

Securitization

New topic :- Blockchain

Blockchain or Distributed Ledger Technology (DLT) is a peer-to-peer decentralized open ledger of transaction system with no secured parties in between. A blockchain generally uses a chain of blocks, with each block representing the digital information stored in public database ("the chain")

'PAIN'

₹ 140000/-

- (P) (i) Every entry in this database is Permanent
- (A) (ii) It is Append only database which cannot be changed or altered. (existing ko change नहीं कर सकते)
- (I) (iii) All transactions are fully Irreversible
- (N) (iv) Any change in a transaction is recorded as a New transaction (कोई भी changes करना है तो change नहीं कर सकते हैं वन new transaction को record करा)

Applications of Blockchain

(जहाँ जहाँ database को use करते हैं वहाँ वहाँ Blockchain को use कर सकते हैं)

(1) Financial services :-

It can be used to provide a transaction log of any physical or digital assets such as laptops, automobiles, real estate etc (ie for automobiles lease lifecycle)

(2) Healthcare :- Blockchain provides secure sharing of data in a healthcare industry by increasing the privacy and interoperability of the data by eliminating the interface of third party

(3) Government :-

It can be used where technical decentralization is necessary along with governance of govts like land registration, e-voting etc

Blockchain provides transparency and provides a better way to monitor and audit the transaction in these systems.

(4) Travel industry

It can be used for many transactions storing passport / other important docs, reservations, travel insurance etc

(5) Economic forecasts → we can use blockchain

to make financial and economic forecasts based on decentralized prediction markets, decentralise -d voting and stock trading.

Risk Associated with Blockchain (PURI)

P -> Process Controls

Development and maintenance of process controls can be challenging due to absence of any central authority. So users of public blockchain may find it difficult to understand the IT controls implemented and its effectiveness.

U - updates

Blockchain involves numerous data updates, the risk of information overload could challenge the required monitoring. Further, finding competent people to design and perform effective monitoring controls may be difficult.

R - Reliability

Reliability of financial transaction is dependent on the underlying technology. If the underlying consensus mechanism is tampered with, then it could render the financial information to be inaccurate and unreliable.

In-charge

Different members may have different risk appetite that may lead to conflict while designing, monitoring controls.

Since no one party is in charge, it need to be defined who is responsible & accountable for managing risks in the blockchain

Tokenization

Tokenization is a process of converting tangible and intangible assets into blockchain tokens. It can be effective in conventional industries like real estate, artwork etc

Similarity b/w Securitization & Tokenization

Tokenization :- Attempt to convert illiquid assets into a liquid and tradable product (similar to securitization)

(1) Liquidity :- Both inject liquidity in the market for otherwise illiquid assets

(2) Diversification :- Both help investors to diversify their portfolios thus

(Optimising) managing risk and maximising return

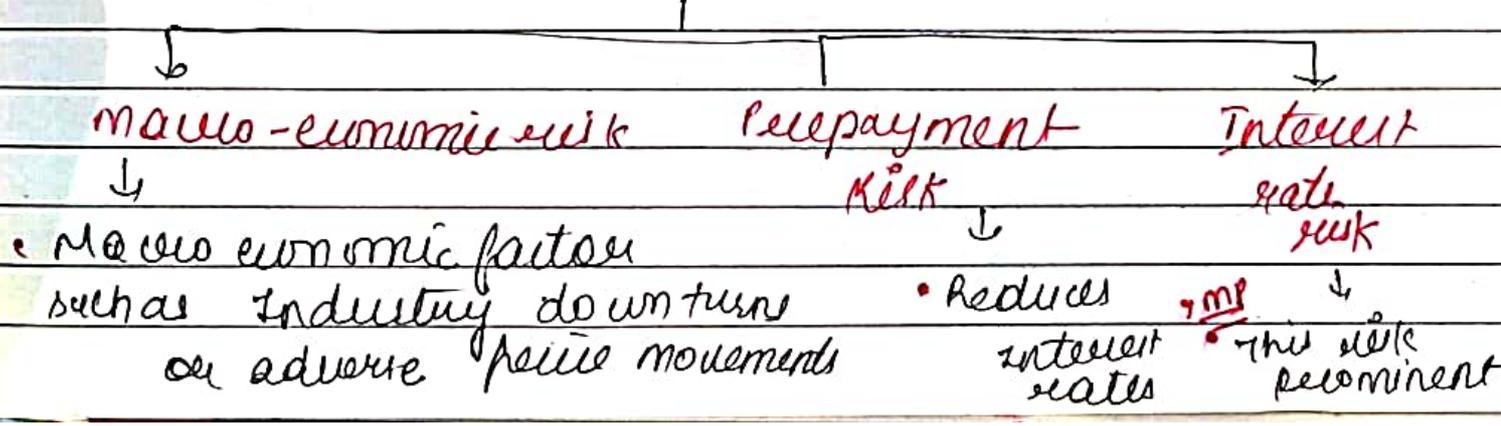
- (3) Trading :- Both are available and help to generate wealth.
- (4) New opportunities :- Both provide opt for financial institution to earn income through fees.

Risks in Securitization :-

Credit/counterparty risk :- Risk of bankruptcy and non performance of servicer is the prime risk of originator.

Legal risks :- Securitization is recently developed concept (in India) and there is an absence of statutory provision or judicial precedents. So any legal dispute can result in uncertain cash flows for investors.

Market risks :- It includes risk due to market related risks. It includes



can affect loan
performance

Increase in repayment
of retail loans,
resulting in
misalignment with
for investors

where
the loans
are based
on floating
rate and
investor
payouts are
based on a
fixed rate
or vice versa.

• It results in an
interest rate mismatch
where pool of cash
inflow may not be
~~the~~ sufficient to
meet investor
payouts.