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International Regulatory Strategy Group (IRSG)

RESPONSE TO THE FINANCIAL CONDUCT AUTHORITY'S CALL FOR INPUT 'TOKENISED GOLD: OPPORTUNITIES AND RISKS FOR UK WHOLESALE MARKETS'

Introduction

The International Regulatory Strategy Group (IRSG) is a joint venture between TheCityUK and the City of London Corporation. Its remit is to provide a cross-sectoral voice to shape the development of a globally coherent regulatory framework that will facilitate open and competitive cross-border financial services. It comprises practitioners from the UK-based financial and related professional services industry who provide policy expertise and thought leadership across a broad range of regulatory issues. The IRSG welcomes the opportunity to respond to the Financial Conduct Authority's (FCA) Call for Input, 'Tokenised gold: opportunities and risks for UK wholesale markets' (the Call for Input).

We strongly support the FCA's examination of how tokenisation can improve the trading, transfer, pledging and holding of gold in UK markets. London is one of the world's leading gold centres, with deep liquidity, extensive expertise and established trading, custody, vaulting and clearing infrastructure. The London OTC gold market stands at $964.17 billion, based on the 12-week moving average value of trades for the period ending 16 October 2026[1], while London vaults held 9,821 tonnes of gold worth $1.3 trillion at the end of September 2026 (equating to approximately 785,690 gold bars).[2]

However, other financial centres are advancing tokenised and fractionalised gold initiatives. To maintain London's competitiveness and support the UK's secondary growth objective, HM Treasury and the FCA should provide timely statutory clarity. While gold is the immediate use case given London's market scale, the principles should extend to precious metals more broadly and provide a scalable blueprint for tokenised real-world assets across wholesale markets.

The primary legal and operational barrier is the friction involved in fractionalising interests in identified, allocated London gold bars. Enabling this could widen access to allocated gold, reduce reliance on unallocated gold and its associated credit exposure, and improve capital efficiency and intraday collateral mobility.

The IRSG supports a technology-neutral approach: regulation should reflect the economic substance, rights and risks of the underlying asset and activity, rather than the technology used to record or transfer ownership. Physical investment gold is not generally regulated simply because it is owned or held by a custodian; representing ownership digitally should not, in itself, change its regulatory treatment.

It is important to distinguish tokenisation from fractionalisation and pooling. A collective arrangement may qualify as a Collective Investment Scheme (CIS) under section 235 of the Financial Services and Markets Act 2000 (FSMA), or, where relevant, an Alternative Investment Fund (AIF), depending on its

[1] LBMA Daily Trade Reporting Data | LBMA
[2] London Vault Data | LBMA

legal and economic structure. This applies whether investors' interests are represented by tokens or conventional means. Conversely, tokenisation alone should not turn direct ownership of gold into a CIS.

However, a transferable digital token representing an interest in gold may itself qualify as a cryptoasset, even where the underlying gold would not otherwise be regulated.[3] This risks changing regulatory treatment solely because of the technology used. The IRSG therefore supports a general exclusion from the cryptoasset regime for tokens representing direct, non-fractional ownership of an underlying asset, where tokenisation does not change the economic substance of that ownership interest.

For fractional ownership of identified, allocated London gold bars, regulation should be proportionate to the risks involved. A targeted statutory exclusion from the CIS and AIF regimes would provide the necessary legal certainty, recognising the specific characteristics of gold, including its liquidity, price transparency and fungibility, while enabling fractionalisation without imposing disproportionate regulatory burdens.

Key messages

1. **Tokenisation should not of itself change the regulatory treatment of an asset.**
   The regulatory framework should remain technology neutral. Where tokenisation simply provides a different means of recording, holding or transferring an existing ownership interest, the regulatory treatment should continue to follow the economic substance, rights and risks of the underlying asset. An otherwise unregulated asset should not become regulated solely because an interest in it is represented through a token.

2. **A general exclusion should apply where a token represents direct, non-fractional ownership of an underlying asset.**
   Where a token records a direct ownership interest in gold or another underlying asset without changing the economic substance of that interest, it should be excluded from the qualifying cryptoasset regime. This would allow tokenisation to facilitate the holding and transfer of existing assets without changing their regulatory character solely because distributed ledger technology (DLT) is used.

3. **A targeted statutory exclusion should address uncertainty around fractionalised ownership of allocated gold.**
   The FCA and HM Treasury should provide legal certainty for arrangements involving fractionalised or undivided ownership interests in identified, segregated and allocated gold bars. The IRSG supports a targeted statutory exclusion under section 235(5) FSMA for this model, including the custody and fractionalisation arrangements necessary to operate it. Co-ownership of an identified bar should not, in itself, be treated as collective investment management. The exclusion should be subject to objective structural conditions and appropriate safeguards. The wider framework

[3] This applies where the token does not merely constitute a register entry maintained by a custodian.

should also clarify how tokenised gold interacts with the CIS/AIF and qualifying cryptoasset regimes, while allowing consideration of a broader framework for tokenised real-world assets.

4. **Gold should be the starting point for a broader framework for tokenised real-world assets.**London's established gold market, custody and vaulting infrastructure make gold a particularly appropriate initial use case. The framework should build on existing market arrangements and standards, including LBMA Good Delivery standards and established clearing infrastructure. It should be capable of application to other precious metals and, where possible, provide a blueprint for tokenised real-world assets more generally.

5. **Enabling tokenised gold to function as wholesale collateral should be a central objective.** Tokenisation could facilitate faster transfer and settlement, delivery-versus-payment arrangements, intraday collateral mobility and more efficient use of capital. Realising these benefits will require clarity on legal ownership, control and enforcement, as well as prudential treatment and collateral eligibility. Tokenised gold should be assessed on its economic and legal characteristics rather than disadvantaged solely because ownership is recorded using DLT.

6. **Interoperability and common standards are essential to institutional adoption and market integration.**
   Tokenised gold must work across the infrastructure through which collateral is held, transferred and realised, including physical custody and vault records, trading, clearing, settlement and collateral-management systems, as well as different DLT networks where appropriate. Industry-led standards should support reliable issuance and redemption, asset segregation, audit and attestation, reconciliation and operational resilience. Interoperability with traditional gold markets is also essential to avoid liquidity fragmentation and enable tokenised gold to be used alongside economically equivalent forms of gold.

7. **Risks should be addressed through proportionate safeguards targeted at the relevant activity.** Tokenisation may create or amplify risks relating to custody, reconciliation, operational resilience, cyber security, financial crime, distribution and the exercise of ownership rights. These should be addressed through proportionate safeguards targeted at the relevant risks, building on existing regulatory obligations and industry standards, including those issued by the LBMA. Appropriate arrangements should ensure that token-holders' rights are clear and enforceable, that tokens are backed by identifiable and verifiable gold, and that suitable segregation, redemption, governance and disclosure arrangements are in place. Existing obligations should continue to apply to relevant operators, custodians and service providers, with the application of the Consumer Duty to retail products clarified. A new gold-specific regime, supervisor or conduct framework is not required.

We wish to thank Clifford Chance LLP for their support in drafting this response.

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Annex: Responses to questions posed

#	Question / Response
1)	**Where do you see the greatest potential benefits of gold tokenisation for the UK market? What risks could arise from wider wholesale or retail use respectively, for example around market integrity, operational resilience and consumer protection?**

The IRSG considers the principal benefits to arise in two related areas: mobilisation of gold in wholesale markets and fractionalisation of interests in allocated London gold bars.

Wholesale markets

London's existing OTC gold market benefits from well-established custody, vaulting and market infrastructure. However, allocated gold is relatively costly and slow to mobilise, while unallocated gold introduces exposure to the relevant account provider. The metal and cash legs of transactions may also settle through different systems.

Properly structured tokenisation provides an opportunity to combine the legal certainty and asset backing associated with physical gold with a considerably more efficient mechanism for transferring interests in it. In particular, tokenisation could facilitate:

- faster transfer and settlement;
- delivery-versus-payment arrangements;
- more efficient use of gold as collateral;
- intraday collateral mobility;
- lower reconciliation requirements; and
- more efficient use of capital presently tied up during settlement.

Fractionalisation could widen access to allocated gold, reduce reliance on unallocated gold and its associated credit exposure, and allow smaller interests in allocated gold to be transferred or pledged as collateral. This could support more efficient collateral mobilisation, potentially improve capital efficiency and reduce transaction costs, while building on London's existing gold-market infrastructure.

These advantages are not specific to gold. They illustrate the wider potential of tokenisation to mobilise assets which are presently difficult or operationally expensive to transfer.

Gold nevertheless has particular advantages as an initial use case. Its fungibility makes it well suited to fractionalisation and secondary trading. This distinguishes gold from assets such as individual parcels of land, while its established role as a store of value makes the collateral use case particularly compelling.

An important limitation is that tokenisation does not itself determine whether gold will constitute eligible collateral for every regulatory purpose or whether institutions will be permitted or willing to accept it. The framework therefore needs to consider collateral eligibility and prudential treatment alongside the legal structure of the token.

Retail markets

For retail investors, tokenisation can lower practical minimum investment sizes and facilitate fractional exposure to gold. It may also facilitate more efficient transfers and trading outside conventional market hours.

We do not consider fractionalisation itself inherently to create the type of investment-management risk for which the CIS or AIF regimes were designed. However, easier distribution and transfer may increase other risks, particularly financial crime risk and the possibility of consumers misunderstanding what legal interest the token actually represents.

Risks

In both wholesale and retail markets, the legal relationship between the token, the investor and the underlying gold must be clear. Risks arising from the physical custody and fractionalisation of gold include:

- token-holders should understand whether they have a proprietary interest in identified or pooled gold or merely a contractual claim;
- the underlying gold should be appropriately segregated from assets of the issuer and custodian;
- the treatment of the gold upon insolvency of an issuer, custodian or intermediary should be clear;
- there should be reliable reconciliation between token issuance and physical holdings;
- the arrangements for redemption should be transparent; and
- appropriate operational resilience, cyber-security and financial-crime controls should apply.

For wholesale collateral use in particular, a collateral taker must be capable of obtaining effective control and of realising its interest following default without being dependent upon discretionary co-operation from the defaulting party.

Risks arising from the use of DLT as a record-keeping mechanism include operational resilience and cyber-security risks. The token itself should not be treated as the underlying asset or as a separate transferable property right.

These are risks arising from how the tokenised structure is designed and operated. We do not consider that they justify treating tokenisation itself as an investment-management activity.

#	Question / Response
2)	**Where is interoperability most important for tokenised gold in wholesale markets, and why? What specific technological, operational and regulatory considerations need to be addressed for tokenised gold to be a trusted form of collateral among institutional market participants?**

Interoperability is critical if tokenised gold is to become a genuinely useful wholesale collateral asset. The relevant benchmark should not simply be whether a token can be transferred successfully on a

particular ledger. It should be whether institutional participants can use fractional interests in allocated gold across the infrastructure through which collateral is actually held, transferred and realised, including the ability to establish and enforce rights in the underlying gold.

A token therefore needs to interoperate with:

- physical custody and vault records;
- existing trading and clearing arrangements;
- collateral-management systems;
- settlement systems;
- potentially different DLT networks; and
- the systems of custodians and other intermediaries.

The IRSG considers that industry-led common standards should address, at a minimum:

- Issuance and redemption. There should be clear processes governing creation of tokens against gold and cancellation on redemption. Asset segregation. The underlying gold should be held under arrangements that allow the legal interest attributable to token-holders to be identified clearly. Audit and attestation. Market participants need appropriate assurance that tokens in circulation correspond to the underlying gold.
- Reconciliation. On-chain ownership records and physical custody or vault records should be capable of reliable reconciliation, so that ownership or entitlements recorded on the ledger correspond to identified and allocated physical gold and are recognised across custody, collateral-management, settlement and enforcement processes.
- Operational resilience. The framework should address smart-contract risk, cyber security, loss or compromise of access credentials, platform failure and business continuity.

These requirements should wherever possible be expressed by reference to outcomes rather than mandating particular technologies. The LBMA may be well placed to develop standards to meet these outcomes, building on its expertise as a global leader in precious metals.

Legal interoperability is equally important. Market participants require certainty as to:

- the nature and enforceability of token-holder rights;
- insolvency treatment;
- the point at which ownership transfers;
- the ability of a collateral taker to obtain sufficient control; and
- its ability to realise the collateral following default.

The token should be distinguished from the underlying gold and should not be treated as a separate asset merely because it is used to record or transfer interests in the gold.

Finally, regulatory treatment must make tokenised gold economically usable and interoperable with traditional gold markets. The basis of this should be the same regulatory treatment. Clarification is particularly needed concerning prudential treatment and collateral eligibility. A technically and legally effective arrangement for tokenising interests in gold will have little institutional value if receiving it results in materially less favourable regulatory treatment than economically equivalent physical gold.

#	Question / Response
3)	**Should an appropriately defined set of gold token arrangements be regulated outside of the CIS or AIF regime and, if so, what specific conditions should determine the scope of that exclusion or exemption? What protections would be needed to ensure these tokens continue to operate in a safe way?**

Yes.

The IRSG considers that there should be a route by which appropriately structured tokenised ownership of gold can fall outside the CIS and AIF regimes.

The principal legal uncertainty concerns the fractionalisation of interests in identified, allocated physical gold. A physical gold bar requires a single party to control and safeguard it, while fractional holders cannot all exercise day-to-day control over the underlying asset. The issuance, reconciliation, transfer and redemption associated with fractionalisation may also extend beyond ordinary safekeeping. This creates a risk that an arrangement intended to provide direct ownership of allocated gold could nevertheless be characterised as a CIS under section 235 of the Financial Services and Markets Act 2000 (FSMA).

Direct ownership of a whole allocated gold bar may more readily fall outside those definitions. Fractional ownership, however, makes the perimeter materially more difficult because an undivided interest in a bar may begin to resemble pooling or management of property as a whole. However, co-ownership of an identified bar by multiple participants is not necessarily equivalent to pooling assets under a collective investment policy or operating a collective investment undertaking.

In our view, it would be undesirable if this resulted in full fund regulation applying merely because technology allows several investors to hold fractional ownership interests in an asset that could otherwise be owned outright without equivalent regulation.

The issue is not solely supervisory. Operators may face statutory and third-party liability risks, including claims relating to the unauthorised operation or promotion of a CIS. FCA guidance or supervisory forbearance alone may therefore not provide sufficient certainty.

We therefore support a targeted statutory exclusion, implemented by HM Treasury under section 235(5) FSMA, for direct ownership of identified, segregated and allocated gold, including fractionalised or undivided interests in identified bars held by multiple participants. The exclusion should cover the custody and fractionalisation arrangements necessary to operate this model.

The exclusion should be limited to a record-only model, in which the token records ownership or entitlement to the underlying identified and allocated gold but does not constitute a separate asset or embody proprietary rights in the token itself. Its scope should be determined by objective

structural conditions, rather than a subjective assessment of the holder's purpose or intention. The exclusion should be available where:

- the token represents a genuine and legally enforceable ownership interest in physical gold;
- the relevant quantity and quality of underlying gold is identifiable and independently capable of verification;
- token issuance is fully backed by the underlying gold;
- holders have clearly defined rights, including appropriate redemption or realisation rights;
- the assets are appropriately segregated from assets belonging to the issuer, custodian or intermediary;
- the arrangement is not in substance operated as a managed investment product through which investors participate in investment performance generated by discretionary management of pooled assets; and
- appropriate governance, reconciliation, operational resilience, financial-crime and disclosure requirements apply.

The exclusion should cover fractionalised or undivided interests in an identified allocated bar, including where those interests are held by multiple participants. This should be distinguished from arrangements involving discretionary management, a defined investment policy or the pooling of assets as an investment undertaking. Co-ownership of an identified bar should not, in itself, be treated as collective investment management.

This approach would distinguish fractionalised ownership from collective investment management.

We recognise that legislative change may be required and that securing legislative time carries practical difficulties. Those considerations should not, however, determine the substantive policy outcome. Forcing fractionalised gold into a fund structure materially constrains one of the principal benefits tokenisation is intended to achieve.

Interaction with the cryptoasset framework

Rather than adapting the economic substance of gold to fit an existing regulatory category, we encourage HM Treasury and the FCA to consider whether a targeted framework for tokenised ownership of real-world assets provides the more coherent long-term solution.

We would also encourage the FCA to consider relevant international approaches as it develops that framework. A comparison with approaches in Hong Kong, the EU and the United States would be valuable, not necessarily with a view to replicating any one regime, but to identify areas in which interoperability or regulatory alignment will assist international use.

#	Question / Response
4)	**In what other specific areas is greater regulatory clarity needed for retail and wholesale-focused use cases respectively?**

The IRSG considers that there are four priority areas.

1. Regulatory characterisation

The FCA and HM Treasury should s an immediate priority, address the legal uncertainty around the characterisation of fractionalised interests in identified, allocated physical gold as a collective investment scheme (CIS). A targeted statutory exclusion is needed to provide legal certainty for this model; FCA guidance or supervisory forbearance alone may not be sufficient.

More broadly, the regulatory treatment of tokenised assets should follow the underlying economic rights and risks unless tokenisation introduces additional risks requiring particular regulation. This would provide a more durable framework than determining regulatory classification asset by asset.

2. Prudential treatment and collateral eligibility

For wholesale markets, there should be clarity concerning:

- the prudential treatment of tokenised gold;
- whether and when it can constitute eligible collateral;
- the regulatory consequences for firms accepting it as collateral; and
- the conditions necessary for wider acceptance within wholesale and central-bank collateral arrangements.

The ultimate objective should be to develop a sufficiently robust model of tokenised ownership and allocation that tokenised gold can be assessed as collateral on its economic and legal characteristics, rather than disadvantaged merely because the ownership record is maintained using DLT.

3. Retail disclosure

Retail customers should receive clear information concerning:

- the nature of their property rights;
- custody, vaulting and insurance;
- redemption rights and restrictions;
- fees and minimum thresholds;
- regulatory status; and
- the consequences of failure of the issuer, custodian, vault or technology provider.

4. Consistency across tokenised asset classes

The policy developed through this exercise should at least be capable of application to the principal precious metals and should, where possible, establish principles capable of application more generally. Otherwise, substantially identical tokenisation structures may receive different regulatory treatment solely because the underlying physical asset differs.

The IRSG considers there is an opportunity for the UK to develop a global benchmark for the regulatory treatment of tokenised real-world assets, combining technology neutrality with clear protections directed at risks actually created by the tokenised structure.

#	Question / Response
5)	**How can gold tokenisation projects work alongside other industry-led projects or regulatory initiatives to improve the functioning of UK wholesale markets?**

Tokenised gold should not develop as an isolated technological or regulatory ecosystem.

Its most important wholesale use cases depend upon interoperability with the broader tokenisation of financial markets, particularly collateral management, settlement assets and tokenised securities.

A common approach across asset classes would allow market participants to develop systems and operating models capable of handling different forms of tokenised collateral rather than creating bespoke infrastructure for individual assets. It should also facilitate common standards for custody, legal ownership, settlement, reconciliation and operational resilience.

This is particularly important given the FCA and Bank of England's wider work on tokenisation in UK wholesale markets and initiatives including the Digital Securities Sandbox.

The IRSG therefore encourages the FCA to:

- coordinate the work on tokenised gold with its broader tokenisation programme, rather than treating it as an isolated commodity project;
- work with HM Treasury and the Bank of England so that property-law treatment, financial-services regulation, prudential treatment and collateral eligibility develop coherently;
- engage with relevant industry initiatives, including work concerning tokenisation standards and financial collateral;
- engage with the LBMA as a key stakeholder for London's gold markets;
- consider precious metals as a class, rather than designing rules exclusively for gold; and

- use the gold exercise as the first application of a broader set of principles for tokenised real-world assets.

Gold is particularly well suited to acting as this first use case. London's existing gold market provides established custody, vaulting and trading infrastructure upon which tokenisation can build. The framework should build on existing market infrastructure and standards, including LBMA Good Delivery standards, responsible sourcing requirements, established vaulting and custody arrangements, and the London Precious Metals Clearing Limited (LPMCL) clearing infrastructure.

A new gold-specific regime, supervisor or conduct framework is not required. Existing obligations should apply to the relevant operators, custodians and service providers, including requirements relating to systems and controls, operational resilience and financial crime. For retail products, the application of the Consumer Duty should be confirmed.

The broader price, however, is a framework which allows the UK to capture the benefits of tokenisation without creating a succession of technology-specific or asset-specific regulatory silos.

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