

# **GDF & ISDA U.S. TMMF Working Group #2 READOUT**

**February 19, 2026**

## **Meeting objective**

- Continue the working group discussion on tokenized money market funds (TMMFs), focusing on legal and regulatory considerations, tokenization frameworks, operational implications and use cases for posting, accepting and reusing TMMF as collateral in the US market for repo, sec lending, and cleared and uncleared derivatives

## **Attendance**

- Working group co-chairs and broad working group (approx. 80+ participants). Representatives included asset managers, traditional and digital asset custodians, banks, product teams, legal advisers, and operational leads.

## **High-level recap**

- The meeting focused on exploring the challenges and opportunities of using tokenized money market funds as collateral, particularly in the context of variation margin (VM) and initial margin (IM) requirements.
- Participants discussed legal, regulatory, and operational hurdles, including the need for clarity on property rights, eligibility criteria, and the ability to reuse tokenized assets.
- The group debated different tokenization frameworks, with a preference expressed for approaches that align with existing legal principles.
- Key concerns included the impact of tokenization on leverage rules, the willingness of banks and CCPs to accept tokenized assets, and the operational complexities of rehypothecation and settlement.
- The discussion highlighted the importance of identifying practical use cases that minimize incremental risks and costs for banks.
- Participants agreed on the need to further refine the issues and explore potential solutions in a more focused subgroup before presenting findings to the larger group.

## **Key themes and discussion points**

### **1) Legal certainty**

- Parties raised major legal questions: property rights underpinning TMMF shares, enforceability of transfers on DLT, netting and perfection of security interests, and bankruptcy/insolvency consequences.
- U.S. vs Europe differences were highlighted: pledge vs title transfer models, U.S. commercial-law frameworks (Article 8 entitlements vs other models), and the 2025 GDF EU/UK report on TMMFs as collateral that offers useful precedents.

- The group noted ambiguity around whether a DLT transfer conveys the same legal certainty as traditional mechanisms; netting opinions and engagement with ISDA/ISLA (for contractual and netting certainty) will be important.

## **2) Regulatory certainty and eligibility**

- Whether TMMFs count as eligible collateral under regimes (UMR, IM, VM, cleared margin, NSFR) depends on jurisdiction and the tokenisation approach.
- Specific concerns: embedded repo/leverage inside money market funds that may render them ineligible for UMR in the US (CFTC and USPR) rules and the differing European treatment.
- The SEC's recent guidance on tokenization models was noted briefly, and ongoing prudential regulator developments were seen as useful signals but not exhaustive resolution.

## **3) Reuse/rehypothecation (operational and contractual questions)**

- Core use case: TMMFs delivered as variation margin (VM) and then reused to satisfy other margin or collateral needs. Reuse drives commercial value by freeing highly-liquid assets and potentially improving NSFR and funding metrics.
- Legal mechanisms for reuse vary across jurisdictions; in the US reuse is typically contractual (rather than “pledge”) and must be reconciled with regulatory constraints (e.g., IM rehypothecation restrictions).
- Banks will charge fees if reuse is restricted; demand-side considerations (buy-side willingness to pay) were debated—there is resistance to clients bearing cost.

## **4) Operational and infrastructure concerns**

- Custody models and settlement mechanics are crucial: how are tokenised shares custodied, who records pledges and re-pledges on-chain, and how does recall/liquidation function when assets may be pledged multiple times?
- Triparty vs bilateral reuse: triparty may be operationally easier (fewer bilateral documentation changes), but bilateral markets may have more collateral inventory.
- Pricing/discounting effects: firms must consider whether new discount curves or pricing adjustments are needed to account for infrastructure or liquidity differences.
- Settlement speed and liquidation capability matter to CCPs and banks (examples cited of expectations such as minutes-level redemptions or liquidation targets for CCP inventory).

## **5) Tokenization frameworks and taxonomy**

- Prior EU/UK working-group work identified multiple tokenization methods (seven were referenced). The way a MMF is tokenized materially impacts legal characterization, eligibility, and reusability.

- Participants proposed compiling a list of tokenization methods and selecting a smaller set to focus on; this would allow concrete and tangible legal/operational analysis.
- Three approaches discussed: digitally-native tokens, twin-ledger/digital twin models, indirect (custodial/intermediated) models. Preference expressed toward approaches that map to familiar legal frameworks (e.g., models aligning with Article 8 securities entitlements in the U.S.) to accelerate adoption.

## **6) Commercial viability and scaling**

- Scalability hinges on resolving reuse, eligibility and legal certainty. Without these, uptake will be limited and ad hoc one-offs will predominate.
- Market acceptance requires alignment across banks, CCPs, custodians, asset managers and regulators.

## **Practical suggestions to mobilize analysis**

- Produce an inventory of legal/regulatory blockers by jurisdiction (U.S., EU, UK, other), including netting/perfection opinions, prudential/regulator constraints, CSA/CSA amendment implications, and CCP acceptability.
- Engage custodians and triparty agents to clarify warehousing and operational capabilities; solicit preliminary statements from custodians in the group.
- Consider targeted regulatory outreach (prudent regulators, SEC, CFTC) to surface and address blockers and to align expectations.
- Test contained use cases within the Sandbox workstream (e.g., variation margin reuse in a controlled triparty context) before scaling to broader cleared-derivatives or bilateral repo markets.

## **Risks and open questions**

- Whether DLT-based transfers achieve the same legal certainty and enforceability as traditional transfers remains unresolved in many jurisdictions.
- Jurisdictional divergence (U.S. vs EU/UK) may slow global scalability.
- Potential for tokenization approaches to create different haircuts/discounts or even different regulatory treatment, complicating standardisation.
- CCPs and large banks may remain reluctant to accept anything other than cash or government securities without clear, quantified operational and legal mitigants.

## **Agreed immediate actions**

1. Collate and circulate an issues inventory (to be expanded following this call) and proposed agenda items for upcoming meetings.
2. Leverage existing EU/UK framework outputs to produce an initial list of tokenization methods for down-selection.
3. Plan follow-up calls: next confirmed working group scheduled for March 5<sup>th</sup>, 2026; co-chairs will circulate agendas and the open-issues list.

## **Closing**

- Co-chairs emphasised continued engagement and contribution from the broad group while keeping meetings targeted so participating firms can send the appropriate people per topic. The group acknowledged the scale of work but expressed optimism that, with focused subgroups and prioritized use cases, practical progress (eligibility, reuse, netting opinions and operational design) can be achieved in the coming months.