STUDENT CHAPTER
Geneva

WEBINAR SUMMARY

«***TOKENIZATION… or how to disrupt the financial industry 101***»

1st AVRIL 2021

Arnaud Salomon

Founder and CEO Mt Pelerin

How did the fintech Mt Pelerin get started ?

- Collaboration with the CMTA in order to integrate the shares of Mt Pelerin in tokens
- Emission of the prospectus to sell the shares to the public via tokens
- Aim to facilitate the management of the shares on voting rights, dividends, etc.

Arnaud Salomon

Founder and CEO Mt Pelerin

What is the difference between token and cryptocurrency?

- Cryptocurrency: native digital asset class of the blockchain, within an open network free to join, and thus without a central issuing authority
- Token: new digital asset class issued by an organization on top of an existing blockchain; software protocols (smart contracts) can outline the functions of the token; they can represent tangible assets such as real estate

Arnaud Salomon

Founder and CEO Mt Pelerin

How does Mt Pelerin use the technology of tokenization?

- Open market for selling shares via blockchain
- Identification of authentic share holders, thus more transparency on cash flows (e.g.: dividends)
- Visualization of the balance sheet in real time
- Help overcome the problem of illiquid assets
- Integration of rights into tokens (e.g.: signatures or voting rights)

Jacques Iffland

Partner Lenz & Staehelin, Chairman CMTA

How do companies raise money traditionally ?

- Selling shares on the primary market while investors can overcome the liquidity risk by selling said shares on the secondary market
- Originally through the exchange of certificated shares on the secondary market—i.e. "pieces of paper" complicating the tracking of shareholders as is *inter alia* necessary to properly pay dividends
- Today, Banks kept track of the ownership changes in the following way
  - Essentially resorting to intermediated securities where certificated or uncertificated securities are accepted, respectively registered, by a central custodian. Such securities are transferred by mean of accounting entries on behalf of the concerned account holders. No need to transfer the physical possession of the certificated securities.
  - This process is governed by the Federal Intermediated Securities Act (art. 24 LTI) of 3 October 2008.

Jacques Iffland

Partner Lenz & Staehelin, Chairman CMTA

How do companies raise money through tokenization? (1)

- Shares of the company are associated to tokens on a blockchain (or any other *distributed ledger technology - DLT*) where the transfer of such tokens results in the transfer of the corresponding uncertificated securities, while the latter cannot be transferred without the transfer of the corresponding token
- Problem: the law used to require written assignment for the transfer (art. 973*c* al. 4 CO), unless there is consent of all parties
- Solution:
  - The issuer consents to transfers of its tokenized shares by transfer of the corresponding tokens, without written assignment
  - The original acquirer agrees explicitly to this process
  - Through the acquisition of a token on the blockchain, subsequent acquirers agree implicitly to this process

Jacques Iffland

Partner Lenz & Staehelin, Chairman CMTA

How do companies raise money through tokenization? (2)

- Since the entry into force of part of the DLT bill on 1 February 2021, introduction of ledger-based securities, registered in a securities ledger (i.e. on a blockchain), and which may exercised and transferred to others only via this securities ledger (Art. 973d CO)

Questions

Is the risk of abusing the tokenization technology equivalent to the risks in cryptocurrencies?

- The risk is equivalent. We ask the question of risk in this context, because there exists no financial intermediary on the token and crypto market. In the future such an intermediary might be created
- The tokenization requires an adjustment of the money laundering regulations, since distributed ledgers technologies are very efficient in tracking transactions

What is the responsibility of the issuer if the shareholder is hacked and loses the token?

- Since the good faith acquisition of third parties is protected, the issuer should not create a new token/certificate for the hacked person (risk of paying twice)
- The hacked person can ask a Court to make a publication on the property of the token and if no one manifests as owner within the deadline, the issuer is ordered to create a new token/certificate

Take-away message to students

- Tokenization technology is the future of capital markets: it makes raising money easier for companies, creates employment, boosts the economic output
- Students need to show interest since this technology will create a high number of employment in the legal industry

- The technology is not yet mature
- In order to understand the tokenization, the panelists propose to students to focus on in-field experiences: buy CHF 50 worth of tokens and play around in order to get comfortable with using the technology and to gain the perspective of the end-user (who will be the lawyer’s future client)