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Why Trading Securities is DeFi's Next Big Thing

Bridging the Gap Between DeFi and Regulated Securities

soma.finance

UNITED STATES, August 24, 2021 /EINPresswire.com/ -- Decentralized finance, or DeFi, has grown exponentially over the last year. The nascent, peer-to-peer financial sector grew from less than $1B in total value locked (TVL) at the start of summer 2020 into an ecosystem of dApps on multiple blockchains currently holding over $100B within their smart contracts.

Yet, despite this massive growth, the derivatives market within DeFi reportedly holds less than $3B in TVL.

The growth potential for trading securities in DeFi cannot be ignored as a wide variety of financial instruments and asset classes are fast becoming tokenized. Theoretically, any asset class with a monetary value can be tokenized, so a crypto-issued clone of that asset can be held or traded digitally via blockchain technology in the same way as BTC and ETH.

The implications for DeFi's future are about as enormous as the estimated quadrillion dollars tied up in derivatives contracts today.

As more capital moves from traditional finance towards DeFi, it's not hard to imagine the impact securities like stocks and other financial instruments will have once they are tokenized and enter the DeFi ecosystem.
Tokenized Securities Further Reduce Frictions via DeFi

Friction is anathema to finance, and trading derivatives has traditionally faced numerous frictions, including but not limited to the interventions of regulatory bodies, fees levied by intermediaries, and time.

Traditional financial institutions like JP Morgan have turned towards computer-assisted strategies like deep hedging in order to mitigate the costs of these frictions, but their success rates are still less than impressive.

Blockchain technology and DeFi, however, have already presented some answers to these problems: by issuing tokenized securities, the frictions that impede the trading of derivatives can be outmaneuvered through platforms operating on the principles of decentralized trade.

Automatic Market Makers (AMMs) have proven themselves incredibly effective in facilitating the trade of crypto tokens between decentralized parties via platforms like Uniswap, the decentralized exchange (DEX) that pioneered the use of smart contracts to allow users to swap Ethereum's ERC-20 tokens without going through a centralized exchange (CEX).

Bitcoin and other cryptos which are not ERC-20 standard can still be traded with other tokens in Ethereum's ecosystem by wrapping these unlike cryptos, so they can be swapped in different ecosystems and at similar values.

Likewise, tokenized securities can allow for a diverse range of asset classes and financial instruments to be traded within a DEX and outside the limitations set by institutions, market liquidity, and end of play.

As Bloomberg reports, tokenized stock trading could mean the opening and closing bell will give way to 24/7 markets, similar to crypto markets today. A non-stop stock exchange would mean that $47 trillion in shares would no longer be held hostage to America's daylight hours.
Innumerable Possibilities for Securities Trading in DeFi

At any time of day, from any country in the world, traders could hypothetically let their imaginations run wild as they connect the dots between opportunities presented as, for example, pork belly futures, Bitcoin, the Iraqi Dinar, and New York State municipal bonds present an excellent play.

In today's world of traditional finance, it would be impossible to instantaneously make such plays across such a diverse range of securities.

Dealing with multiple markets and regulations would take so much time that the play becomes obsolete, but if each of these aforementioned securities existed as regulation-compliant, highly fungible tokens, the trades could be performed in seconds through DeFi.

Bridging the Gap Between DeFi and Regulated Securities

For securities to enter DeFi in a meaningful way, users will need to comply with regulators who, as the Financial Times reports, are beginning to lay their eyes on this nascent but growing sector of peer-to-peer finance.

This compliance is made possible for users by protocols like SOMA.finance that make DeFi and regulatory compliant securities trading possible. Built on the partnership between MANTRA DAO and Tritaurian Capital, SOMA is licensed and registered in the United States and complies with SEC rulings on Reg CF, Reg D, Reg S, and Reg A+ offerings for both accredited and retail investors alike.

Acting as a bridge between the permissionless nature of DeFi and the tightly regulated world of securities, SOMA is launching the world's first compliant multi-asset DEX and issuance platform.

This solution makes frictionless trading of securities feasible in a decentralized way.

Once SOMA's users pass KYC, they can trade tokenized securities in a "semi-permissionless" environment without the roadblocks facing securities traders in traditional finance today. Additionally, this means DeFi innovations such as yield farming can welcome liquidity pairings such as BTC-TESLA or BTC with any other blue-chip stock.

DeFi has opened doors to a host of financial possibilities with a limited range of digital assets, namely cryptocurrencies and tokens, akin to having one hand tied behind its back. Once tokenized securities enter the game, who knows what doors DeFi will open next?

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