Tokenized Real-World Assets Have Gone Mainstream — Is Your Business Ready?
Sam Gandhi, Lilya Tessler, and David Stewart
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Sam Gandhi:
A brave new world of investing is now open for business and with it a new way to conceive a property. Tokenized real-world assets have gone mainstream. More financial institutions are racing to tokenize everything from U.S. Treasuries, to art, to real estate, converting these assets into digital form and storing them on blockchains so they can easily be traded in new marketplaces. But the breakneck pace has fueled concern over compliance with existing laws as Congress, regulators, and investors struggle to harness both the potential and the risk of the technology.

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Sam Gandhi:
That's Lilya Tessler who leads Sidley's FinTech and Blockchain group.

David Stewart:
We see in the U.S., almost in spite of a lack of regulation, there's almost a fairly typical American attitude of asking for forgiveness instead of permission. So, we've seen a lot of activity over the last five years of people raising capital, doing things, and the expectation that the law would catch up, and now we finally do see the law catching up.

Sam Gandhi:
And that's David Stewart, a partner in the firm's Capital Markets practice based in London. What's in store for the tokenization of real-world assets? Will new legislation assuage concerns or hinder widespread adoption? Has Europe surpassed the U.S. in regulating tokenization effectively? And what

role does artificial intelligence (AI) play with digital assets? We'll find out in today's podcast.

From the international law firm Sidley Austin, this is *The Sidley Podcast*, where we tackle cutting-edge issues in the law and put them in perspective for business people today. I'm Sam Gandhi.

Hello and welcome to this edition of *The Sidley Podcast*. Lilya and David, great to welcome you to episode 48 of the podcast.

Lilya Tessler:
Hi, Sam. Thank you so much for having me here today.

David Stewart:
Yep. Hi, guys, great to be here.

Sam Gandhi:
The so-called tokenization revolution is accelerating and Congress just enacted the GENIUS Act, which provides the first federal framework for digital assets, specifically stablecoins, and the House passed the CLARITY Act, which aims to clarify when digital assets are regulated securities and when they are not.

According to *Forbes*, the total market value of tokenized real-world assets on public blockchains has surged to nearly US$18 billion. Lilya, walk us through the current landscape. What are tokenized real-world assets? What's the benefit of their adoption and what's driving this sudden surge in tokenization?

Lilya Tessler:
Well, Sam, it's really pretty simple. Tokenization of real-world assets is the process of digitally recording when representing an asset as a token on any type of blockchain or distributed ledger technology. It's an alternative recordkeeping mechanism. So, unlike records used to be kept on paper and then we went to a digital centralized form of recordkeeping many years ago, now the same ledgers are being recorded in a tokenized blockchain format. It's effectively a different recordkeeping mechanism.

The real benefit of this technology is what you can do with the assets and tokenized assets once they are on blockchain technology. And a few of the real benefits that we're seeing discussed in the industry, one is efficiency. Being able to tokenize assets allows for automation of certain processes, whether it's in a securities market allowing for close to instantaneous settlement of transactions, or payment of dividends, or other distributions that are typically associated with certain transactions that are affected through a blockchain, or payments like we'll discuss stablecoins, being able to pay for transactions immediately in stablecoins on-chains all creates a level of efficiency in different types of markets.

Also a few other benefits are allowing for reducing risks, so transferring certain assets on a blockchain allows you to conduct anti-money laundering (AML), know your customer (KYC), tracing and tracking the movement of certain assets on-chain across different blockchains through different intermediaries. The level of transparency that blockchain creates is often overlooked, is really important and significant here.

Another area is providing enhanced liquidity for often illiquid assets. So, some of the common tokenized real-world, asset-use cases we're seeing is tokenizing real estate, tokenizing art, physical assets on-chain, allowing for transfer of those assets provides a level of liquidity that you wouldn't effectively have when the asset is in physical form and harder to transfer or create that liquidity.

The same holds true for privately placed securities where there's not liquidity in certain markets, but once you tokenize and create digital marketplaces around some of these assets, there are certain efficiencies that are created associated with that.

Sam Gandhi:
Aren't we kind of already in a digital world when it comes to securities? I mean, I haven't seen a physical security that I've invested in for years, or if ever. So, what's the difference now between what we've got in the system already for the average person who invests in securities and what people want now?

Lilya Tessler:
So, certainly a lot of securities are digital, but they're digital in that they're recorded in different centralized databases among different intermediaries. Some might issue or may hold a privately placed security ledger for its holders. There may be different types of ledgers that exist for broker-dealers, clearing agencies, transfer agencies, transfer agents, and the reconciliation, the movement of those securities across the different intermediaries requires a lot of reconciliation across these different ledgers.

What blockchain technology allows, assuming every, the entire trade flow is on-chain, allows for instantaneous movement across various regulated intermediaries or ultimately there is a subset of the market that wants to hold their own security in their own wallet on-chain directly and bifurcate the intermediaries that exist currently in securities markets. Security intermediaries won't disappear in the marketplace, but there will be different ways that different market participants can interact with their securities holdings by leveraging some of the benefits of this technology.

I would say a few other ones to mention are programmability and the ability to program these assets once they're on-chain. So, let's say a tokenized security is on-chain, or another tokenized asset is on-chain, you can then easily create using smart contracts other transactions with that asset. So, posting a tokenized asset as collateral for another type of financial transaction would also allow for transparency for the ultimate holder of that secondary transaction to see what collateral is posted, being able to lock that collateral on-chain, so that underling holder isn't able to transfer those assets elsewhere or post them as collateral across different transactions.

So, there's a lot of benefits with the integration of blockchain technology and the programmability of smart contracts for some of these assets, as well. So, in terms of reflection point, at least from a U.S. perspective, is we are seeing a much more open regulatory environment where market participants can bring some of these products to market, engage actively with U.S. regulators, specifically the SEC has opened its door with the launch of the SEC Crypto Task Force to engage and get clarity and more rulemaking to allow for tokenization of securities markets, market structure issues.

That has been a huge impediment over the last several years to allow for the growth and adoption of this technology, at least in the U.S. marketplace, and really the door is open now for a lot of these assets. We're seeing guidance, even informal guidance, from the SEC and various divisions on how to allow for stablecoin transactions, how to allow for certain on-chain technology functions, such as proof-of-work or proof-of-stake, technology functions that are not security transactions.

So, there's a lot of guidance coming out. The door is open for further clarification, relief, exemptive relief, and then ultimately formal rulemaking in the U.S., which I think is what's shaping the evolution of this technology.

Sam Gandhi:
How long do you think that's going to take in the U.S. to get to a point, and the CLARITY Act, which passed the House and then the Senate's now considering it, they're trying to create a framework or a market structure to do that. When do you think that, that is all going to get enacted and create enough certainty for the market to embrace this technology?

Lilya Tessler:
Well, we've already seen the first federal bill passed and signed by the President, the GENIUS Act, with respect to payment stablecoins. The CLARITY Act has passed the House, but the Senate banking committee has proposed an alternative to the CLARITY Act, the Responsible Financial Innovation Act, over the summer in July and we're waiting for the AG committee to provide their aspect of it.

So, the Senate proposed the SEC and the financial securities aspects of the bill and the AG committee is propose, most likely in the coming weeks or months, the CFTC regulatory overlay that combined together would be the parallel to what we saw in the CLARITY Act, which was a comprehensive bill regarding SEC and CFTC oversight of these assets and financial market structure.

Ultimately, I think, there's directive from the Senate to propose a final bill on market structure by October of this year 2025, and the President has directed the House and Senate to get something done and signed by the end of the year, is what we're seeing as target dates right now. And if that's done, that certainly will be revolutionary, because that will direct the SEC

and the CFTC to implement formal rulemaking on how certain, some of this activity falls within the SEC's oversight and their regulated entities, and some of this activity would fall into a new structure that the CFTC would need to create under rulemaking.

All that said is the SEC and the CFTC are not waiting for the market structure bills to pass. They are in parallel with the SEC right now and current Chairman Paul Atkins has directed the staff to start considering formal rulemaking in parallel to what we're seeing in Congress. So, we could see something in parallel even earlier, potentially, from the SEC. And the CFTC, on the same side, has put out requests for input on what they should be doing on the rulemaking and whether or not they have under their existing authority, to include some of the spot crypto trading transactions within its existing authority and may not need new authority from Congress to provide additional rulemaking.

So, it's important to watch, not only what's happening at the congressional level, but also what's happening on the rulemaking front for the SEC and CFTC, which could be done in the next year or two.

Sam Gandhi:
David, the Trump Administration seems to be running as fast as they can to catch up with what the rest of the world has been doing. What's your perspective on digital assets and crypto more generally from Europe and the rest of the world?

David Stewart:
I think it's a really exciting time in this space. I think it's critical for Europe and the rest of the world to see the United States being as proactive as it is and to be taking the steps that Lilya was describing. So, we'll touch on the technical, but also I think it's interesting to take a step back and consider how these frameworks and opportunities are driving entrepreneurs and capital raisings all around the world.

So, just starting with the legislative landscape outside the United States, here in London we primarily think about Europe, the Middle East, and Africa, and we tend to think of three major economic regions, the United Kingdom, the EEA-EU block, and the GCC, the gulf coast countries, which

really for crypto blockchain most advanced means usually the UAE, the United Arab Emirates.

So, taking the EEA-EU block first the markets in crypto assets regulation is, I think in my view and many others, most develop first to market, comprehensive set of rules governing crypto assets. It's fairly European in style, it's fairly paternalistic, it has a very consumer-protective first take on the rules in their implementation. They came into force in June of 2023 and full force in 2024.

By contrast, here in the UK the government continues to work on implementing various bits of legislation into their existing regulatory and legislative framework. That approach is less of a blunt tool instrument than just having one big piece of law to try to capture everything, as they try to weave in different answers and responses into the law that exist. But it takes a lot of time, and unfortunately it has slowed down adoption and rollout with consultations ongoing and implementation still coming in yearend 2025 and 2026.

The UAE is, in fact, actually further ahead than the EU and far ahead of the UK with a federalized approach to legislation. Of course, that's supported by the flexibility that the tax-free zones, like the DIFC and the ADGM in the UAE, have to tailor and implement rules and regulations, and therefore issue licenses to businesses in a faster and more effective way, and some of these laws and regulations have actually been in place since 2022. So, with that backdrop, when you think about it, really you see the EU and the UAE being far ahead of the U.S. in many respects and the UK kind of lagging behind.

So, here we have following along fairly cultural and historical legislative lines, we have the UAE leading, the EU next, and the U.S. and the UK bringing up the legislative rear. But we don't make laws just to make them. We make them to drive innovation and to enable entrepreneurs to create technologies that make our world a better and more efficient place. And as a corporate finance firm, we like to see laws coming into place to enable the safe and reliable bankable, if you will, fundraising.

So, when we think about an emerging company entrepreneur venture capital community, we see crypto blockchain and adjacent industry

adoption following the same well-trodden path as technologies before like mobile, the Internet, fintech, challenger banks, et cetera. And what I mean by that is that — and I think this applies to all of us globally who work in corporate finance at Sidley and other similar institutions — we see in the United States, almost in spite of a lack of regulation, there's almost a fairly typical American attitude of asking for forgiveness instead of permission.

So, we've seen a lot of activity over the last five years of people raising capital, doing things, and the expectation that the law would catch up, and now we finally do see the law catching up and luckily falling along the lines that people hoped that it would. As opposed to that in the EU, we have a strong regulatory context and we have entrepreneurs with, I would say, a more safe, more well-defined set of rules to play in, but perhaps not as strong of a capital-raising environment as in the U.S.

And then, of course, in the UAE, you have a lot of attractive factors. You have strong regulatory complex, you have a very low tax drag, and so you have many entrepreneurs working there to raise capital as well, but just a smaller population and a smaller basis to start with.

Sam Gandhi:
David, let me ask you, who's leading these capital raises? Meaning, have the large financial institutions, like they generally do, taken the lead in terms of capital raising in the crypto in the digital space or is it much more segregated, or frankly decentralized, as it were?

David Stewart:
So, I think that we have to think about it in different asset classes, so maybe we'll start with bitcoin, which is by far the most well-established and safest asset class. If you rollback five years or so, it was very decentralized and very much the smaller banks and financial institutions who were playing in that space. And then, of course, over a period of time as we've seen the adoption of ETFs and further adoption of the asset in investment, I think that bitcoin and those who operate in that industry, whether it's miners, or in staking, or in other spaces, there's more and more adoption of that particular asset class, and perhaps also ETH, as being "bankable" by relatively large financial institutions, as well as those smaller institutions that have historically played in the space.

But there is an entire world of other assets, tokens, blockchain industry crypto-adjacent technologies that continue to be very underbanked and not completely bankable. And you have a very wide and diverse set of fundraising happening from family offices to entrepreneurs to relatively small investment banks to large bulge bracket banks dipping their toes into the water, to discreet verticals of private equity and venture capital firms that have hived off a little bit of their resources in order to focus on the space in almost an exploratory kind of sandbox way.

So, I think that if the bitcoin adventure, if you will, is any predictor of the future, I think we'll see many of these other asset classes and technologies in adjacent industries follow that path over the next five to 10 years where they will increasingly become more bankable, again if that's a term, and adopted. But still, at this stage we see under penetration, under education, and a lack of great coverage, which creates a lot of opportunity and it can be quite fun, but it can also be challenging for those who are trying to build in that space.

And then regarding fundraising from an AMEA perspective, we certainly see clients raising capital in AMEA, especially in early rounds, so venture capital rounds, growth rounds, et cetera. But once they become large enough that they think that they're ready to go to the capital markets, consistently we tend to see most of that capital raising continuing to happen in the United States, simply because I think that continues to be the largest pool of capital.

And similar to my comments around regulation, I think investors, much like entrepreneurs, continue to be more, for lack of a better word, aggressive and more willing to, there's a larger pool of investors who are more willing to make bets on more cutting-edge technologies. And so, you do tend to see these companies, when they're ready for public, more primetime, go to the United States.

Sam Gandhi:
The capital raising activities you're talking about, what's the prevalence of what's being funded? Is it the development of these technologies? Is it to invest in these digital assets? What are the issuers trying to raise capital for?

David Stewart:
I think we see a really broad range, perhaps the broadest range we've seen in a long time. So, going back several years ago, it was really almost an infrastructure play. So, you saw companies raising capital to create bitcoin miners, and to buy power, and to actually build the machines and to buy the machines that are going to drive these industries forward. And now, we see a lot of capital raising happening in order to enable staking businesses, or forensic businesses, or businesses that are, even the latest trend, of course, is the treasury company line of businesses and thinking that kind of lays alongside of ETFs.

And so, now we see a much broader, we're almost shifting in a very fast way from an industrialization, if you will, of the industry to a service type economy where you see all of these other adjacent technologies and industries coming together, and I think that will just continue. I think that we'll see, much like other developed industries or industries that develop, we'll continue to see the infrastructure plays and we'll also, quite fascinatingly, see those infrastructure plays bleed over into AI and other power-heavy type industries, because those assets are purposed and repurposed for other industries that are adjacent both in technology and infrastructure and in power.

And then we'll see the industry grow where we'll see these other service technologies that are raising to try capital and that's quite interesting. And I think that's all being unlocked primarily, although not exclusively, but primarily by the legislative changes that we see in the United States. Because when the country with the largest enforcement arm, if you will, and extraterritorial reach, when the government decides to be behind an industry, even though the law has not been written yet, that is a big greenlight to all of the market participants that this is now a safe space, and we see that unlocking substantially.

We see entrepreneurs, investment bankers, investors, industry players, all feeling as though this is the time to raise the capital and to participate in the space, which is exciting, and that's all led by comfort that, frankly, the investigative environment is going to be quite positive.

Sam Gandhi:
Lilya, let's dive into how the U.S. government is responding. And particularly the President just signed into law the GENIUS Act and as we talked about the CLARITY Act that it's making its way through Congress, can you give us a perspective on what the GENIUS Act is trying to do and what the implications are of its passage?

Lilya Tessler:
The GENIUS Act is a specific legislation that covers payment stablecoins. So, it creates a U.S. licensing and regulatory regime for domestic payment stablecoin issuers and certain requirements for custody and safekeeping of those stablecoins. So, there will be a number of stablecoins that'll need to go through this registration process subject to the rulemaking that's going to be proposed. But as part of the legislation the issuer will have certain regulatory requirements with respect to the payment stablecoin, such as reserve requirements, audit and financial transparency requirements, custody, liquidity, risk management, and customer protection requirements.

And so, once these regulated stablecoins are in the market that opens the door, and — stablecoins is just one type of tokenized real-world asset — that opens the door for the stablecoins to be used as on-chain payment or, even in secondary trading markets, as payment for other tokenized real-world assets. So, think regulated stablecoin could be as payment for a tokenized security, it could be a payment for other tokenized assets. So, the fact that there's one regulatory regime already approved out there or legislation out there, there will be more to come with respect to, not just financial instruments, but think about the world of different types of tokenized assets and legislation that we could have in so many different industries, but regulated by a different agencies in the U.S. government, that could open the door for the integration of this technology across the board.

And that's consistent with what we saw when President Trump came into office had created a President's Working Group to focus on digital assets. And in July of this year, with various agencies in the federal government and in the White House working together and putting out a President's Working Group report on digital assets that stems across many regulators and many industries in how blockchain technology can be integrated in a lot of the laws that we're going to see coming into existence.

Sam Gandhi:
David, how is the regulatory landscape different in Europe?

David Stewart:
Well, I think it's different in that, first of all, it's established. It is definitely more, I think, it has been more historically protective of the consumer than anything that's existed in the U.S. to date, and I would say that as a result has probably been a little bit more inhibitive for entrepreneurs and for industry than what's actually going to come out in the United States. So, on the one hand it's been great to have legislation exist that people can point to and touch too, but there's a bit of a drag there because it is a bit more pro-consumer, and also there is the main drag, which is that even though the EU has a body of law that's supportive, the industry is not certain what to do without the United States coming out and kind of painting the more full picture. And as I was referring to earlier, given the power of investigative authorities from the United States and their extraterritorial reach that those two things really have to go together.

Sam Gandhi:
If you're interested in information on the energy industry, tune into the next episode of Sidley's *Accelerating Energy Podcast*, hosted by our partner Ken Irvin. Ken will be joined by Mark James, Interim Director of the Institute for Energy and the Environment, and an Associate Professor at Vermont Law and Graduate School, to discuss how the One Big Beautiful Bill has overhauled the U.S. energy policy and what it could mean for the future of AI in infrastructure development. You can subscribe to Sidley's *Accelerated Energy Podcast* wherever you get your podcasts.

You're listening to *The Sidley Podcast*, and we're speaking with Lilya Tessler, who leads Sidley's FinTech and Blockchain group, and David Stewart, a partner in the firm's Capital Markets practice based in London. We're talking about what is driving the surge in the adoption of the tokenization of real-world assets and the related legislation in the U.S. and Europe.

So, recently SEC Commissioner Hester Peirce, the head of the Securities and Exchange Commission's Crypto Task Force, said that the efforts to tokenize or create digital versions of stock and other securities are still

governed by federal securities laws. She specified that quote, “market participants must consider and adhere to the federal securities laws when transacting in these instruments.”

Lilya, you testified last year before the U.S. House Financial Services Subcommittee on Digital Assets, Financial Technology, and Inclusion. I know that in the hearing you discussed the tokenization of securities, so give us a sense of why Commissioner Peirce may have made those particular comments.

Lilya Tessler:
In terms of tokenization, the important part is how those tokenized securities will be transferred, and whether actual ownership of the securities are embedded in the tokenized asset and transferred properly. And I think that, that is going to be an important aspect with respect to some of the clarity and rulemaking in this area coming from the SEC. My understanding, as Commissioner Peirce is saying, is anyone can tokenize a security, but you need to make sure that the asset you’re creating and you’re tokenizing actually represents the underlying security, the actual ownership in that security.

And that may require leveraging various commercial laws and whether it’s at in the U.S. at the state level and other tools in order to make sure that, that ownership is properly reflected in the token, and then properly transferred once a secondary transaction is affected in that security. There are a number of products on the market that tokenize assets, but they may not actually tokenize ownership in that, and that’s where Commissioner Peirce highlights in her comments that could be a securities-based swap. It could be a type of other financial instrument that isn’t necessarily a tokenized share of that underlying security.

And how you reflect ownership of the security and tokenize it, it may be different in private markets versus public markets. Certainly, there are a lot of tokenized securities already existing and trading in the second private markets. The public markets are still getting up to speed and that’s an area where it requires interaction and discussion with the SEC’s Crypto Task Force to make sure that the transfer agent rules or clearing agency, the National Securities Exchange, requirements for trading of those assets can

truly be on-chain in transferring of that tokenized security across the market structure. So, I think that those are all important.

And the SEC has already started giving guidance on some of these aspects. Back in May of this year, the SEC Trading and Markets division put out FAQs on how broker-dealers and transfer agents can record and trade truly tokenized shares. We've seen an influx of the amount of issuers coming in wanting to tokenize their shares on-chain that are registered issuers, some that have already registered with the SEC, and some that are looking to register. We discussed earlier the trend of more capital markets in this area. We're seeing some of these companies, not only conduct IPOs, but also as part of their IPOs are being listed on exchanges, leave the door open that now or in the future they may want to tokenize the share ownership of their public company stock.

Principally, because we're seeing this trend, we're seeing the door open for more regulatory clarity in the future, and they want to be able to allow for that now and when the market opens for secondary trading of some of these tokenized public stocks. So, I think this is a really exciting time to be able to shape the future of this area.

Sam Gandhi:
David, as a securities lawyer is this an issue in Europe? You know, in the U.S. in the last few years, due to the lack of legislative clarity, we're had a lot of litigation in terms of what is really considered a security in this world. Is that the same issue in Europe and what's the landscape like with respect to this issue?

David Stewart:
There's a couple of different components to this. The European regulatory framework around securities and how regulators think about securities is not as stringent as in the U.S. So, of course, there are concerns about whether or not an asset is a security or not and that's, I think, more developed in Europe and more established than it has been in the U.S. and it has not been quite as great of a debate. Also, I think, there has not been, because of the desire to raise capital in the U.S., there has been a little bit less pressure on the authorities, at times, because so much of the capital raising and the more cutting-edge processes has happened in the U.S.

What would be nice to see, but I don't think we will see, would be kind of a global approach to what is a security, what is not a security, who can buy what, and who would be qualified for that. You know, Sam, you and I both have been doing this for a long time and we'd like for that, there to be a nice global approach to a regular garden variety IPO with stock, and we both know that that's not the case. And so, I think it's quite unlikely to become the case for other assets, as well.

What is kind of interesting, when you think about it, is that all of these technologies, whether or not they will serve as challenger technologies to the current clearing systems that we have, and actually create opportunities to have a global blockchain type system of securities clearance that breaks down so many of the gatekeepers and fiefdoms that currently exist with the monopolies of the current systems like CREST, DTC, Euroclear, and Clearstream to try to create a much more efficient method of moving actual securities around the world just like it has the opportunity to make it more efficient for banks to move capital and cash around the world.

At the moment we don't see that happening yet, but we definitely see clients who are in the space who are pushing for that, to have these global securities and clearing systems that would, going back to my original comment and back to the comments of Hester Peirce, would each need to comply with the securities laws and the clearing systems of each major economy where they enter.

It'll be fascinating, I think, over the next five to 10 years to see if we've managed to achieve that kind of global blockchain for our securities or not, or if there are service providers that step outside the system that are able to do that for us. But as a securities lawyer, that's a space that at least I in particular am interested in, because it would certainly save a lot of time and energy and money for global investors.

Sam Gandhi:
Lilya, one thing we didn't talk about, which is a big deal in the investment community right now, is the development of AI and how that really ties into blockchain. We talked earlier about what we saw with capital raising in the bitcoin mining world to develop plans and energy to drive bitcoin mining, and now you're seeing that being raised to try to develop AI. How is AI playing a role in blockchain and the crypto industry?

Lilya Tessler:
There's, I think, a few different ways, and we probably will see more ways on the intersection of AI and blockchain over the years, and now one huge growth area is being able to have datacenters that provide compute and power to train AI models. And we have seen a number of existing datacenters, or new datacenters, that were used or are used for bitcoin mining or other, I guess bitcoin mining primarily, being repurposed to power AI compute models, principally because it may be more lucrative for the companies or there may be more demand in that area than bitcoin mining infrastructures.

So, it's not that bitcoin mining is going away it's just that some of that same compute power may be repurposed or shifted to power some of the AI training models and tools that are being developed in the market. Another area is AI and various technologies often are offered and developed by centralized parties, are also being developed and offered by these decentralized training compute models. And when you have a decentralized training compute model, you need a way to pay the participants in that compute model.

And in blockchain technology, cryptocurrency specifically, we're seeing powering some of those AI models where payment for some of that compute, payment for some of that training, is being provided in a native cryptocurrency to that particular decentralized ecosystem. And that could be done in cryptocurrencies over time, it could be made payment in certain stablecoins or other types of assets, but those are two different types of technologies. And cryptocurrency over the years could be a tool that could be used to power many different types of technologies and AI is just one of those that we're seeing being used right now.

Sam Gandhi:
We've seen crypto evolve from being nothing, or an idea, to being treated as a commodity and now potentially being used as payments. The next step is potentially to be some type of reserve currency. And so, my questions to you guys are do you think that that's going to happen? And if you do believe it is going to happen, what's your view in terms of the timeframe of that happening?

David Stewart:
It does feel as though it's going to happen. I think that in particular bitcoin is emerging as a real store of value and that in turn will create a reserve currency type status for many investors and governments. My best bet on a timeline would be five to 10 years.

Lilya Tessler:
I think it will happen. The value, though, of the various crypto currencies that would be in these various reserve assets are driven by the implementation and adoption use of the blockchain technology associated with those reserve assets. So, the more we're going to see a growth of the use of the technology, the more value is going to be accrued to some of these reserve assets, which I think is what we saw with other traditional physical reserve assets, whether gold, silver, and other commodities. The same will hold true here as more people are using it and needing it the value will drive. How long that will take is hard to predict.

Sam Gandhi:
So, as we wrap up the podcast, what are you hearing from clients regarding their concerns about the current landscape? David, I'll ask you about Europe and the rest of the world, and then Lilya I'll ask you about the U.S.

David Stewart:
At the risk of sounding a bit cavalier, I think the biggest thing we hear from clients right now is that they're afraid they're going to miss the current wave and not get their transactions done in time until this current window closes. There's an incredible amount of enthusiasm, perhaps over exuberance at times, for the space and the industry, which is exciting to see. But of course, there's also, and I think for those who have worked in this particular industry for a long period of time, as we all have, there is always a fear that the rug is about to be pulled out from under your feet.

And so, while there is a lot of enthusiasm for the trends in regulation, and all of the noises that are coming from different regulators and the support for the environment, I think the reason why people are focused on the window is because as elections come and go, and as political environments change, and they change very quickly, there is a concern

that some of these green shoots, if you will, won't actually make it before there's a change in the political environment once again.

Lilya Tessler:
From my perspective, what clients are worried about, especially those in traditional financial services spaces, they're looking for clear rules of the road, and until there are clear rules of the road they don't know how to advise their internal business teams on compliance, or legal requirements to enter some of these different verticals that are associated with blockchain technology. And I would say many of the rules of the road are really being written, and waiting too late to get in you most likely would be left behind, but also principally it's an opportunity to shape what those rules of the road on compliance policies are.

We're bringing in many clients to the SEC Crypto Task Force to meetings with various divisions of the SEC, to meetings with the CFTC, where our clients are helping shape the guardrails or raising their concerns of what has not worked in the past in traditional markets, and what the framework should look like in the future. And it's an opportunity to enact now and develop your business model in parallel to be ready when the market is open and the rules are clear-cut in some of these products of services.

Sam Gandhi:
We've been speaking with Sidley partners Lilya Tessler and David Stewart about the tokenization of securities and how AI is playing a role in crypto. Lilya and David this has been a great look at the landscape. Thanks for sharing your insights on the podcast about the crypto world.

Lilya Tessler:
Thank you, Sam, for having me today. This has been a pleasure.

David Stewart:
Indeed, thanks, Sam. It's really been an exciting topic, and I really appreciate it.

Sam Gandhi:
You've been listening to *The Sidley Podcast*. I'm Sam Gandhi. Our Executive Producer is John Metaxas, and our Managing Editor is Karen

Tucker. Listen to more episodes at Sidley.com/SidleyPodcast, and subscribe on Apple Podcasts, or wherever you get your podcasts.