

## The future of tokenisation - a joint vision from the authorities for UK wholesale financial markets

TheCityUK response to the call for input  
July 2026

### THECITYUK

TheCityUK is the industry-led body representing UK-based financial and related professional services. We champion and support the success of the ecosystem, and thereby our members, promoting policies in the UK and internationally that drive competitiveness, support job creation and enable long-term economic growth.

The industry contributes over 12% of the UK's total economic output and employs almost 2.5 million people, with two-thirds of these jobs outside London across the country's regions and nations. It pays more corporation tax than any other sector and is the largest net exporting industry. The industry plays an important role in enabling the transition to net zero and driving economic growth across the wider economy through its provision of capital, investment, professional advice and insurance. It also makes a real difference to people in their daily lives, helping them save for the future, buy a home, invest in a business and manage risk.

#### Acknowledgement

We would like to acknowledge the contribution of Clifford Chance for their leadership in drafting the response to Question 6. Their input has drawn on extensive expertise in digital assets, distributed ledger technology (DLT) and financial markets regulation, as well as their experience advising a broad range of market participants on the legal and practical considerations associated with the development of tokenised markets.

### Introduction

We welcome the publication of [The future of tokenisation: A joint vision for UK Wholesale Markets](#) by the Financial Conduct Authority (FCA) and Bank of England (BoE) Call for Input, and the opportunity to respond on behalf of our members. The outlined joint vision is an important milestone in establishing a shared strategic direction for the development of tokenised wholesale markets in the UK and reflects a clear recognition that coordinated action across government, regulators and industry will be essential to delivering this ambition.

This work comes at a critical juncture. Our report (in partnership with PWC), [No Time to Lose: Reasserting UK Leadership in Financial and Related Professional Services](#), highlighted both the significant opportunity and the urgency for the UK to reinforce its leadership position as wholesale financial markets become increasingly digital.

Against this backdrop, the appointment of Chris Woolard CBE as Wholesale Digital Markets Champion is an important step towards translating strategic ambition into delivery and establishing a clear mechanism for coordinating efforts across policymakers, regulators and industry. We are pleased to be supporting this work as part of the core group assisting with the

development of a roadmap for the tokenisation of wholesale markets. The No Time to Lose report, the Call for Input, the roadmap and subsequent delivery plans should be viewed as complementary and mutually reinforcing elements of a shared agenda to accelerate the development and adoption of tokenised wholesale markets in the UK.

As this work progresses, it will be important to maintain coherence across these initiatives and a consistent focus on practical implementation and commercially viable outcomes. Continued collaboration between authorities and industry will be critical to help ensure that policy ambition is translated into tangible market outcomes. Success will depend not only on establishing the appropriate legal, regulatory and market infrastructure frameworks, but on creating the conditions necessary to support adoption at scale, strengthen international competitiveness and maintain the UK's position as a leading global financial centre.

## Key messages

A number of consistent themes emerge across our responses to the questions in this Call for Input. Taken together, these actions will be critical to creating the conditions for sustainable adoption and ensuring that the UK remains a leading global centre for digital wholesale financial markets.

- **Accelerate delivery:** The pace of implementation will be critical to maintaining the UK's international competitiveness. Key market infrastructure and regulatory enablers should be delivered more quickly to support earlier adoption.
- **Move from pilots to live markets:** Greater clarity is needed on how successful initiatives can transition from testing environments into permanent regulated market structures.
- **Prioritise liquidity and secondary markets:** The success of tokenisation will depend not only on issuance, but on the ability to trade, finance and mobilise tokenised assets efficiently.
- **Provide legal and regulatory certainty:** Firms require greater clarity on prudential treatment, settlement arrangements, custody, client asset protection, tax treatment and supervisory expectations.
- **Embed interoperability by design:** Interoperability between traditional and tokenised infrastructure, alongside common standards, data and digital identity frameworks, will be essential to scaling markets.
- **Focus on high-value use cases:** Efforts should prioritise areas where tokenisation can address genuine market inefficiencies and build on the UK's existing strengths.
- **Measure success through market outcomes:** Progress should be assessed through indicators such as market participation, liquidity, collateral mobility, settlement efficiency and cross-border activity, rather than policy activity alone.

In addition, we would like to flag two points in relation to clarity of scope of the new UK regulatory regime for cryptoassets that impact on our responses to questions below.

- We believe references in the Call for Input to specified investment cryptoassets or "SICs", including in question 6, are imprecise. The cryptoasset safeguarding activity under Article 9N of the Regulated Activities Order (RAO)<sup>1</sup> applies to qualifying cryptoassets and the

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<sup>1</sup> Introduced by [The Financial Services and Markets Act 2000 \(Cryptoassets\) Regulations 2026](#)

narrower category of "relevant specified investment cryptoassets"(RSICs), which is consistent with the scope of draft FCA handbook text. If the FCA intends to apply an adjusted CASS 6 regime to the broader SIC category, this must be made considerably clearer to allow industry to provide meaningful feedback. For the purposes of this response we have assumed that is not the intention and that references to SICs should be read as RSICs.

- Broad definitions of "cryptoasset" and "qualifying cryptoasset" risk inadvertently capturing currently unregulated instruments within the regulatory perimeter simply by virtue of them being represented on-chain and may therefore have an unintended chilling effect on wider digitalisation efforts. We encourage the FCA and BoE to ask HM Treasury (HMT) to reconsider these definitions and introduce clearer exemptions or exclusions to ensure the regime reflects the underlying economic substance of instruments, rather than their technological form.

## Call for Input Questions

### **Question 1: Where do you see the most potential benefit to the UK market from tokenisation and why? Where do you see the main opportunities for tokenisation for your business?**

Tokenisation has the potential to deliver significant benefits across wholesale financial markets, both by improving the efficiency of existing market processes and by enabling new market structures and business models.

In the near and medium term, tokenisation offers opportunities to reduce operational friction, improve transparency and increase automation across market activities. This includes more efficient settlement, improved data quality, streamlined reconciliation processes and enhanced collateral management. There is also significant potential to improve the issuance, distribution and servicing of investment products, reduce operational complexity and support the development of more liquid secondary markets for traditionally illiquid assets.

Tokenisation could also accelerate broader market reform by supporting greater retail participation in wholesale markets, improving financial outcomes for households and making it easier for businesses to access funding and scale, particularly in equity and credit markets. In addition, some members see significant opportunities to increase transparency and traceability in traditionally opaque markets, such as private equity and private credit, helping to improve liquidity, strengthen price discovery and enhance market resilience through better access to information.

Over the longer term, the greatest opportunities are likely to arise from the development of integrated digital market ecosystems in which issuance, trading, settlement, collateral management and financing activities operate more seamlessly. Tokenisation has the potential to reshape how wholesale markets function by enabling assets, cash and collateral to move more efficiently across the financial system. It should therefore be viewed not simply as the digitisation of existing instruments, but as a broader transformation of market infrastructure.

Particularly promising areas include:

- More efficient collateral mobilisation and reuse
- Improvements in repo and securities financing markets
- Greater efficiency in post-trade and settlement processes
- Enhanced cross-border market connectivity
- Increased automation through programmable asset and payment functionality.

Tokenisation also presents an opportunity to strengthen the UK's position as a leading international financial centre. As digital market infrastructure develops globally, jurisdictions that establish trusted legal frameworks, effective regulation and commercially viable market structures are likely to attract a greater share of future market activity and investment.

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

We broadly support the vision and regulatory principles set out in the paper.

In particular, we support:

- Technology neutrality
- The principle that equivalent risks should receive equivalent regulatory treatment, with additional or alternative regulatory requirements only applied to the extent necessary
- Clear accountability and governance arrangements
- The coexistence and interoperability of traditional and tokenised market infrastructure
- The objective of maintaining financial stability while enabling innovation.

We welcome the recognition that tokenisation is likely to develop incrementally alongside existing market infrastructure rather than through immediate replacement of traditional systems. Given the scale, complexity and interconnectedness of wholesale financial markets, a period of coexistence between traditional and tokenised infrastructure is realistic.

We also support the emphasis placed on trusted governance, legal certainty and regulated market participation. Institutional adoption will depend not only on technological capability but on confidence in legal enforceability, settlement outcomes, custody arrangements and regulatory oversight.

At the same time, tokenisation should be viewed as a strategic market infrastructure opportunity rather than solely a technology initiative. The jurisdictions that enable trusted, liquid and scalable tokenised markets to develop are likely to secure important advantages in attracting future investment, market activity and innovation. This is particularly relevant given the network effects likely to emerge in tokenised markets. As liquidity, assets and participants concentrate within particular ecosystems, those ecosystems become increasingly attractive to new users. Supporting market development and liquidity at an early stage may therefore have long-term implications for international competitiveness.

The UK enters this transition from a position of considerable strength. Its legal framework, regulatory institutions and established wholesale markets provide a strong foundation for leadership in tokenised finance. The regulatory framework should therefore be assessed not only through the lens of risk management but also by its ability to support innovation, growth and international competitiveness.

In addition, we believe a further priority area should be the modernisation of the financial regulators' operating models. Achieving the benefits of tokenisation at scale will require the FCA and PRA to evolve their supervisory and regulatory approaches so that they can operate in increasingly digitised and on-chain environments. The benefits of the speed, programmability and automation enabled by tokenisation will be difficult to fully realise if regulatory processes continue to rely predominantly on traditional, manual and periodic approaches.

Our members would welcome a greater focus on developing digitally native regulatory capabilities. This could include machine-readable permissions accessible through application

programming interfaces (APIs) and smart contracts, real-time reconciliation and reporting for on-chain assets, and creating the foundations for portable KYC and AML credentials that can be reused across market participants. Over time, integrating regulatory reporting directly into digital market infrastructure could reduce operational burdens, improve data quality and provide regulators with more timely visibility of market activity. Embedding these capabilities alongside market development will be important to supporting adoption at scale while maintaining high standards of market integrity, resilience and consumer protection.

Overall, we support the vision set out by the authorities. The key challenge now is not simply demonstrating that tokenisation is technically feasible, but ensuring that the UK develops the legal, regulatory and market foundations necessary to become a leading centre for tokenised wholesale financial markets at scale.

**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?**

We broadly agree with the priority areas identified and support the authorities' long-term ambition for the development of tokenised wholesale financial markets. As the market evolves, however, greater emphasis should be placed on the development of market structures capable of supporting liquidity, financing and efficient capital markets activity. These factors are discussed below.

**Adoption and high value use-cases**

An additional priority area should be a greater focus on adoption, particularly considering commercially viable use cases. While infrastructure development and regulatory frameworks are essential enablers, success will depend on whether tokenisation addresses genuine market inefficiencies and delivers tangible benefits for issuers, investors and intermediaries. Prioritising high-value use cases where tokenisation can improve efficiency, reduce costs, increase transparency or broaden market participation will be key to driving sustainable adoption and demonstrating the value of digital market infrastructure.

In particular, the UK should prioritise areas where it already has established strengths and a clear opportunity to lead internationally. This includes wholesale markets such as fixed income, currencies and commodities (FICC), where tokenisation could enhance collateral mobility, improve settlement efficiency, support greater liquidity and reduce operational friction across market participants. Focusing on use cases that build on existing market infrastructure and address identifiable pain points is likely to deliver greater economic value than pursuing technology-led initiatives in isolation. This approach would also help accelerate the transition from pilots to live market activity and reinforce the UK's position as a globally connected and internationally competitive financial centre.

**Interoperability (also discussed in detail in question 5)**

Interoperability should be treated as a strategic priority rather than a technical consideration. Without effective interoperability, tokenisation risks creating fragmented pools of liquidity and isolated market infrastructures that replicate existing inefficiencies in digital form. Fragmented

markets could limit liquidity, increase operational complexity and reduce many of the benefits tokenisation is intended to deliver.

Interoperability is particularly important during the transition period in which traditional and tokenised infrastructures coexist. Market participants must be able to move assets, collateral and liquidity efficiently across both environments without introducing unnecessary friction or duplication.

The UK should therefore support common standards and frameworks that facilitate interoperability across:

- DLT networks
- Settlement systems
- Custody providers
- Trading venues
- Messaging and reporting standards.

### **Cross-border markets**

The UK also has an opportunity to play a leading role in shaping international standards governing legal treatment, settlement, custody, collateral management and digital asset interoperability. This is commercially significant because standards and legal frameworks often influence where firms choose to issue, trade and manage assets.

### **Settlement assets**

The availability of appropriate settlement assets remains critical to successful market development. The efficiency gains associated with tokenisation will only be fully realised if market participants have access to trusted and scalable settlement mechanisms capable of supporting wholesale market activity.

The authorities should therefore continue to support exploration of a range of settlement models, including:

- Central bank money settlement
- Tokenised deposits
- Regulated stablecoins.

### **Synchronisation mechanisms between tokenised and traditional payment systems**

We support a pragmatic approach that allows multiple forms of settlement asset to evolve in parallel while maintaining financial stability and confidence in settlement outcomes. Clarity regarding the role of different settlement assets and their interaction with existing market infrastructure will be an important factor in supporting adoption and investment.

## **Legal certainty, regulatory clarity and authorisation pathways**

In addition to the priorities identified in the paper, we believe greater emphasis should be placed on legal certainty and operational readiness as enabling conditions for market scale. The UK benefits from strong legal foundations and a trusted regulatory framework. However, firms continue to require greater certainty regarding issues such as custody arrangements, client asset treatment, settlement finality, prudential treatment, collateral eligibility and reporting obligations.

Where possible, regulators should seek to identify simple, targeted amendments to the regulatory framework that provide greater certainty on the treatment of tokenised assets. This should include consideration of the approach being developed by the European Commission through the Market Integration and Supervision Package (MISP), which aims to remove barriers and reduce fragmentation across European financial markets through targeted and proportionate reforms.

Alongside legal and regulatory clarity, firms would benefit from a clearer pathway from experimentation to live market deployment. The UK has developed a strong ecosystem of pilots and innovation initiatives, but there is a risk of "pilot fatigue" if successful use cases do not progress into scalable commercial activity. Providing greater visibility on authorisation pathways, regulatory expectations and routes to market will be important in supporting long-term investment and accelerating adoption.

## **Tax certainty**

Tax clarity and competitiveness remains one of the most important considerations influencing commercial adoption. Providing early clarity on the treatment of tokenised securities (including stamp duty implications), collateral transactions, tokenised funds and settlement arrangements would improve market confidence and support investment decisions. As tokenised markets develop, it will be important to ensure that uncertainty around tax treatment does not create unintended barriers, distort outcomes or discourage firms from developing and conducting activity in the UK.

## **Operational Resilience**

An additional priority area should be operational resilience and governance. As tokenised markets evolve from pilots and experimentation into live market infrastructure, greater clarity will be needed on resilience expectations, governance arrangements and the role of critical third-party providers. Providing early guidance in these areas will help firms make investment decisions with confidence and support institutional adoption at scale, while ensuring that high standards of market integrity and operational resilience are maintained.

## **DeFi considerations**

Another area that should be prioritised for consideration is decentralised finance (DeFi) and, in particular, the increasing use of automation, smart contracts and algorithmic liquidity provision (including automated market makers and liquidity pools) and how these should be accommodated within the regulatory framework.

In our view, greater clarity is needed on how regulated firms can deploy and interact with smart contract-based systems in a compliant manner, including in the following areas:

- There is a need to clarify when smart contract functionality may constitute regulated activities (e.g. execution, dealing, arranging, custody-like control) and how responsibility and accountability attach where functions are automated. This includes consideration of how existing frameworks (such as SMCR, outsourcing/third-party risk, operational resilience) apply to code-based systems that may be partially immutable and distributed.
- Regulated firms are increasingly exploring participation in, or deployment of, automated liquidity mechanisms (such as automated market makers or tokenised liquidity pools). Guidance would be helpful on how such models align with existing requirements on best execution, client asset protection, market abuse, and prudential risk, particularly where pricing and execution are determined algorithmically rather than through traditional order books.
- Understanding how firms can evidence adequate governance and control over automated systems is crucial. This could include regulatory expectations around code audits, formal verification, upgrade mechanisms, incident response, and ongoing monitoring. Clear, outcomes-based expectations would support safe adoption while avoiding unnecessary technological constraints.

## **Look Ahead**

The most significant benefits of tokenisation are unlikely to arise from issuance alone. A tokenised security has limited utility if it cannot subsequently be traded, financed, used as collateral or integrated into broader market liquidity and funding arrangements. The long-term success of tokenisation will therefore depend on the development of active secondary markets and supporting market infrastructure.

## **Future policy initiatives should prioritise:**

- Secondary market trading
- Securities financing transactions
- Collateral mobilisation and reuse
- Market-making activity
- Liquidity formation
- Efficient post-trade processing and settlement.

Particular attention should be given to developing the infrastructure and market practices necessary to support liquidity. Deep and efficient secondary markets will be critical to achieving scale and attracting participation.

**Question 4: To what extent is regulation preventing you from offering tokenised securities products in or from the UK? Are there any specific rules and regulations you would like to see changed?**

The primary challenge is not necessarily the existence of regulation, but the absence of certainty regarding how existing and future regulatory frameworks will apply to tokenised market structures at scale.

The UK has made significant progress in recent years through initiatives such as the development of the Digital Securities Sandbox framework, legal reforms relating to digital assets, and ongoing engagement by HMT, the FCA and the BoE. These initiatives are helping to provide confidence that tokenised securities can operate within the UK's legal and regulatory framework.

However, many firms have now moved beyond assessing technical feasibility and are considering whether tokenised market structures can support sustainable, scaled, regulated commercial activity. Firms will benefit from greater certainty regarding how tokenised activities will operate in practice and how regulatory expectations will apply in production environments.

In particular, uncertainty remains regarding:

- Custody arrangements
- Client asset protection requirements
- Settlement finality
- Prudential treatment
- Capital requirements
- Company law requirements
- Collateral eligibility
- Reporting obligations
- Tax treatment
- The interaction between tokenised and traditional market infrastructures
- Supervisory expectations for tokenised market participants.

These issues are particularly important because tokenisation affects not only individual products but also market infrastructure, post-trade processes and market-wide operational arrangements. Institutional adoption is therefore likely to depend on confidence that legal rights, operational processes and regulatory outcomes remain predictable throughout the asset lifecycle.

The UK Law Commission, in its June 2023 final report on digital assets<sup>2</sup>, recommended that "it would be beneficial for the laws governing the tokenisation of equity and other corporate securities by UK companies to be reviewed", including the consideration of "reforms expressly recognising and supporting the use of crypto-token networks (including public, permissionless ledgers maintained thereon) for the issuance and transfer of tokenised securities". The report stated that such a review "could usefully be undertaken alongside the development of a crypto-token and cryptoasset collateral regime and the FCARs reforms... to ensure that UK financial

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<sup>2</sup> <https://cdn.websitebuilder.service.justice.gov.uk/uploads/sites/54/2025/12/Final-digital-assets-report-FOR-WEBSITE-2.pdf>

markets remain internationally competitive and capable of harnessing the full potential of these innovative technologies".

We recognise that this and some of the other areas flagged will require legislative change, which goes beyond the remit of the FCA and the BoE. We therefore encourage regulators to work closely alongside HMT in considering and addressing these.

The next phase of regulatory development should focus on providing executable certainty . Market participants need confidence not only that tokenised securities are legally recognised, but that the practical consequences of issuing, holding, transferring, financing and settling those assets are clearly understood and supported by legal and regulatory frameworks, both within and outside of the Digital Securities Sandbox (DSS).

Particular attention should be given to areas that are fundamental to market scale, including the treatment of collateral, settlement arrangements, custody models, prudential requirements and the interaction between tokenised and traditional infrastructures. These questions become increasingly important as firms seek to integrate tokenised assets into core business activities .

Greater clarity is needed regarding the long-term regulatory pathway for tokenised market activity. The Digital Securities Sandbox (DSS ) has played an important role in facilitating innovation and experimentation. However, it is not the most appropriate or effective route for all tokenised securities products/offerings. It is important that firms are also able to continue innovating effectively outside the DSS, i.e. that it does not operate as a barrier in practice by delaying overall regulatory change. While many firms are already innovating successfully within the existing framework, more support and regulatory engagement outside the DSS is crucial to help this continue. In addition, firms require greater certainty regarding how successful use cases can transition from sandbox environments into permanent regulated market structures. A clear and predictable pathway from experimentation to commercial deployment would help reduce regulatory uncertainty, address the risk of "pilot fatigue" and encourage investment in production-scale infrastructure and market development. Providing greater clarity on future authorisation pathways and supervisory expectations would also support earlier commercial adoption.

## **Wider tokenisation implications - definition of cryptoasset and qualifying cryptoassets**

A fundamental issue exists in relation to the definition of "qualifying cryptoasset" under the Cryptoasset Regulations, and the underlying definition of cryptoasset under the Financial Services and Markets Act 2000 (FSMA), that may inadvertently create a disincentive for wider digitalisation within wholesale markets beyond securities.

On the assumption that the UK government and regulators want to encourage market participants to create as much documentation as possible (digitally and potentially on chain using DLT and similar technologies), it is important that regulation facilitates this. It needs to be possible for documents that are not regulated in traditional form to continue to be treated as not regulated where they are represented in token form. This is not the case based on the existing drafting of these definitions.

By way of illustration, there exist different types of financial markets arrangements which include documentation that is currently not regulated, a prime example being loans. Similarly, even in the context of regulated instruments and transactions, there is often ancillary documentation that is currently not treated as regulated, such as guarantees or promissory notes. Each of these instruments may confer value and/or rights in the general sense. Given the broad definition of cryptoasset under FSMA and the slightly narrower definition of qualifying cryptoasset under the Cryptoasset Regulations, there is a risk that where instruments such as these are represented on chain, they could fall within the scope of those definitions. Depending on the specific circumstances, there is a risk that would trigger obligations under the Cryptoasset Regulations for one or more parties to the transaction, which may not be intended from a policy perspective.

This approach creates an effective barrier to innovation as every time something is created on chain, you need to be certain that it is capable of being scoped out. If there is no certainty that an instrument would be out of scope, there is no incentive to put it on chain. This is one risk of regulating technology not substance.

The solution for this would be for HMT to reconsider the application of the definitions of "cryptoasset" under FSMA and "qualifying cryptoassets" under the Cryptoasset Regulations and either provide further express exemptions or exclusions or propose another way of scoping out things that should not be regulated merely because they are represented on chain. We encourage the FCA to request this and support HMT to find an effective solution. The exception in the definition of 'qualifying cryptoasset' for a token that is solely a record of value of contractual rights may be helpful in some cases. A more precise delineation of these definitions would help to ensure that the regime is aligned with the underlying economic substance of instruments and does not inadvertently create barriers to legitimate digitalisation.

## **Regulatory certainty and enabling a level playing field**

While not directly relevant to the Call for Input questions on the tokenisation of the wider financial ecosystem, cryptoasset activities are a key enabler towards this end. As such, some key issues with the current regulatory treatment may act as significant impediments to the development of both the cryptoasset and wider tokenised markets in the UK. This includes:

- **Prudential misalignment:** Under current proposals, the PRA and FCA will be taking extremely different approaches to the prudential treatment of cryptoasset exposures. While difficult to compare on a like-to-like basis, it seems apparent that capital requirements for FCA solo-regulated firms will be materially lower than for dual-regulated firms. This lack of a level playing field will distort the market and encourage customers in cryptoassets towards smaller firms and new entrants who may, as a result, be able to offer a wider range of products and services at a lower cost. We believe that it is important to clients and the safe and effective scaling of markets that all firms are able to offer these products and services on a level playing field.
- **Support crypto-native firms to access banking services:** Some members believe that greater attention should be given to supporting crypto-native firms and fintechs in accessing core banking services and reducing consumer barriers that reinforce negative perceptions of distributed ledger technology (DLT) and digital assets. Their view is that broader adoption of tokenised financial products will depend on participants being able

to access essential financial services and operate on a level playing field alongside incumbent institutions. International experience so far indicates that there is value in creating an environment where digital assets are treated as a mainstream component of financial markets, subject to appropriate safeguards. In some jurisdictions stronger engagement between banks and digital asset firms has helped support adoption, innovation and competition across the ecosystem. Some members therefore believe that the UK should foster a similarly supportive environment, while maintaining its high standards for financial stability, market integrity and consumer protection.

Addressing these barriers will help unlock wider participation in tokenised markets, as well as supporting innovation by new entrants.

More broadly, the UK should ensure that regulatory clarity becomes a source of competitive advantage. As tokenised markets develop internationally, jurisdictions that provide clear, predictable and operationally workable regulatory frameworks are likely to attract a greater share of future market activity, investment and innovation. Regulatory certainty should therefore be viewed not only as a prudential objective, but an important enabler of competitiveness and market growth.

**Question 5: Where and how is interoperability most important for your firm? What domestic and international initiatives – including international standards - be most valuable?**

Interoperability is fundamental to the long-term success of tokenised markets and should be viewed as a strategic market structure objective. The UK has already demonstrated the technical feasibility of tokenised securities and related market infrastructure. The next challenge is ensuring that these emerging infrastructures can operate as part of a coherent and connected market ecosystem. Without effective interoperability, tokenisation risks creating fragmented pools of liquidity and isolated market infrastructures.

This is particularly important because tokenised markets are likely to exhibit strong network effects. As liquidity, assets and market participants become concentrated on particular infrastructures, those infrastructures become increasingly attractive to new users. While network effects can support market growth, they may also contribute to fragmentation if assets and liquidity become trapped within isolated systems. Equally, there is a risk that activity becomes concentrated within a small number of dominant ecosystems, reducing competition and limiting market choice.

The UK should therefore seek to promote interoperability from the outset as a means of supporting liquidity, competition and market efficiency. In our view, interoperability is one of the key enabling conditions for the development of scalable tokenised markets.

Interoperability should be considered across several dimensions, as follows.

**Traditional and tokenised infrastructure**

For the foreseeable future, tokenised and traditional market infrastructures will coexist. Market participants must be able to move between traditional and tokenised environments throughout

the transition period. This includes interoperability across trading, settlement, custody, collateral management and reporting processes.

The success of tokenisation is likely to depend not on replacing existing infrastructure immediately but on integrating digital and traditional market structures in a way that allows assets, cash and collateral to move efficiently across both environments.

## **Interoperability between DLT platforms**

The market is unlikely to converge immediately around a single technology stack or network. Assets should therefore be capable of moving efficiently between different infrastructures without creating operational complexity, legal uncertainty or liquidity fragmentation. Market participants should not be required to choose between competing ecosystems that cannot interact with one another.

The development of common technical standards, messaging frameworks and market practices will be important in supporting interoperability between different DLT environments and reducing the risk of fragmented liquidity.

## **Settlement asset interoperability**

The availability of interoperable settlement mechanisms will be critical to market development. Tokenised securities markets are likely to involve multiple forms of settlement asset, including:

- Central bank money
- Tokenised deposits
- Regulated stablecoins
- Synchronisation mechanisms connecting traditional payment systems and digital asset infrastructure.

Interoperability between these settlement mechanisms will be essential to ensuring efficient settlement and avoiding fragmentation between different market infrastructures. The priority should be ensuring that different forms of settlement asset can operate together in a safe, efficient and scalable manner.

## **Interoperability of collateral and post-trade processes**

An additional area that warrants particular attention is interoperability across collateral, securities financing and post-trade workflows. The economic benefits of tokenisation are likely to depend heavily on the ability of market participants to mobilise collateral efficiently across trading venues, custodians, central counterparties and settlement infrastructures. Interoperability should therefore extend beyond asset transfer and settlement to encompass broader market functions such as collateral management, repo activity and securities financing transactions. This will be particularly important if tokenised assets are to become integrated into mainstream wholesale market activity.

## **Cross-border interoperability and international standards**

Cross-border activity represents one of the largest long-term opportunities associated with tokenisation, particularly for the UK. Tokenisation has the potential to reduce frictions associated with international issuance, trading, settlement and collateral movement. However, these benefits will only be realised if jurisdictions develop sufficiently compatible legal, regulatory and operational frameworks.

The UK should therefore continue to play an active role in international initiatives that seek to establish common standards for:

- Asset representation
- Messaging
- Identity
- Settlement
- Custody
- Legal recognition
- Compliance processes
- Collateral management.

This is more than a technical exercise. The standards, legal frameworks and market practices established during the early stages of tokenisation are likely to influence where firms choose to issue, trade, service and manage assets in the future. The UK therefore has an important opportunity to help shape the international architecture of tokenised wholesale markets.

Projects such as Project Guardian, Project Agorá and related international initiatives provide valuable opportunities to develop practical interoperability solutions and should continue to receive strong support.

As tokenised markets are inherently global, achieving scale will depend on seamless connectivity across jurisdictions, market infrastructures and settlement models. Some members note that other jurisdictions have moved faster in developing market practices and standards, creating a degree of first-mover advantage. While the UK should continue to aim for a leading role in shaping international standards, it will also need a pragmatic approach that recognises and accommodates standards already emerging elsewhere.

Rather than seeking a single global standard, some members suggest that the UK should develop domestic frameworks that can integrate international standards in a modular or compartmentalised manner. This would position the UK as a hub capable of connecting different global infrastructures and settlement rails, supporting interoperability without requiring full harmonisation across jurisdictions. Such an approach would strengthen the UK's role as an international financial centre by enabling firms to operate across multiple networks, reducing fragmentation, supporting liquidity and facilitating efficient cross-border capital flows. It would also help to ensure that UK market infrastructure remains adaptable as global standards continue to evolve.

## Standardisation

Alongside broader interoperability initiatives, greater emphasis should be placed on common approaches to data standards, digital identity and permissions as essential foundational building blocks. Consistent standards in these areas would reduce operational friction, strengthen trust between market participants and support the seamless exchange of information across market infrastructures. Prioritising standardisation alongside interoperability initiatives will help to create a more connected, efficient and scalable tokenised ecosystem.

Overall, interoperability should be viewed as a foundational requirement for market development. The success of tokenisation will depend on the ability of those assets, settlement mechanisms, market infrastructures and participants to interact seamlessly within a liquid and globally connected financial ecosystem.

**Question 6: How should safeguarding requirements for SICs be designed to deliver adequate client asset protection, while remaining proportionate, technology-agnostic and supportive of market development? Please consider whether and where safeguarding requirements should differ by type of SIC, how clients' ownership rights can be protected in the absence of external parties, such as a registrar, CSD or digital securities depository that ensures legal ownership of SICs is accurately recorded and updated, and how safeguarding frameworks should support fungibility, interoperability and clear accountability as tokenised issuance, trading and post-trade models evolve.**

We are concerned that the reference in this question, and throughout the Call for Input, to "SICs" and "specified investment cryptoassets" is imprecise. Those references should instead be to "relevant specified investment cryptoassets". Relevant specified investment cryptoassets (RSICs) are defined in Article 9N(5)(b) of the RAO and are a narrower subset of SICs. Our reading is consistent with the scope of the new cryptoasset safeguarding activity in Article 9N of the RAO which is triggered when a person is safeguarding a relevant specified investment cryptoasset (or qualifying cryptoasset), or arranging for another person to carry on that activity. Although there are some discrepancies when considering the contextual sections of FCA Consultation Paper CP26/4 (e.g. in chapter 10), this reading is also consistent with the scope of the draft FCA handbook text including CASS 17 set out in the Appendix.

We have therefore drafted our response below on the assumption that the Call for Input references to SICs are intended to refer to RSICs. If the FCA's intention is to apply an adjusted version of CASS 6 to the wider category of SICs, rather than RSICs, this must be made much clearer so that industry and market participants can accurately assess and provide appropriate feedback.

We welcome the FCA's confirmation in the Call for Input that it is not taking forward the proposal to apply CASS 17 to RSICs. In our view, this approach is critical to ensuring that tokenised securities are subject to a consistent and well-understood client asset protection regime and avoids unnecessary and unhelpful fragmentation between traditional and tokenised markets.

We support an outcomes-based safeguarding framework for RSICs that amends the existing requirements under CASS 6 only to the extent necessary to deliver a level of client asset

protection that is equivalent to the current protections required for traditional financial instruments. We agree with the FCA that any such divergence to existing rules should be proportionate, technology-neutral and capable of evolving alongside tokenised market structures.

## **Overall design principles**

Safeguarding requirements for RSICs should be guided by the principles that:

- Tokenisation should not alter the underlying custody outcome, and
- Firms should be able to apply many existing CASS 6 concepts such as segregation of client assets from the custodian's own assets, record-keeping, reconciliation and client money protections in a technologically neutral manner (and some have started to do so under the existing framework already).

It is crucial that the amended framework avoids introducing additional or parallel safeguarding constructs (e.g. those developed for qualifying cryptoassets under CASS 17) where the risks are already addressed under CASS 6. Any adaptations to CASS 6 should be targeted and proportionate, addressing operational differences arising from DLT to the extent necessary to ensure the same regulatory outcome and protections for client assets, without changing the underlying legal characterisation of custody or introducing new legal requirements such as a trust. The framework should not require the use of specific custody models or technical architecture and should avoid requiring firms to operate parallel custody infrastructures solely because an instrument is tokenised, since this would increase operational complexity and costs for both firms and clients.

This approach is essential to ensure regulatory consistency, operational efficiency and international competitiveness, particularly where both tokenised and non-tokenised instruments are held within the same custody infrastructure, which is likely to be the preferred method of operation for many firms and clients.

It is also important that safeguarding requirements are carefully calibrated to avoid unintended barriers to entry for firms wishing to provide custody of RSICs, which could reduce competition and slow the development of UK tokenised markets.

## **Proposed adjustments to safeguarding rules for DLT environments**

The key CASS 6 protections - such as segregation, record-keeping and reconciliation - remain central in a tokenised environment. However, it would be helpful for the FCA to provide further clarification on how these will operate in practice for DLT-based client assets. For example, greater clarity is needed on how client assets should be segregated from a custodian's own assets in both the custodian's records and those of any delegate, as currently required under CASS 6, when assets are held in wallet-based or token-based systems. This includes the use of omnibus client accounts by custodians and their delegates. Clarification would also be helpful on how firms should maintain books and records that link client entitlements to on-chain positions, and how reconciliation processes should operate between on-chain records and firms' internal systems. In addition, the FCA should confirm that on-chain ledgers can be recognised as official books and records, provided they meet the relevant regulatory

requirements. This would support a technology-neutral approach and avoid the unnecessary duplication of record-keeping obligations where DLT systems can achieve equivalent regulatory outcomes.

Any new or adjusted framework should recognise that in DLT systems, legal ownership may not be determinable solely by reference to a central register, and that safeguarding may therefore depend on control of private keys or protocol-level permissions. The adjusted rules will also need to distinguish between circumstances where a firm is holding assets on behalf of clients, in a manner consistent with traditional custody models, versus where it only has contractual or control-based arrangements with clients, where it has an obligation to deliver assets but does not hold them. The adjusted rules should also distinguish between purely crypto-based assets, such as Bitcoin and Ether, and tokenised securities, such as tokenised money market funds. In the former case, assets function as publicly visible bearer instruments, making key management a particularly critical component of safeguarding arrangements.

The relevant characterisation and regulatory framework for any token should always be based on the rights conferred by the token. For example, if a token is used solely for record-keeping purposes, it may fall within the exception in the definition of "qualifying cryptoasset" for a token that is not solely a record of value or contractual rights. Such tokens would therefore also fall outside the definition of a SIC and RSIC under the Cryptoasset Regulations. This and similar distinctions should be recognised in order to assess which safeguarding regime should apply for any particular token.

Where no external registrar or central securities depository exists, firms should be required to demonstrate:

- Robust, auditable internal records linking client entitlements (under the terms in place with the firm) to on-chain holdings;
- Clear legal characterisation of clients' rights as against the firm (e.g. beneficial ownership, trust interests, or contractual claims to assets); and
- Operational arrangements that would ensure the separation of client assets from the custodian's own assets in an insolvency of the custodian, including effective segregation of keys and wallets.

## **Dematerialisation Action Taskforce (DEMAT)**

We believe that a key stepping stone to achieving a modern UK regime for tokenisation is ensuring that the government's Dematerialisation Action Taskforce (DEMAT) moves at pace to deliver its commitment to model three - a fully intermediated system of shareholding - by the end of this parliament. This structure provides the optimal foundation the UK needs for future tokenised markets. The market has already largely converged in practice, and completing DEMAT's objectives by bringing the remaining certificated positions into the central infrastructure would complete that transition. An ongoing requirement to maintain parallel issuer registers would lock in duplication, cost and operational risk. A single register enables the modern, machine-readable infrastructure required for efficient issuer-intermediary interactions, improved interoperability and the development of tokenised securities. We believe that swift progress towards DEMAT's objectives and a fully intermediated system of shareholding is essential to underpin tokenised markets.

## **Accountability and governance**

We agree that clear accountability remains essential for RSICs and, therefore, that outcomes under CASS 6 for RSICs should remain equivalent to those for traditional financial instruments. For example, existing governance and oversight expectations under CASS 6 (including senior responsibility for client assets) should continue to apply and firms should retain end-to-end responsibility for their compliance with regulatory requirements in respect of safeguarding, including where functions are supported by third-party technology or infrastructure providers.

### **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 support the roadmap and welcome the significant progress already made through initiatives such as the DSS, Digital Gilt Instrument (DIGIT), the Synchronisation Lab, the DLT Innovation Challenge and related programmes. Taken together, these initiatives have established many of the foundations required for the development of tokenised wholesale financial markets in the UK. The UK has demonstrated its ambition for leadership in exploring the legal, regulatory and technical dimensions of tokenisation and has created a strong environment for experimentation and industry engagement.

The next phase of policy development should focus on creating the conditions for adoption at scale and with pace. This requires a shift in emphasis from individual pilots and proofs of concept towards market development, infrastructure readiness, legal certainty and commercial deployment, with a clear timeline and sequencing for each stage.

### **Accelerate the pace of implementation**

The pace of implementation will be critical to the UK's ability to remain internationally competitive. While it is important to establish robust frameworks, there is a risk that lengthy timelines could act as a barrier to adoption if key market enablers are not available for several years. This aligns with broader industry calls for the UK to move faster and more decisively in translating policy ambition into tangible market outcomes.

Some members highlight as a concern the timeline for developing final prudential rules following international workstreams, including the Basel Committee on Banking Supervision's announcement of an expedited targeted review of its cryptoasset standard. While the PRA's May 2026 Dear CEO letter on "Prudential treatment of tokenised assets, stablecoins, and other cryptoasset exposures"<sup>3</sup> was welcome, greater ongoing clarity is needed on the treatment of stablecoins and other settlement assets, with a preference for applying equivalent regulatory treatment to traditional market infrastructure where risks are comparable. Delays in providing certainty could discourage investment, limit the development of practical use cases and risk the

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<sup>3</sup> <https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/letter/2026/tokenised-assets-stablecoins-and-other-cryptoasset-exposures>

UK falling behind other jurisdictions that are moving more quickly to establish digital market infrastructure.

A similar acceleration should be considered for initiatives such as DIGIT, Synchronisation and other market infrastructure programmes. A greater focus on delivering minimum viable capabilities that can be deployed in live environments at an earlier stage would be welcomed, even if adoption is initially limited in scale. Establishing functioning infrastructure early would enable firms to build, test and iterate solutions, creating market confidence and supporting wider adoption over time.

### **Prioritise secondary markets, collateral and liquidity**

We believe the roadmap should place greater emphasis on secondary market development. The long-term value of tokenisation will depend on whether tokenised assets can be traded efficiently, financed, used as collateral, and integrated into broader liquidity and funding markets.

Future initiatives should therefore focus not only on issuance but also on:

- Secondary trading
- Liquidity formation
- Market-making activity
- Repo markets
- Securities financing transactions
- Collateral mobilisation and reuse
- Post-trade efficiency
- Settlement infrastructure.

The development of liquid secondary markets is particularly important because tokenised markets are likely to exhibit strong network effects. Jurisdictions that successfully establish deep liquidity and active market participation are likely to attract a larger share of future issuance, investment and market activity. In this context, DIGIT should be viewed not only as an issuance initiative but as a catalyst for broader market development. The programme presents an opportunity to demonstrate how tokenised assets can support secondary market liquidity, collateral mobility, repo activity and more efficient settlement processes.

### **Provide legal and regulatory certainty**

Legal certainty remains a critical prerequisite for institutional adoption. The UK benefits from strong legal foundations and a trusted regulatory framework. However, firms continue to require greater clarity regarding several issues that are central to commercial deployment, including:

- Settlement finality
- Prudential treatment
- Custody obligations
- Company law obligations
- Client asset protection
- Collateral eligibility

- Reporting frameworks
- Tax treatment
- Supervisory expectations for tokenised market activity.

In our view, the next phase of policy development should focus on translating broad legal confidence into operational certainty. Market participants need confidence not only in the legal status of tokenised assets but also in the practical consequences of issuing, holding, financing, transferring and settling those assets within regulated markets, including outside of the DSS.

## **Support interoperability and market infrastructure**

As discussed above, interoperability should be recognised as a foundational requirement for market development. The UK is unlikely to move directly from traditional market infrastructure to a single tokenised environment. For the foreseeable future, traditional and tokenised infrastructures will coexist and interact. Ensuring seamless interoperability between these systems will therefore be essential to avoiding fragmentation and supporting liquidity.

The FCA and the Bank of England should ensure that their work continues to support:

- Technical interoperability across DLT platforms
- Interoperability between traditional and tokenised infrastructure
- Common standards and market practices
- Cross-border interoperability initiatives
- International standards development
- Integration of settlement, custody and collateral frameworks.

This is not simply a technical challenge. The standards, legal frameworks and market practices that emerge during the early stages of tokenisation are likely to influence where firms choose to issue, trade and manage assets in the future.

## **Maintain a focus on competitiveness and market growth**

We encourage the authorities to continue viewing tokenisation through the lens of market competitiveness as well as risk management. The UK has a significant opportunity to establish itself as a leading centre for tokenised wholesale financial markets. Achieving this ambition will require sound regulation, financial stability and a sustained focus on market development, commercial adoption and international competitiveness.

The roadmap should therefore be assessed not only by the number of pilots completed or regulatory initiatives launched, but by its success in fostering liquid, interoperable and commercially sustainable tokenised markets operating at meaningful scale in the UK.

## **Measure progress**

Finally, consideration should be given to how the success of the UK's tokenisation strategy will be measured. In addition to tracking policy initiatives and pilot activity, success should be assessed against tangible market outcomes. Relevant indicators could include levels of market

participation, liquidity, collateral mobility, settlement efficiency and cross-border activity, alongside the growth of tokenised assets and market infrastructure. Establishing clear measures of success would help ensure that efforts remain focused on delivering practical benefits to the real economy and provide a transparent framework for assessing the UK's international competitiveness over time.

**Question 8: Are there any new products you would like to discuss with us, in particular any early-stage initiatives and experiments, where you would find early engagement with the regulators particularly useful?**

We would welcome continued engagement regarding products, market structures and infrastructure models that have the potential to demonstrate end-to-end tokenised market functionality and support the development of liquid, scalable wholesale markets.

While individual tokenised products are important, we believe the greatest opportunities are likely to arise where tokenisation enables broader improvements across issuance, trading, settlement, collateral management and market liquidity. As a result, we would particularly encourage continued engagement on use cases that demonstrate how tokenised assets can operate within integrated market ecosystems.

Areas that we believe warrant further exploration include:

- Tokenised gilts and sovereign debt
- Tokenised bonds
- Tokenised money market funds
- Tokenised deposits
- Regulated wholesale stablecoins
- Repo and securities financing transactions involving tokenised collateral
- Cross-border issuance and settlement arrangements
- Programmable collateral management solutions
- Tokenised fund structures
- Institutional settlement infrastructure
- Digital asset custody and market infrastructure solutions.

The most valuable future use cases will be those that test complete market workflows. Examples include initiatives that combine issuance, trading, settlement, collateral management and financing activity within a single market ecosystem.

### **Tokenised prediction markets**

Some members view early regulatory engagement on the development of DLT-based prediction markets as important. Internationally, regulators are actively considering this topic, highlighting the growing relevance and urgency. For example, the European Commission's work to determine the appropriate regulatory treatment of DLT-based prediction markets.

From a UK perspective, the key issue is regulatory perimeter clarity. Greater certainty is needed on whether products traded on DLT-based prediction market platforms constitute financial

instruments and, consequently, which regulatory framework should apply. If these products are considered financial instruments, the regulatory treatment would need to reflect the nature of the activity being undertaken, with considerations including whether platforms facilitate primary or secondary market activity and whether they operate on a multilateral or bilateral basis.

As wholesale market participants increasingly explore the use of prediction market products, early engagement between industry and regulators would help provide certainty, avoid regulatory fragmentation and support responsible innovation. Providing regulatory certainty in this area would help position the UK as a competitive jurisdiction for emerging digital market use cases, while ensuring that innovation develops within an appropriate and proportionate supervisory framework.