

GDF-ISDA U.S. Tokenized Money Market Fund (TMMF) Working Group

Working Group Terms of Reference

1. Background and Rationale

The digital transformation of financial markets is creating fundamentally new opportunities for **collateral creation, mobilization, and optimization**, using **tokenized money market funds (TMMFs) as margin in cleared (IM only) and non-cleared derivatives (VM and IM) markets emerging as a key innovation**.

By enabling near-instant ownership transfer and programmable settlement, TMMFs have the potential to improve liquidity, reduce the operational burden of sourcing cash for margin calls, and alleviate collateral bottlenecks — especially during periods of market volatility. Their adoption could also help address intraday funding needs that frequently arise for both **central counterparties (CCPs) and bilateral counterparties**.

Against this backdrop, an industry coalition convened a broad group of stakeholders — including traditional financial institutions, digital asset custodians, infrastructure providers, trade associations, and legal experts — in early 2025 to explore opportunities in UK and EU markets.

As momentum for digital asset adoption grows in the United States, industry participants have voiced the need to extend this initiative. Its goal is to identify and address the legal, regulatory, and operational challenges of adopting TMMFs and other digital collateral types in the United States.

This new initiative will assess directly the implications, requirements, and benefits of using TMMFs to meet margin calls across both cleared and non-cleared transactions, including legal settlement, liquidity access, and operational integration in the United States.

This requires tackling regulatory and legal barriers, developing interoperable technological solutions, and automating collateral workflows by leveraging industry solutions like the Common Domain Model and the interoperability protocol FinP2P.

2. Purpose

Under the sponsorship of the International Swaps and Derivatives Association (ISDA) and Global Digital Finance (GDF), the new U.S. TMMF as Collateral Working Group (WG) endeavors to further the adoption of TMMFs as eligible collateral in the United States — technologically supported by the GDF Industry Sandbox and powered by Ownera's routers leveraging the open-source FinP2P protocol.

The key WG objective is to identify and address the legal, regulatory, operational, and technological considerations associated with using TMMFs for margin in both cleared and non-cleared derivatives in the United States, including the requirements for real-time transfer, settlement finality, and eligibility recognition by CCPs, swap dealers and their counterparties, and prime brokers.

Specifically, the WG sets out to:

- Identify how **tokenizing MMFs and cross-chain orchestration** can modernize collateral processes across cleared and uncleared markets,
- Develop **market standards to enable interoperability** across platforms, custodians, and ledgers,
- Simulate transactions with sandbox participants to **demonstrate practical benefits for margin and collateral functions**, and
- Produce shared **industry guidance** to inform regulation, documentation (covering legal, risk and operational), and infrastructure adoption.

3. Objectives

The WG will focus on four primary topics, each with added specificity regarding TMMF as margin:

- **Legal** — Analyze under New York law, adopting the Uniform Commercial Code (the “UCC”): (1) the attachment, perfection and enforceability of security interests in TMMFs as “investment property” under UCC Art. 9, as well as (2) the treatment of interests in TMMFs as “securities entitlements” or “financial assets” under UCC Art. 8. The eligibility of TMMFs - in both cleared and uncleared contexts - will also be considered under applicable law and regulation.
- **Regulatory** — Engage with appropriate regulators and supervisory authorities (e.g., CFTC, U.S. prudential regulators) to determine the **eligibility** of TMMFs as margin, the impact on liquidity coverage ratios, and how existing collateral regulations and margin rules apply to digital fund tokens. US restrictions that prevent MMFs engaging in repo/securities lending from being eligible collateral for uncleared swaps, which is out of sync with other global regulations, will also be addressed.
- **Technological** — Define interoperable processes for same-day or intraday movement and substitution of TMMFs as margin assets across DLTs, custodians, CCPs, counterparties,

and prime brokers. Specify standardization for timestamping, audibility, and operational control points in margin settlement.

- **Operational** — Map and standardize operational workflows for onboarding, settlement, substitution, and collateral management related specifically to TMMFs posted as margin, differentiating between use cases in cleared and non-cleared markets.

The WG will coordinate approaches across these topics and products, supporting adoption for cleared and uncleared transactions in repo, securities lending, derivatives, and other use cases.

4. Scope

In Scope:

- **Expansion of eligible collateral types**, with specific focus on TMMFs and other tokenized and digital assets as margin in both cleared and non-cleared derivatives transactions.
- **Operational** processes and settlement practices specific to margin and close-out scenarios involving TMMFs.
- **Legal, regulatory, technological, and operational workstreams** to enable the use of these instruments.
- **Global reach and related implications**, while focusing the report's scope to the United States, UK, and EU to address cross-border arrangements involving US TMMFs as collateral (applying New York law).
- **Interoperability** with ISDA documentation, as well as cross-chain and cross-custodian orchestration frameworks leveraging models including the Common Domain Model and the FinP2P protocol.

Out of Scope:

- Tokenization purely for asset innovation unrelated to collateral or margin.
- Work not aligned to legal, regulatory, technological, or operational aspects relevant to collateral and margin.

5. Governance, Roles and Organizations

- **Co-Sponsors** — One representative from each sponsoring organization: ISDA and GDF
- **Co-Chairs** — One representative from each chairing organization, Federated Hermes, Ownera, and Brown Brothers Harriman for the Legal, Operational and Regulatory Stream, and one representative from Ownera and GDF for the Industry Sandbox Stream

- **Secretariat** — GDF, along with assistance from a professional services firm, provide secretariat services including report consolidation and delivery. The professional services firm will provide additional consulting support across streams as required and agreed
- **Legal Counsel** — Hogan Lovells will provide legal counsel support, regulatory outreach support, and report writing and contribution.
- **Steering Committee (TBC):** Co-sponsors, co-chairs, secretariat, and legal counsel with periodic support and guidance from specialists.
- **Working Group Members:** Open to all industry participants/end users and MMF fund issuers in the TMMF space including protocols and infrastructure firms; Only professional services firms (legal, consulting, technology, etc.) that are members of GDF or ISDA are eligible to attend.
- **Trade Associations:** Open to industry and trade associations that express interest in participating and that are invited. Associations are invited to contribute and express their views in the working group together with industry participants. A separate forum for trade association communications may be established.

6. Deliverables

Publication of consolidated eligibility analysis, recommendations, and roadmap for adoption by ISDA, GDF, and working group participants that includes:

- **TMMF and Digital Collateral Adoption Roadmap** — Market guidance on representing and operationalizing TMMFs as eligible collateral, with subsections devoted to the workflow for margin in cleared and non-cleared settings, including regulatory and operational implications.
- **Legal & Regulatory Analysis** — Analysis of the recognition criteria and enforceability of TMMFs as eligible margin under leading margin frameworks (e.g., Uncleared Margin Rules, U.S. CFTC regulations, CCP margin requirements). This review will likely include:
 - recognition as “cash equivalent” under applicable rules and industry standards,
 - compliance with New York law requirements regarding collateral arrangements, as well as holding, transfer and disposition of TMMFs,
 - conflict of laws considerations where parties may be subject to or located in jurisdictions other than New York; and
 - SEC regulatory background for MMFs.
- **Cross-Industry Technology & Operations Framework** — Technology reference models and interoperability standards for settlement, substitution, and ledger recognition of TMMFs in margin workflows.

- **Industry Sandbox Production Use Cases** — Production use cases delivered through the sandbox environment demonstrating the business value and operational feasibility of TMMFs and other digital collateral.

7. Proposed Timeline

- **Fall 2025** — Initiate call to action for US industry participation including for ISDA and GDF members and members of other participating associations:
 - Pre-launch webinar on December 3 (Completed)
 - Mobilized WG before end of 2025
- **Q1 2026** — Deliver legal and regulatory analysis and digital adoption collateral roadmap.
- **Q1 2026** — Deliver several use case simulations and prioritize challenges for TMMFs and digital collateral in the Industry Sandbox.
- **Q2 2026** — Seek regulatory review and publish final report.

8. Member Participation & Call to Action

ISDA, GDF, and participating associations invite their members to contribute to this multi-disciplinary initiative to expand eligible collateral and drive adoption of TMMFs. By participating in this effort, members will help define the technological and regulatory infrastructure for the next generation of collateral management.