Wilshire

Case Study
The origins of the Digital Asset Taxonomy System (DATS)

In this case study, Doug Schwenk, CEO of DAR, discusses why there was (and still is) a pressing need for a Digital Asset Taxonomy System and the approach that was taken to ensure that it was robust enough for institutional investors and the investment industry.

Overview

In 2017 during the initial Coin Offering (ICO) boom, the number of digital assets went from dozens to thousands seemingly overnight. The rapid proliferation of digital assets meant that new ones were being launched daily. This made it difficult for institutional investors to gain access to a broad view of the industry.

At that point, Digital Asset Research (DAR) built an initial taxonomy system to help institutional investors assess this new fragmented asset class. DAR's goal was to help institutional investors filter data by developing a system much like the ones used in traditional finance but uniquely crafted for the complexities of crypto and with the quality that institutional clients require.

The Digital Asset Taxonomy System (DATS) tracks more than 10,000 digital assets and classifies over 1,300 into a transparent hierarchical structure. The framework allows institutional investors to see sector trends, determine how those trends impact a portfolio, and understand how sector(s) contribute to performance. From there, institutional investors can identify opportunities and risks to build a portfolio in line with their strategies.

In 2021, DAR and Wilshire entered into a partnership to jointly develop DATS. With Wilshire's 50 year history in supporting institutional investors to gain access and clarity into new asset classes, the partnership would ensure that DATS became the leading taxonomy standard for Digital Assets.

What led to the creation of DATS?

"DATS is based on five years of experience taxonomizing assets and is singularly focused on the needs of institutional investors," said Doug Schwenk, CEO of DAR. "No other taxonomy has our deep understanding of the crypto space or is of similar quality."

Fast Facts

- 1300+ assets in coverage
- Rebalanced quarterly to include at least the top 1000 assets by market cap
- Publicly documented methodology
- Strong governance
- Focus on institutional use cases

About DAR

Digital Asset Research (DAR) is a specialized provider of 'clean' digital asset data, insights, and research for institutional clients. Since 2017, DAR leads by rigorously vetting out noisy inputs for flagship clients. Each day, DAR processes 200+ million trades to price over 4,700+ assets and deliver a range of product solutions to navigate the cryptoverse.

With expertise in traditional finance and the digital asset space, DAR's success is driven by a commitment to deliver honest data emphasizing accuracy, quality, and transparency.

Our clients were looking to discover new potential investments that met an investment thesis – for example, smart contract platforms. Existing systems in traditional assets, such as GICS and ICB, were useful in many other ways to institutional clients, but there were no solutions of similar quality in the digital asset space.

Why a Digital Asset Taxonomy is needed

Radically new asset class with little-to-no organization.

No shared registry or tool to track these assets.

Fast growth added an extra layer of complexity.

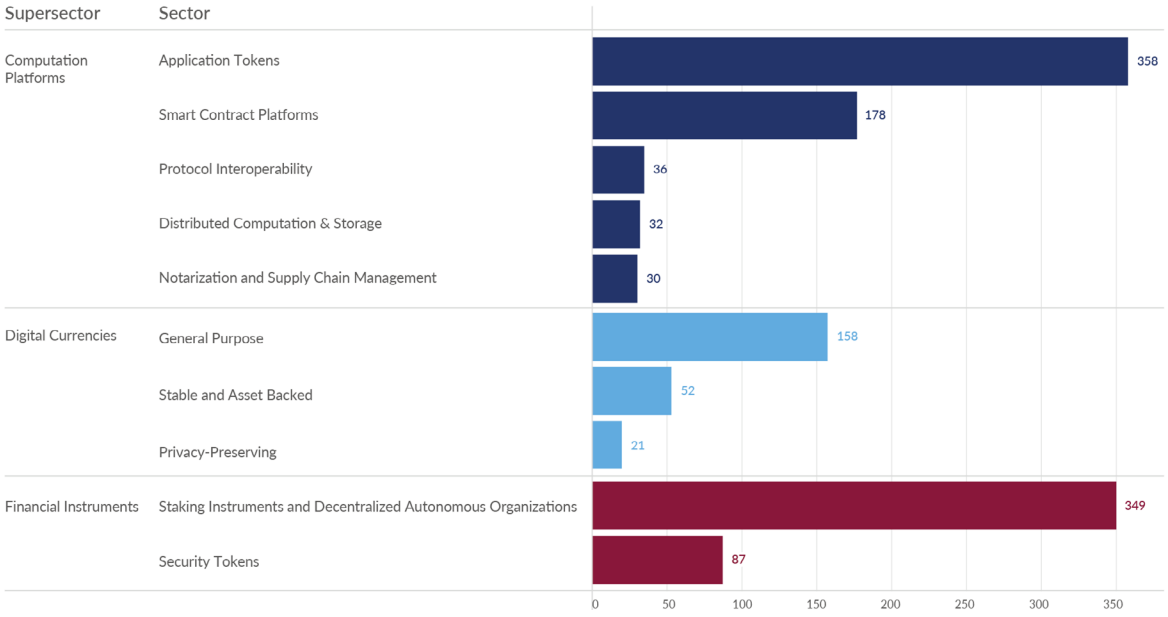
Essentially, it was difficult for institutional investors to identify, evaluate and incorporate digital assets into portfolios due to the lack of standardization and transparency.

How did DAR build it?

DATS was designed from the bottom up to capture the nuances of the digital landscape. This is in contrast to a more academic top-down approach which takes into account future use cases. In the building of DATS, DAR concentrated on giving digital asset investment managers the most practical application by first focusing on the asset – then moving up to the sector level.

The result is a comprehensive taxonomy that classifies assets into three resolution tiers: Two Supersectors, 10 Sectors and 42 Subsectors based on use case and underlying technology, as well as themes that go across subsectors. The subsectors and sectors clarify an asset's use case, while themes help identify whether an asset is part of a broader movement or feature set. Sector indices are based on classifications for performance attribution, risk, and exposure tracking.

DATS Asset Count by Supersector and Sector

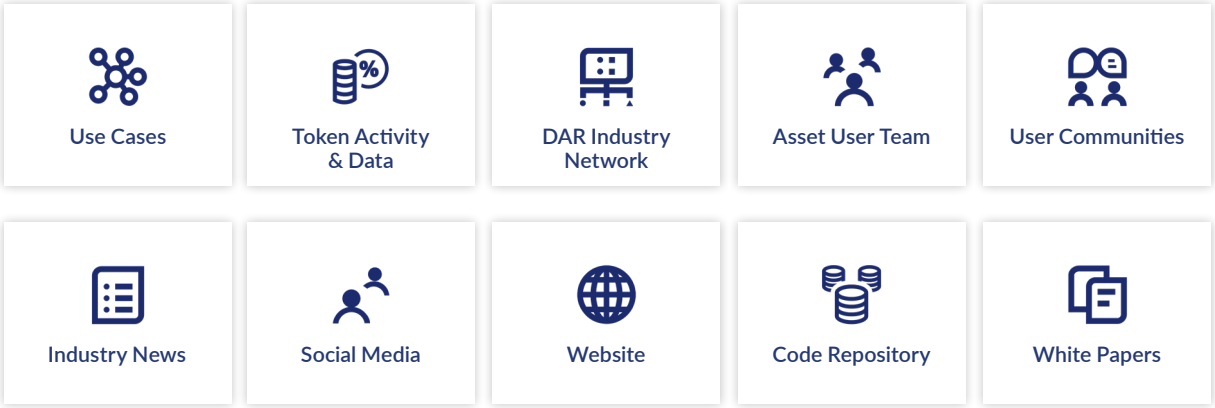


What is the methodology?

Taxonomy System and Taxonomy Theme Classification Process

Each classified asset undergoes an in-depth review that is focused on its use case and features to determine its placement in the Taxonomy System and any applicable Taxonomy Themes.

The process by expert DAR analysts includes a 360-degree token review of the following:



When the review process for a token is complete, analysts submit a proposed Taxonomy System classification and applicable Taxonomy Themes to the Wilshire Digital Assets Advisory Group (Advisory Group) for feedback. The Advisory Group will then review the proposals, and provide input on the classification and themes. Classifications made under DATS are reviewed quarterly and updated as needed to maintain accuracy. When reevaluating results, the last weekday of the quarters ending in March, June, September, and December serve as the data cut-off date for the review process. Assets may be added to or removed from DATS as a result of the quarterly review.

Digital assets that fall within the top 1000 by market capitalization are reviewed quarterly to determine their classification. Other assets may be considered for inclusion on request.

DATS users

Asset Managers and Research Analysts: Sector exposure analysis, strategy execution, and attribution reporting

Data Providers: A reference data map allowing systems to categorize, manage, and follow digital assets by classification

Exchanges: Categorize listed digital asset technologies

Thematic Investing (investors): Classification scheme to identify digital assets with common underlying attributes and aid in bespoke portfolio construction

Risk Management: Sectors give another way to bucket or group risk to help summarize the areas of exposure.

DATS does not accept compensation from asset or token projects for classification and that all classification recommendations related to DATS are made exclusively by the Advisory Group.
Wilshire, a leading global financial services firm and Digital Asset Research (DAR), a specialized provider of 'clean' digital asset data, research and insights, jointly develop and manage the pioneering Digital Asset Taxonomy System (DATS). DATS serves as a common standard to classify and group over 1,300 digital assets. Both Wilshire and DAR's mission is to bring clarity to the digital asset industry.
DAR and Wilshire are not affiliated.

Contact us if you would like to meet with one of our experts to discuss licensing of DATS at indexsales@wilshire.com.

15607518 E0323