EMAIL SUBMISSION TO: cp25-28@fca.org.uk

To whom it may concern,

Re: FCA Consultation Paper CP25/28 – Progressing Fund Tokenisation (Part 1: Accelerating Tokenisation of Authorised Funds)

About Global Digital Finance (GDF)

GDF is the leading global members association advocating and accelerating the adoption of best practices for crypto and digital assets. GDF's mission is to promote and facilitate greater adoption of market standards for digital assets through the development of best practices and governance standards by convening industry, policymakers, and regulators.

The input to this response has been curated through a series of member discussions, industry engagement, and previous engagement with the UK public sector over the years and GDF is grateful to its members who have taken part.

As always, GDF remains at your disposal for any further questions or clarifications you may have, and we would welcome a meeting with you to further discuss these matters in more detail with our members.

Yours faithfully,
Elise Soucie Watts – Executive Director – GDF

Response to the Consultation Paper: Executive Summary

GDF welcomes the FCA's proposals in CP25/28 and support the continued use of the UK's technology-neutral COLL and OEIC frameworks to enable fund tokenisation, DLT-based registers and future settlement models. The draft guidance sets a strong foundation, and we agree that tokenisation can enhance regulatory outcomes through improved transparency, auditability and operational efficiency.

At a strategic level, we view CP25/28 as a highly positive and forward-leaning step. The FCA is one of the first major regulators globally to propose a comprehensive, integrated framework for tokenised authorised funds, and this positions the UK as an early mover in shaping the future of digital fund infrastructure. The consultation demonstrates a clear willingness to work with industry, embrace emerging technologies and adapt existing rulebooks in a proportionate way—an approach that will be critical to ensuring that UK capital markets remain globally competitive.

The proposals also illustrate the FCA's broader commitment to enabling safe experimentation and responsible innovation. The clear link drawn between fund tokenisation, digital settlement assets and future on-chain operating models reflects a modern, systems-based view of market infrastructure that many jurisdictions have yet to adopt. We believe this sets the groundwork for a genuinely end-to-end digital asset lifecycle in the UK, covering issuance, dealing, settlement, valuation, reconciliation and reporting.

Overall, GDF supports and encourage a comprehensive UK digital asset regulatory approach which is robust, proportionate, and pro-innovation. As such, we are supportive of the roadmap as it reflects a pragmatic and phased approach. We have consistently encouraged the FCA to pursue proportionate outcomes-based regulation that keeps peace with international developments and we believe the roadmap is a positive attempt to do this.

We strongly support the development of qualifying stablecoins and fully on chain funds in the UK. Further clarity on the future supervisory treatment of these digital settlement assets, including how they may interact with the Digital Securities Sandbox and emerging BoE/FCA work on digital money, would help firms plan the operational and architectural steps needed to move towards fully on-chain fund models. Providing an indicative roadmap, covering areas such as eligibility criteria, safeguards for settlement finality and interaction with depositary responsibilities, would also support long-term industry investment and reduce uncertainty during adoption. As such, we particularly welcome the FCA's recognition that fund tokenisation will require the use of digital cash instruments or qualifying stablecoins to enable atomic settlement and fully on-chain operations.

Furthermore, while we find the guidance sufficiently flexible, we would also welcome targeted clarification on evidencing control of DLT-based registers, expectations for smart-contract governance and overrides, use of public networks, multi-wallet reconciliation, and operational resilience as firms transition to more automated models. We also note that DLT-based models can enhance operational resilience through deterministic event logs and automated reconciliation and further clarity on supervisory expectations in this area would support consistent implementation. These refinements would help ensure consistent supervisory outcomes as tokenisation continues to scale.

Additionally, we note that the FCA should avoid regulatory divergence from global frameworks. Divergent or overly prescriptive rules may deter international firms and hinder

the UK's ambition to be a global digital finance hub. As such, we applaud the FCA's commitment to international interoperability which is critical for asset managers operating across multiple jurisdictions. International interoperability refers not only to cross-border distribution but also to maintaining compatibility with emerging global standards for token formats, identity layers and settlement architectures. Ensuring coherence at this level will help avoid fragmentation and support UK asset managers operating across multiple jurisdictions.

We also strongly support the optional direct-dealing regime, the proposed IAC controls, and the adjustments relating to overdrafts, exposure limits, LTAF valuation and investor communications. These measures are proportionate and aligned with safeguarding segregated liability and investor protection. These adjustments will reduce operational friction, support more efficient fund dealing processes, and enable proportionate scaling as tokenised fund models mature.

Finally, we support targeted updates to COLL to enable the use of qualifying digital settlement assets and would welcome a structured sandbox or modification regime to test fully on-chain models, digital cash use, TMMF structures and public-network operations. With proportionate refinement, CP25/28 provides a practical, innovation-friendly framework for the next phase of fund tokenisation in the UK.

We also encourage continued alignment with the UK's broader digital-finance reforms, including the Digital Securities Sandbox, HMT's stablecoin legislation and the Bank of England's emerging work on digital money. Ensuring cohesion between these regimes will be essential to enabling fully on-chain fund operating models and avoiding parallel, inconsistent compliance pathways for firms.

Overall, we support the FCA in continuing to develop its roadmap for tokenisation and digital fund operations, and we look forward to ongoing engagement as the regime progresses and future phases of work are developed.

Response to the Consultation Paper: Questions for Public Consultation

1. ***Does the proposed guidance provide adequate clarity on how firms can use DLT to support the operation of fund registers?***

Overall, GDF welcomes the FCA's guidance in the CP, which provides a helpful articulation of how DLT can be used within the existing, technology-neutral authorised fund regime. We support the FCA's reaffirmation that the core regulatory outcomes, accurate and up-to-date unitholder records, appropriate control by the firm responsible for the register, and accessible, auditable information for depositaries, regulators and investors, remain applicable regardless of whether a traditional or DLT-based register is used. We also welcome the clarity provided on topics such as whitelisting/eligibility checks, wallet-level holdings, and the ability for firms to update or unwind register entries through appropriate controls.

To further support clarity in how firms can use DLT in the operation of fund registers we set out the following areas where additional guidance and clarification may be beneficial:

- **Allocation of responsibility and control:** Additional clarity would be useful on how firms should evidence "ultimate control" of the register where DLT infrastructure is operated by third-party service providers, or where industry participants use shared or consortium networks. Guidance on supervisory access and liability allocation in these settings would support consistent implementation.

  As industry practice evolves, particularly with the emergence of shared-ledger infrastructures operated by regulated financial institutions, clarity on how the FCA would approach supervisory access, auditability and oversight in consortium-based or interoperable environments would further support firms planning for cross-border tokenised fund models.

  It may also be useful for the FCA to clarify how firms should evidence end-to-end control in models where the authoritative record is updated on-chain, but certain investor-services processes remain off-chain. Providing examples of acceptable control-mapping between on-chain events and off-chain workflows (for example subscription processing, reconciliations or distributor reporting) would support consistency across hybrid operating models.

- **Oversight of smart-contract-driven updates:** While para 2.10 emphasises the FCA's view of the importance of a firm's unilateral ability to update the register, further detail on how this requirement interacts with automated smart-contract logic, including expectations around how firms can override, pause or reverse certain on-chain actions, would help firms ensure they meet regulatory expectations.

  Providing guidance on the types of evidential arrangements the FCA considers appropriate for these override functions would further support firms. In practice, institutional pilots already rely on controlled mechanisms such as role-based administrative permissions, multi-signature governance thresholds and pausable or upgradable smart-contract modules to ensure firms can intervene when required. Confirming that these recognised approaches are acceptable would give firms confidence that they can meet the FCA's expectations without being restricted to a particular network architecture.

- **Treatment of multiple wallets and reconciliation:** The draft guidance recognises that investors may hold units across multiple wallets (para 2.15). Firms would benefit from additional expectations on how to demonstrate accurate aggregation, identity linkage, and reconciliation of on-chain and off-chain records, particularly where fungibility or cross-platform interactions may complicate reporting.

  Further clarity on evidential expectations would also be useful. In practice, firms rely on mechanisms such as deterministic address-mapping procedures, authenticated wallet-linking workflows and structured reconciliation controls that consolidate on-chain wallet activity with off-chain investor registers. Confirming that such recognised approaches are compatible with FCA outcomes would help ensure consistent reporting across multi-wallet environments.

  The FCA may also wish to clarify how depositaries can evidence fulfilment of their COLL 6.6A oversight duties when the authoritative record is maintained on-chain. In public, permissioned or hybrid network models, guidance on minimum read-access expectations, attestation mechanisms and reconciliation standards would help ensure consistent depositary oversight across different architectures.

- **Use of public vs permissioned networks:** Although the guidance applies to both, firms would benefit from further supervisory expectations on data privacy, finality, resilience and auditability considerations across different network types. Illustrative examples would support more consistent and risk-aligned architecture choices.

  To support consistency and competition, it may be helpful for the FCA to explicitly note that public, permissioned or hybrid networks can all be appropriate where firms demonstrate control, resilience, privacy and auditability. This would avoid any unintended perception that private networks are inherently favoured and would support the internationally interoperable development of tokenised fund markets. We recognise that the use of public networks may require additional confidentiality safeguards. Supplementary clarity on how firms can apply privacy layers, selective-disclosure techniques or off-chain segregation of personal data while still meeting FCA expectations would help support adoption across a wider range of architectures.

- **International interoperability:** As future tokenisation models introduce greater composability between fund units, digital settlement assets and identity layers, maintaining interoperability with emerging global standards (including ISO Digital Token Identifiers, the open-source FinP2P protocol, ERC-3643, ERC-1400, GFMA/GDF smart-contract guidelines and widely used EVM-compatible token formats) will be important for reducing fragmentation.

  Clear FCA signalling that industry-standard token formats, open-interface models and recognised messaging frameworks may be used to meet regulatory outcomes would support cross-border compatibility and help ensure that UK-authorised funds can interact safely with global tokenised liquidity pools.

  We also support continued alignment with international developments such as BIS Project Agora, the EU DLT Pilot, MAS Project Guardian and IOSCO's work on tokenised asset markets, to avoid creating bespoke UK implementations that could impose additional integration or compliance burdens on firms.

We also note that interoperability between tokenised fund units and forthcoming digital-settlement assets (including qualifying stablecoins under HMT's regime) will become increasingly important as markets progress toward atomic or near-atomic settlement. Early signalling from the FCA that such assets will be accommodated within future tokenisation phases would support strategic planning and reduce long-term integration costs for firms.

- **Data privacy expectations:** Additional clarity on how firms should evidence compliance with data-minimisation and privacy obligations when using public networks, including expectations around encryption, hashing and off-chain segregation of personal data, would further support consistency across implementations.

- **Supervision and auditability in a DLT environment:** Additional commentary on expectations for change-control, incident management, governance of smart-contract code, and regulatory audit rights would further support firms in operationalising the guidance. Firms would also benefit from guidance on expected notification timelines, incident-classification thresholds and the use of immutable audit logs for regulatory reporting in a DLT environment.

  Given that many early models will operate shared ledger infrastructures, additional clarity on how supervisory access rights (read-only nodes, attestation channels or regulator dashboards) should be structured would reduce uncertainty. International pilots (such as BIS Project Agora, MAS Project Guardian and the EU DLT Pilot) have already demonstrated workable supervisory access models; aligning UK expectations with these approaches would support interoperability and minimise bespoke implementation costs.

Overall, the draft guidance provides a strong foundation and offers meaningful clarity on how DLT-based fund registers can comply with the current regime. Further detail in the areas identified above would reduce implementation uncertainty, support interoperability, and facilitate wider industry adoption. GDF would welcome continued engagement with the FCA to help develop supplementary examples or good-practice guidance as the regime evolves.

2. ***Are there any challenges in meeting the current requirements where DLT platforms are used, or in respect of emerging use cases?***

Overall, GDF strongly believes DLT can enhance firms' ability to meet existing requirements, particularly through improved transparency, auditability, time-stamping, and automated reconciliation. The technology can also reduce operational risk compared with fragmented legacy infrastructures. However, as DLT-based models evolve, firms may encounter practical considerations when mapping certain regulatory obligations onto decentralised or partly decentralised environments. These challenges are not insurmountable, and many are already being addressed through industry standards and risk-mitigation tools.

Areas where firms may require further clarity or accompanying good-practice guidance include:

- **Balancing ledger immutability with correction obligations:** Immutable ledgers strengthen auditability, reduce tampering risk, and create a single source of truth. Practical challenges may arise where firms must correct register inaccuracies. In most institutional DLT pilots, corrections occur through append-only events at the business-

logic layer. The underlying ledger remains immutable, and no historical records are altered. This model aligns with the FCA's expectations on auditability and provides a complete evidential trail of both the original entry and the corrective action. These outcomes are fully achievable through established technical tools, such as administrative keys, controlled override functions, or maintaining a supervisory "shadow state" that evidences the correct register position, but FCA guidance could further clarify expectations around acceptable mechanisms.

Industry best practices, such as those noted in the GFMA–GDF *Smart Contract Primer* provide relevant mitigations, including multi-party approval workflows, time-delayed execution, and supervisory access controls that preserve both integrity and regulatory override capability.

- **Data protection and selective transparency:** DLT's inherent transparency can support real-time supervisory access and strengthen investor-protection outcomes. The main operational consideration is ensuring that privacy, GDPR compliance, and targeted disclosure obligations are maintained. Zero-knowledge proofs, privacy-preserving transaction layers, permissioned data channels, and off-chain storage with on-chain attestations are increasingly used to reconcile these aims. Greater clarity on how firms should evidence these controls would be beneficial in achieving regulatory outcomes and meeting supervisory expectations.

- **Identity management and multi-wallet holdings:** DLT can make ownership trails more consistent and reduce reconciliation errors. As noted previously when investors hold units across multiple wallets, firms must link these addresses back to a verified unitholder. Emerging identity solutions, including decentralised identifiers (DIDs), verifiable credentials, or permissioned wallet registries, are effective ways to meet existing requirements. The FCA may wish to signal expectations on evidencing identity linkage and aggregation in these models.

  Clarity on the underlying property-law treatment of tokenised fund units, consistent with international developments such as UNIDROIT's digital-asset principles and recent reforms to the U.S. Uniform Commercial Code (including Article 12 on "controllable electronic records" and associated Article 9 amendments on secured transactions), would further strengthen legal certainty, particularly where units may be used in collateral, cross-border or insolvency contexts.

- **Off-Chain Components & FCA Threshold Conditions:** As many operating models will retain off-chain components, such as investor-services processes, transfer-agency workflows or components of the dealing infrastructure, firms would welcome clarity on how these elements should continue to meet FCA threshold-conditions, systems-and-controls and record-keeping requirements when synchronised with on-chain logic. Clear expectations here would support consistent mapping across hybrid models.

  We also encourage the FCA to consider providing clarity on how reliance on external digital-identity infrastructure (such as passporting of KYC via verifiable credentials or DID-based identity proofs) should be reconciled with existing CDD/AML expectations in the authorised-funds regime. While these models offer improved auditability and stronger data minimisation practices, firms will benefit from clarity on evidencing equivalence to traditional identity-verification approaches.

- **Smart-contract governance and change-control:** Smart contracts can strengthen compliance by embedding regulatory and operational safeguards directly into code, improving consistency, reducing manual intervention, and lowering operational risk. Firms nevertheless need to align smart-contract deployment and modification processes with regulatory expectations for auditability, version control, and incident escalation.

  GDF members note that a minimum set of recognised governance safeguards, such as independent code audits, structured version-control processes, robust key-management policies and documented incident-response frameworks, would help firms align their smart-contract governance with FCA expectations while maintaining flexibility for innovation.

- **Operational Resilience / Incident Reporting:** Firms would also benefit from clarity on how DLT-based architectures should align with existing FCA expectations on operational-resilience and incident-reporting frameworks. In particular, guidance on how immutable audit logs, automated event-tracking and smart-contract telemetry can be used to evidence systems and controls, detect incidents and support timely supervisory notifications would help ensure consistent implementation across the sector.

  The *GFMA–GDF Smart Contract Primer* outlines practical risk-mitigation measures such as code audits, formal verification, secure key management, multi-signature administrative rights, and structured upgrade paths. Incorporating these recognised controls can ensure smart-contract logic supports, and in many cases improves existing regulatory outcomes.

- **Shared or third-party DLT infrastructure:** DLT platforms operated by third parties or consortia can improve resilience, standardisation and interoperability across the market. The key requirement is ensuring the fund operator retains sufficient control and clear accountability. This can be achieved through contractual arrangements, governance rights, dedicated administrative permissions, and transparent operational SLAs. Further FCA signalling on how firms should demonstrate these safeguards would support consistency.

- **Interoperability and emerging models:** DLT can significantly reduce reconciliation burdens between fund managers, transfer agents, depositaries and distributors. As emerging models introduce tokenised units, direct-to-fund dealing, or tokenised cash instruments, firms will need clear frameworks for synchronising on-chain and off-chain records. Existing interoperability standards, messaging bridges, and tokenisation pilots already demonstrate viable pathways. For instance, the GDF TMMF Industry Sandbox used a router-based architecture (FinP2P) to integrate multiple blockchains (Ethereum, Canton, Polygon, Hedera, Stellar, Besu), margin engines, transfer-agent systems and payment rails (including tokenised deposits and tri-party infrastructures). This kind of modular, network-of-networks architecture could be explicitly recognised by the FCA as a credible path for firms to transition without rip-and-replace.

  We also observe increasing convergence toward "network-of-networks" models globally, where multiple permissioned and public chains interoperate through shared messaging, identity and settlement layers. FCA acknowledgement that such modular architectures are compatible with COLL outcomes would avoid unnecessary fragmentation and align the UK with emerging global practice.

To reduce operational risk, the Industry Sandbox also leveraged standardised data models like the FINOS Common Domain Model (CDM) to define derivatives terms and margin processes driving smart-contract logic. FCA guidance could usefully encourage the use of such open standards in fund tokenisation and DLT-based settlement models.

- **Incentivize Issuers of Digitally Native Funds**: Encourage a broader range of fund managers to issue digitally native funds (e.g., TMMFs). This can be achieved by highlighting the operational and capital efficiencies of the on-chain model, providing a clear legal and regulatory roadmap supported by FCA guidance, and establishing a collaborative environment where legal and technical questions can be addressed.

- **Synchronisation Models / Tokenised Cash Assets:** We also encourage the FCA to continue engaging with international standard-setting organisations to ensure tokenised fund models in the UK remain interoperable with global liquidity pools. Signalling support for widely adopted token standards (such as EVM-compatible frameworks, ERC-20 and ERC-3643) and promoting use of Digital Token Identifiers (DTIs) for supervisory traceability would help reduce fragmentation and maintain global competitiveness.

Overall, while firms encounter transitional considerations when applying existing rules to DLT-based environments, these can be effectively addressed through recognised risk mitigations, maturing industry standards, and supervisory clarity. In many respects, DLT provides stronger compliance tooling than legacy architectures, particularly through traceability, automation, and real-time auditability. With continued engagement and proportionate guidance, the technology can materially enhance the accuracy, resilience and transparency of fund-register operations.

We also encourage alignment with the FCA's wider operational-resilience framework, including the developing expectations under CP25/25. Connecting the tokenisation guidance with existing resilience requirements, such as incident reporting, data-integrity expectations and reliance on third-party technology providers, would help ensure coherence across traditional and DLT-based infrastructures and support consistent supervisory outcomes.

3. ***Do our existing rules and proposed guidance provide sufficient flexibility to allow for firms operating the register to use smart contracts for the purposes above?***

Yes, overall, we believe that the existing rules, alongside additional clarifying guidance from the FCA would provide sufficient flexibility for firms to use smart contracts to support register operations, provided that firms can evidence the required outcomes around accuracy, control, auditability and investor protection. The technology-neutral structure of COLL and the OEIC Regulations already accommodates automated processes, and the draft guidance appropriately recognises that activities such as minting, burning, eligibility checks and register updates can be undertaken through smart-contract logic.

Firms would also welcome clarity on how DLT-based settlement workflows, including synchronised or semi-on-chain dealing processes, should align with existing FCA expectations on settlement-finality, order-handling and best-execution. As many early tokenisation models will operate hybrid architectures, guidance on evidencing control across the full transaction lifecycle would support consistent supervisory implementation and reduce operational uncertainty.

Smart contracts can also enhance regulatory outcomes by improving consistency of execution, reducing manual error, and enabling real-time auditability. To ensure confidence and consistency in implementation, firms would welcome continued clarity on how core regulatory expectations translate into technical safeguards. Recognised industry practices, including those highlighted in the GFMA–GDF Smart Contract Primer, can also provide examples of robust best practice mechanisms such as:

- Multi-signature or role-based administrative permissions to preserve the firm's unilateral ability to amend the register;
- Structured upgrade paths, version control and formal change-management to maintain auditability;
- Time-delayed or conditional execution to prevent unintended register updates; and
- Independent code audits, formal verification and continuous monitoring to strengthen operational resilience.

In addition, the GDF, EY, Hogan Lovells and Ownera 'Case for Collateral Mobility' report identifies several best practices directly relevant to the FCA's objectives, including:

- Ensuring the legal effect of on-chain actions (issuance, redemption, transfer) is explicitly recognised within the fund's operational and contractual framework;
- Embedding regulatory obligations directly into smart-contract logic (e.g. eligibility checks, transfer restrictions, concentration controls), which can enhance accuracy and reduce operational risk;
- Adopting interoperable, layered architectures where identity, eligibility and reporting requirements interface cleanly with on-chain ownership records; and
- Applying clear governance and permissioning frameworks so that administrative controls and override capabilities remain aligned with regulatory expectations.

These practices demonstrate that smart-contract-enabled register operations can meet, and in many respects strengthen, existing regulatory outcomes. The proposed guidance therefore provides a sufficiently flexible foundation, and with the application of appropriate governance and risk-mitigation measures, firms can use smart contracts confidently within the current regime.

4. ***What role can regulators play in supporting the development of token standards that promote effective governance and positive consumer outcomes?***

A wide spectrum of token standards already exists and continues to evolve through industry-led development. These include widely adopted frameworks such as ERC-20 and ERC-777 for fungible tokens, ERC-1400 and ERC-3643 for permissioned or regulated tokenised assets, and emerging standards for identity, settlement and interoperability across blockchain ecosystems. Alongside these, the global Digital Token Identifier (DTI) standard provides an important layer of reference data that enhances transparency, traceability and supervisory oversight for tokenised instruments – as practically illustrated with respect to some of the funds leveraged in the GDF Industry Sandbox (see p. 59 of *The Case for Collateral Mobility* report).

Given this maturing landscape, the most constructive role for regulators is not to create new token standards, but to endorse and support the adoption of existing and evolving standards where they can demonstrably meet supervisory outcomes. Clear regulatory recognition that well-governed standards, including ERC frameworks and the DTI, may be used to evidence

requirements around auditability, transfer controls, governance, transparency and consumer protection would help provide certainty and encourage consistent, safe adoption.

As token standards become embedded into operational processes, firms may also benefit from clarity on how these standards interact with existing UK requirements around depositary oversight, client-asset protections and operational-resilience frameworks. Indicating how on-chain proofs, event logs or permissioned controllers may be used to evidence compliance with these obligations would support consistent and risk-aligned adoption.

Regulators can further support effective market development by:

- Articulating desired outcomes (for example, traceability or permissioning) while allowing industry standards such as ERC-1400, ERC-3643 and the DTI to provide the technical mechanisms;
- Engaging with standards bodies and industry working groups to ensure emerging standards remain aligned with policy objectives and supervisory needs;
- Indicating where adherence to recognised standards can simplify firms' compliance obligations under COLL, the OEIC Regulations or operational resilience frameworks; and
- Encouraging cross-market coherence so that token standards used in fund registers, payments, securities and other tokenised markets develop in interoperable, compatible ways.

Recent research from the Cambridge Centre for Alternative Finance (CCAF) on digital public infrastructure[1] also underscores the importance of open, interoperable and layered digital systems, spanning identity, payments, data and asset-representation, for scalable digital financial markets. These findings reinforce the case for ensuring that UK token-standard frameworks remain compatible with broader digital-infrastructure developments, helping to reduce fragmentation and support long-term cross-border operability.

By endorsing the use of established, industry-driven token standards, and recognising their role in meeting regulatory outcomes, regulators can promote safer, more coherent and more efficient tokenised markets while preserving space for innovation.

5. *Do our COLL rules and proposed guidance provide sufficient flexibility to support fund-tokenisation use cases that use public networks?*

Yes, overall we believe that the COLL framework and the FCA's proposed guidance are sufficiently flexible to accommodate fund-tokenisation models operating on public networks, provided the FCA provide guidance to firms, and engage in dialogue between firms and supervisors on how they can demonstrate that regulatory outcomes around investor protection, data confidentiality, operational resilience and register accuracy are maintained. The technology-neutral structure of the rules should support firms in choosing the network architecture most appropriate to their operating model.

Public networks can offer benefits such as transparency, auditability, broader interoperability and reduced reliance on bespoke intermediaries. Many firms already employ technical controls,

[1] https://www.jbs.cam.ac.uk/faculty-research/centres/alternative-finance/publications/digital-public-infrastructure-and-digital-financial-services/

such as permissioned token layers, allow-lists, privacy-preserving technologies, and secure off-chain identity frameworks, that allow them to operate on public networks while fully meeting existing supervisory requirements.

For instance, in the GDF TMMF Industry Sandbox, public networks such as Ethereum, Polygon and Stellar were combined with permissioned infrastructures such as Canton or Hedera, using a layered approach: underlying fund registers and investor identity were managed off-chain by regulated transfer agents, while token transfers and settlement instructions were executed on-chain using permissioned token contracts, allow-lists, and institution-grade wallet controls. This pattern allowed firms to benefit from the transparency and interoperability of public networks while maintaining data confidentiality and control over the register.

There are, however, areas where further clarification from the FCA would support consistent and confident adoption. These include:

- Expectations around how firms should assess and evidence data-protection and confidentiality safeguards on public networks, particularly where investor information is stored off-chain with on-chain attestations;
- Clarity on acceptable mechanisms for the firm to retain unilateral control of the register in a public-network environment, including how override functions, administrative permissions or supervisory access should be structured;
- Guidance on how public-network settlement finality and consensus mechanisms should be evaluated against existing obligations for error correction, reconciliation and operational incident management; and
- Additional illustrative examples showing how public-network tokenisation models can satisfy COLL requirements on eligibility checks, record-keeping, and interaction with depositaries

Overall, the existing rules and proposed guidance can offer a workable and flexible foundation for public-network fund tokenisation, coupled with appropriate guidance and illustrative examples of how firms can meet supervisory expectations. Targeted clarification in the areas above would help ensure consistent implementation and provide firms with greater confidence as these models mature.

6. ***Do the proposals in this chapter provide adequate flexibility for firms considering tokenisation and the migration to T+1 securities settlement?***

Yes, the proposals provide adequate flexibility for firms exploring tokenisation in parallel with the transition to T+1 settlement. The current framework is sufficiently outcomes-based to accommodate both traditional and tokenised operating models and does not preclude firms from adopting architectures that can support shorter settlement cycles.

Tokenisation can help facilitate a T+1 environment by improving synchronisation, reducing reconciliation frictions and enabling real-time transparency. As highlighted in the *Case for Collateral Mobility* Report, digitally native records and programmable settlement workflows can support more efficient sequencing of trade, confirmation and asset-movement processes – see Table 2 on page 20.

Firms would, however, benefit from continued regulatory clarity in two areas:

1. How interoperable tokenised and non-tokenised processes should be evidenced during the transition, particularly where part of the value chain remains on legacy infrastructure; and

2. Expectations around operational resilience, finality and error-correction mechanisms as firms introduce more automation and smart-contract-based settlement logic

Finally, firms may benefit from clarity on whether the FCA envisages developing any supplementary implementation materials, such as technical annexes, illustrative architecture diagrams or worked examples. As tokenisation moves from pilots into production, practical guidance of this kind could help support consistent interpretation across firms and reduce the risk of fragmented or bespoke implementations.

Overall, the proposals provide the necessary flexibility, and with targeted clarification on interoperability and control expectations, tokenisation can complement and strengthen the industry's move toward T+1.

7. *Do you support the introduction of an optional regime to allow for direct dealing in authorised funds?*

Yes, GDF strongly supports the introduction of an optional regime for direct dealing in authorised funds. The proposals in 3.10–3.14 are a pragmatic way to modernise dealing models while preserving the core protections of the authorised funds framework.

An optional regime offers several benefits:

- It enables more efficient, digitally native investor interactions without displacing existing intermediated channels;
- It provides firms with flexibility to adopt tokenised or DLT-enabled dealing models at their own pace;
- It supports clearer, more transparent end-investor records, reducing reliance on complex distribution chains; and
- It aligns with evolving market infrastructure and complements future tokenisation pathways.

To ensure smooth adoption, firms would value continued clarity on operational responsibilities, reconciliation expectations and how direct-dealing models will interface with existing oversight by depositaries. But overall, we believe that the proposal strikes the right balance between innovation, optionality and investor protection, and GDF is supportive of its introduction.

8. *Do our proposed requirements for operation of the IAC provide a proportionate control environment while ensuring funds are operated, and overseen, in line with principles of segregated liability?*

Overall, yes GDF supports the proposed IAC framework as a proportionate way to facilitate direct dealing while upholding segregated liability. The ability to operate an omnibus IAC at umbrella level, combined with safeguards on attribution, overdrafts and use of sums between sub-funds, is a sensible approach and broadly aligned with existing UK and EU practice.

The requirement to attribute payments to a specific sub-fund, or return/move unattributed sums to a client money account by close of the next business day, is an appropriate control in principle. In practice, firms would welcome clarity that this expectation can be applied on a proportionate and risk-based basis, with flexibility for exceptional or complex cases (for example, very high-volume dealing days or cross-border payment issues), provided any temporary residual exposure is actively monitored and promptly remediated.

We also note that the proposed model may increase the number of accounts subject to depositary oversight and reconciliation where multiple IACs are used alongside omnibus structures. This is workable, but it will be important that expectations around reconciliation frequency and materiality thresholds remain proportionate to fund size, dealing frequency and investor profile.

Subject to these points of clarification, the proposed requirements appear workable and provide an appropriate control environment for IACs consistent with principles of segregated liability.

9. ***Do you agree with our proposals in respect of overdrafts and limits on fund exposure to a given bank or group? If not, why?***

GDF broadly agrees with the FCA's proposals on overdrafts and concentration limits. The approach is consistent with existing COLL principles, maintains investor protection, and ensures that the introduction of direct dealing and IAC models does not alter fundamental safeguards around counterparty exposure and liquidity risk.

There are, however, a few points where we believe that further clarification would support consistent and proportionate application:

- It would be helpful to confirm that very short-term or operational overdrafts linked to settlement timing (for example, delays in payment flows or high-volume dealing days) can be treated proportionately where they are de minimis, promptly monitored, and quickly rectified.
- Firms would benefit from clarity on how exposure should be calculated where IACs, client money accounts and sub-fund accounts interact across different banking arrangements, particularly when using omnibus IACs at umbrella level.
- The concentration limit approach is sound, but the FCA may wish to acknowledge that in some cases smaller or specialist funds may have limited banking options; flexibility to use risk-based justification for temporary or minor breaches under active oversight would support practical implementation.
- As tokenisation models evolve, it may also be useful to signal how the FCA will treat bank exposure where settlement or cash-management processes rely on on-chain stablecoins, or tokenised cash instruments issued by regulated institutions.

Overall, the proposals are sensible and proportionate, and we believe that the clarifications above, would enable firms able to meet the requirements without operational frictions or unintended constraints on fund dealing processes.

10. ***Do you agree we should include all cash held at a given bank within our spread-of-risk rules for UCITS and NURS? If not, why?***

We agree that concentration risk arising from cash exposures at a single credit institution is a legitimate supervisory concern. However, applying a single, undifferentiated spread-of-risk requirement to *all* forms of cash held with a bank may be overly broad and could create unintended consequences, particularly as fund operating models evolve to include digital assets, tokenised cash equivalents or digitally native settlement models.

In particular, we note that "cash" in a tokenised fund environment can include operational cash, subscription/redemption cash, custody cash and in some cases tokenised representations of short-duration money-market instruments or qualifying digital settlement assets. These instruments do not all carry the same risk profile as unsecured deposits. Automatically treating them as identical exposures may not always reflect the underlying risks nor align with the FCA's objective of proportionate and technology-neutral regulation.

A more risk-sensitive approach would distinguish between:

- **unsecured operational cash** held at a bank;
- **client subscription/redemption cash** held temporarily;
- **tokenised MMF units or tokenised HQLA**, which are diversified investment holdings rather than bank credit exposures; and
- **qualifying digital settlement assets**, which may be fully backed by segregated assets and subject to distinct prudential and safeguarding regimes.

Additionally, we support maintaining concentration-risk limits for *unsecured* cash exposures to a single bank, but would welcome clarity that:

1. **Tokenised MMFs or tokenised cash equivalents** are not treated as "cash at bank", provided they meet eligibility criteria under COLL;
2. **Safeguarded or bankruptcy-remote digital settlement assets** are treated according to their underlying reserve assets rather than as deposits with a single bank; and
3. **Short-term operational or settlement-related cash** may be subject to proportionate treatment recognising its transient nature.

This would preserve the FCA's policy intent, avoiding undue concentration risk, while ensuring the framework remains proportionate, technology-neutral and aligned with emerging models of on-chain settlement and tokenised liquidity management.

11. ***Do you agree with our proposed accounting controls in respect of use of IAC? If not, why?***

Yes, overall GDF believes that the proposed accounting controls for the IAC appear sensible and proportionate, and they provide the necessary safeguards to ensure accurate attribution, reconciliation and oversight. The expectations around timely identification of amounts,

separation of sub-fund interests and clear audit trails align with existing COLL principles and should be workable in practice. However, as noted throughout our response, firms would welcome continued clarity that these controls can be applied on a risk-based basis for short-lived operational balances, but overall, we find the proposals to be appropriate.

12. ***Do you agree with our proposal to provide additional clarity on cash held by LTAF and the requirement to appoint an external valuer? If not, why?***

Yes, GDF believes that providing additional clarity on the treatment of cash held by LTAFs and reaffirming the requirement to appoint an external valuer is helpful and proportionate. Given the illiquid and at times complex nature of LTAF portfolios, clear expectations around valuation governance and the role of an external valuer support consistency, transparency and investor confidence. We also believe it would be beneficial for the FCA to provide assurance that the guidance remains principles-based and allows flexibility in how LTAFs evidence appropriate controls across different investment strategies, but overall, we agree with the FCA's approach.

13. ***Do you agree with our proposals in respect of investor disclosures and communications? If not, why?***

Yes, overall GDF believes that the proposed enhancements to investor disclosures and communications are sensible and proportionate, particularly given the introduction of direct dealing and tokenised operating models. Clear, accessible explanations of how dealing, settlement, register updates and cash flows operate will help maintain investor understanding and confidence as more digital processes are introduced.

To ensure consistency across the market, firms would welcome:

- Clarity that disclosures can remain principles-based and tailored to the specific dealing and tokenisation model used;
- Flexibility to deliver disclosures through digital channels where this improves accessibility and comprehension; and
- Guidance on how to meet supervisory expectations when detailing concepts such as use of DLT, wallet management or smart-contract-based processes in plain, consumer-friendly terms.

Overall, the proposals align well with existing expectations on clear, fair and not misleading communications, and should help investors navigate new operating models without imposing unnecessary prescriptive requirements on firms.

14. ***Do you agree that fund AFMs should bear the cost of exercising discretion for late payments? If not, why?***

We broadly agree with objectives of the proposal and believe that as set out it strives to align incentives appropriately and ensure that any discretion exercised in favour of an investor does not disadvantage the fund or other unitholders. Placing the cost on the AFM is consistent with existing principles of treating investors fairly and protecting the integrity of the fund.

However, we would also add the caveat that alongside this proposal it is critical to clarify that this applies to *true* discretionary decisions rather than delays caused by operational factors

outside the AFM's control (for example, payment system outages or cross-border banking delays). Subject to this clarification, we believe that the proposal is proportionate and appropriate as set out.

15. ***Are there scenarios where this may not be appropriate or such costs should be allocated differently?***

As set out above, while we support the general principle that AFMs should bear the cost of discretionary decisions, there are a few scenarios where alternative allocation may be appropriate for example:

- Situations where late payment is caused by a banking or payment-system failure, rather than investor or AFM action.
- Cross-border settlements where delays arise from currency cut-off times or correspondent-banking issues outside the AFM's control.
- Cases where a third-party distributor or platform is responsible for the delay and is contractually obliged to meet associated costs under existing arrangements.
- Operational incidents where the AFM can demonstrate that robust controls were in place and the delay arose from an external service provider (for example, an appointed administrator or registrar).

In these scenarios, a rigid requirement for AFMs to bear all costs may not be proportionate. Allowing for a risk-based or responsibility-based allocation framework would better reflect real-world operating models while still protecting unitholders.

16. ***Do you support introducing broader powers to deal with historic orphan monies? What legal or regulatory barriers might prevent introducing such a process?***

We support the principle of introducing proportionate and clearly defined powers to enable firms to deal with historic orphan monies in authorised funds. Orphan monies, particularly where records have degraded over time or predecessor entities no longer exist, can impose ongoing administrative burdens, create reconciliation difficulties and limit the accuracy of investor registers. A structured process would help ensure firms can maintain accurate records and meet their obligations under COLL and depositary-oversight frameworks.

From a legal standpoint, the core barrier is the absence of an explicit statutory mechanism allowing firms to extinguish or reallocate entitlements where reasonable attempts to trace or contact investors have failed. Without such a mechanism, firms face uncertainty around property rights, residual trustee or operator liability and potential challenges under client-asset and fiduciary obligations. Any new powers must therefore include appropriate safeguards, including clear time limits, explicit record-keeping requirements and proportionate standards for demonstrating reasonable attempts to locate beneficiaries.

Regulatory barriers include the interaction with:

- **CASS and client money rules**, where it remains unclear how historic orphan monies should be treated once they fall outside normal reconciliation cycles;

- **Depositary responsibilities**, particularly where the depositary must certify register accuracy but has limited ability to resolve long-standing unclaimed monies; and

- **Data-protection constraints**, where records are incomplete or no longer lawful to process, making tracing activities more challenging.

A well-defined process, grounded in statutory authority and aligned with the treatment of unclaimed assets elsewhere in the financial services framework, would help resolve these issues while preserving appropriate consumer safeguards. This could include a time-bound process for reclassification of orphan monies, clear criteria for demonstrating exhaustion of tracing efforts and appropriate arrangements for holding unclaimed sums, for example via approved schemes or charities, while maintaining audit trails and regulatory oversight.

Overall, we support the FCA exploring broader powers in this area, provided the framework remains proportionate, transparent and aligned with existing consumer-protection and property-rights obligations.

17. Are there any other purposes for which funds, fund managers, or investors may need to hold cryptoassets to support fund operations on-chain?

Yes. In addition to gas fees and settlement assets, there are other operational scenarios where authorised funds, or their service providers may need to hold cryptoassets:

- Governance and smart contract administration: fully on-chain funds may need to hold nominal amounts of native network tokens to administer smart contract functions, facilitate minting or burning actions, or trigger other automated events.
- On-chain distribution payments and corporate actions: tokenised funds may wish to execute on-chain income distributions, dividend equivalents, or reinvestment instructions. These may all require operational holdings of digital cash instruments.

However, we note that it is important to ensure that crypto is not held to a higher standard than equivalent activities in traditional finance without clear justification. Therefore, across all scenarios, we support appropriate calibration to ensure holdings remain operationally necessary, are ringfenced, and are subject to appropriate risk controls.

18. Would our potential amendments to COLL provide sufficient flexibility for firms to use digital cash and money like instruments for operational purposes, including unit dealing?

Yes. We support the adaption of COLL to include a limited operational category of digital settlement assets. This is necessary to enable atomic settlement between funding and digital money, and to support the use of qualifying stable coins in HMT's forthcoming UK legislation.

We also agree with the FCA's position that algorithmic stablecoins and crypto backed stablecoins should remain outside of scope for settlement. This reflects our own position which we have previously expressed that we do not believe these kinds of stablecoins would be appropriate for settlement of deals in authorised funds.

19. Would a limited sandbox or standard waivers/modifications be appropriate routes to allow us to develop a final regime in collaboration with industry? What features may be desirable in such a regime?

Yes. A sandbox or structured waiver regime is not only appropriate but essential. GDF strongly believes that fund tokenisation cannot scale without a controlled environment to test digital settlement assets, TMMF collateral use, fully on-chain funds and operational models involving public networks.

We encourage the FCA to consider the following design features:

- Scope aligned to specific tokenisation use cases: For example, focusing on atomic settlement using digital cash or qualifying stablecoins. It is important that the scope of this sandbox is complementary to, rather than duplicative of, that of the DSS. Where appropriate we would also encourage consideration of the inclusion of fund tokenisation within the DSS or as an add on to it, rather than a standalone sandbox.
- Eligibility criteria should align with international standards: this will reduce friction for cross-border firms and strengthen the UK's competitiveness.
- Transitional arrangements with a clear path into the final regime: there should be full transparency in advance about how firms can migrate from sandbox models into the future stablecoin and/or tokenised fund regimes without unnecessary reauthorisation.
- Coordination across HMT and the Bank of England given the interplay between qualifying stablecoins, systemic stablecoins, and the DSS, we encourage close cross-regulator collaboration. Interoperability between UK frameworks and global regimes is essential to support responsible innovation and ensure consistency of supervisory outcomes.

20. Do any other areas of our rules conflict with or prevent use of digital cash instruments or money-like instruments for unit dealing, distribution payments, or for payment of charges and fees?

We broadly agree with the FCA's assessment that enabling digital cash and money-like instruments within authorised fund operations will require specific adjustments to parts of COLL. Beyond the changes identified in the consultation, we have identified the following additional areas where rules may present practical barriers if left unchanged. However, we believe all the areas we have identified are results and we support the FCA's intention to work with firms on a case-by-case basis to agree any necessary waivers or modifications.

Firstly, certain existing references assume fiat-only cash movements in a way that may not map cleanly onto digital instruments. COLL 6.2.13R(2), for example, stipulates payment for units

"in cash or cleared funds", and similar language appears across redemption, distribution and charges-payment provisions. While we recognise the consultation notes this point explicitly, some of the cross-references in COLL 6.7 and COLL 6.8 will also need to be reviewed to ensure they do not inadvertently restrict the use of permitted digital settlement assets.

Secondly, firms establishing tokenised share classes or tokenised feeder structures may find themselves constrained by rules which assume conventional flows of cash between master and feeder schemes. We support the FCA's suggestion that these areas may benefit from waivers or modifications during the interim phase.

21. Would our existing rules, including the Consumer Duty, provide enough protection for investors if we allow a fund to hold cryptoassets for settlement and fund operational purposes only?

We agree that the combination of the existing Handbook rules, the Consumer Duty, and the tight limitations proposed on operational cryptoasset holdings provides a strong and proportionate level of investor protection. In our view, the Consumer Duty already offers a robust framework for ensuring fair outcomes in the limited contexts where authorised funds would hold cryptoassets strictly for operational functions such as settlement, gas fees or distribution processing.

As highlighted in our answer to CP 25/25, sector-specific guidance would also enable the FCA to build on the lessons emerging from its Consumer Duty Review (FS25/2), which called for simplification, proportionality, and the reduction of unnecessary administrative burden. Embedding these principles from the outset will be critical to ensuring that cryptoasset regulation supports innovation while maintaining consumer protection. In particular, we highlight the following relevant takeaways from the Review:

- *Clarity and simplicity:* FS25/2 identifies that firms need clearer, more navigable rules and definitions, and that the FCA should clarify how detailed sectoral requirements interact with the Duty. Cryptoassets, for which definitions and responsibilities can already be complex, would benefit significantly from this clarity.
- *Flexibility and digital-journey alignment:* The FCA's stated aim to "future-proof disclosure" and to allow modern, app-based, and technology-driven communications aligns closely with cryptoasset market practice. Sector-specific guidance should therefore embed these digital principles from inception.
- *Proportionality and innovation:* The FCA's action plan stresses reliance on the Duty to support innovation and reduce unnecessary prescription. This is particularly relevant to cryptoasset markets, in which overly prescriptive rules could stifle product development and market entry, and ultimately impact the UK's competitiveness and attractiveness as a jurisdiction.
- *International consistency:* FS25/2 also highlights plans to review the international application of conduct rules and ensure definitional consistency across sectors. Given the inherently cross-border nature of cryptoasset activities, this should be incorporated into any guidance to avoid overlapping or conflicting requirements.

However, we note that although the Consumer Duty provides an appropriate foundation, its application should recognise that operational cryptoasset holdings are not investment exposures and do not alter the consumer risk profile of an authorised fund. For this reason, we believe a proportionate application focused on clear disclosures, good governance and effective risk management is essential to deliver the Duty's intended outcomes in this narrow context.

22. Are there other associated regulatory, operational or commercial barriers to investing in tokenised assets? What could we do to address these issues?

GDF agrees that the existing COLL framework provides a strong, technology-neutral basis for tokenised assets, we highlight the below broader issues which should be considered in parallel to the proposals in CP 25/28.

1. Minimising fragmentation across regimes

The FCA should avoid regulatory divergence from global frameworks as divergent or overly prescriptive rules may deter international firms and hinder the UK's ambitions to be a global digital finance hub. We encourage the FCA, HMT and the Bank of England to continue coordinating timelines and supervisory expectations to ensure that tokenised fund activity can scale smoothly.

GDF's TMMF Industry Sandbox comprised a cross-jurisdictional analysis which showed that while the UK, Luxembourg and Ireland each offer workable frameworks for tokenised MMFs, market participants still face uncertainty around conflicts of laws and lex situs for digital fund interests in some configurations. We therefore encourage the FCA, working with HMT and international partners, to support efforts to clarify the property law treatment and location rules for tokenised fund units and related digital assets, so that they can be used confidently as collateral and within authorised fund structures.

2. Standard documentation and legal opinion

GDF also advocates for the need for standardised legal documentation and coordinated legal opinions for tokenised collateral arrangements, akin to existing ISDA collateral opinion frameworks. This would significantly reduce the transaction-cost barrier to adopting tokenised authorised funds in cross-border settings.

3. Custody and safeguarding

Tokenised assets introduce new custody considerations, particularly around key management, segregation of wallet structures, and how safekeeping requirements map onto public networks. We welcome the FCA's acknowledgment that further guidance may be needed and agree that coordination with the HMT stablecoin and custody regimes will be essential.