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

To whom it may concern,

Re: FCA Consultation Paper CP25/28 – Progressing Fund Tokenisation (Part 2: Chapter 5 Supporting Future Tokenisation Models)

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 roundtables, 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 convened its UK Policy and Regulatory Working Group to analyse the FCA's Consultation Paper CP25/28 (October 2025) on *Progressing Fund Tokenisation – Chapter 5 Supporting Future Tokenisation Models.*

Our members strongly support the FCA's phased approach and agree that the direction of travel outlined in Chapter 5 aligns with the operational realities and infrastructure investments currently underway across the industry. The Joint Trades Report on the Impact of DLT in Capital Markets, to which GDF contributed, provides clear evidence that tokenised fund models can enhance transparency, improve settlement efficiency, and enable more modular, programmable workflows across the investment lifecycle. The broad market consensus emerging across pilots and production deployments reinforces that progress will depend not on mandating specific architectures, but on establishing outcomes-based standards for data integrity, operational resilience, interoperability and investor protection.

Our analysis also highlights that many of the envisaged consumer and efficiency benefits, real-time data, lower friction, greater accessibility, fractionalised exposures, are already being demonstrated through tokenised money-market funds, tokenised Treasuries and programmable fund-processing pilots. These practical examples provide helpful reference points for regulatory calibration and illustrate how tokenisation can operate fully within the existing authorised-funds framework. While these models represent a future-state rather than a redesign of the existing authorised-funds regime, early clarity on how they would interact with current COLL expectations, oversight structures and settlement rules will support orderly and scalable development.

We also observe that future tokenisation models will depend on the availability of digital settlement assets that are safe, programmable and interoperable across markets. Work under way in the UK on qualifying digital settlement assets, together with the Digital Securities Sandbox, the Bank of England's digital-money roadmap and cross-border initiatives such as BIS Project Agora and MAS Project Guardian, will form a critical foundation for the composable end-state. Ensuring coherence across these workstreams will help avoid fragmentation and provide the clarity required for firms to invest with confidence in long-term tokenisation infrastructure.

Finally, GDF emphasises that sustained supervisory dialogue will be essential as firms progress through the phased model. Clear guidance on settlement finality, auditability of smart-contract logic, supervisory access to on-chain data, and reliance on third-party digital-identity providers will enable innovation while maintaining safeguards. A coordinated, outcomes-based approach across regulators will ensure that the UK's regulatory framework continues to support safe, scalable adoption of tokenised fund models.

Response to the Consultation Paper: Questions for Public Consultation

Question 23: How are changing investor habits and expectations influencing the design of tokenised products?

Investor habits and expectations are evolving rapidly, and tokenised products are being designed to meet these changes. The Joint Trades Report on the Impact of Distributed Ledger Technology in Capital Markets which GDF contributed to highlights three key trends that fund managers and platforms must reflect in their product design:

- **Demand for accessibility and fractional ownership** – Investors increasingly expect products that can be accessed globally, on-demand, and with lower minimums. Tokenisation supports this by enabling fractionalised interests and 24/7 trading- or transfer-capable registers.
- **Expectation of transparency and real-time insight** – Investors now expect near-real-time visibility into holdings, transactions and flows. The report emphasises that DLT can reduce reconciliation cycles and provide a deterministic audit-trail for investors and regulators.
- **Preference for efficient, seamless settlement and lower friction** – With growing appetite for digital-native experiences, investors expect products that settle faster, reduce intermediary layers through direct dealing with the supplier/delivery partner, as well as lower operational drag. Tokenised fund models that incorporate DLT can deliver more streamlined dealing, settlement and record-keeping workflows.

Given these shifts, firms designing tokenised funds should ensure product architecture incorporates global accessibility, fractionalisation, transparent ownership registers, efficient settlement, and digital-first investor experiences. If designed well, tokenised products can align closely with modern investor demands while maintaining regulatory safeguards.

Recent tokenised money-market funds and Treasury-backed products (including those issued by Franklin Templeton, BlackRock and Circle) reinforce these trends. Their adoption among institutional and sophisticated investors demonstrates clear demand for 24/7 transferability, transparent audit trails, lower settlement friction and the ability to integrate tokenised exposures into collateral, liquidity and distribution workflows. These early deployments provide practical reference points for the FCA when considering future phases of the tokenisation roadmap.

Question 24: Do you agree with the three phases described? Are these developments industry is looking to pursue?

Yes. The three phases outlined broadly reflect the direction industry is pursuing. Phase 1 aligns with tokenised record-keeping and dealing models already being tested in production environments. Phase 2 reflects growing interest in DLT-native operating models with programmable compliance, composable workflows and digital cash instruments. Phase 3 corresponds to the long-term vision seen in international pilots: fully on-chain lifecycle events, atomic settlement using digital settlement assets and more integrated identity-attestation layers. The phasing is helpful because it avoids forcing firms into premature architectural commitments while still signalling the end-state.

This phased model also mirrors the sequencing seen in international pilots, where firms initially focus on tokenised books-and-records before progressing to lifecycle automation and digital-cash-enabled settlement.

Question 25: What processes within the fund and investment management lifecycle do firms want to begin to make composable'?

The previously mentioned Joint Trades Report makes clear that firms increasingly want fund and investment-management processes to be modular, interoperable and programmable, enabling components to be reused, automated or combined across platforms. Several lifecycle processes stand out as priorities for composability:

- **Order capture, dealing, and transfer workflows** – Firms want standardised, programmable modules for subscriptions, redemptions, transfers and corporate actions, allowing these to be embedded into multiple distribution channels and investor interfaces. Composable transfer instructions, permissioning checks and settlement triggers allow for seamless, cross-platform dealing.

- **Reconciliation, NAV calculations and record-keeping** – Firms want these traditionally siloed processes to become on-chain, event-driven components that can be reused across fund types. The Joint Trades Report highlights deterministic state changes, shared ledgers and automated reconciliation as high-value composable functions.

- **Compliance and regulatory reporting modules** – Eligibility checks, KYC/AML attestations, sanctions filters, concentration-limit calculations and transaction-monitoring tools are prime candidates for composable services. The report notes that firms want these functions to "travel with the asset" and plug into different networks or platforms.

- **Settlement and cash-movement orchestration** – As digital cash instruments emerge, firms want composable settlement rails that can be reused across funds, instruments and counterparties, enabling atomic or near-instant settlement. The report stresses settlement-workflow modularity as foundational to tokenised market infrastructure.

- **Data distribution and investor-reporting pipelines** – Firms want reporting logic (holdings, flows, tax data, audit trails) to be modular so that the same data structures can feed multiple regulators, LP portals and distribution platforms. Composable data models and message standards (e.g. token-centric identifiers) are highlighted as key enablers.

- **Risk and collateral management workflows** – The report identifies margining, collateral movements and liquidity-risk analytics as areas ripe for composable smart-contract components able to interact with both tokenised and traditional assets.

Overall, composability is seen as a way to reduce duplication, standardise processes, accelerate interoperability, and enable "plug-and-play" tokenised operating models. Firms want lifecycle functions that can be deployed consistently across networks, intermediaries and jurisdictions, supporting lower operational friction and more scalable adoption of tokenised funds.

Industry experience to date also suggests that composability will first emerge in professional or institutional fund structures, where operational workflows are more predictable and oversight frameworks more robust, before expanding to retail-facing models.

At the same time, industry recognises that not every component should be composable. Certain functions, such as valuation governance, KYC/AML obligations, regulatory reporting duties and oversight roles, should remain non-composable and anchored in clearly accountable entities. Preserving these boundaries is essential to maintaining the integrity of the authorised-fund framework even as technical modules become more interoperable. This distinction between "composable operations" and "non-composable accountability" is emphasised in the Joint Trades Report and will be important in future FCA guidance.

Question 26: How does 'composability' impact the liquidity profile of assets we currently think of as less liquid or illiquid?

Composability has the potential to improve the liquidity profile of traditionally less liquid or illiquid assets by making the operational, legal and settlement processes surrounding them more efficient, standardised and interoperable. As highlighted in the Joint Trades Report, liquidity is often constrained not by the asset itself, but by fragmented infrastructure, manual processes and non-standardised data flows. Composability directly addresses these frictions. Composability may also enhance valuation processes by enabling more frequent or event-driven pricing data through shared ledgers, although this should complement, rather than replace, the robust valuation governance already required under COLL.

Key impacts include:

- **More efficient and transparent lifecycle events** – Composable modules for transferability, settlement, valuation updates and investor eligibility can reduce the administrative drag that makes private or complex assets slow to trade. Faster, more predictable processes can expand the pool of participants willing to transact.
- **Standardised interfaces that broaden distribution** – When core functions, such as identity checks, transfer restrictions, reporting and settlement, are reusable across platforms, illiquid assets become easier to onboard into multiple distribution channels. The Joint Trades Report notes that shared token standards and modular workflows can support greater interoperability, which in turn can widen access and improve liquidity.
- **Programmable transfer and settlement rails** – For asset classes where transfers currently involve bespoke, manual steps, composable smart-contract components can streamline settlement and reduce counterparty uncertainty. More deterministic settlement processes can support periodic liquidity windows, regulated secondary trading, or controlled transfer mechanisms.
- **Improved data availability and discovery** – Composable data models and shared ledgers enable consistent visibility into ownership, valuation events and audit history. The analysis within the report highlights that better data transparency can support improved price discovery which is an essential precondition for more liquid markets.
- **Enhanced collateral and financing use case** – Modular risk and collateral-management components can allow certain illiquid assets to be more readily used in

secured financing or fund-level liquidity solutions. Over time, improved mobilisation of these assets can support more robust liquidity ecosystems.

That said, composability does not fundamentally change the underlying economic liquidity of assets such as private credit, infrastructure or certain alternatives. Instead, it can reduce the operational and infrastructural sources of illiquidity, supporting more frequent transferability, improved settlement confidence and broader market access where appropriate within regulatory constraints. Existing rules on asset-liquidity categories, valuation, redemption processes and liquidity-management tools continue to apply and should remain the primary determinants of investor outcomes.

Overall, composability can materially improve the liquidity profile of less liquid assets without undermining investor protection, by removing friction, enabling controlled transferability, and supporting more efficient secondary-market mechanisms in line with regulatory expectations.

Question 27: How might the tokenised portfolio management vision enhance consumer outcomes?

The tokenised portfolio-management model has the potential to materially enhance consumer outcomes by reducing operational friction, improving transparency and enabling more personalised, efficient investment experiences. As highlighted in the Joint Trades Report, tokenisation supports real-time data availability, automated compliance checks, and more accurate, event-driven portfolio updates, all of which can lead to tighter tracking, faster execution and lower operational costs. Token standards and composable modules also enable greater interoperability across platforms, providing consumers with more seamless access to diverse assets, including fractionalised exposures. Together, these features can support fairer pricing, improved liquidity windows for certain products, and more intuitive digital journeys, while maintaining the robustness and investor protections embedded in the authorised funds regime. Improved reconciliation certainty and deterministic audit trails can also reduce the likelihood of operational errors that directly affect consumer outcomes, supporting fair value and consistent execution.

It will also be important to maintain clear boundaries between innovation in tokenised portfolio tools and activities that fall within DeFi or retail-crypto frameworks. Tokenised portfolios can incorporate programmable compliance, identity-attested transfers and controlled distribution channels that are fully consistent with the UK authorised-funds regime, without adopting features that would introduce consumer-protection risk or conflict with the FCA's crypto-assets perimeter.

Question 28: Do you foresee any other major changes to the role of asset managers or other market participants in a tokenised flows 'end-state'? What are the opportunities and risks?

Yes. As highlighted throughout the Joint Trades Report, a tokenised end-state will involve a broader, more interconnected ecosystem in which multiple types of market participants play increasingly specialised roles. Asset managers will continue to focus on investment strategy and fiduciary oversight, but will operate within a more composable, data-rich environment where transfer agents, custodians, distributors, settlement providers, and identity-verification

services each provide modular components of the value chain. It should also be noted that it is also likely that some of these roles may be combined into single entities instead of the many different firm models needed in the traditional financial markets today. Some functions can be managed and integrated with technology evolutions. Critically though new roles will also emerge, including smart-contract administrators, digital identity attestators, interoperability layer providers, and token-data utilities, reflecting the report's finding that tokenised markets require "many interdependent actors delivering discrete functions across the lifecycle." These new specialisms should not replace established fiduciary responsibilities or dilute accountability. Instead, they should support clearer allocation of functions across the ecosystem.

The opportunities include greater operational efficiency, reduced reconciliation, enhanced transparency, and more competitive distribution channels; the risks relate primarily to coordination failures, inconsistent standards and concentration of responsibility in new technical service providers. With proportionate oversight, interoperability standards and strong governance, the shift should strengthen rather than displace the core role of asset managers while enabling a more efficient and resilient market structure.

A risk we would encourage the FCA to consider in looking ahead is the potential emergence of operational concentration in tokenised infrastructure, such as reliance on a small number of interoperability layers, identity-attestation providers, oracle services, or cloud/DLT nodes. Proportionate oversight, substitutability expectations and clear governance arrangements will be essential to mitigating these risks as tokenised operating models scale.

Question 29: How might market integrity and financial stability risks evolve in the future tokenised portfolio management model?

The tokenised portfolio-management model offers meaningful opportunities to reduce certain risks, including reconciliation breaks, data fragmentation and settlement uncertainty, but it also introduces new operational, technical and ecosystem dependencies that require proportionate oversight. As highlighted in the Joint Trades Report, tokenised markets tend to shift risk from manual processes to infrastructure, governance and interoperability layers, making the quality of underlying technical frameworks essential to maintaining market integrity.

Tokenised markets also introduce new dependencies on digital public infrastructure, including digital identity, ledger-layer resilience and data-availability layers. The Cambridge Centre for Alternative Finance's 2025 study on Digital Public Infrastructure notes that resilience and governance of these underlying components will have a material influence on the stability and safety of tokenised financial services. Aligning tokenisation policy with broader DPI developments may therefore support a safer and more predictable operating environment.

One of the most important emerging themes is data integrity and deterministic record-keeping. DLT-based portfolios rely on shared ledgers, composable smart contracts and event-driven updates, which can reduce traditional sources of error but increase sensitivity to coding mistakes, upgrade risks or validator-level failures. The Joint Trades Report emphasises that poor data governance, inconsistent versioning of smart contracts or fragmented token standards can propagate errors more widely and quickly than in today's siloed systems. Ensuring consistent data schemas, rigorous code audits, controlled upgrade paths and comprehensive testing environments will be critical to avoiding systemic propagation of faults.

A second area relates to new forms of operational concentration risk. Tokenised operating models may rely heavily on common identity-verification services, interoperability bridges, token registries, or cloud-based DLT infrastructure. The report notes that several of these components could become "single points of ecosystem dependency," especially where market participants gravitate toward the same interoperability layer or tokenisation platform. While this does not inherently create instability, it requires regulators and firms to monitor concentration, ensure substitutability, and build resilience expectations consistent with the criticality of the function.

Third, interoperability and composability risks become more material in a tokenised environment. The Joint Trades Report stresses that tokenised asset flows will move across multiple ledgers, messaging frameworks and smart-contract environments. Breakdowns in cross-chain communication, oracle failures, inconsistent permissioning models or incompatible token standards could create transfer delays, pricing disparities or settlement anomalies. These risks can be mitigated by robust interoperability standards, digital identifiers (such as the DTI) and clear governance arrangements for cross-chain bridges.

The tokenised model also shifts elements of custody, settlement and identity management into more automated or distributed components. This creates both opportunities and risks: enhanced transparency and real-time oversight can strengthen market integrity, but there may also be increased exposure to cyber threats, key-management failures or inappropriate administrative access. The Joint Trades Report highlights the need for "secure key management, layered access controls, and multi-party governance structures" to reduce cyber and insider risk in tokenised environments.

As tokenised market infrastructure becomes more automated, appropriate safeguards will be increasingly important to ensure that speed and programmability do not amplify market stress. Incorporating circuit-breaker mechanisms, pause functions and clearly defined human-in-the-loop controls can help ensure that automated processes remain proportionate, allow intervention where necessary, and support orderly markets during periods of disruption.

Finally, from a broader financial stability perspective, tokenised portfolios may interact more dynamically with liquidity, collateral, and settlement cycles. Automated execution of smart-contract conditions can improve predictability but may also accelerate market movements during stress if not designed with circuit breakers, pause functions or human-in-the-loop controls. The report makes clear that proportionality is essential: automated processes should incorporate supervisory override mechanisms, robust settlement-finality safeguards, and clear fallbacks if infrastructure nodes or interoperability layers fail.

Overall, the tokenised portfolio-management model can strengthen market integrity and operational resilience if built on clear governance, strong interoperability standards and well-structured risk controls. The Joint Trades Report provides a strong foundation for identifying these emerging risks and setting expectations early, ensuring that tokenised markets develop in a way that supports, not challenges, financial stability.

Question 30: What areas of the current funds framework will need to be recreated in the future vision? What areas could be simplified across different parts of the Handbook?

Certain areas of the current funds framework will need to be reconstructed to support a fully tokenised end-state. These include synchronised dealing models, clearer rules on digital cash instruments, updated settlement-finality guidance for programmable workflows and enhanced expectations for supervisory access to on-chain data. Conversely, rules relating to record-keeping, investor safeguards, depositary oversight and liquidity management could be simplified across the Handbook once tokenised registers provide more deterministic audit trails.

Over time, clearer frameworks for cross-border distribution of tokenised UK-authorised funds may also be required, particularly where interoperable identity, settlement or reporting standards are used across jurisdictions.

Question 31: What areas of the Handbook, or wider rules and legislation, do we need to reconsider to support the growth of the proposed tokenisation models?

Areas requiring reconsideration include settlement-finality provisions, expectations around reliance on third-party digital-identity services, requirements for auditability of smart-contract logic and data-resilience rules for DLT-based infrastructures. Alignment with the Digital Securities Sandbox, the Bank of England's digital-money framework and HMT's work on qualifying digital settlement assets will also be important to avoid inconsistent or duplicative obligations.

Consideration may also be needed on how statutory trust or client-asset constructs interact with tokenised registers, particularly where tokenised units are immobilised or where smart-contract logic replaces certain transfer-agent processes.

Question 32: What should the FCA's role look like in this future vision?

In the future tokenised portfolio management model, the FCA's role should focus on setting clear, outcomes-based guardrails and enabling a safe path to scale, rather than prescribing specific technologies or architectures. Consistent with the Joint Trades Report, we believe a technology-neutral, risk-based approach that focuses on underlying activities and risks, not the choice of ledger or token standard, will be essential to supporting innovation while maintaining market integrity and financial stability.

Practically, this means the FCA should: articulate target outcomes (for example, data integrity, operational resilience, fair treatment, settlement finality) and recognise compliant use of existing and emerging industry standards (including token standards and identifiers) as valid ways of meeting those outcomes; provide supervisory clarity through guidance, worked examples and, where appropriate, sandbox or modification frameworks so firms can test tokenised operating models, digital settlement assets and composable workflows in a controlled way; and coordinate closely with HMT, the Bank of England and international standard setters to minimise divergence and support cross-border interoperability, as GDF has emphasised in its previous responses on fund tokenisation and digital cash.

Finally, we also believe that the FCA will play a critical convening role in the tokenised end-state: maintaining structured public-private dialogue on risk management, interoperability and

data standards; monitoring new points of concentration and critical service provision across tokenisation platforms, identity layers and settlement networks; and updating expectations as empirical evidence from live tokenised portfolios emerges. Overall, GDF believes that this will allow the FCA to anchor trust in a more automated, composable ecosystem while also enabling asset managers and other market participants to have the confidence to invest in long-term tokenisation strategies.

Importantly, the FCA's role should remain technology-neutral: setting target outcomes while allowing firms and standards bodies to determine the most appropriate technical mechanisms to achieve them.