


Chapter 4


Tokenized Lending and Defi Institutionalization: Global Trends and Regulatory Tensions

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ABSTRACT

Tokenized lending is a major application of decentralized finance (DeFi) that has evolved as an innovative platform for credit intermediation through blockchain-based smart contracts. Early token lending platforms such as MakerDAO (now Sky), Compound, and Aave were permissionless, built for decentralized retail lending. More recently, however, there has been an increase in the interest of tokenized lending by institutional investors and regulated entities looking for compliant, risk-managed solutions. This chapter explores the institutionalization of tokenized lending, including an overview and conceptual analysis of the growth, technology, and potential role in the financial system. Additionally, the chapter highlights the fragmented land-

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scape of regulation on tokenized lending and more nuanced strategies taken by the United States, Canada, the European Union, and Singapore. Although this mixed picture provides the avenue for innovation, it also evinces risks of fragmentation and regulatory arbitrage. The chapter contextualizes the development, potential, and risks of the institutionalization of tokenized lending relative to the global and selected credit markets.

1. INTRODUCTION

Decentralized finance (DeFi) is an innovative configuration of financial services on the blockchain technology. By displacing intermediaries with programmable smart contracts, DeFi has the prospect to offer stronger accessibility, lower transaction costs, and greater transparency (Gogel et al., 2021). Among the numerous use cases of the Applications (Apps) in the DeFi ecosystem, tokenized lending, the act of taking or extending credit secured by blockchain tokens, has controversially emerged as one of the most momentous. Although previous literature has thoroughly covered retail-focused DeFi platforms like MakerDAO, Compound, and Aave (see e.g., Schär, 2021; Cornelli et al., 2024; Qin et al., 2021), there is still a gap in understanding how tokenized lending is developing with the increasing institutional acceptance and regulatory scrutiny. Research on Institutional adoption of DeFi lending in developed regions like Canada, the U.S., and the EU remains limited, especially as different compliance and regulatory frameworks are being evaluated. Therefore, this chapter conceptually explores the institutionalization of tokenized lending across global case studies.

The leading DeFi lending platforms as of 2025 are Compound, Aave, Uniswap, Balancer, Yearn Finance, SushiSwap, MakerDAO (now Sky Protocol), Curve Finance, Synthetix, and Lido. Aave continues to dominate with its flash loan option, enabling uncollateralized borrowing within a single transaction, whereas Yearn Finance has grown in popularity for automated yield optimization, which suits those who prefer little to no human intervention. Conversely, Lido has emerged as a key participant in the liquid staking space, enabling its users to earn staking rewards without compromising the liquidity of their assets (Solulab, 2025).

In its early stages, DeFi lending was heavily retail-focused and largely dominated by crypto-native and individual investors looking for permissionless access to credit and yield opportunities. DeFi platforms generally allow retail users to deposit assets, take out loans, and yield farm with relatively little oversight. The current literature tends to stop at a retail level, either ignoring or glossing over the institutional aspect of tokenized lending. For example, questions remain unanswered about how banks, institutional investors, and asset managers are adopting tokenized lending

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