8th December 2025

CryptoUK
Formal House
60 St George’s Pl
Cheltenham GL50 3PN

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

Dear Sir or Madam,

Response to Consultation Paper 25/28 - Progressing Fund Tokenizations (the “*Consultation Paper*”) - Chapter 5.

CryptoUK (**“we”**) and its members welcome the opportunity to comment on the Consultation Paper regarding the FCA’s approach to progressing fund tokenization. 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 seek to offer pragmatic and relevant observations about, and suggestions in response to, the content within chapter 5 of the Consultation Paper. We would reference the earlier response to chapters 2-4 submitted on 13 November 2025 and the summary contained within that submission.

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 5:

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

No Response

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

There seems to be general interest in tokenisation of funds and of real world assets. However, neither we, nor our members, currently see the user demand for tokenised cash flows. This is most likely due to the level of complexity in designing such portfolios, the challenge of identifying the correct target market for each such portfolio and then the distribution to the target market.

A key benefit of model portfolios is the ability to make available a small number of portfolios to a firm's full range of model portfolio service (MPS) clients on a sliding risk scale, with each portfolio in principle catering for a broad range of customers with similar risk appetites. Identifying the target market for a micro model portfolio comprising different tokenised cashflows would appear to be more complex in that such a portfolio would by definition be highly individualised.

The use and/or availability of tokenised cash flows is therefore not the only material challenge to the composable finance model described in phase three.

Additionally, the level of complexity involved in such products is likely to be beyond the appetite of most investors currently.

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

The primary features required by our member organisations are interoperability and programmability. Composability should be a solution to address this through the ability to accelerate a path to these outcomes.

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

We do not believe that the tokenised cash flows from an illiquid asset would necessarily be any more liquid than the underlying asset.

If an asset is less liquid or illiquid due to restrictions on transferability of the asset, but the composability manifests in the form of cashflow tokens which are not subject to the same or equivalent transferability restrictions, the tokens may be more liquid than the underlying asset. However, this would depend on the features of the token vs the underlying asset.

An example would be the IO/PO markets for government bonds which are significantly less liquid than the actual market for the bonds themselves.

Alternatively, a token representing (for example) entitlement to receive rent payments from commercial property tenants would seem potentially more liquid than title to the commercial property and the relevant lease agreement. But again, this would depend upon the features of the token. It is worth noting that there is already a non-tokenised market for this and therefore any comparisons made should consider this on a like-for-like basis with the current undertakings within traditional finance models.

In stressed conditions it is possible that a token representing a cashflow under a conventional asset may be no more liquid than the underlying conventional asset, for example if there are credit risk concerns in respect of the issuer / third party who is responsible for making payments under the relevant cashflow. Current concerns regarding retail investor access to (for example) private credit would not necessarily therefore be ameliorated purely by tokenising cashflows payable under private credit arrangements, without tokenising the arrangements themselves.

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

We believe that the ability to more easily monetise tokenised assets without forcing liquidation could enhance overall consumer outcomes as there will be less pro-cyclical sell-off. However, we remain to be convinced of the benefit of selling tokenised cash flows to retail investors. This is fraught with potential liquidity risks and is arguably much less transparent than selling the actual assets the cash flows are derived from.

One potential enhancement to consumer outcomes of the tokenised portfolio management vision set out in paragraphs 5.9 to 5.16 of the CP is broadening consumer access to assets which are currently non-standard in the consumer space, such as commercial property, through increased liquidity in the form of cashflow tokens (subject to our comments above regarding liquidity of cashflow tokens). Facilitating access to such traditionally non-retail asset classes could enable some investors to further diversify their portfolios or access additional exposures or sources of investment growth. This would however go hand in hand with additional risks.

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

We see the main opportunities in this area are related to greater transparency, increased competitiveness and significant improvements for organisational efficiency.

It is possible that the need for multiple different servicing firms within the asset management ecosystem, as exists currently, may be reduced in a tokenised flows 'end state', and that a single company or reduced range of companies may be operationally capable of servicing a given product or proposition. Such a development would have the potential to substantially increase efficiencies and so reduce costs. The ability to manage these roles through technological development has the potential to reduce the risks associated with interdependence and coordination of different firms in the ecosystem.

That said, such a development may create other risks, such as concentrating servicing functions within a smaller group of firms and thereby creating or enhancing systemic risks that may arise from failures of or by those firms.

In addition to this, we would also refer back to our earlier comments (Q25) in relation to challenges in the design and distribution of micro MPs to indicate some of the potential risks.

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

No Response

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

We tend to concur with the table of potential amendments set out in 5.27. Please see our earlier comments in response to Q27.

We do feel that this could be an area of significant rent extraction, whereby financial services organisations package products together and considerably overinflate prices to less sophisticated organisations. Existing obligations around price and value may provide some regulatory safeguards in this respect, but the FCA should nonetheless ensure that the risks of such rent extraction practices, and related matters such as bundling / unbundling of services, are appropriately scoped and considered in crafting its future regulatory framework.

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

Further consideration would be required regarding UK EMIR and the FCA's related rules and guidance to provide clarity that tokenised assets and stablecoins may be used as eligible collateral without forcing liquidation of the underlying asset. We note the FCA's statement at paragraph 4.15 of the consultation paper that "UK EMIR does not distinguish between tokenised and conventional financial instruments when determining eligibility of particular instruments for collateral regulation purposes. There are also no restrictions on use of MMFs where firms provide collateral for uncleared derivatives outside of the scope of UK EMIR". We nonetheless consider that express regulatory guidance on this point would be helpful.

It is possible that the issue of tokens representing ownership interests in conventional assets, or representing cashflows payable under or in respect of conventional assets, may amount to the operation of a collective investment scheme for the purposes of section 235 of FSMA (a "CIS"). If possible, express regulatory guidance addressing this point would be helpful to assist the industry to mitigate this risk. Consideration should also be given to whether the creation of express statutory exclusions providing that certain tokenisation / composable finance structures do not amount to CIS would be appropriate.

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

The FCA has a pivotal role to play in setting the tone and laying down clear and consistent expectations and standards for the anticipated tokenised future, and thereby building confidence in this new approach. A key part of this will be maintaining an ongoing, constructive dialogue and openness with the traditional finance, asset management and digital assets sectors to allow for the development of clear frameworks of rules and guidance that are robust from a regulatory perspective while also facilitating the industry's legitimate commercial aspirations and enabling robust competition, both within the UK and with other jurisdictions.

The FCA should draw on the experience, knowledge and expertise of firms operating in the digital assets space to ensure that any new industry standards, rules and guidance are consistent with industry practice and are optimised to support growth and effective competition while also providing appropriate regulatory safeguards.

There should be a consideration of extending existing sandbox models to assist in the development and testing of new models in an environment that allows both the industry and regulator to develop and enhance guidance in line with the outcomes.

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