PUBLIC

3 July 2026

Matthew Thomson-Ryder
Capital Markets Division
Financial Conduct Authority
12 Endeavour Square London E20 1JN

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

Dear Mr. Thomson-Ryder,

CFA UK & CFA Institute letter in response to FCA and BoE's Call for Input on the Future of Tokenisation

We are writing in continuation of our engagement on this topic, including our two responses to FCA's consultation CP 25/28 on Fund Tokenisation, and CFA Institute's recent publications (Part 1 and Part 2).

- cfa-uk-and-cfai-letter-in-response-to-fcas-cp2528-progressing-fund-tokenisation--21st-nov-2025.pdf
- cfa-uk-and-cfai-letter-in-response-to-fcas-cp2528-progressing-fund-tokenisation-chapter-5--12-dec-20.pdf
- An Investment Perspective on Tokenization Part 1
- An Investment Perspective on Tokenization Part 2

Our response is in line with the belief expressed in the Part 1 publication above:
"Tokenization requires a balanced and holistic approach that fosters innovation and experimentation while ensuring consumer protection, financial stability, and market integrity. Such an approach entails developing clear and consistent rules and standards, promoting interoperability and compatibility, enhancing education and awareness, and fostering dialogue and cooperation among all stakeholders."

As the call for input is primarily aimed at firms operating in financial markets, we are limiting our response to the 4 questions set out below.

Question 1: Where do you see the most potential benefit to the UK market from tokenisation and why?

As reflecting the view of the investment professionals community, we assess benefit through the lens of its impact on the investment management industry. From this perspective, the most significant potential benefit of tokenisation to the UK market lies in its ***ability to improve the efficiency with which capital is channelled from investors to the real economy.***

The core function of the investment industry is to intermediate between surplus capital (from savers and asset owners) and its deployment into productive uses (via equity, debt and other securities). The following directly support the effectiveness of this function.

1. **Tokenised securities infrastructure benefit**: At present, this intermediation process is characterised by structural frictions across the trade lifecycle, including fragmented systems, delayed settlement, duplicated reconciliations and inefficient collateral mobilisation. This remains evident even in ongoing industry transitions such as T+1, which continue to present operational challenges for some UK firms. The vision set out in the paper—where securities issuance, trading, settlement and the associated cash leg become more closely integrated and synchronised—has the potential to reduce these frictions and improve market functioning. ***For investment managers, this translates into a more efficient environment for capital allocation, portfolio management and trade execution*.**

2. **On-chain payment and settlement rails**: A particularly important benefit of the proposals is the development of programmable settlement infrastructure anchored in central bank money, and its integration with tokenised securities markets. From an investment management perspective, the benefits of tokenisation are unlikely to be fully realised without this parallel evolution of the payment leg. Greater synchronisation between securities and cash enables faster or atomic settlement, reduces counterparty risk, and improves the efficiency of collateral and liquidity management. This has ***positive implications for portfolio construction and risk management, including reduced liquidity buffers, more efficient use of capital, and increased resilience in periods of market stress***.

More broadly, tokenised infrastructure has the potential to enhance capital market efficiency, transparency and operational resilience. Shared, high-quality data, automation of lifecycle events, and reduced reliance on reconciliation can strengthen the integrity of post-trade processes and reduce operational risk.

These developments are important as they support improved investor outcomes, reinforce fiduciary standards, and maintain trust in market integrity. ***Efficiency gains at the infrastructure level should ultimately accrue to end investors*** through lower costs, more reliable execution and improved access to investment opportunities. Fund tokenisation (as set out in PS26/7) illustrates how improvements in underlying infrastructure can translate into more efficient fund operations and distribution.

In sum, ***the most important benefit of tokenisation is not the digitisation of individual assets, but the modernisation of the infrastructure underpinning capital markets*** - enabling the investment management industry to perform its core role more efficiently and deliver improved outcomes for investors and the real economy.

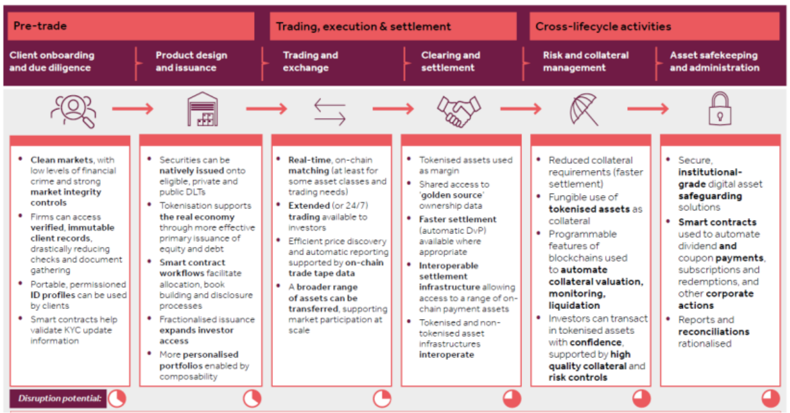
Question 2: Do you agree with the vision and regulatory principles we have set out in this paper?

We are broadly supportive of the vision set out in the paper, which aims to foster a robust wholesale ecosystem. We believe ***this is a necessary precursor to interoperability with traditional processes and participation*** (including retail investors) in tokenisation at scale.

We commend the intention to ensure high standards of market integrity, financial stability and consumer protection as part of the vision, lest these be diluted in the quest for innovation.

We however suggest some areas for greater clarity/emphasis, referencing your schematic below:

a. Establishment of a stable and consistent regulatory framework or "common rules and standards" for tokenised and non-tokenised processes should be reflected in the vision as this will also need to evolve over time.
b. Adding estimated timelines for different elements of the vision would be useful. We note your reference to a 5-10 year time frame for some segments of the market, and greater clarity would benefit firms and new entrants.
c. We note the absence of a) cyber security risk and mitigation and b) the risk of systemic failure that can spread across jurisdictions through connected systems, in your framework, and believe these are critical component to be embedded in the ecosystem vision and design.



Turning to regulatory principles, we support the ethos of a partnership between UK authorities, regulators, and market participants to move tokenisation from limited component testing (such as DSS) to adoption across the market. Initiatives such as the DIGIT pilot can provide valuable opportunities to test market infrastructure, on-chain settlement, custody and regulatory arrangements in realistic market conditions. ***The public sector can lay important infrastructure and process foundations for the development of scalable tokenised markets***. The continued development of central bank money settlement processes and infrastructure such as RT2, is another example.

We also support the principle of technological neutrality as a practical regulatory approach, but believe that the FCA also needs to be flexible as technology develops, and a one size fits all approach can impede innovation. We have therefore consistently ***advocated for regulation that is based on common non-negotiable principles but is agile enough with regard to the framing of specific rules*** to accommodate technological change and new products/processes. Some of these detailed rules will have to evolve over time with experience and learning as technology is adopted, rather than being codified up front.

We flag below some ***concerns and issues with the regulatory framework that require further clarity and thought.***

1. **Issuers and holders to have a direct relationship:** This will need further FCA and BoE consideration as non-native issuance can test this principle, given issues such as excess tokens vs underlying, legal ambiguity of holder rights, and disclosure obligations that can challenge the objective of clear, enforceable holder rights and claim structure. It is critical not to allow misrepresentation of these instruments vis a vis the underlying securities and their features such as liquidity and investor rights, and ensure the activity of issuance is undertaken by well organised and responsible players that are aware of the duty of care to investors. In the U.S., the SEC has noted that while the same securities law applies to non-native securities, they often involve additional counterparty and legal risks that must be assessed.

2. **Identifiable person accountability (including KYC/AML):** The challenge of identifying the responsible person has been noted. We would add the challenge of determining a UK presence to support regulation and the legal framework under UK laws to avoid jurisdictional ambiguity. AML is also an area where technological innovation may require the FCA to be more flexible in its detailed approach, while adhering to common key principles as existing rules may not be fit for purpose in controlling and yet supporting new processes.

3. **Operational resilience**: We expect existing regulatory requirements for market disruption to be applicable for tokenisation, as participant responsibilities (such as under SYSC) are clear. However, resilience of shared infrastructure, on chain processes and complex custody models will need to be under the regulators scrutiny as no one firm in the chain may be fully accountable.

4. **Best execution:** Regulatory expectations across tokenised ecosystem will need to be clarified by the FCA as the ability of all participants to monitor different on chain options, including offshore, may be limited.

5. **Record of ownership and final settlement:** While the role and accountabilities of DSD's will naturally evolve as a bulwark of the ecosystem, further consideration is required for assets not settled via a DSD.

Question 3: Do you agree with the priority areas we have identified, and our long-term ambition in each of these? Are there any other priority areas you think are important? and Question 7: Do you agree with our roadmap of initiatives and next steps? Is there anything else you would like to receive clarity on in our roadmap that is not in this paper, or any parts you would like us to prioritise?

We broadly agree with the priority areas you have highlighted, including a comprehensive regulatory regime, with our additional comments below.

a) <u>Payment infrastructure priority</u>

The greatest value will arise from the ***coordinated development of both tokenised securities and payment rails***, rather than progress in either area in isolation.

Infrastructure for settlement in central bank money and the proposed synchronisation service for instantaneous settlement by 2028 are important priorities. For systemic wholesale markets, settlement in central bank money remains the benchmark for minimising settlement-asset credit risk. Regulated stablecoins, tokenised deposits, and other money-like instruments may also play a role in some use cases, subject to appropriate safeguards.

The most compelling demonstration of tokenisation's potential could be public authorities ***showcasing end to end issuance, settlement, and custody of both native and non-native tokenised sovereign debt***.

b) <u>Interoperability – importance and consequences</u>

One of the most important drivers of adoption at scale and realisation of benefits will be interoperability between tokenised and traditional ecosystems. Scale is unlikely to be achieved only through tokenisation innovators and new entrants, and we also expect existing market infrastructures to retain a dominant role for some time, as digital infrastructures develop.

The coexistence of traditional and digital assets will encourage existing players to evaluate and participate in tokenisation and digitalisation where the investor and market-efficiency benefits are evidenced.

This however requires some ***essential conditions***:

- Seamless interoperability across platforms, asset classes and jurisdictions and the avoidance of liquidity fragmentation will be critical to ensuring that efficiency gains translate into deeper and more liquid markets.
- Regulatory alignment with existing legal and market structures. While the paper indicates that tokenised real-world assets should receive equivalent regulatory treatment where risks are comparable, institutional investors operating under fiduciary obligations will need to get comfortable with legal enforceability, settlement finality and their operational responsibilities before scaling participation.
- A robust custody framework to protect market participants and support tokenised and non-tokenised structures.

Interoperability also carries consequences that need to be understood and mitigated. The most important area to monitor is the impact of spillover risks from crypto asset markets into traditional finance. As tokenization deepens the links between crypto asset markets and traditional markets, risks such as stablecoin runs, custody losses and volatility could increasingly transmit into mainstream markets through shared infrastructure, common participants and tokenised collateral chains. ***We recommend that the FCA & BoE consider a forward-looking framework for monitoring these cross-market exposures,*** including data on tokenized real-world assets used as collateral and early-warning indicators of contagion before interconnections become material to market integrity.

Another consequence for consideration is the ***risk of mismatch between digital processes and underlying non digital components***. For example, digital payment rails for tokenised funds investing in non-tokenised assets creates a divergence between near instant payment settlement timelines and underlying asset liquidity which is often reckoned in days.

c) DSS priority

Another priority in our view is maximising the benefits of DSS. For example, this should also be used to ***confirm the role and accountabilities of DSD's***. Similarly, the use of stablecoins, and integrating payments with existing infrastructure can all be tested and evidenced in a live environment to prove to the market safe and successful end to end settlement of a native tokenised on chain security.

d) Additional priorities

We suggest the FCA and BoE also give consideration to the following:

1. Clearer ***articulation of the benefits case for tokenisation***, including by sector and by thematic area. This includes greater engagement with incumbent market participants (not only innovators or early adopters) so that adoption decisions are based on investor benefit and credible transition path.

2. Complete ***clarity around regulatory recourse for the end investor*** / consumer in the chain. Where retail investors may access tokenised instruments, the roadmap should clarify the application of the Consumer Duty, client asset protections, financial promotions rules and complaints/redress arrangements. For wholesale markets, it should clarify contractual and regulatory recourse across intermediated chains.

3. Keeping aligned with global infrastructure and regulatory trends, to ensure ***global interoperability*** in particular with regards to payments and custody and emerging areas such as FX and cross border payments.

4. Monitoring of legal / case developments to ensure ***regulation aligns with the legal framework***

Phased development

While we commend the work on additional initiatives to expand the use cases for tokenisation, in the spirit of prioritisation we question whether 24/7 settlement, cross border payments, and FX settlement are high priority areas with compelling benefit cases. These areas may be easier to add to the fold once the basics are in place.

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

We would be glad to work with the FCA/BoE to research and assess specific areas for example, ***the unintended consequences of interoperability***.

We consent to publication of our response.

Yours sincerely,

CFA Society of the United Kingdom

Nick Bartlett

Nick Bartlett, CFA, ASIP
Chief Executive
CFA Society of the UK

Amit Bisaria

Amit Bisaria, CFA
Professionalism and Ethics Adviser
CFA Society of the UK

CFA Institute

Olivia V.Fz

Olivier Fines, CFA
Head of Advocacy and Policy Research
CFA Institute

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 II
About CFA UK and CFA Institute

CFA Society United Kingdom

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.'

Founded in 1955, CFA UK is one of the largest member societies of CFA Institute. Most of our members have earned the Chartered Financial Analyst® (CFA®) designation. All our members are required to attest to adhere to CFA Institute's Code of Ethics and Standards of Professional Conduct.

For more information, visit www.cfauk.org or follow us on Twitter @cfauk and on LinkedIn.com/company/cfa-uk/

CFA Institute

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.

It awards the Chartered Financial Analyst® (CFA) and Certificate in Investment Performance Measurement® (CIPM) designations worldwide, publishes research, conducts professional development programs, and sets voluntary, ethics-based professional and performance-reporting standards for the investment industry.

CFA Institute has members in 162 markets, of which more than 170,000 hold the Chartered Financial Analyst® (CFA) designation. CFA Institute has nine offices worldwide and there are 158 local member societies.

For more information, visit www.cfainstitute.org.