

21<sup>st</sup> November 2025

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**Submitted by e-mail to:** [cp25-28@fca.org.uk](mailto:cp25-28@fca.org.uk)

Dear Mr. Burrows, Mr. Castle, and the Wholesale Buy Side team,

**CFA UK & CFA Institute letter in response to Chapters 2-4 of the FCA's CP 25/28 on  
Progressing Fund Tokenisation**

We welcome the FCA's support for technological innovation, with fund tokenisation being a prime example of the tangible application of technology in the investment sector.

Many of our members work in asset/wealth management and within trading platforms or investment operations and have an interest in **a regulatory framework that enhances productivity and competitiveness while also protecting consumers.**

In this context, please see below two recent publications from the CFA Institute that touch on some of the themes raised in your consultation.

- An Investment Perspective on Tokenization — Part I: A Primer on the Use of Distributed Ledger Technology (DLT) to Tokenize Real-World and Financial Assets, CFAI Institute, January 2025: [\*An Investment Perspective on Tokenization\*](#)
- An Investment Perspective on Tokenization — Part II: Policy and Regulatory Implications, May 2025: [\*An Investment Perspective on Tokenization\*](#)

Our responses to the questions covering chapters 2-4 are contained in Appendix 1, with two overarching points summarized below.

**THE CORE CHALLENGE OF DLT FOR REGULATORS**

There is an inherent disconnect between the nature of distributed ledger technology (DLT) and the desire to have an identified central entity responsible to regulators and consumers.

*“Legislators and regulators, will have to come to terms with the imperfect match between existing financial regulation, which focuses on specific entities or activities, and the proposition*

*made by digital finance, which is largely based on the notion of decentralization and disintermediation, to various degrees”*

CFAI “An investment perspective on tokenization” May 2025

While the FCA should be technology agnostic, a private permissioned model could accelerate the adoption of tokenisation. This would deliver many of the efficiency gains, albeit without the benefits of full decentralization, peer to peer deals etc. Assuming an AFM can safely assume responsibility for the register, regulation can be defined up front with certainty and users can invest confidently in processes and systems.

However, this should not inhibit competition and evolution of technology solutions. Also, a proliferation of private networks will involve duplication of infrastructure, processes and capital investment. Therefore, as control related technology matures, regulators should actively work with the industry to develop the regulatory and legal framework for extension into fully on-chain models, including leveraging IOSCO’s recommended digital asset policies of 2023.

The FCA appears to be broadly following this route by opening both models. However, **we suggest a more calibrated approach to supporting public networks usage to avoid potential changes or issues down the road.** Undue haste to codify regulation and/or for the regulator to determine the optimum operating models or technology winners will not generate the confidence required for wide adoption.

We also suggest examining the viability of a mid-way option that could help adoption in the UK - development of a single UK asset management private network. This could be operated by a dedicated asset manager led body (authorised by the FCA), to avoid duplication, encourage participation, and centralise control and consumer protection.

## **ALIGNMENT WITH OTHER DEVELOPMENTS**

While CP25/28 focusses on tokenisation of the fund layer and alignment with UCITS/NURS, there are other developments that can impact the adoption timeline of participants in the sector such as:

- T+1 settlement cycle and interaction with tokenisation;
- Stablecoin regulation and use as digital money for fund settlement;
- Direct D2F dealing model and infrastructure, while not directly linked to tokenisation, implies efficiencies in adoption timing with tokenisation; and
- Security tokenisation to allow for fund investment and smart contract evolution.

**Greater clarity on timing and inter dependency of regulatory frameworks will support smoother adoption.**

We hope our comments are useful and would be grateful for the opportunity to meet and discuss our feedback.

We consent to publication of our response.

Yours sincerely,

**CFA Society of the United Kingdom**

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**With thanks for their contributions to our volunteers:** Jeanne Sun, CFA, Suzanne Hsu, CFAI's Urav Soni and Phoebe Chan, and the oversight of CFA UK's Ethics & Professionalism Steering Committee.

## **APPENDIX I**

### **Responses to Questions**

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

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

There is an inherent disconnect between the nature of DLT and the need to have an identified central regulated entity responsible for regulatory compliance and consumer outcomes.

In the case of fund tokenisation, it is important for the AFM to have control of, and be able to make unilateral changes to, the fund register so that records are accurate, up to date, and accessible.

The FCA’s blueprint envisages that both private networks and public networks will be permitted, provided the latter has suitable controls to meet regulation. Both options need to provide the operator control over who can participate and the right to change entries to the register.

**At this stage, the guidance for private networks appears to be sufficient.** Private networks can be expected to identify and verify (KYC) participants, and have control of the fund register through master nodes that can also be assigned to others e.g. distributors – broadly the model circled below over a schematic from the CFAI report referenced earlier.

Cash movement can be processed as it is today, assuming on-chain cash is not available for now. Peer to peer trading may optionally be included with limited activities allowed to be undertaken.

**Exhibit 3. Potential DLT Configurations Based on Key Network Features**

| Description of the Arrangement | One entity maintains and updates the ledger | Only approved entities can use the service; entities can be assigned distinct restricted roles | Only approved entities can use the service; entities can play any role | Any entity can use the service and play any role |
|--------------------------------|---------------------------------------------|------------------------------------------------------------------------------------------------|------------------------------------------------------------------------|--------------------------------------------------|
| Operational Responsibility     | Single entity                               | Multiple entities                                                                              |                                                                        |                                                  |
| Access                         |                                             | Restricted                                                                                     |                                                                        | Unrestricted                                     |
| Technical Roles of Nodes       |                                             | Differentiated                                                                                 | Not differentiated                                                     |                                                  |
| Validation and Consensus       | Within a single entity                      | Within a single entity or across multiple entities                                             | Across multiple entities                                               |                                                  |

Source: CFAI “An investment perspective on tokenization” May 2025

However, a proliferation of private networks may hold back some benefits of DLT, involve duplication of infrastructure and processes, and limit competition from open chain technology developments.

**Therefore, as control related technology matures, regulators should work with the industry to develop the regulatory and legal framework for public networks.**

In relation to permissions, it is assumed by the FCA that eligibility verification systems will suffice, although additional KYC processes may also be required and this will need to be clarified as firms test and adopt new processes.

For retaining control of the register, it is assumed a number of options exist - master nodes, direct control of private keys, contracts with unitholders – guidance on what would be an acceptable control and process would be helpful. Regulatory expectations of master node (likely the most common route), governance, and security controls will also be helpful, while remaining technology neutral.

Despite the application of technology solutions and contractual frameworks to allow an AFM to meet control and unilateral change requirements, there are still areas on which FCA guidance will be required, such as:

- Conflict with confidentiality and data privacy (e.g. right to be forgotten);
- Differences across jurisdictions; and
- Issues related to transactions public visibility

The use of off-chain mirror records provides an alternative option alongside public models, but we are not convinced that an off chain mirror to mitigate the issues of legal and regulatory compliance is an efficient solution; indeed, it may introduce additional risks and new procedures/controls.

At a higher level, clarity around the application of the Consumer Duty, PROD and SYSC to models using public networks would be required. We refer to the FCA's consultation CP25/25 on crypto assets, which already address some of the underlying regulatory issues related to the use of public networks and a proportionate regulatory approach including disapplication of rules in some cases.

We also suggest examining the viability of a mid-way option that could help adoption in the UK - development of a single UK asset management private network. This could be operated by a dedicated asset manager led body (authorised by the FCA), to avoid duplication, encourage participation, and centralise control and consumer protection.

**Question 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?**

The use of smart contracts can support regulatory compliance and process simplification. We do not envisage significant issues with respect to enabling fund tokenisation.

However, **a regulatory perspective on the options for smart contract termination / suspension**, if required by the AFM to fulfil regulatory, legal, consumer obligations, will be required, including the issues related to termination on a public network.

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

We suggest that additional regulatory focus should be on:

1. **Interoperability with other jurisdictions and emerging UK crypto regulation** to allow for common standards and consistent operation of public networks, and avoid fragmentation of activities. Leveraging IOSCO's recommended 18 policies for crypto and digital asset adoption would be helpful in this regard.
2. **Clarifying, and where required, updating the regulatory framework** for aspects such as participant verification (e.g. whitelisting logic), and ensuring integrity of the fund register.
3. As mentioned previously, providing clarity and guidance as technology evolves on **acceptable compliance steps when using public networks**.
4. **Ensuring consumer protection and outcome-based acceptance criteria remain key objectives of the framework**, including custody of tokens in appropriate wallets, and ease of interface for consumers. With regard to the latter, an ideal outcome would be a simple and consistent front end user experience, with any operational and technological complexity remaining in the background.

**We also suggest keeping the cost / benefit analysis under review as** expected benefits to operational processes, valuation, liquidity management etc. are better quantified along with the costs of new systems, processes and investor migration. The expected net benefit to investors on a per unit basis should be monitored and transparently articulated.

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

Please refer to the answer to questions 1 and 2 above, proposing further guidance on the use of public networks on an ongoing basis as operating models evolve that are compatible with public DLT as well as regulatory responsibilities.

We suggest supplementing guidance with worked examples of acceptable public-chain controls under COLL, with a focus on controls such as Front-running protection, Privacy, Finality.

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

At this stage, firms proposing private permissioned networks, and the adoption of direct dealing, appear to have sufficient flexibility to update or modify their platforms and processes to cater to tokenisation and T+1.

**For firms with a public network operating model, the alignment of processes with T+1 may be less clear at this stage.** Therefore, to avoid unnecessary system and resource spend, further guidance and evolution of regulatory expectations is required to encourage gradual adoption of this model.

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

We support an optional regime, which allows a firm to continue its existing operational model of the AFM being the principal for transactions, alongside further evolution of direct dealing and adoption by various stakeholders in the process.

**This should be accompanied by:**

- Equal-outcome disclosure i.e. if firms choose one dealing route (AFM-as-principal or D2F), it should be clear to investors that both models deliver the same economic outcome (e.g. NAV, valuation point, dealing price), in line with Consumer Duty expectations.
- Clarity about who carries the MLR duty for investor due diligence in the direct dealing model

**Question 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?**

**Question 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?**

**Question 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?**

From a control perspective the proposed requirements look workable, as AFMs and depositories are familiar with processes for maintaining segregation.

However, if the FCA has determined that the IAC has to be included in the property of the fund, we recommend further consideration of the following to mitigate operational complexity and unintended consequences:

1. **A proportionate relaxation of rules relating to counterparty concentration limits.** For example, pre classifying IAC driven breaches as passive breaches, or even allowing the exclusion of the IAC from this limit due to the risk of unexpected large cash flows tripping the limit. The unintended consequences of a single combined limit could include:
  - The use of multiple banks for IAC accounts (adding to complexity);
  - Investment cash deployment decisions being impacted by the need to keep an exposure "cushion" for the IAC;
  - Adding another factor to the liquidity management of funds; and
  - Further complexity in fixing the daily NAV and related compliance rules due to investor cash flow volatility.
2. **Guidance on the decision factors and governance behind a firm's choice of a single umbrella IAC,** to reduce decision subjectivity. An umbrella IAC carries a higher risk of co-mingling of sub fund cash vs. individual IACs for sub funds,
3. In addition to the amendments to COLL to recognise an IAC and allow the AFM to not act as a principal, we suggest **providing more clarity on the roles and responsibilities relating to the operation of an IAC.** There is a risk that legacy operating practices are assumed to apply whereas the underlying legal framework is materially different.

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

We agree with the proposed accounting controls to ensure operational and valuation segregation between sub funds under an umbrella IAC approach.

We also suggest the FCA considers **how a fully on-chain model would work with a direct dealing model**, for example whether it implies a digital money IAC account.

**Question 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?**

We agree that cash or near cash held for liquidity purposes (including the IAC) can be valued using conventional methods, as the alternative seems to incur greater cost and time for no accuracy benefit for this asset.

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



We agree with the proposals to provide transparency around the use of IAC's, including FSCS applicability and fund insolvency risk in simple and brief language in the prospectus. The proposal to communicate the introduction of an IAC as a notifiable event rather than requiring a vote is also proportionate.

In addition:

- Where a firm operates both traditional and direct dealing models, this should be made clear and **investors allowed a choice**; and
- Disclosure should be **clear about IAC responsibilities of the parties**, including for KYC/AML, complaint handling, information, and investor recourse in case of need.

We support the proposal to require resolution of all unattributed sums before any scheme of arrangement is permitted.

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

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

While this appears to be equitable, it could add a further layer of complexity in the context of IAC reconciliation and accounting.

There could also be instances where late payment discretion is exercised for the benefit of the fund e.g. for order sizing efficiencies or for liquidity management.

**We suggest further industry operational feedback is sought** ahead of confirming the proposal.

**Question 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 direction of travel to simplify the handling of very small sums, which have no material investor impact but have an inefficiency impact on the industry.

For example, **additional powers to expeditiously deal with sums below a defined de minimis level** would help mitigate the issue.

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

The focus on the FCA's current consultation is the so called "fund layer" of administration and box management – subscription, settlement, distribution etc. – including holding crypto assets (qualified stable coins) for these purposes.

However, **funds may also invest in tokenised assets for investment purposes** (assuming the availability of such securities).

Such tokenised assets can also be included in smart contracts that align the fund and underlying securities valuation and enhance efficiencies.

**Question 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?**

The proposed amendments appear to cover the ground by allowing for eligibility exemptions for digital money for limited purposes.

These amendments should be kept under review as guidance may be required on the types of stable coins and also new forms of near money instruments may appear in future that require clarification.

We note the **dependency of these amendments on the FCA's timeline for progressing a comprehensive stable coin regulatory framework.**

**Question 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?**

These are appropriate routes as they would refine and evolve the regulatory framework ahead of codification of public and fully on-chain models, as the industry and the FCA gain experience of the impact of modifications. The sandbox should include examining the viability of a mid-way private network open to all UK asset managers.

**Question 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?**

There does not appear to be a conflict if a clear regulatory exemption is agreed as regards the scope of usage, which needs to be tied back to essential fund activities.

However, there is **room for confusion and hence more regulatory clarity suggested, on the eligible instruments for such an exemption** - given the wide range of digital money like instruments.

If, as suggested previously, the scope is to include the activity of the fund investing in tokenised assets, the rules may need to be adjusted accordingly.

**Question 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 do not see a significant gap in the rules as long as the AFM adheres to its duties relating to operational diligence, security risk mitigation etc., and investors are provided with clear and simple disclosure of the use of crypto assets, in particular:

- Who is responsible for what aspect; and
- The associated risks.

Where firms adopt both tokenised and traditional models, investors should have a choice of subscribing via a traditional model.

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

The key issues have largely been covered in our response, such as reconciling responsibility with decentralisation, and alignment of timelines to allow for efficient investment decisions by AFM's and other key participants.

## **APPENDIX II**

### **About CFA UK and CFA Institute**



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