

FIA response to FCA and Bank of England Call for Input on the future of tokenisation: A joint vision for UK wholesale financial markets

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

Submitted electronically to tokenisedsecurities@fca.org.uk

1. Introduction & Executive Summary

FIA welcomes the opportunity to respond to the joint FCA and Bank of England Call for Input on the future of tokenisation in UK wholesale financial markets.

We strongly support the authorities' vision that tokenisation can deliver material improvements in efficiency, resilience and functionality, particularly in post-trade processes. In our view, tokenisation represents a critical opportunity to modernise collateral and liquidity management, settlement infrastructure and risk management frameworks, rather than a fundamental redesign of market structure.

Our response, which focuses on the use of tokenisation in the cleared derivatives markets, highlights six key messages:

- Tokenisation should be prioritised in collateral and post-trade processes, where benefits are most immediate and material.
- Regulatory treatment should remain technology-neutral and based on functional equivalence and risk outcomes.
- Legal certainty and enforceability of tokenised assets are the most critical enablers of adoption.
- Existing regulatory framework (e.g., SFRs, UK EMIR, FCARs) should be leveraged to support adoption of tokenisation within existing regime rather than creating a parallel one.

- Tokenised assets as collateral should be permitted where they meet existing CCP eligibility and risk management standards.
- Adoption should be phased, standards-based and closely coordinated with regulators, financial market infrastructures, clearing members, custodians and technology providers across the cleared derivatives market ecosystem.

2. Overall vision for tokenisation

FIA agrees that tokenisation has the potential to transform wholesale markets by:

- reducing operational friction in asset transfer and settlement;
- improving transparency and data consistency;
- enabling real-time or near real-time processing; and
- supporting innovation in market services and products.

However, we emphasise that the greatest near-term value lies in the role of tokenisation in post-trade processes, in particular collateral mobilization, margin payments and settlement efficiency. We note the regulators' intention to publish a Discussion Paper on the use of tokenised collateral by CCPs later this year. We are concerned that this is an overly extended timeline to provide clarity, while other jurisdictions are already progressing on this topic. The useability of tokenised securities as collateral is a key enabler for the development of tokenised markets, as a key element of the demand for securities. If the regulators do not progress this topic swiftly, it could pose a significant risk to the UK's competitiveness.

Therefore, tokenisation should be viewed primarily as infrastructure modernisation, rather than as a mechanism for introducing entirely new asset classes or market structures.

3. Regulatory principles

a. Technology neutrality and functional equivalence

We strongly support the proposed principle of technology neutrality.

Regulation should focus on the risk profile of the underlying assets, not the technology used. It should ensure that tokenised assets are treated equivalently to their traditional counterparts, where legal rights are equivalent and risk profiles are unchanged.

Where a tokenised asset provides the same legal and economic rights as a traditional asset, its regulatory treatment (including prudential and collateral frameworks) should align with that of the traditional asset. However, where tokenisation introduces additional legal, operational, custody or

liquidity risks, those risks should be evaluated in the existing regulatory and collateral framework in place for other asset types.

b. Accountability and market integrity

We agree that tokenisation must preserve:

- clear accountability for regulated activities;
- identifiable responsible entities; and
- robust governance and oversight.

This is particularly important in areas such as custody of assets, clearing and settlement and margining and collateral processing.

Tokenisation should enhance existing frameworks, not weaken accountability structures.

c. Operational Resilience

We agree with the regulators' overall view that the operational resilience of the financial services system must be maintained. As part of the suite of mitigants the regulators set out to support this, they include exit planning. While we agree that this is and should be a tool which can be used in certain circumstances, there is a risk that assets may become stranded for a period of time, and that the impacts of this must be considered when assessing the appropriate circumstances in which to trigger such an exit.

d. The ability for issuers of securities and their holders to have a direct relationship needs to be maintained

We agree with the regulators that there needs to be clear differentiation between the different forms of tokenised exposures, both for the market and for customers. In other jurisdictions, there is a material burden associated with categorisation of digital assets, where different categories have very similar criteria, so ensuring that any such differentiation has clear criteria to allow for simple categorisation is key. In the U.S., the Securities and Exchange Commission's final rulemaking and the Commodity Futures Trading Commission's related interpretive guidance regarding the taxonomy of tokenised securities has been a good starting point to provide clarity on both the categories and treatment of different forms of tokenised assets.¹ We would encourage the regulators to work with international peers to come to a clear and consistent categorisation methodology for the different types of tokenised assets, including natively digital securities and those which have been tokenised by a third party.

4. Legal and regulatory certainty

¹ See <https://www.govinfo.gov/content/pkg/FR-2026-03-23/pdf/2026-05635.pdf>

Legal and regulatory clarity and certainty are the most important conditions for institutional adoption. As a starting point, the regulators should seek to identify where they can make straightforward, targeted amendments to incorporate tokenised assets into the existing regulatory framework, such as is being done in the EU as part of the Market Integration and Supervision Package (MISP). Clarifying that the usage of tokenised versions of traditional financial products is already encompassed in the core regulatory framework (e.g. EMIR, CSDR, SFD, MiFIR, MiFID, etc.) that applies to market infrastructure and their participants, especially in respect of equivalence and recognition, would provide a clear basis for the development of tokenised markets. Such an approach would also conform with the Bank of England and FCA's long running support for regulatory deference and encouraging cross-border access through deference models.

We recommend that the authorities prioritise questions relating to enforceability of tokenised assets and distinguishing acceptable tokenisation frameworks or initiatives.

Tokenised assets should provide clear, legally enforceable rights equivalent to those of traditional assets, and should be integrated into the existing regulatory framework to the greatest extent possible, rather than introducing additional standalone DLT specific regulations, in line with the principal of technological neutrality.

Legal frameworks should ensure (i) certainty of ownership, (ii) settlement finality, (iii) protection in insolvency and (iv) enforceability of security interests.

Regulatory clarity is needed to distinguish tokenisation that preserves direct ownership rights and structures that introduce additional intermediation or exposure risk.

Tokenisation models that introduce additional credit risk or uncertainty of rights should not be treated equivalently.

We note that the proposed joint vision is silent on clarifying points of legal uncertainty that the UK Law Commission has highlighted in its work on the Digital Assets Reforms. For example, most legal experts are of the view that targeted amendments to the Financial Collateral Arrangements (No 2) Regulations 2003 (FCARs) would be beneficial to ensure systemic legal certainty when digital assets are used in financial collateral arrangements.

The Law Commission's Final Report on Digital Assets from 2023 sets out several proposals for reform, so that the FCARs can better address the nature of certain Digital Assets:

- Clarify when Digital Assets meet the definition of "cash" under the FCARs and are relevant to the definitions of "money in any currency," "account," and "similar claim to the repayment of money."
- Confirm that a digital asset which falls within the definitions of a financial instrument or credit claim is not affected by being "on-chain."
- Confirm that, where an "off-chain" financial instrument or credit claim is linked or stapled to an "on-chain" digital asset, the latter will have the same status as the former.

Further, Settlement Finality Regulations (SFRs) also need to be updated to provide a clearer framework for settlement finality in the context of digital/tokenised assets. As mentioned above, the EU is currently in the process of converting the Settlement Finality Directive into a regulation and updating its provisions to support tokenised instruments and DLT-based systems. We would like to reiterate that the UK should do the same for key regulations underpinning trading, clearing and settlement (e.g., EMIR, SFRs, FCARs, CSDR).

We recommend that the FCA and the Bank of England liaise with HM Treasury to progress these important legislative initiatives.

While not directly relevant to the questions on the tokenisation of the wider financial ecosystem, cryptoasset activities are a key enabler towards this end. 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 entries. We believe that it is important to both clients and markets that firms be able to offer these products and services on a level playing field.

A key topic not yet covered in the regulators' roadmap is the application of UK GDPR in the context of DLT. While we recognise that this falls outside of the responsibility of the Bank of England and FCA, a clear understanding of how GDPR can be applied for immutable on-chain records, including the right to erasure and selective disclosure, will be central to industry's ability to provide products and services on blockchain. We would encourage the regulators to work with the Information Commissioner's Office (UK ICO) to develop clear guidance.

5. Tokenised collateral and clearing

a. Strong case for tokenised collateral

We support enabling the use of tokenised assets as margin collateral in cleared markets, particularly where the underlying asset is already eligible as margin collateral and tokenisation does not alter its legal or economic characteristics. Along these lines, we also believe that the acceptance of tokenised assets as margin should operate within the existing regulatory frameworks for CCPs' acceptance of traditional assets and similarly, regulatory deference is paramount to avoid limiting collateral mobility resulting in siloed collateral pools. For example, a recognised third-country CCP's acceptance of tokenised assets issued by third parties outside of the UK from UK market participants should be dictated by the long-standing framework of regulatory deference under which third-country CCPs operate in the UK.

Tokenisation offers clear benefits for collateral management, including faster settlement of margin calls due to reduced operational constraints that exist in traditional financial infrastructure, greater

efficiency in managing liquidity through increased, improved collateral mobility and expansion of usable collateral pools.

The key consideration for CCPs, clearing members and market participants is whether tokenisation materially improves collateral mobility and the speed and timeline under which margin obligations can be met without introducing additional operational, legal or liquidity risk.

Adoption for clearing members and other market participants is likely to depend not only on eligibility but also on the economic outcomes. If tokenised collateral facilitates faster movement than existing collateral structures but cannot generate equivalent economic returns or funding benefits to existing collateral structures, the incentives for adoption may be limited.

b. Risk management requirements

At the same time, tokenised assets as collateral must meet existing CCP standards, including:

- minimal market, credit and liquidity risk;
- robust valuation and haircut frameworks;
- appropriate concentration limits; and
- high standards of custody and safekeeping.

CCPs should retain full discretion over the eligibility and treatment of tokenised collateral, with clearing members continuing to assess its suitability within their own risk, liquidity and funding frameworks, as is the case today. Acceptance should be based on risk characteristics rather than technology, including the ability to value, transfer and liquidate collateral efficiently, including under stressed market conditions. Tokenisation should not alter existing CCP requirements relating to collateral eligibility, liquidity, concentration limits or haircut frameworks, nor should it weaken the risk management practices applied by clearing members. Furthermore, “Default Management” should be a core design requirement: tokenised collateral must be capable of being valued, transferred and liquidated during a clearing member default with the same certainty as traditional collateral.

c. Tokenised cash, stablecoins and tokenised repo

We recognise the potential role of tokenised cash instruments (e.g., tokenised deposits) and stablecoins². However, with respect to stablecoins in particular, adoption should be phased and informed by the stablecoins associated risk characteristics and only high-quality, well-regulated instruments should be considered. For example, stablecoins can present distinct risk characteristics based on their regulatory status and composition of reserve assets. In the case of stablecoins, issues, such as reserve transparency, redemption mechanisms and operational resilience must be

² On stablecoins, we note the recent BIS Annual Economic Report [III. Anchoring trust in money: innovation beyond stablecoins](#), with one of the key takeaways being that “*Stablecoins display some of tokenisation’s potential to support faster and programmable payments, but current designs fall short on foundational properties of money and threaten financial integrity.*”

addressed.³ We would also highlight tokenised repo as a priority use case, as it combines securities, cash, collateral management and settlement in a single transaction and therefore tests many of the core capabilities needed for scaled tokenisation. We understand this use case to be an area of focus for the newly created UK Digital Market Taskforce chaired by Chris Woolard.

We also believe that central bank cash, commercial banks cash and stablecoins must be treated separately. Any asset subject to a haircut (including stablecoin) is not cash equivalent (e.g., for VM) and should not be assumed to be fungible. As described above, haircuts should be determined in line with existing risk management standards.

d. Custody of tokenised assets

Custody of tokenised securities will be a foundational element of the ability to use tokenised collateral. As such, we welcome the FCA’s proposal to incorporate Specified Investment Cryptoassets (SICs) into the existing CASS 6 regime, rather than the CASS 17 regime for cryptoassets. It is critical that tokenised securities are subject to the same regulatory treatment as traditional securities to avoid fragmentation, and avoid impediments to firms offering custody of SICs.

6. Market infrastructure and interoperability

a. Interoperability as a priority

The current tokenisation landscape is highly fragmented. This risks limiting liquidity, reducing efficiency and increasing operational complexity.

We recommend:

- prioritising interoperability between tokenisation platforms;
- encouraging common standards and protocols;
- ensuring alignment and interoperability with existing financial market infrastructure and traditional financial services; and
- international cooperation and interoperability across jurisdictions.

Interoperability is particularly important for clearing participants that operate across multiple CCPs, custodians, settlement banks and jurisdictions. Fragmentation could result in collateral becoming trapped within individual platforms, reducing rather than enhancing liquidity efficiency and collateral mobility. From a market infrastructure perspective, common industry standards and

³ For example, the Guiding and Establishing National Innovation for U.S. Stablecoins Act (“GENIUS Act”) in the U.S. establishes a regulatory framework for “payment stablecoins”, including the regulatory oversight of issuers of payment stablecoins. See 12 U.S.C. §§ 5901–5916.

interoperable rails are likely to deliver greater long-term benefits than multiple competing tokenisation ecosystems.

CCP multi-currency books mean that compatibility between UK RTGS / ECB TARGET / FED RTGS is really important and will be essential for any cross-border settlement. With that in mind, initiatives like Project Agorá (cross-border tokenised settlement) are valuable and we encourage the Bank of England to prioritize bilateral compatibility frameworks with the ECB and the Fed alongside the domestic RTGS build. This could be an area of future collaboration for the US-UK Transatlantic Taskforce.

b. Role of existing FMIs

FMIs, including CCPs, CSDs, custodians and others are central to the development of tokenisation in financial markets. Many FMIs are actively developing frameworks for future DLT based ecosystems, such as the Digital Asset Securities Control Principles (DASCP) developed by the DTCC and the ICSDs. For tokenised financial market ecosystems to evolve beyond the scale of pilot exercises, front-to-back on-chain integration is required.

While the role of some forms of FMI may evolve as tokenised markets develop, it is likely that a hybrid environment where tokenised and traditional ecosystems coexist will persist for some time. FMIs will play a key role in providing interoperability between traditional and tokenised ecosystems.

We strongly support maintaining the central role of CCPs, CSDs and custodians. Existing market infrastructures are in a unique position to foster adoption of tokenisation given their role in facilitating clearing, payment, settlement, and custody activities.

7. Settlement and payment system

We agree that settlement arrangements are a critical component of tokenised markets.

Where possible, settlement should remain anchored in central bank money. This remains essential for financial stability and confidence in wholesale markets.

Tokenisation should be aligned with ongoing initiatives to extend payment system operating hours and enhance settlement infrastructure.

Tokenised assets as collateral and settlement infrastructure can support out-of-hours and cross-border settlement, reduce operational frictions from traditional payment windows and enable more continuous risk management.

However, the benefits of tokenised collateral will only be fully realised if payment and settlement infrastructure evolves alongside it and can support equivalent speed and availability. Otherwise, a material mismatch may arise between collateral mobility and cash settlement capability, if one part of the chain is accelerated while traditional constraints retain elsewhere.

Also, alignment with RTGS operating hours, settlement bank availability and CCP margin processes will be critical.

8. Risk management and safeguards

We support the authorities' emphasis on maintaining robust safeguards.

Tokenisation must preserve customer asset protection, segregation of client assets, default management frameworks and market integrity and transparency. Any tokenised collateral framework should also include robust contingency arrangements to ensure collateral remains accessible and transferable in the event of platform outages, cyber incidents or operational disruptions.

In addition, the following risks must be carefully managed in the context of tokenisation initiatives:

- legal and enforceability risks;
- custody and safekeeping risks;
- operational and cyber risks; and
- settlement finality.

Firms and market infrastructures should incorporate these considerations into existing risk management frameworks.

9. 24/7 markets

Tokenisation could play an important enabling role in the potential evolution towards extended trading hours and more continuous markets.

In particular, tokenised assets as collateral can enable real-time movement of margin and collateral and support continuous risk management.

However, this should be pursued cautiously and only where full clearing processes (including margin and settlement) can operate safely and appropriate infrastructure and safeguards are in place as extended-hour markets have significant implications for treasury, liquidity and operational models. The ability to move tokenised collateral 24/7 is only one part of the solution; a liquid secondary market in tokens, as well as corresponding payment, settlement, margin and operational support arrangements must also evolve.

Specifically, we note that initial margin (IM) levels set at CCPs are independent of speed of collateral movement. One can already observe a disparity between regulator stress test exams and IM levels and a disparity between CCP MPOR and regulatory capital requirement MPOR. In other words, IM is there to protect the clearing member in the event of a client default and protects the

CCP in the event of a member default. Having the ability to receive margin more quickly does not necessarily reduce the risk of the default, but instead allows for the timelier collateralisation of potential future exposures.

10. Transition and roadmap

We support the development of a clear, phased roadmap beginning with tokenised versions of existing financial assets and collateral and post-trade applications.

Initial use cases should focus on tokenised versions of assets that are already widely accepted as collateral and whose legal, operational and risk characteristics are well understood by market participants and CCPs. Any transition should prioritise compatibility with existing market infrastructure and avoid creating fragmented collateral pools across competing platforms. Industry-wise standards and interoperable infrastructure should be prioritised wherever possible.

Pilot programmes should also demonstrate not only operational feasibility but also tangible liquidity, settlement and economic benefits for market participants.

Successful adoption will require coordination across regulators, financial market infrastructures, clearing members, custodians and technology providers.

Early and clear regulatory guidance in key areas will be critical to enable investment decisions, infrastructure development and scaling from pilots to production.

11. Conclusion

Tokenisation represents a significant opportunity to enhance the efficiency and resilience of UK wholesale financial markets.

To realise this opportunity, we recommend that the authorities:

- maintain technology-neutral, risk-based regulation;
- prioritise legal certainty and enforceability;
- enable tokenised assets as collateral within existing risk frameworks;
- support interoperability and integration with existing infrastructure; and
- adopt a phased and coordinated approach to adoption.

We look forward to continued engagement with the FCA, the Bank of England and other stakeholders as this roadmap develops.