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Sent via email: tokenisedsecurities@fca.org.uk

Dear Matthew,

Response to FCA & Bank of England's Call for Input on the future of tokenisation

The International Swaps and Derivatives Association, Inc. ("**ISDA**") and Global Digital Finance ("**GDF**") ("**the Associations**") welcome the opportunity to respond to the FCA and Bank of England's future of tokenisation Call for Input. The Associations work with a broad range of participants in the global derivatives market and have longstanding experience with collateral management, central counterparty ("**CCP**") risk frameworks, capital requirements and the legal and operational standards that underpin safe and efficient wholesale markets.

Tokenisation presents a significant opportunity in the derivatives market. With accelerated movement and optimisation of collateral, there are potential benefits from a capital, liquidity and systemic risk perspective which could support a transition to 24/7 trading with sound risk management practices.

To realise these benefits, it is vital to ensure the risk management, legal enforceability and deep liquidity foundations that underpin collateral movements in traditional markets are maintained when transitioning to distributed ledger technology ("**DLT**") and using tokenised assets as collateral. The Associations' mission includes the development of legal and regulatory standards for both traditional and emerging product structures, including those within the digital asset ecosystem. A broader regulatory approach that supports tokenisation across market infrastructures and exchanges would enable the market to develop more quickly and effectively than regulation focused on individual entities.

Members wish to emphasise the importance of leveraging existing regulation and seeking regulatory clarity (e.g. via "Dear CEO letters") rather than new rulemaking. We echo UK Finance in their view that care should be taken not to create an unnecessary and complex new 'twin track' of regulation purely because a given security is tokenised. We too commend the vision of the FCA in this paper in suggesting that existing CASS chapters should apply where possible, for example, minimising the instances where firms subject to existing CASS chapters will be subject to CASS 17.

Q1: Where do you see the most potential benefit to the UK market from tokenisation and why? Where do you see the main opportunities for tokenisation for your business?

- Improving liquidity and collateral management and reducing risks via near-instantaneous settlement.

Tokenisation can facilitate almost instantaneous settlement, rather than the usual T+1/T+2 or longer timeframe. This capacity offers opportunities to substantially reduce counterparty risk, as well as allow improved liquidity management, including intra-day liquidity. For instance, instantaneous posting of tokenised securities could replace the current process of posting cash and then replacing it with a security. Tokenisation enables simultaneous exchanges of collateral, eliminating "give before get" risks in collateral substitutions.

Counterparty Credit Risk (CCR)

- Mitigation of Counterparty Credit Risk

Under the current T+1 (or T+2) settlement convention, market participants carry open mark-to-market exposure on traded positions for the duration of the settlement window. Price movements during this period create replacement cost risk meaning that if a counterparty fails to deliver, the non-defaulting party must re-enter the market at potentially adverse prices. Near-instantaneous settlement, as defined in the Call for Input, has the potential to mitigate settlement exposure arising solely from the delay between execution and settlement, provided that both legs of the transaction settle atomically and the supporting legal, operational and liquidity arrangements function as intended. In the context of this response, "atomic settlement" means both transaction legs settle simultaneously (Payment vs Payment (PvP) or Delivery vs Payment (DvP)). For cash securities transactions, near instantaneous atomic settlement would avoid the requirement for using a CCP, avoiding IM and VM payments on such transactions.

In volatile market conditions (such as those seen during acute stress periods), the compounding of unsettled trades across a portfolio can generate very significant unrealised exposure. Near-instantaneous DvP (Delivery versus Payment) settlement can materially reduce such exposure by ensuring that securities and cash settle on an all or nothing basis.

Furthermore, a failing receipt prevents the on-lending or re-use of a security, creating unintended short positions or forcing market purchases (to enable delivery) at potentially unfavourable prices. The Call for Input notes that reduced collateral requirements stem directly from faster settlement, which is a direct consequence of reducing the number and duration of settlement failures.

- Reduced Exposure at Default ("**EAD**") and Capital Relief

Pre-settlement risk is the risk that a counterparty defaults before a trade settles and collapsing the settlement window to near instantaneous settlement would help to eliminate pre-settlement CCR for near-instantaneously settled trades. As CCR capital requirements are in part a function of potential future exposure over the settlement/margin period, the compression or elimination

of settlement risk should reduce regulatory capital consumption. Banks would benefit from lower EAD calculations for near-instantaneously settled instruments, freeing up balance sheet capacity for productive market intermediation. The margin period of risk ("**MPOR**") exists to capture the interval between the last exchange of collateral and the close-out and re-hedging of positions, together with any settlement fails arising in that window. The transition to tokenisation including near-instantaneous settlement, smart contracts and efficiencies in the close out valuations could support a lower MPOR. We believe that the regulatory floors on the MPOR should be revisited for such netting sets to reflect a genuinely shorter close-out horizon. Near-instantaneous settlement combined with other non-technology initiatives such as cross product-netting could expand on this and offer real benefits for risk management whilst retaining a regulatory capital framework that promotes safety and soundness. The greatest efficiency gains may arise where tokenisation is considered alongside broader market structure developments, including cross-product netting across derivatives, repo and securities lending transactions. Faster collateral mobility and more synchronised lifecycle management may permit market participants to manage risk on a portfolio basis across traditionally siloed products – and regulators should assess tokenisation initiatives through this lens.

Prudential requirements should ultimately reflect empirically demonstrated reductions in settlement, liquidity and operational risk. As tokenised infrastructure matures and operational experience develops, regulators should consider whether existing assumptions relating to MPOR, close-out timelines and collateral mobility remain appropriate.

- CCP Collateral Efficiency and Systemic Risk Reduction

The Call for Input recognises regulated clearing houses as providing benefits of trusted counterparty, netting, risk management, and risk mutualisation. A further benefit in the cleared context is the increased velocity of collateral: real-time mobility would allow eligible collateral to be delivered to and recalled from CCPs more rapidly, improving collateral efficiency across the system. Real time mobility could also allow a larger role for non-cash collateral for intraday margin calls.

Tokenisation may improve the efficiency of hedge execution and hedge maintenance. Where a dealer's hedge positions, funding transactions and collateral movements can all be recorded and settled on interoperable infrastructure, dealers may be able to rebalance hedges more quickly and with reduced operational friction. This is particularly relevant for equity derivatives, securities financing transactions and structured products where hedge adjustments, collateral substitutions and securities borrowing arrangements are closely linked.

- Enhancing non-cash assets for use as collateral for uncleared variation margin ("**VM**").

Market stress events in recent years - like the March 2020 "dash for cash" and the September 2022 UK gilt crisis - made the need more pressing for the Associations and industry participants to bring more efficiency and data standardisation to collateral management processes. The required exchange of collateral for non-cleared derivatives is one of the central planks of regulatory efforts to mitigate counterparty credit risk and maintain the resilience of the financial

system. Greater automation and data standardisation will help drive efficiency and reduce risk in collateral management, as well as help reduce funding costs for market participants.

It is important that tokenised assets meet all existing standards for eligible collateral.

Money market funds (MMFs) are often used as a cash management and liquidity management tool; however, units or shares of such MMFs are not directly posted as collateral due to challenges with the traditional subscription and redemption workflow. Tokenised MMFs, in particular, have the potential to address known frictions in the current workflow to use units or shares of MMFs as collateral.[1] Today, using MMF units or shares as collateral often requires posting cash and then relying on a custodian to invest that cash into MMFs—creating additional operational burdens and dependencies on intermediaries. Tokenisation can allow MMF shares or units to be posted and returned directly as collateral, without requiring liquidation within the collateral workflow, thereby enhancing timeliness, automation, and intraday mobility.[2]

Using other tokenised forms of collateral, such as regulatory eligible corporate and government securities, could mitigate some of the operational and liquidity constraints the industry currently endures when posting and receiving collateral. For example, while use of non-cash VM in non-cleared derivative transactions has increased in recent years[3], our members, such as insurance companies and pension funds, have noted that there are operational and liquidity management challenges, such as managing collateral substitutions and corporate actions and dividends on securities posted as collateral, that prevent counterparties from posting non-cash collateral VM in non-cleared derivative transactions. Using tokenised forms of securities as collateral could alleviate these challenges along with reducing costly collateral fails[4].

Tokenisation also has potential within the repo and securities lending markets. Real-time movement of collateral may reduce financing frictions, improve settlement efficiency and support more active intraday collateral optimisation. This could be particularly valuable during periods of market stress where the ability to mobilise collateral quickly becomes critical to market functioning.

Further, tokenised collateral can also bridge certain operational aspects of collateral management, including the transfer of collateral and the demonstration of control. Of course, it does not, of itself, displace the legal requirements governing the perfection, priority or enforcement of a security interest. However, where an enforceable legal structure and collateral

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[1] ISDA has been working with market participants and other stakeholders on the legal, documentation, and operational foundations for tokenised collateral—recognizing that tokenisation can improve collateral mobility and reduce operational frictions. For example, ISDA is working closely with GDF on the US Tokenized MMF working group, with the goal of establishing legal, regulatory, and operational frameworks for using tokenised MMFs. See https://www.gdf.io/working-group/us-tmmf-working-group/.

[2] NASDAQ, Making the Case for Tokenized Collateral (2026), available at https://www.nasdaq.com/solutions/fintech/resources/reports/making-the-case-for-tokenized-collateral. See also Value Exchange Report, The Case for Collateral Tokenisation, available at https://thevx.io/wpcontent/uploads/2025/11/VX-2025-11-The-case-for-collateral-tokenisation-Key-findings.pdf.

[3] ISDA 2025 Margin Survey https://www.isda.org/a/nl6iE/ISDA-Margin-Survey-Year-end-2025.pdf

[4] The ValueExchange: VX-2025-11-The-case-for-collateral-tokenisation-Key-findings.pdf

arrangements are in place, tokenisation could help facilitate enforcement. For example, it may be operationally simpler for a secured party to sell or redeem a tokenised stablecoin than to enforce directly against the underlying assets, depending on how the token and the associated legal rights are structured.

- Lower transaction costs.

Tokenisation could lead to lower transaction costs by reducing the need for intermediaries and enhancing the capital efficiency of the asset. As an example, with tokenised MMF shares, if all the parties (pledgor, secured party, custodian, transfer agent) are part of the golden record, there is no need to use the current operationally-intensive process to liquidate the MMF, post cash and then transform into a MMF for collateral purposes. Additionally for tokenised MMFs and other types of assets, many resource-intensive manual processes in traditional financial markets could be automated through the use of smart contracts, thereby reducing costs and improving efficiencies.

Tokenisation can facilitate near instantaneous settlement and cost savings for firms may flow from that into savings and redeployment opportunities for market participants. Banks may be able to recycle liquidity more efficiently, requiring less collateral to be posted and recovered more quickly and capital may be freed up to be redeployed elsewhere in the financial system. Financial stability is strengthened and systemic risk is lowered.

A recent Tokenovate paper[5] examined the impact of shortening the settlement cycle for OTC uncleared derivatives from T+2 to T+0. The paper took three recent episodes of market disruption and compared collateral demands under T+2 and T+0 settlement, the results suggesting the scale of collateral savings that could have been realised under near instantaneous settlement and the broader implications for liquidity management and systemic risk. To take the results of one stress episode in their modelling, the September 2022 gilt market turmoil, peak mean collateral demands reached £42.9 million under T+0 and £224.9 million under T+2. Relative to T+2, collateral demands under T+0 were 80.9% lower, with near instantaneous settlement reducing requirements by up to £182 million at the height of the crisis.

- Challenges and risks

Full transition to near instantaneous settlement is not without challenges. Compressing settlement timelines may increase liquidity demands where it denies opportunities for settlement netting and may exacerbate procyclical risks if not supported by robust liquidity-management mechanisms. There may be a trade-off in liquidity management benefits between near-instantaneous asset transfers versus the opportunity to net settlements, and the market will need to find the appropriate balance. Equally, the benefits of tokenisation remain contingent on legal certainty. For tokenised cash or securities to function as settlement assets, they must

[5] *Joy Wang and Ciarán McGonagle,* From T+2 to T+0: The Impact of Tokenised Settlement on Collateral Mobility and Systemic Risk in OTC Derivatives Markets *(September 2025). Available at:* https://www.tokenovate.com/insights/papers/

be recognised as enforceable collateral within existing netting, collateral, and settlement-finality regimes. Market participants also need the confidence that they can liquidate tokenised collateral quickly in a default situation, either by redeeming and selling the underlying asset, or selling the token. Without clarity on the enforceability of settlement and collateral arrangements involving digital assets, digital assets or harmonisation across jurisdictions, operational efficiency risks being achieved at the expense of enforceability in insolvency.

Market participants are also concerned about the risk of concentration emerging around a small number of tokenisation platforms, wallet providers, stablecoin issuers, validators, custodians or transfer agents. Policymakers should seek to encourage interoperability and competition to avoid single points of failure developing within tokenised market infrastructure.

The risk reduction benefits of tokenisation may in certain cases be structural rather than merely incremental. Near-instantaneous settlement, in particular, addresses the root cause of both pre-settlement CCR and settlement risk, rather than merely mitigating their effects. Combined with programmable collateral mobility, real-time margining, and netting efficiency, the proposals described above and in the Call for Input have the potential to materially reduce the risk carried across UK wholesale markets, lower systemic exposure, and reduce regulatory capital requirements in a manner commensurate with genuinely reduced risk.

Members wished to highlight that realising many of the benefits of tokenisation depends on the progress of the development of supporting infrastructure over the long term (5-10 year) roadmap.

Q2: Do you agree with the vision and regulatory principles we have set out in this paper?

We agree with the vision and the principles for regulation and infrastructure as set out in the paper. As noted above, it is vital to ensure the risk management, legal enforceability and deep liquidity, foundations that underpin collateral movements in traditional markets are maintained when transitioning to distributed ledger technology and using tokenised assets as collateral. This is well-recognised through the vision and regulatory principles.

Regulators should uphold the principle of "same risk, same regulatory outcome" and maintain the distinction between primary and secondary markets to avoid undermining nascent tokenised ecosystems. In secondary markets, mandating full KYC checks for every individual transaction departs from the established risk-based approach used in traditional finance. Transaction-level re-verification puts tokenised markets at a distinct competitive disadvantage compared to non-tokenised ones, where identity is verified at onboarding and maintained via ongoing monitoring.

We would suggest a further principle: There should be both domestic and international regulatory consistency. For example, in the use of consistent terminology and approaches in the UK (between the PRA, FCA, Bank of England, HMT, ICO and any other relevant bodies) and, in as far as is possible, internationally, to support alignment, promote the development of global markets and foster cross-border capital markets activity.

Q3: Do you agree with the priority areas we have identified, and our long-term ambition in each of these? Are there any other priority areas you think are important?

We agree with the identified priority areas and the ambition in each of these. Harmonisation with International Standards is another important priority area.

DLT is inherently a global technology, and financial markets are deeply interconnected across jurisdictions. If each jurisdiction were to pursue a divergent approach, it could increase the risk of liquidity fragmentation. It is critical that the efforts in the UK are well coordinated with other international efforts to ensure there is an overall holistic approach with legal, technological, operational, and governance-related topics.

The development of front-to-back systems and processes (all the bodies involved in the full lifecycle of a given financial instrument: existing trade booking and capture systems, CSDs, CCPs, Custodians etc.) will be a key enabler for the growth of tokenised markets, both in supporting these markets in achieving scale and in enabling interoperability. A broader regulatory approach that supports tokenisation across market infrastructures and exchanges would enable the market to develop more quickly and effectively than regulation focused on individual entities.

The UK should work with BCBS, CPMI, IOSCO and other international standard-setting bodies to develop consistent approaches to tokenised collateral acceptance for both cleared and uncleared transactions. This is particularly important for systemically important for CCPs with global membership. This includes:

- consistent haircut methodologies and valuation approaches across jurisdictions;
- interoperability standards for DLT-based collateral management systems, specifically the Common Domain Model (CDM) for data, operational, and tokenised workflows consistency;
- recognition frameworks for foreign tokenisation platforms, digital asset custodians, and stablecoin issuers; and coordinated approaches to operational resilience and cybersecurity standards for tokenised collateral infrastructure.

We note that the priority areas are focussed on primary market issuance. We propose a priority area in supporting robust secondary markets, where tokenisation can bring material benefits to secondary trading, collateral management, settlement, custody and post-trade servicing.

Q4: To what extent is regulation preventing you from offering tokenised securities products in or from the UK? Are there any specific rules and regulations you would like to see changed?

Members agree with the policy sentiment expressed in the Call for Input that UK regulatory frameworks should be risk-based. It follows from this that members generally consider that regulatory frameworks applicable to tokenised securities should, broadly speaking, only differ to those applicable to securities in traditional form to the extent that the means of tokenisation

or the nature of the arrangements introduces new or different risks (or mitigates risks that might otherwise apply).

In light of this, a number of members are concerned that the newly introduced concepts of "specified investment cryptoassets" and "relevant specified investment cryptoassets" could, depending on how the terms are interpreted and applied, result in outcomes that are not risk-based. Members are also concerned that the ongoing registration requirement under the Money Laundering Regulations, which appears to continue to apply to firms that do not (and are not required to) have permissions for specific "cryptoasset" activities under FSMA, creates an unlevel playing field and outcomes that are not risk-based. In this regard, ISDA endorses clarifications and amendments proposed in the joint industry letter published by UK Finance and AFME in relation to the regulatory perimeter.[6]

In principle, members would welcome further clarificatory guidance, which the policymakers are proposing to provide, in relation to the circumstances in which tokenised assets will be accepted as eligible collateral for various regulatory purposes. Similar guidance may also be helpful in relation to legal frameworks, notably the Financial Collateral Regulations and Settlement Finality Regulations, as the EU has been considering under the MISP package. However, in providing such guidance, policymakers should be careful not to introduce further uncertainty or to introduce incremental criteria that would not otherwise apply in relation to securities recorded or evidenced in traditional form and which create outcomes that are not technology neutral. It is also likely to be unhelpful to amend existing frameworks to refer to specific technologies, as this could create boundary issues or risk such frameworks becoming outdated.

In consulting in relation to collateral eligibility, we would also recommend that UK policymakers seek feedback, sooner rather than later, on expanding the range of eligible collateral under legal and regulatory frameworks and not merely focusing on clarifying how existing frameworks apply (where there is already a relatively high degree of certainty). This could include the use of tokenised MMF as collateral for cleared exposures. Although MMFs are allowed for uncleared variation and initial margin, they are not allowed for cleared initial margin in the UK. Ultimately a CCP will also need to determine whether such assets meet its risk appetites for collateral.

In undertaking that review, we encourage the authorities to confirm expressly that the financial collateral rules cover tokenised SICs, since key concepts such as possession, control, account and book entry do not translate neatly to all forms of tokenised asset, and merely adding a reference to distributed ledger technology may not be sufficient. The definition of cash should be aligned with other legislation so that it encompasses stablecoins and electronic money used as settlement assets. The definition of eligible financial instruments should be clarified so that tokenised instruments negotiable on the capital market are within scope, providing a harmonised and predictable basis for using tokenised assets as collateral. The scope of eligible

[6] Joint industry response to draft crypto amendement SI and CP26/13 | Policy and Guidance | UK Finance

collateral providers and takers should turn on the nature and systemic importance of the activity rather than the use of distributed ledger technology, so that entities central to ledger-based collateral chains are not inadvertently excluded.

Tokenised equity and debt

The benefits of tokenisation extend beyond derivative collateral to other tokenised SICs such as tokenised equity and debt instruments (such as bonds), and we encourage the authorities to work with the Government to remove the legal obstacles to issuing these instruments natively on distributed ledger technology. Under English law a share cannot at present be tokenised natively. Legal title to shares is held by the persons recorded in the register of members, and a fully decentralised or permissionless register cannot satisfy the Companies Act 2006 requirements that the company maintain and control the register, keep it available for inspection at its registered office and render it in hard copy form. Transfers of certificated shares also require a proper instrument of transfer suitable for stamping by HMRC, so a token alone cannot effect a valid transfer. A tokenised share could in theory be issued in uncertificated form under the Uncertificated Securities Regulations 2001, but this is not currently viable because the sole approved operator is Euroclear UK and International (the operator of CREST), there is no approved distributed ledger operator, and approval is in practice linked to authorisation as a central securities depository ("**CSD**") under the onshored CSDR.

The position for bonds and other debt instruments is more promising, because native tokenisation of a bond is more readily achievable. Bond registers, other than registers of debentures of English companies, are not subject to the Companies Act formalities, so using a centrally managed distributed ledger as the register of title to registered bonds does not create materially novel legal issues. A bond can also be issued in dematerialised form outside the Uncertificated Securities Regulations 2001 framework, in which case the ledger need not be operated by an approved operator. Even a tokenised bearer bond may be feasible if the terms expressly provide for negotiability, as the UK Jurisdiction Taskforce considers that the legal effects of negotiability can be emulated by appropriate drafting. The principal residual constraints are public trading and finality, since the onshored CSDR requires securities traded on a venue or used as collateral to be recorded in book entry form at a CSD, and there is no CSD operating a distributed ledger system in the UK.

We therefore recommend that UK law be amended to cater expressly for the native tokenisation of both shares and debt instruments, rather than relying on workarounds and contractual structuring. Switzerland provides a working model. Its 2020 reforms introduced the concept of ledger-based securities into the Swiss Code of Obligations, treating securities registered in a qualifying ledger as equivalent to certificated securities, and this form is available for the tokenisation of both equity and debt instruments. A comparable statutory framework in the UK would give issuers and investors the legal certainty that a contractual and common law approach cannot yet provide.

Settlement finality for tokenised SICs

Clear rules on settlement finality are essential if tokenised SICs are to be relied upon by institutional participants, and this is particularly acute for natively issued tokenised SICs. Under English law it is currently unclear whether participants in a distributed ledger system for tokenised securities that is not operated by a CSD would benefit from the protections of the Financial Markets and Insolvency (Settlement Finality) Regulations 1999, which shield settlement and netting arrangements from being unwound in insolvency, because designation has in practice been linked to CSDs and there is no CSD operating a distributed ledger settlement system in the UK. This uncertainty is most significant for natively issued instruments, where the ledger is intended to be the authoritative record rather than a representation of an asset settled elsewhere.

We encourage the authorities to provide that a tokenised settlement system can obtain settlement finality protection on the basis of the nature and systemic importance of the activity rather than its technology, and to define clearly the moment of entry of a transfer order, the moment of irrevocability and the moment of final settlement for ledger based systems. The recent EU proposal for a Settlement Finality Regulation offers a useful template, since it requires in-scope distributed ledger-based systems to implement mechanisms guaranteeing deterministic and legally enforceable finality moments, and it empowers technical standards to address how those moments map to the point at which consensus is effectively final, including for probabilistic or layered finality models. A comparable approach in the UK would give participants confidence that on ledger transfers are final and would support adoption of tokenised SICs.

Decentralised finance platforms

While our response focuses on tokenisation within traditional wholesale market structures, we encourage the authorities to work with the Government to develop a clear framework setting out the circumstances in which SICs may be traded on decentralised finance platforms. Such platforms raise distinct questions of accountability, custody, settlement finality and collateral recognition that differ from those in intermediated markets, and clarity on the perimeter and the conditions for participation would reduce uncertainty and support responsible innovation. We would welcome early engagement with the authorities on the legal and regulatory treatment of SICs in these venues.

Stablecoins

On 18 June 2026, the U.S. Department of the Treasury's Financial Crimes Enforcement Network (FinCEN), together with the Office of the Comptroller of the Currency, the Board of Governors of the Federal Reserve System, the Federal Deposit Insurance Corporation, and the National Credit Union Administration issued a joint proposed rule to implement provisions of the Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act). These rules allow permitted payment stablecoin issuers (PPSIs) to identify and verify the identity of their account holders while limiting those obligations to their direct customers only.

The Financial Crimes Enforcement Network (FinCEN) specification around effective customer identification programs (CIPs) state that "The definitions discussed in this proposal are designed to clarify that a PPSI's CIP obligation extends to direct relationships, i.e., primary market activity, and does not extend to activity where the only interaction is with a PPSI's smart contract". We would value the UK considering taking a similar approach.

Q5: Where and how is interoperability most important for your firm? What domestic and international initiatives – including international standards – will be most valuable?

Interoperable data, lifecycle events and workflow standards are extremely important. As noted in the Call for Input, in many areas traditional and digitalised structures will coexist for a prolonged period. Therefore, interoperability between these structures is important to avoid fragmentation.

ISDA has worked with the Fintech Open Source Foundation ("**FINOS**"), the International Securities Lending Association ("**ISLA**"), and the International Capital Market Association ("**ICMA**") to develop the Common Domain Model ("**CDM**"), an open-source, standardised model for financial products and transaction lifecycles, including digitised documentation, collateral representation and eligible collateral schedules, margin call and collateral settlement processes.[7] The CDM is increasingly adopted by member firms globally and enables the use and creation of smart contracts, supporting on-chain programmable implementations of financial contracts and can provide the foundational digital infrastructure needed to scale tokenised collateral and financial markets. It creates a single, shared standard for tokenised instruments, lifecycle events, and contractual logic, enabling interoperability and reducing fragmentation across tokenisation initiatives. By translating legal agreements such as CSAs into machine-readable data, the CDM can link contractual rights directly to operational execution, automating collateral, margin, and settlement processes. It can also support the efficient movement of tokenised collateral through portfolio-level orchestration of margin calls, substitutions, settlements, collateral transfers, and audit trails. The CDM can consequently bridge traditional and distributed ledger infrastructures by aligning on-chain processing with contractual definitions and providing greater clarity around settlement finality. Through CDM engines and smart-contract-enabled workflow libraries, the CDM can deliver a programmable infrastructure layer that supports automated trade processing and tokenised collateral management at scale. FINOS has established the CDM Tokenised Assets Working Group to develop a standardised approach for representing digital assets and their associated operational workflows within the CDM.

The Associations strongly encourage that the UK Synchronisation Lab, operated by the Bank of England, engages in using the CDM as a blueprint for Lab participants to define financial products, trades in those products, and the lifecycle events of those trades. Without a set of common standards, such as the CDM, the operational, risk management, and liquidity benefits of this vision will be diluted due to lack of interoperability and additional technological and

[7] CDM Collateral Fact Sheet https://www.isda.org/a/MGYgE/CDM-for-Collateral-Initiatives-Factsheet-2025.pdf

data mapping requirements. Common operational standards should be the foundation of any DLT initiative, especially if widespread adoption - supported by interoperability and resiliency - is the ultimate goal. The UK should leverage the work the industry has completed and has in process with the CDM and expand, as necessary. To-date, members of ISDA, ICMA, and ISLA have contributed to the open-source data model, and with the governance structure of FINOS, future enhancements can be driven and implemented by the industry.

- Other Collaborative Efforts Driving Industry Developments

In recent years, the Associations have collaborated with other trade associations to produce the Report on DLT in Capital Markets[8], an overview of current legal, regulatory and risk management frameworks for digital assets and developments in collateral management and tokenisation. ISDA has also recently introduced Digital Asset Definitions (available via ISDA's MyLibrary) to provide a starting point for the documentation of digital assets derivatives. ISDA has provided Tokenized Collateral Guidance and will continue to assess where updates are needed to these referential documents to facilitate the use of tokenised assets as eligible collateral. GDF published the report: "The Case for Collateral Mobility in Europe and the UK Using Tokenized Money Market Funds", reporting on the legal certainty of collateral eligibility and the mobility of Tokenised Money Market Funds in Luxembourg, Ireland and the UK. This 2025 report concluded that there is a low degree of legal uncertainty in the UK around these matters, and that certainty would improve post the Property (Digital Assets etc.) Act and common law precedents as to the implication of the 'third category' of property.[9]

We would add that tokenised SICs are likely to be issued across many different layer 1 and layer 2 blockchains, and that standards for cross-chain interoperability will therefore be critical. There are already many actively used public networks alongside permissioned platforms, each with its own consensus, token standards and notion of finality, and the ease of launching new chains is widening this fragmentation. Interoperability is necessary to connect ledgers, contracts and networks to one another and to the traditional infrastructure that continues to anchor global finance. Without harmonised approaches to the enforceability of transfers across chains, the market faces the risk of failed or inconsistent settlement, broken chains of title and trapped liquidity. We encourage the authorities to support industry led cross-chain standards alongside the CDM so that the market has confidence in the tokenised SIC market even where assets are issued on a cross-chain basis.

Q6: How should safeguarding requirements for SICs be designed to deliver adequate client asset protection, while remaining proportionate, technology-agnostic and supportive of market development? Please consider whether and where safeguarding requirements should differ by type of SIC. How clients' ownership rights can be protected

[8] The Impact of Distributed Ledger Technology in Capital Markets – Ready for Adoption, Time to Act FULL REPORT - DLT REPORT.pdf

[9] The Case for Collateral Mobility in Eurole and the UK Using Tokenized Money Market Funds https://www.gdf.io/resources/the-case-for-collateral-mobility-in-europe-the-uk-using-money-market-funds/

in the absence of digital parties, such as a registrar, CSD or digital securities depository that ensures legal ownership of SICs is accurately recorded and updated, and how safeguarding frameworks should support fungibility, interoperability and clear accountability as tokenised issuance, trading and post-trade models evolve.

We support an approach to safeguarding that is proportionate and technology neutral and we do not consider that the FCA should apply different CASS requirements to tokenised SIC from those that apply to traditional, non-tokenised specified investments. Applying the existing CASS 6 regime avoids fragmentation and an unlevel playing field, and is consistent with the same risk, same regulatory outcome principle. At the same time, additional guidance on how the CASS 6 requirements apply to the specific idiosyncrasies of tokenised specified investments would be helpful, in particular guidance distinguishing the application of those requirements to natively issued tokenised SICs, where the ledger record is the asset itself, from their application to digital twin tokens, where the token represents an underlying security custodied in the traditional manner. The distinction matters because control, segregation and reconciliation operate differently where access to the asset depends on holding the means of access to a native token rather than on an entry maintained by a registrar or custodian.

Furthermore, irrespective of the type of SIC, safeguarding assets in a token form does change both the cybersecurity attack vectors and the cybersecurity approaches available to protect these assets, from an operational resilience perspective. At a principal level, this leaves an array of choices to financial institutions, which if made inadequately threaten the safety, confidence in, and growth of tokenisation. To this end, we encourage guidance to the market on operational resilience for the custody function in particular – covering issues such as key management, data governance, risk-based governance controls, or third-party outsourcing.

The "cybersecurity" risk of an attack vector resulting in the theft of a user's private cryptographic key (which along with the public cryptographic key controls access to the digital assets) may lead to the transfer of the digital asset to another wallet. Depending on the tokenisation structure used, this outcome may be irreversible, potentially leaving the asset unrecoverable for the user. The transparent nature of the blockchain and the sophistication of onchain surveillance and monitoring tools, however, often lead to the stolen digital assets being tracked to the new wallet address which is then frozen and blacklisted leading to recovery by a jurisdictional agency.

Q7: Do you agree with our roadmap of initiatives and next steps? Is there anything else you would like to receive clarity on in our roadmap that is not in this paper, or any parts you would like us to prioritise?

Prudential treatment of tokenised assets

Prudential treatment is a critical issue for our members and a central determinant of whether banks can participate meaningfully in tokenised markets. The PRA's recent Dear CEO letter of

18 May 2026 [10] reaffirms the PRA's expectation that, under the market risk framework, firms continue to apply a 100% capital requirement to unbacked cryptoassets to reflect their elevated volatility and limited price history. While we welcome the PRA's confirmation that tokenised traditional assets should generally receive the same treatment as their non-tokenised equivalents where the legal rights and underlying risks are comparable, the continued application of a 100% requirement to Group 2a cryptoassets [11] makes it extremely cumbersome for banks to engage with the digital assets market. Furthermore, the significant difference in comparison to the FCA's recently published 40% risk weight could introduce an unlevel playing field, encouraging customers towards smaller, solo-regulated firms. This could disincentivise investment in the development of digital asset capabilities in larger firms and delay the development of these markets in the UK.

We encourage the UK authorities to contribute to the Basel Committee's current targeted review of its prudential standard[12]. The impact of the Basel Committee's standards that include restrictive qualification criteria combined with punitive market and credit risk capital requirements effectively make it uneconomic for banks to meaningfully participate in the digital asset market. ISDA have made a number of recommendations in its most recent letter to the Basel Committee, including:

1. Eliminating the distinction between permissioned and permissionless ledgers for Group 1 classification.
2. Revising classification condition 2.
3. Reconsidering the treatment of regulated stablecoins.
4. Recognising certain digital assets as eligible collateral.
5. Reassessing the treatment of Group 2 digital assets.
6. Allowing the use of internal models for market and counterparty risk.

We note that the FCA is considering whether the prudential rules for all solo regulated firms require further clarity. Members wish to stress the importance of a level playing field in prudential standards between solo (FCA) regulated firms and PRA/FCA dual-regulated firms.

DSS settlement currency

We encourage the Bank of England to clarify that non-UK Qualifying Stablecoins, such as USDC, may be used as a settlement currency within the Digital Securities Sandbox ("**DSS**"). At present the Bank does not specify those assets to be used for money settlement in the DSS. Given that it may take some time for UK Qualifying Stablecoins to become widely available and utilised, permitting the use of established non-UK Qualifying Stablecoins on a controlled

[10] https://www.bankofengland.co.uk/-/media/boe/files/prudential-regulation/letter/2026/tokenised-assets-stablecoins-and-other-cryptoasset-exposures.pdf

[11] https://www.isda.org/a/r1pgE/Letter-on-BCBS-Cryptoasset-Exposures-Standard-081925.pdf

[12] https://www.bis.org/press/p260520.htm

basis would enable participants to test realistic settlement flows during the life of the sandbox, consistent with the Bank's willingness to consider firm specific arrangements such as the use of a non-UK bank for the cash leg. This would support the development of viable delivery versus payment models without compromising the sandbox's financial stability objectives. The DSS should also support testing of institutional collateral, margining and securities financing use cases. In addition to settlement assets, participants should be able to explore the transfer and management of tokenised collateral, including government securities, money market fund interests and other eligible collateral, as well as repo, securities lending and margin workflows. These use cases are likely to be among the most significant drivers of wholesale market adoption and would provide valuable insight into the operational, legal and risk management implications of tokenisation.

Perimeter of the digital assets regime

We also encourage UK authorities to consider the perimeter of the current digital asset regime in four targeted respects,

(i) Through refinements to the FCA's draft digital asset perimeter guidance set out in CP 26/13 (the "Draft Crypto PERG") and to The Financial Services and Markets Act 2000 (Regulated Activities and Miscellaneous Provisions) (Cryptoassets) Order 2025 (the "Cryptoasset SI"). First, the scope of "specified investment cryptoassets" (SICs) and "relevant specified investment cryptoassets" (RSICs) should be clarified, in particular the carve-out for cryptoassets that are "solely a record." A cryptoasset that merely evidences interests in a specified investment should be confirmed to fall within that carve-out, as distinct from a cryptoasset that itself embodies the specified investment and is transferred by way of a change of practical control. Generalised references in the Draft Crypto PERG to "tokenised securities" or "tokenised deposits" as SICs should be refined, since not all tokenisation models give rise to a SIC, and Article 88F(2)(c) of the Regulated Activities Order could usefully be amended to confirm that "a record" includes a legal register. Absent these clarifications longstanding market structures, including cryptographically secured legal registers and the books and records of regulated entities, risk being inadvertently brought within scope.

(ii) The new article 9N safeguarding activity should be recalibrated. Given the FCA's commitment to assess applicants against the existing CASS 6 regime, there is no remaining policy rationale for requiring firms already authorised under article 40 to obtain a variation of permission to safeguard RSICs; such firms should be deemed authorised under article 9N with respect to RSICs (though not qualifying cryptoassets, "QCs"), avoiding a costly gateway exercise with no discernible benefit and a competitive disadvantage relative to peer jurisdictions. It should also be clarified that a registrar or operator holding QCs in a principal capacity as part of its own record-keeping functions is not safeguarding them "on behalf of another," and that an authorised custodian that does not hold the means of access to an RSIC (nor appoint anyone to do so) falls outside article 9N, even where it remains within the article 40 activity.

(iii) The disapplication of the registration requirement under the Money Laundering, Terrorist Financing and Transfer of Funds (Information on the Payer) Regulations 2017 (the "MLRs") should extend to all firms authorised under Part 4A FSMA. Such firms are already subject to comprehensive anti-money laundering obligations and FCA and/or PRA supervision; requiring separate registration as cryptoasset businesses imposes a duplicative burden, demands costly perimeter analysis, and creates an unlevel playing field, without any articulated policy benefit. A targeted amendment to Regulation 48 of the Cryptoasset SI would deliver the stated objective of aligning MLR registration with FSMA authorisation far more efficiently for firms and regulators alike.

(iv) Creating a marketplace for tokenisation of financial instruments brings forward the need for another clarification which stemmed from CP26/13, to the definition of arranging deals as a regulated activity. As in the market for cryptoassets, it is unclear if when non-custodial software provides users with the means to place orders, this is considered an act of arranging. We ask the FCA to draw the line by reference to purpose and control, consistent with the statute and existing PERG. For example, a provider who is agnostic to whether a transaction occurs to or not, and who has no ability to exercise any discretion over how the transaction is executed, should not be treated as providing an arranging activity on purpose.

Data protection

A key topic not yet covered in the regulators' roadmap is the application of UK GDPR in the context of DLT. While we recognise that this falls outside of the responsibility of the BoE and FCA, a clear understanding of how GDPR can be applied for immutable on-chain records, including the right to erasure and selective disclosure, will be central to industry's ability to provide products and services on blockchain.

Q8: Are there any new products you would like to discuss with us, in particular any early-stage initiatives and experiments, where you would find early engagement with the regulators particularly useful?

ISDA is initiating a project to assess the benefits of tokenisation for derivative transactions and to consider these benefits in the context of both derivatives and repos in a cross-product netting set. This initiative assesses whether the capital, liquidity, and legal assumptions designed for non-tokenised models without significant cross-product netting are still appropriately aligned when introducing these changes.

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About ISDA

Since 1985, ISDA has worked to make the global derivatives markets safer and more efficient. Today, ISDA has over 1,000 member institutions from 76 countries. These members comprise a broad range of derivatives market participants, including corporations, investment managers, government and supranational entities, insurance companies, energy and commodities firms, and international and regional banks. In addition to market participants, members also include key components of the derivatives market infrastructure, such as exchanges, intermediaries, clearing houses and repositories, as well as law firms, accounting firms, and other service providers. Information about ISDA and its activities is available on the Association's website: www.isda.org. Follow us on LinkedIn and YouTube.

About GDF

Since 2018, Global Digital Finance (GDF) is an industry association accelerating digital finance through the adoption of industry best practices and standards and engagement with regulators and policymakers.