETF before it, the BTF offers improvements over the existing fund structures available. For instance, blockchain-based settlement offers new efficiency in fund administration, transparency and other benefits for a variety of participants, including fund issuers, service providers, intermediaries, and investors. In fact, among respondents to our research study, 67% of digital-asset-savvy market participants agree that efficiency in fund administration is the top benefit of tokenized funds.

The BTF in Practice

You may be wondering how this all works in practice. Let's say an investor purchases shares in the Arca U.S. Treasury Fund, whose mandate is to invest at least 80% of its assets in U.S. Treasury bills, bonds and notes. ArCoin (a digital asset security) is a share of that fund, and the net asset value (NAV) of ArCoin varies with the value of the fund's portfolio of securities. Since the fund is registered under the '40 Act, an investor will receive mandatory reporting, including audited financials, semiannual reports, trade confirmations, and monthly statements, a daily NAV, and regulatory filings. So, the token tracks the fund's NAV, which is tied to a portfolio of U.S. Treasury securities.

While ETFs have become ubiquitous in modern investment portfolios, the potential for BTFs to challenge ETFs cannot be ignored in the long run, as the BTF structure offers a powerful combination of technology innovation built atop regulatory clarity. And while adoption thus far is limited at this early stage, positive market sentiment continues to grow.

Moreover, as an ecosystem around BTF participants emerges, other second-order networking benefits are also present in areas such as collateral management, compliance and stablecoin alternatives. These are certainly exciting times for regulated products and innovative technologies to team up.

Further Reading

For more information on the Arca Labs report on BTFs, for which we were a contributing author, please see [here](#).

Anyone also interested in the structure of digital assets and the growing intuitional interest in ETFs and products in the space, please read our recent [report](#) **Digital Asset Market Structure: Institutions Take the Reins**.

www.greenwich.com | ContactUs@greenwich.com

Coalition Greenwich, a division of CRISIL, an S&P Global Company, is a leading global provider of strategic benchmarking, analytics and insights to the financial services industry.

We specialize in providing unique, high-value and actionable information to help our clients improve their business performance.

Our suite of analytics and insights encompass all key performance metrics and drivers: market share, revenue performance, client relationship share and quality, operational excellence, return on equity, behavioral drivers, and industry evolution.

About CRISIL

CRISIL is a leading, agile and innovative global analytics company driven by its mission of making markets function better. It is majority owned by S&P Global Inc., a leading provider of transparent and independent ratings, benchmarks, analytics, and data to the capital and commodity markets worldwide.

CRISIL is India's foremost provider of ratings, data, research, analytics, and solutions with a strong record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights and efficient solutions to over 100,000 customers through businesses that operate from India, the U.S., the U.K., Argentina, Poland, China, Hong Kong, and Singapore.

For more information, visit www.crisil.com

Disclaimer and Copyright

This Document is prepared by Crisil Coalition Greenwich, which is a part of Crisil Ltd, a company of S&P Global. All rights reserved. This Document may contain analysis of commercial data relating to revenues, productivity and headcount of financial services organisations (together with any other commercial information set out in the Document). The Document may also include statements, estimates and projections with respect to the anticipated future performance of certain companies and as to the market for those companies' products and services.

The Document does not constitute (or purport to constitute) an accurate or complete representation of past or

future activities of the businesses or companies considered in it but rather is designed to only highlight the trends. This Document is not (and does not purport to be) a comprehensive Document on the financial state of any business or company. The Document represents the views of Crisil Coalition Greenwich as on the date of the Document and Crisil Coalition Greenwich has no obligation to update or change it in the light of new or additional information or changed circumstances after submission of the Document.

This Document is not (and does not purport to be) a credit assessment or investment advice and should not form basis of any lending, investment or credit decision. This Document does not constitute nor form part of an offer or invitation to subscribe for, underwrite or purchase securities in any company. Nor should this Document, or any part of it, form the basis to be relied upon in any way in connection with any contract relating to any securities. The Document is not an investment analysis or research and is not subject to regulatory or legal obligations on the production of, or content of, investment analysis or research.

The data contained in the Document is based upon a particular bank's scope, which reflects a bank's data submission, business structure, and sales revenue Reporting methodology. As a result, any data contained in the Document may not be directly comparable to data presented to another bank. For franchise benchmarking, Crisil Coalition Greenwich has implemented equal ranking logic on aggregate results i.e., when sales revenues are within 5% of at least one competitor ahead, a tie is shown and designated by = (where actual ranks are shown). Entity level data has no equal ranking logic implemented and therefore, on occasion, the differences between rank bands can be very close mathematically.

The data in this Document may reflect the views reported to Crisil Coalition Greenwich by the research participants. Interviewees may be asked about their use of and demand for financial products and services and about investment practices in relevant financial markets. Crisil Coalition Greenwich compiles the data received, conducts statistical analysis and reviews for presentation purposes to produce the final results.

THE DOCUMENT IS COMPILED FROM SOURCES CRISIL COALITION GREENWICH BELIEVES TO BE RELIABLE. CRISIL COALITION GREENWICH DISCLAIMS ALL REPRESENTATIONS OR WARRANTIES, EXPRESSED OR IMPLIED, WITH RESPECT TO THIS DOCUMENT, INCLUDING AS TO THE VALIDITY, ACCURACY, REASONABLENESS OR COMPLETENESS OF THE INFORMATION, STATEMENTS, ASSESSMENTS, ESTIMATES AND PROJECTIONS, ANY WARRANTIES OF MERCHANTABILITY OR FITNESS FOR A PARTICULAR PURPOSE ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT. CRISIL COALITION GREENWICH ACCEPTS NO LIABILITY WHATSOEVER FOR ANY DIRECT, INDIRECT OR CONSEQUENTIAL LOSS OR DAMAGE OF ANY KIND ARISING OUT OF THE USE OF ALL OR ANY OF THIS DOCUMENT.

Crisil Coalition Greenwich is a part of Crisil Ltd., an S&P Global company. ©2025 Crisil Ltd. All rights reserved.