12th December 2025

David Burrows and Joshua Castle,
Funds and Asset Management Policy; Wholesale Buy Side
Financial Conduct Authority
12 Endeavour Square London E20 1JN

Submitted by e-mail to: cp25-28@fca.org.uk

Dear Mr. Burrows, Mr. Castle, and the Wholesale Buy Side team,

CFA UK & CFA Institute letter in response to Chapter 5 of the FCA's CP 25/28 on Progressing Fund Tokenisation

This is further to our response to chapters 2-4 of your consultation, in which we also reference two recent publications from the CFA Institute relevant to the topic.

We reiterate our **support for a regulatory framework that enhances productivity and competitiveness while protecting consumers.** Our responses to the questions in chapter 5 are contained in Appendix 1, with three headline points summarized below.

THE THREE PHASES OF TOKENISATION DEVELOPMENT
We do not view phases 2 and 3 as a linear progression from phase 1. Instead, phases 2 and 3 should develop in parallel to phase 1 and together provide options for investors based on their needs and preferences. Both pooled (Phase 1) and personalised (Phases 2/3) solutions have their pros and cons, keeping aside the underpinning technology.

Phase 1 itself contains important sub phases of evolving from private permissioned networks to fully on chain, and the extension to tokenisation of assets invested in by funds, with matched asset and fund settlement and valuation. Phase 3 on the other hand is not a fundamental evolution of technology from Phase 2, rather it will rely more on the development of a market in cash flow assets that are structured and packaged to meet this need and from which portfolio management can benefit.

KEY RISKS AND RELATED RULES REQUIRED
We have flagged some areas that will require appropriate rules and guidance to mitigate market and consumer risks.

Key risks, in addition to core technology risks, include systemic resilience, market movement, interconnectivity impacts and smart contract aspects. The role of market participants could change materially in Phases 2 and 3, and there is also a need for clear underpinning legal frameworks and interoperability for cross-border trades.

Regulatory clarity is accordingly required in areas such as:

- Smart contracts governance and protocols, including termination rights
- Data privacy consistency with DLT
- Roles and responsibilities of participants in the value chain
- Remedy for operational or other errors and identifying liability
- Transparency and investor disclosure (simple and jargon free)
- Alignment of processes such as transfer and settlement

THE FCA's ROLE AS TECHNOLOGY DRIVEN SOLUTIONS EVOLVE

The FCA will need to develop standards and rules appropriate for new technology**,** while also monitoring the application of existing rules in the sector, requiring a twin commitment to innovation and fair treatment of investors.

We also suggest that the FCA considers the principle of technological neutrality in more detail, for example should the FCA start reviewing the underlying technology as an element of supervision. While agreeing with the focus on desired outcomes under the principle of "same risk, same regulation", we suggest the FCA should stay open to future evolution if technology itself requires oversight.

We hope our comments are useful and would be grateful for the opportunity to meet and discuss our feedback. We consent to publication of our response.

Yours sincerely,

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With thanks for their contributions to our volunteers: Jeanne Sun, CFA, Suzanne Hsu, CFAI's Urav Soni and Phoebe Chan, and the oversight of CFA UK's Ethics & Professionalism Steering Committee.

APPENDIX I
Responses to Questions

Question 23: How are changing investor habits and expectations influencing the design of tokenised products?

There is global evidence of increasing **retail interest in participation in alternative investments** including less liquid private markets. This will be a key driver of future product design, with tokenisation expected to play a role in facilitating access to private assets and potentially also more exotic assets such as art and collectibles.

We expect **investor interest in the efficiency benefits** that tokenised products can deliver (on top of a T+1 or T+0 settlement cycle) such as 24/7 trading, as many investment related processes are seen to be time consuming and less digitally enabled.

However, we note that all the issues that retail investors currently face are not necessarily technology related. For example, the time take to undertake a pension transfer, repetitive paperwork related to investing, the time frame from inception to completion of financial advice, long query response times, and difficulty engaging with complex financial disclosures are examples of issues that need to be addressed to make a material impact on perceived inefficiencies in the investment sector.

The **development of secondary markets** in less traded assets, the ability to invest in fractionalised assets, and lower minimum investment thresholds should also cater to evolving investor needs.

The FCA paper already notes two other key investor trends that are supportive of tokenisation and will ideally be reflected in product design – a **search for lower cost** (e.g. use of passive products and ETF's), and convenient **do it yourself avenues** indicated by the growth in platform usage.

At the same time, we caveat the FCA's evolution roadmap with the following:

- **Limited financial literacy and confidence in engaging with investments** is a known issue in the UK. We caution against assuming that investors will easily understand the complexity of DLT technology and associated processes.

- While we agree that greater customisation will benefit consumers, **the retail demand case for fully personalised portfolios needs to be evidenced**. At present retail portfolios are typically aggregated by risk profile or a broad need, via a model portfolio service or model based DFM; while these should be more granular, they do simplify management and monitoring. The FCA's approach to Targeted Support and Pension Pathways indicate that customisation by cohorts or groups, also works.

Question 24: Do you agree with the three phases described? Are these developments industry is looking to pursue?

Phases 2 and 3 move from an efficient fund administration process focus in Phase 1 to a customised portfolio management approach, effectively disintermediating the need for pooled vehicles such as funds.

We question the framework, as we do not believe phases 2 and 3 should be seen as a linear progression from phase 1. Instead, phase 2/3 should develop in parallel to phase 1 and provide options for investors based on their needs and preferences.

Both pooled and personalised solutions have their pros and cons, keeping aside the underpinning technology. Funds offer centralised oversight, a clear set of regulatory rules and prudential standards, advantage of scale on the buy side, bulk rebalancing and pooled liquidity management. Portfolios on the other hand offer investor flexibility and customisation to specific needs, preferences, cash flows, and typically require meeting suitability standards.

In our view **Phase 1 itself contains sub phases such as evolving from private permissioned networks to fully on chain and extension to tokenisation of assets** invested in by funds, with matched asset and fund settlement and valuation. Asset tokenisation progress in Phase 2 is therefore equally relevant to the evolution of the pooled solutions of Phase 1. This is more so given the ongoing development of pooled solutions such as LTAF's that can facilitate access to less liquid asset classes.

We also note that **Phase 3 does not appear to be a fundamental evolution of technology compared to Phase 2**, rather it will rely more on the availability of cash flow assets that are structured and packaged to meet this need and portfolio management approaches that can benefit from this. Both phases 2 and 3 support portfolio customisation and will potentially require changes to the roles of key players in the value chain such as asset managers, portfolio managers, advisers and custodians. Phase 3 has much greater dependency on broader market developments, and therefore **speedier progress is likely by focussing on Phase 2, which delivers the key benefit of customisation.**

Question 25: What processes within the fund and investment management lifecycle do firms want to begin to make 'composable'?

Automatic decisions and execution via smart contracts can generally be applied to any process that interoperates with another process and is amenable to smart contracts.

These are therefore likely to include:

- Buying/selling of assets
- Pricing and valuation
- Settlement and cash movement
- Rebalancing of portfolios
- Cash distribution and fee recovery

Question 26: How does 'composability' impact the liquidity profile of assets we currently think of as less liquid or illiquid?

Tokenising the cash flow associated with an otherwise illiquid asset could expand the market for private assets and alternatives, by tilting retail portfolios towards the more liquid components of such assets.

However, the inherent liquidity of the asset does not materially change – for example as you have mentioned the rental cash flow from real estate or the coupon from a long term bond could be tokenised and traded, but the underlying asset characteristics remain the same. Tokenised liquidity should not be equated with underlying asset liquidity. It may widen access and trading windows, but it is important to avoid creating a perception of enhanced liquidity where underlying market depth is unchanged.

Any material impact of this capability also requires sections of the market to develop e.g. long term investors keen on the core illiquid component and its pricing. This is similar to the way in which bond coupons are stripped and traded, with the underlying zero coupon bonds typically bought by sophisticated investment institutions.

Question 27: How might the tokenised portfolio management vision enhance consumer outcomes?

We anticipate better consumer outcomes in terms of:

- Greater investment **diversification** by blending in less accessible but attractive assets, including though fractional ownership and lower entry barriers
- **Speed** of investment (and disinvestment) and settlement
- A higher degree of **customisation**, rather than a one size fits all portfolio
- Greater **transparency** and visibility

A **lower cost** of investing could be added to this list, provided that some portion of the efficiency gains are passed on to consumers e.g. by way of reduced portfolio management fees. See also our repose to Q's 30/31 under disclosure where we flag the possibility of additional rather than lower cost.

Question 28: Do you foresee any other major changes to the role of asset managers or other market participants in a tokenised flows 'end-state'? What are the opportunities and risks

Taking Phases 2 and 3 as the "end state", **the role of market participants could change materially if pooled vehicles are disintermediated** and customised portfolios become the norm.

In addition to the potential changes already pointed out in the consultation, a few examples are:

- Asset managers may enter into or expand portfolio management activities to serve consumer needs for personalisation
- Mergers and integrations may increase across asset and wealth managers as well as advice firms aiming to tap new market propositions
- New value added activities to enable tokenisation may emerge such as the sourcing, structuring and packaging of tokenised assets and cash flows
- MPS and DFM services will evolve towards greater customisation for retail clients
- Key business capabilities are enhanced for managing complexity and greater oversight of third parties, smart contracts and cyber risks

Question 29: How might market integrity and financial stability risks evolve in the future tokenised portfolio management model?

The growth of public networks and interconnectivity carries a degree of risk to market integrity, which needs to be mitigated and managed. The risks below are **in addition to the basic technology risk** of coding errors or algorithm failure and cyber security risk.

- **Systemic resilience risks:**
  - Reliance on smart contracts that facilitate automated transactions.
  - Reliance on DLT platforms and third-party service providers for infrastructure; including the risk of interconnected service providers where operational failure or cyberattack affecting one provider could disrupt services across markets.

- **Market movement risk:**
  - Smart contracts potentially triggering correlated trades across products and networks, impacting asset valuations and market liquidity.
  - Risk of inappropriate outcomes due to the instantaneous execution of coded instructions without the possibility of oversight or judgement.
  - Liquidity mismatch and market dislocation, for example sudden shifts in liquidity or price discovery can lead to market dislocation, impacting both DLT and traditional markets.

- **Smart contract related risks**:
  - A bug in smart contracts could result in erroneous or malicious transactions potentially disrupting settlement, ownership records, or fund operations.
  - Other common risks associated with smart contracts such as oracle manipulation and re-entrancy attacks etc.
  - A useful reference is the Open Worldwide Application Security Project (OWASP) Smart Contract Top 10 (2025) which provides developers and security teams with insights into the top 10 vulnerabilities in smart contracts.
    - *OWASP Smart Contract Top 10 | OWASP Foundation*

- **Further interconnectivity risks:**

- Real world asset tokens can be used as collateral for trading or borrowing in crypto markets creating a direct linkage between regulated financial assets and decentralized platforms.
- Increased sharing and synchronization of sensitive data across interconnected platforms expands the attack surface for cyber threats and complicates the enforcement of consistent data privacy standards.

Question 30: What areas of the current funds framework will need to be recreated in the future vision? What areas could be simplified across different parts of the Handbook?
Question 31: What areas of the Handbook, or wider rules and legislation, do we need to reconsider to support the growth of the proposed tokenisation models?

We support an approach that maintains a **consistent over-arching regulatory framework and principles** (such as Consumer duty for investor outcomes and SMCR for individual responsibility) for participants and consumers, but with **appropriate flexibility and disapplication of detailed rules** as technology drives investor propositions.

The regulator will therefore need to be agile in adapting its rules for different solutions in order to support innovation and also protect investors.

Many retail investors are not digitally savvy and could mistakenly provide consent and confirm their understanding of products underpinned by complex technology. There is also the risk of a "legitimacy effect" wherein retail investors buy in to a solution mainly on the basis that it has regulatory approval. This calls for an emphasis on **ensuring simple explanations are provided and direct investor interface with the underlying technology is managed**.

In relation to tokenisation, examples of areas where we believe rules will need to be developed include:

- **Data privacy consistency with DLT**
  - Clear assignment of KYC responsibilities, determining which party is accountable for verifying and maintaining client identity information.
  - Additionally, address the "right to be forgotten", ensuring individuals can request deletion of their personal data.

- **Alignment of processes such as transfer and settlement**
  Rules should clarify how:
  - asset ownership is transferred,
  - settlement finality is achieved, and
  - discrepancies between on-chain and off-chain records are resolved.

- **Smart contract governance and protocols for deployment, maintenance, termination.**
    - Rules should distinguish between private and managed wallets, specifying the rights and obligations of each.
    - Regular audits of smart contracts must be mandated to identify vulnerabilities, ensure compliance with regulatory standards, and verify that contract logic aligns with investor disclosures and fund rules. Audits should cover both the code itself and the operational environment, including interactions with external systems and service providers.
    - All smart contracts should include procedures for pausing, modifying, or terminating their operation in response to coding errors, malicious activity, or regulatory intervention.
    - Governance should be through transparent protocols specifying who is authorized to act, with safeguards against abuse. Smart contracts should be designed with built in mechanisms to enable intervention and investor protection.

- **Roles and responsibilities of participants in the value chain**
    - In phase 2 and 3 models, the traditional roles of custodians, registrars and transfer agents will change and new rules and responsibilities will need to be framed. This includes clarifying liability, oversight, and operational duties in a tokenized environment.

- **Remedy for operational or other errors and identifying liability**
    - Rules should specify which party is responsible for consumer impact and redress in the event of unforeseen risk of network failure.

- **Transparency and investor disclosure**
    - All disclosures to investors should be clear, concise, and free of jargon, given the complexity of tokenized products and the underlying technology.
    - There is uncertainty at present as to the commercial model that firms may adopt. Tokenisation can introduce new recurring costs (such as oracle feeds, smart-contract audit cycles, blockchain write fees, validator-node costs, and custody/bridging infrastructure). Firms should clearly disclose these under Consumer Duty expectations and quantify their impact within product-governance assessments.
    - We suggest leveraging current frameworks such as fact sheets and the FCA's vision for greater flexibility in disclosure, to incorporate tokenisation.
    - **Key disclosure items unique to tokenisation that should be additionally included in a standard document e.g. a fund or share class Fact Sheet:**
        - The core features in simple language, including return and liquidity
        - Responsible parties for relevant activities and point of redress
        - Dealing frequency
        - Settlement timelines
        - Safekeeping and custody arrangements

  - Any additional or differential charges for tokenised features such as outside normal time limits trading
  - Platforms available for accessing the product
  - FOS coverage, fees, performance reporting etc.
  - Elaboration on specific risks such as smart-contract and networks

- **Value assessment**
  - The framework for value for money assessment should be adapted to allow for firms adopting tokenised models to assess expected benefits (quantifying cost efficiencies, operational-risk reductions, and growth potential) to ensure tokenisation delivers measurable improvements rather than purely technological enhancements.

- **Cross border framework and standards**
  - As tokenised assets will likely include international assets e.g. global equities, and secondary trading (especially in public networks) is not limited by jurisdiction, they will need to be consistent and interoperable.

- **The legal framework underpinning ownership and jurisdiction**
  - Particularly important for new cash flow based assets envisaged in Phase 3
  - The November 2021 Law Commission advice on the legal status of smart contracts concluded that the current framework supports smart contracts. However, it also flagged the need for further evolution in certain areas.
    - *Smart contracts – Law Commission*

Question 32: What should the FCA's role look like in this future vision?

As technology drives new products and processes**, the FCA will need to develop standards and rules appropriate for new technology,** while also monitoring the application of existing rules in the sector. This will require a twin commitment to both supporting innovation and ensuring the fair treatment of investors.

We also suggest that the **FCA considers the principle of technological neutrality in more detail**, for example should the FCA start reviewing the underlying technology as an element of supervision. Regulators should stay technologically neutral unless it is demonstrated that this principle no longer applies with enough scrutiny, hence the FCA's focus on desired outcomes under the principle of "same risk, same regulation". However, we should stay open to future evolution if technology itself requires it. Further investigation by a specific commission probably mandated by the appropriate authorities should inform the approach.

Some specific areas of FCA focus with regard to tokenisation should be interoperability, facilitating the availability of a digital settlement asset (e.g. stablecoin) and framing rules to mitigate the key risks outlined previously and referenced in our previous response to chapters 2-4.

APPENDIX II
About CFA UK and CFA Institute

CFA UK serves nearly 12,000 members of the UK investment profession. Many of our members analyse securities, manage investment portfolios, advise on investments, or are in roles responsible for investment operations or oversight.

Our role is to help investment professionals build and maintain their skills and competencies so that they are technically and ethically competent to meet their obligations to clients. We advocate for high standards of ethical and professional behaviour and our work with regulators, policymakers and standard setters is focused on skills, knowledge, and behaviour.

We are not a lobby group or a trade body. We are an independent, professional association whose mission is to 'educate, connect and inspire the investment community to build a sustainable future.'

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CFA Institute is the global association for investment professionals that sets the standard for professional excellence and credentials. The institute is a champion of ethical behavior in investment markets and a respected source of knowledge in the global financial community. Its aim is to create an environment where investors' interests come first, markets function at their best, and economies grow.

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