

## Digital Asset Forum | Briefing Note

# Addressing liquidity and market infrastructure

June 2024

*The Digital Asset Forum is a senior-level global network of financial institutions that meets periodically to discuss developments in digital assets and perspectives on enterprise-level implications for technology, business, and strategy. The IIF convenes the Digital Asset Forum with our knowledge partner, the Oliver Wyman Forum. This briefing note summarizes the discussion held on June 6, 2024 respecting that the forum is conducted under the Chatham House Rule and does not represent the official position of the IIF or its membership.*

### **Industry may want to be careful that needed incremental changes to market infrastructure do not take the place of transformative innovation projects**

There will always be gaps in infrastructure needs that require incremental upgrades, as well as the potential for long-run innovation. In digital assets, some industry participants may be replicating existing infrastructure with new technology, perhaps without giving optimal focus to transformative opportunities to achieve a step improvement in that infrastructure or establish entirely new, more efficient processes. For example, do projects focused on clearing need to largely replicate clearinghouses, or should we think bigger?

### **Digital assets are at the stage of adoption where industry collaboration is necessary**

Multiple actors are needed to build a functioning digital asset ecosystem. Common standards and collaborative infrastructure can enable more parties to enter the ecosystem, while also helping to improve liquidity and reduce concentration. The new combination of roles enabled by atomic settlement can also enable the separation of financial and operational risks, unlocking new types of services. Initiatives like Project Agorá and mBridge are two of the collaborative efforts of various countries and institutions applying tokenization technology to the cross-border payment ecosystem. This focus on improving cross-border payments in technologically sophisticated ways underscores the global need for efficient, interoperable systems and the potential for digital assets. Fragmentation remains a risk, partly due to jurisdictional differences.

### **The concentration of liquidity in Decentralized Finance (DeFi) is surprising but hard to compare to Traditional Finance (TradFi)**

The OECD paper “Concentration of DeFi’s Liquidity” highlighted the existence of significant concentration of liquidity providers in early-stage protocol pools. This concentration risk is one element of potential liquidity issues present in DeFi markets, though experiments within payments, collateral, and settlement products that tackle this challenge are underway. As traditional services move on chain, some of the noted liquidity issues may be replicated, but comparable measurements are difficult to come by. Market participants may also consider other forms of concentration, like governance token holdings and miner concentrations. Market quality rather than concentration metrics may ultimately be the most important consideration.

### **The political landscape surrounding digital assets is changing**

Recent legislative moves in the U.S. and elsewhere highlight the evolving debate around the appropriate regulatory approach to digital assets. New policymakers empowered in elections this year may alter the regulatory and political landscape. Industry participants will need to navigate these shifting dynamics while pressing ahead with ongoing initiatives of strategic importance to the financial industry.