

13 November 2025

CryptoUK
Formal House
60 St George's PI
Cheltenham GL50 3PN

Submitted by email: cp25-28@fca.org.uk

Dear Sir or Madam,

Response to Consultation Paper 25/28 - Progressing Fund Tokenisation (the “Consultation Paper”) - Chapters 2- 4.

CryptoUK (“**we**”) and its members welcome the opportunity to comment on the Consultation Paper regarding the FCA’s approach to progressing fund tokenisation. CryptoUK is the UK’s self-regulatory trade association representing the cryptoasset sector. Our members comprise over 100 of the leading companies across the sector and across the UK. Many of our members are also international and engage with regulators and policies on a global basis.

We have provided answers to the relevant questions applicable to our members posed in the Consultation Paper within the Appendix.

We also intend to provide a further response to chapter 5 of the Consultation Paper prior to the 12 December submission deadline.

We seek to offer pragmatic and relevant observations about, and suggestions in response to, the content within the Consultation Paper. However, at the outset, we would like to make a number of general/ thematic comments about the Consultation Paper as follows:

- CryptoUK and our members are supportive of the FCA’s proposals to accelerate the adoption of tokenisation by the UK authorised funds industry. The UK’s strength in digital assets and its world-leading authorised funds sector mean it is well-placed to adopt a leadership role in the establishment and growth of tokenised authorised funds, including exploration and development of use cases.
- We consider that many of the FCA’s COLL rules are sufficiently framed to support a tokenisation model, particularly when read alongside regulatory guidance clarifying that the FCA will look to adopt an accommodating approach, where possible, to the treatment of tokenisation use cases under its rules. The exceptions that we have identified in considering the Consultation Paper proposals are those provisions which require or anticipate payments to be made in cash, and those regarding safekeeping of fund assets, which have been drafted to cater for conventional assets. Those rules may therefore require further consideration with the use of digital assets in mind.
- We are concerned that the Consultation Paper has not received high levels of engagement or visibility among firms or other trade associations in the digital assets sector. While the proposals in chapters 2 to 4 primarily concern the FCA’s authorised fund rules and so are primarily aimed at fund managers, we believe that the success

of tokenisation of UK authorised funds will require substantive engagement and input from the digital assets sector in order to leverage its expertise and experience with cryptoassets. This sector should play a leading role in shaping the rules and guidance around the operational mechanics of dealing in tokenised fund units. We would note that, in most cases, authorised fund managers will not have the technical capabilities or expertise to operate a tokenisation solution in-house (at least initially), and will be reliant on service providers from the digital assets sector in order for tokenisation to initially be feasible, and to be a success in the longer term. We would urge the FCA to seek to engage with representatives of the digital assets sector in parallel with the Consultation Paper, with a view to maximising engagement and leveraging the deep operational and technical expertise of the UK digital assets sector.

- We note the FCA's intention to consult on the eligible assets regime for UK authorised funds. We hope and expect that the UK digital assets sector will be given an opportunity to consider and provide input on any proposals to expand that regime to permit investment by UK authorised funds in digital assets. We ask that any such proposals should be appropriately publicised and framed in order to achieve maximum engagement from the digital assets sector, rather than being focused on the conventional UK authorised funds management industry.
- We ask the FCA to maintain active engagement with regulators in other jurisdictions as it develops its proposals. This collaboration should aim, where feasible and appropriate, to harmonise or standardise regulatory standards relating to the tokenisation of authorised funds and associated operating models. Doing so will help ensure that firms operating across multiple jurisdictions can do so efficiently, thereby supporting growth.

We thank you for your consideration of this response, prepared in consultation with our members. We additionally thank CMS for their support and assistance. Finally, we would welcome the opportunity to engage further with the FCA should our response require any further discussion or clarification.

Yours sincerely,

Su Carpenter - Executive Director, CryptoUK

Appendix

Consultation Questions:

Chapter 2

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?

Whilst we understand that the FCA is looking to provide flexibility within its guidance that a range of models will (in principle) be permissible, we assume that the FCA will assess specific risks relating to given models during its consideration of the fund set-up application. There are some concerns based on whether the merits of smart contracts can outweigh the potential security risks they can provide. We believe that the register should work with 'white-listed' wallets to ensure the terms of the underlying fund can be met.

We would also welcome guidance on audit standards for smart contracts.

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

Whilst we acknowledge that differing blockchains can pose differing risks, there are scenarios where these may be combined - such as bridging between chains. If 'riding' occurs - a situation where activity may fall from one blockchain to another in the instance of network disruption - the requirement for operational resilience should provide regulatory clarity as to where the associated risks fall if the activity moves from the originating chain.

We would ask that the FCA also works closely with industry stakeholders to create and promote standards and look at international alignment (where possible) with other regulators and international bodies.

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

It is our understanding that digital transfer agents, digital custodians, and tokenisation agents are likely to be firms that are currently authorised by the existing cryptoasset regulatory regime, meaning they will be subject to regulatory obligations, including maintenance of records relating to the regulated (off chain) business, which would enable positions to be validated. We do feel that public networks could introduce

issues in relation to record keeping, so additional guidance or best practices would be helpful to manage these challenges.

Chapter 3

We do not have specific responses to the questions set out in Chapter 3 of the Consultation Paper.

Chapter 4:

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?

We support the FCA's approach in seeking to provide flexibility in its rules and guidance for a broad range of tokenisation operating models and would welcome further input on this point from other stakeholders.

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?

There is an ambiguity on this issue, with our members stating they have not seen sufficient clarity following earlier stablecoin consultations. We understand that FCA will be conducting a broader review of the eligible assets regime in the future and would be interested to review and comment on this additional review..

We note the statement in section 4.17 of the Consultation Paper that the FCA intends to conduct a broader review of the eligible assets regime in future. We would suggest that, as part of that review, the FCA considers whether it would be appropriate to expand the definition of "near cash" to include qualifying stablecoin, so as to facilitate the use of stablecoins by authorised fund managers for investment and operational purposes.

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?

We believe that the implementation of a permitted / accepted tokenisation regime for UK authorised funds is something that will require active engagement and involvement with the digital assets sector and would support facilitating the sharing of input and expertise from across our member base.

A sandbox for tokenised funds would help both the regulator and the industry to better design the regulatory regime through real-life testing of the proposed rules and guidance, and appropriately modifying them in response to practical issues and considerations faced by firms within the sandbox.

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?

COLL 6.2.13R(2) requires the authorised fund manager to pay subscription payments to the depositary “in cash or cleared funds”, other than for in specie subscription. A broadly similar requirement applies for COLL 6.2.14R for payments of the proceeds of sale of units in stablecoins. On the basis that stablecoins would not typically be considered as cash, they would under the existing drafting of COLL seem to fall within the in specie dealing rules (as an “asset other than cash”). As the FCA notes in the Consultation Paper, in specie transactions are currently infrequent and tend to be used by institutional clients; however, this position would fundamentally change if stablecoins were to be used to settle transactions in units in UK authorised funds and stablecoin settlement were to become widespread, particularly if usage of stablecoin settlement were to be extended to retail investors. Consideration would be required as to the impact of this on the FCA’s rules.

In broad terms, COLL 6.6B.18R and 6.6B.19R, and FUND 3.11.22R and 3.11.23R, currently provide for the depositary to hold the fund’s financial instruments in custody and to verify that other assets are owned by the fund or its authorised fund manager. Digital assets are not financial instruments (other than security tokens treated as financial instruments), and so currently would not strictly be required to be held as custodial assets by the depositary. This begs the question of whether the expectation would be that any fund digital assets should be held in accordance with the custodial assets rules, or the “other assets” rules. If the former, the FCA’s rules would appear to require amendment to provide for this.

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 express a view on this point, save to say that we do not believe algorithmic stablecoins, or stablecoins backed by cryptocurrencies, which would fall outside of the definition of qualifying stablecoin, would be appropriate for settlement of deals in UK authorised funds.

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



It seems implicit in the FCA's statements in its Guidance on Cryptoassets regarding security tokens that UK authorised funds can invest in tokenised / digitally native eligible assets (such as tokenised shares, tokenised units in funds, tokenised eligible bonds). However, there is some doubt about this in the absence of clear regulatory rules / guidance to this effect. It would be helpful to more clearly reflect this in the rules and guidance in COLL 5, and the FCA should consider this point as part of its upcoming review of the eligible assets regime for UK authorised funds.

About CMS

CMS is a leading international law firm that provides full-service legal and tax advice to the world's major financial institutions. With 78 offices in over 40 countries and more than 5,000 lawyers, CMS has long-standing expertise in its local jurisdictions and can powerfully leverage the CMS network on cross-border mandates. Our UK Financial Services team regularly advises the leading global investment banks, fund managers, intermediaries, market makers and institutional investors on technical regulatory and transactional matters. Many of our team have spent time in-house at our clients or at the regulators and we seek to develop productive working relationships with our clients and prioritise practical, business-driven solutions. Further information is available at www.cms.law.

Key contact:

Jamie Marshall, Of Counsel, Financial Services Regulatory james.marshall@cms-cmno.com