

Navigating the Future of Digital Assets

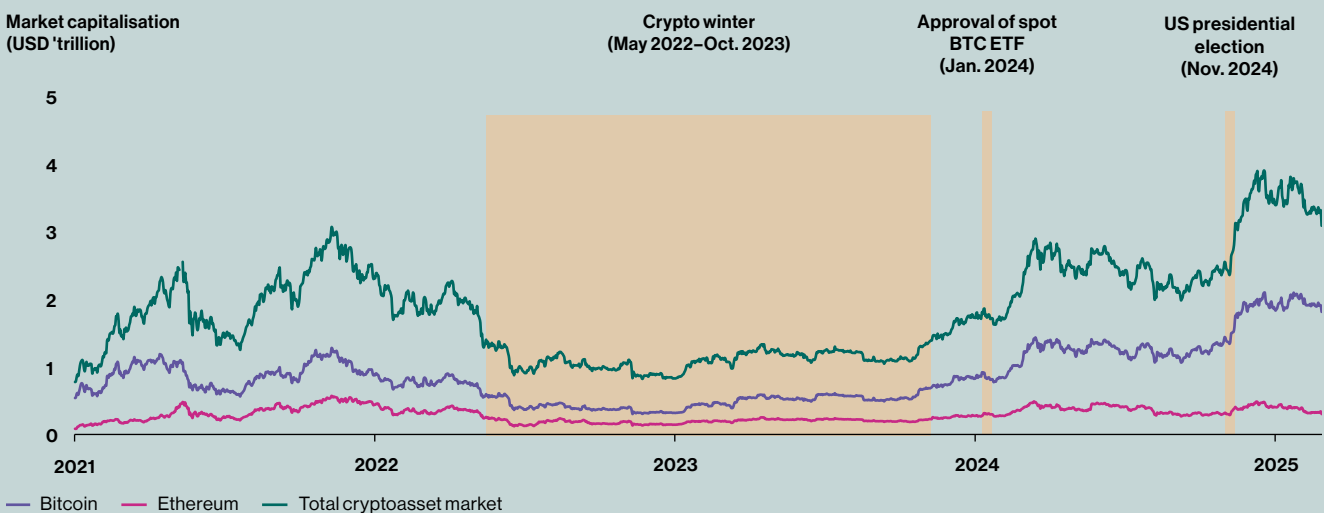
The global digital asset market,¹ has undergone substantial growth in 2024. This was driven by increased institutional adoption, technological innovation and increased regulatory clarity. As a result, the digital asset ecosystem has expanded from cryptoassets to include a growing market for tokenised assets, with greater traction on CBDC exploration by central banks.

Global cryptoasset landscape

Cryptoassets have seen renewed public interest since the crypto winter in 2022. The regulatory approval of spot Bitcoin (BTC) and Ethereum exchange-traded funds (ETF) in the United States led major fund managers to begin offering crypto investment products, boosting institutional interest. Jurisdictions like the European Union and the United Kingdom also provided more regulatory guidance focused on customer and investor protection, anti-money laundering and compliance requirements.

Since the outcome of the US Presidential Election in November 2024, optimism and interest in the cryptoasset markets has grown.² On 5 December 2024, Bitcoin surpassed the USD100,000 barrier for the first time. However, these markets retreated after a volatile start to 2025 due to geopolitical concerns, macroeconomic uncertainty and industry-specific setbacks.

Chart 1: Market Capitalisation of Selected Cryptoassets



Source: CoinGecko

¹ Includes both cryptoassets and real-world asset tokenisation. Cryptoassets are defined as 'privately-issued digital assets that depend on cryptography and distributed ledger technologies (DLT) or similar technologies'. It is a subset of digital assets, which is a broader term used to refer to a digital representation of value.

² The new Trump administration has conveyed a more favourable posture on cryptoassets. Several initiatives being explored include creating a strategic national Bitcoin reserve, positioning the US as a 'Bitcoin superpower' and promoting USD-backed stablecoins.

Cryptoassets in the Malaysian market

In Malaysia, the cryptoasset market remains active but small compared to the overall size of the domestic financial market. Based on the cumulative net deposit outflow from banks to domestic registered Digital Asset Exchanges (DAX), cryptoassets represent less than 1% of the total banking system deposits as at end-2024 and around 0.4% of the market capitalisation of securities listed on Bursa Malaysia. Notwithstanding this, the cryptoasset market in Malaysia has been active. In 2024, total trading volume increased to RM13.9 billion (2023: RM5.4 billion).

The number of domestic cryptoasset players and the variety of services provided have also expanded. In 2024, there were 15 entities regulated by the Securities Commission Malaysia (SC), covering DAXs, custodians, initial exchange offering operators and cryptoasset funds (2019: three DAX players).

The involvement of banks in Malaysia in direct cryptoasset activities mainly entails the provision of services to registered digital asset players. This includes offering operating or trust accounts and facilitating payments and withdrawals for customers who buy and sell cryptoassets. While several banks seem open to increasing their exposure, most remain cautious of the heightened volatility and associated fraud risks. This limits the transmission of risks to the broader financial system.

Regulatory landscape for cryptoassets in Malaysia

Cryptoassets are not recognised as legal tender and not a regulated means of payment in Malaysia. Their valuation is highly volatile, which makes them unsuitable to be used for payments (i.e. medium of exchange), for setting prices for goods and services (i.e. unit of account) and to be reliably saved, stored and retrieved (i.e. store of value). To facilitate responsible innovation and support orderly development of the digital asset market, BNM and the SC have in place coordinating arrangements to oversee digital asset activities. This arrangement aims to ensure systemic risk and financial integrity as well as investor protection measures remain effective. The 'same activity, same risk, same regulation' approach ensures that players are subject to equivalent regulatory standards based on the risks they pose. While risks to monetary and financial stability currently remain limited in Malaysia, BNM closely monitors the developments in this space to ensure any spillovers to the broader financial system is contained.

Global landscape for asset tokenisation in the financial sector

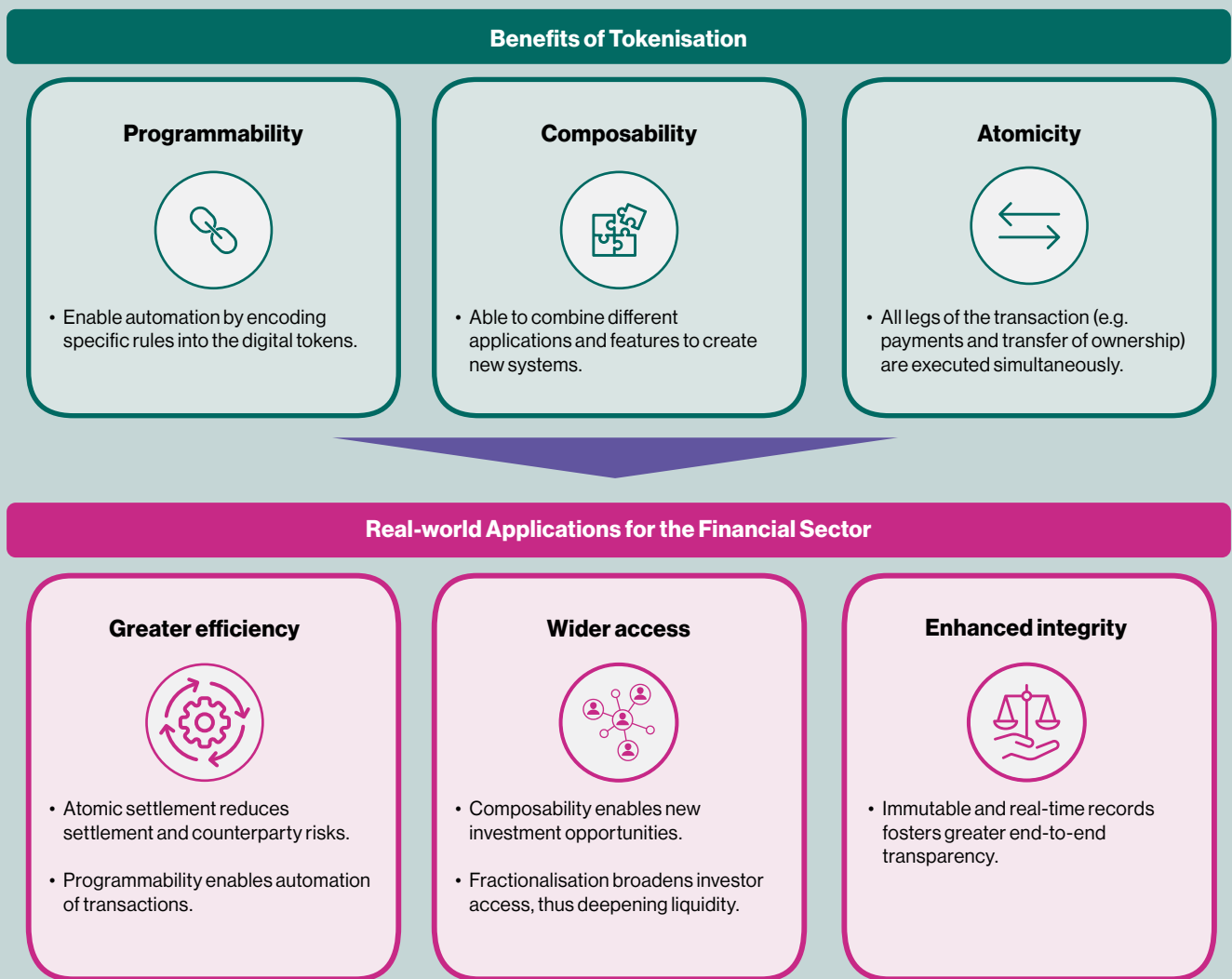
Beyond cryptoassets, there is increasing recognition of the potential of the underlying technology (i.e. DLT) to support greater efficiency gains in the financial system. Against this backdrop, regulators and financial institutions have a growing interest in exploring asset tokenisation.³ This allows for financial assets to be represented on a programmable platform such as a blockchain network. Market observers have suggested that the total tokenised market capitalisation (excluding cryptoassets) could reach around USD2 trillion by 2030.⁴ In particular, tokenised assets in fund management and settlement assets have gained traction. This is seen in the emergence of solutions such as Kinexys Digital Assets platform and the tokenised fund, BUIDL.

To this end, asset tokenisation within the regulated financial sector is creating new opportunities by enabling programmability, composability and atomicity. Key features such as atomic settlement, fractionalisation and immutable real-time records can improve efficiency, widen access to financial services and enhance integrity. These benefits are increasingly seen in use cases such as investable real-world assets, on-chain liquidity and lending solutions.

³ The Bank for International Settlements (BIS) defines tokenisation as the 'process of generating and recording a digital representation of traditional assets on a programmable platform'.

⁴ Refer to McKinsey's article 'From ripples to waves: The transformational power of tokenising assets'. (<https://www.mckinsey.com/industries/financial-services/our-insights/from-ripples-to-waves-the-transformational-power-of-tokenizing-assets>) for more information.

Diagram 1: Tokenisation of the Financial Sector



Source: Bank Negara Malaysia

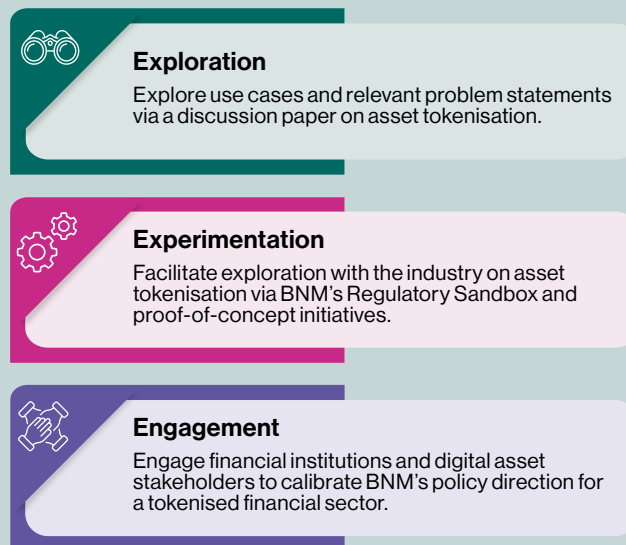
BNM sees the potential for asset tokenisation to drive innovative use cases, as outlined in the Financial Sector Blueprint (2022–2026). This will complement BNM’s research and exploration on domestic and cross-border CBDC.⁵

Among others, BNM sees the potential for tokenised deposits to serve as a credible on-chain settlement asset to complement wholesale CBDC. Like traditional commercial bank deposits, tokenised deposits issued by regulated financial institutions are a claim against an issuing bank. These banks would still be subject to BNM’s prudential requirements on liquidity and capital. As such, tokenised deposits allow commercial bank money to benefit from programmability and atomic settlement, while preserving the trust in the existing financial system.

Beyond tokenised money, BNM is exploring the potential for broader tokenisation of real-world use cases for the financial sector. This exploration will involve collaboration with key stakeholders such as the SC and the private sector. These use cases may include, but are not limited to, programmable payments, supply chain finance, and treasury and liquidity management. To facilitate this exploration, BNM aims to issue a discussion paper on asset tokenisation in 2025. The discussion paper will outline high level principles and use cases to guide the industry to explore and participate in tokenisation initiatives. In addition, BNM’s Regulatory Sandbox also facilitates the live testing of innovative solutions that use DLT and have the potential to enhance Malaysia’s financial system, in a controlled environment.

⁵ Refer to 'Promoting Safe and Efficient Payment and Remittance Services' chapter in Annual Report 2024 for further details on BNM’s research and exploration into CBDC.

Diagram 2: Key Initiatives to be Pursued in 2025



Source: Bank Negara Malaysia

Outlook

The digital asset landscape is set to evolve further in 2025. While BNM has no intention to recognise cryptoassets as legal tender now, BNM will continue to monitor developments in this space. This is to ensure that monetary and financial stability risks are contained and the integrity in the financial system is preserved.

At the same time, BNM aims to support responsible innovation through asset tokenisation in the financial sector. This will be alongside exploration work of domestic and cross-border CBDC as well as emerging technologies. Moving forward, collaboration with the private sector is expected to gather pace. This will inform the approach Malaysia will be taking to capitalise the benefits of tokenisation while managing related risks.