



UK FINANCE

# UNLOCKING THE POWER OF SECURITIES TOKENISATION

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IN ASSOCIATION WITH



OliverWyman

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## Briefing Note

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### What is “Securities Tokenisation

- Tokenisation refers to the digital representation of financial assets on distributed ledgers using blockchain technology
- This report focuses on tokenisation of securities including vanilla flow instruments (equities, bonds, loans, money markets), traditionally illiquid products (such as real estate), and structured products
- Currently, industry tokenisation activity is concentrated in flow products, whereas illiquid and more complex products are where industry participants feel the most significant value can be unlocked over the longer-term. Fund tokenisation is also compelling.



### Context

- **What:** UK Finance has begun to explore how the tokenisation of securities will shape capital markets and wholesale banking. We are examining advantages, challenges and outlining what is required for the UK to become a global hub for digital assets
- **Who:** Oliver Wyman has supported this work. Our report complements UK Finance’s New Digital Assets and Money workstream. Insights are pulled from industry experts, including senior representatives from UKF’s Wholesale Digital Assets & Technology Working Group.
- **Goal:** Our report’s recommendations will serve as an operational roadmap for both industry and government, outlining the actions that government can take to further consolidate the UK’s role as a global financial centre
- **Timing:** A draft of the report and key findings has been socialised with key stakeholders across industry and government. The full report launch will follow in early July



### Our Report Poses 3 Key Questions

- **The UK’s position today.** We highlight the UK’s current activities around securities tokenisation and compare it to activity ongoing in other jurisdictions. We explore key enablers to unlock securities tokenisation at scale, and apply lessons learned from global peers to the UK’s context.
- **Why tokenisation (and the UK’s position) matters.** We explore the benefits for the UK if it is to embrace securities tokenisation as a technology, and where the value can be unlocked.
- **Next steps for the UK.** We identify the key steps the UK needs to take, both in the short-term and over the next few years, to unlock the potential of tokenisation and benefit the UK.



### Key Findings to Date

- Many believe that tokenisation has the potential to transform the financial system globally, and the UK can choose to be a global leader. Potential benefits can be derived from instant settlement, access to new asset classes, and improved risk management via immutable data and programmable smart contracts.
- The UK has time to establish itself as a leading hub for tokenised securities, but government and industry must act now to ensure the market develops and scales.
- Most of the value in tokenisation will be unlocked post-issuance. Issuing a tokenised security has limited value for the secondary market if it cannot be used for other purposes, such as being pledged as collateral or repo’d for short-term funding.

# Overview of key recommendations by mission

	Short term — Next 18 months	Medium term — 18 months to five years
<p><b>Mission One</b> Enable innovation and experimentation, underpinned by legal and regulatory certainty</p> <p>Immediate priority actions</p>	HMT should urgently roll out the first FMI Sandbox for the use cases identified as most pressing.	Parliament, the BoE, and HMT should, in line with recommendations from the Law Commission, (i) provide statutory clarity on the digital securities models that already fall within scope of existing collateral regulations and (ii) provide a statutory framework for collateral arrangements (such as those relating to crypto tokens) not currently provided for under existing regulations.
	HMT should urgently further define the roadmap for the FMI Sandbox, including a view of how it will prevent cliff-edge effects when the Sandbox ends.	The BoE and the PRA should clarify capital requirements for tokenised securities in light of the BCBS 545 standard, while also accounting for potential concerns around fragmentation of liquidity.
	HMT, the FCA and the PRA should continue to distinguish terminology around tokenised securities, cryptoassets, and the underlying DLT, and ensure that usage is not conflated or misinterpreted by industry.	HMT should clarify that regulation of tokenised assets will not be conflated with the regulation that already applies to existing financial services and processes that use DLT infrastructure (such as an internal DLT-based books and records system).
	HMT, the FCA, and the BoE should provide further flexibility on Central Securities Depositories Regulation (CSDR) and any provisions to allow industry participants to navigate the requirements to use a CSD.	The FCA, the PRA and the BoE should decide which, if any, other regulatory standards or concepts need to be amended to support tokenised securities.
	HMT and the BoE should continue to support the development of digital cash solutions to enable the settlement of transactions.	
	HMT, via the Debt Management Office, should issue a digital gilt within the FMI Sandbox.	
	HMT and the FCA should take further actions beyond the issuance of a digital gilt (including public statements) that encourage experimentation with tokenised securities and further participation in the Sandbox.	
	HMT, the PRA, and the FCA should support further two-way engagement between industry participants (including firms' own legal experts), regulatory representatives, and other legal experts specialising in digital assets and securities tokenisation.	
<p><b>Mission Two</b> Foster a flourishing UK digital market by promoting interoperability and safe innovation at scale</p>	HMT, the FCA, and the BoE should support industry participants as they convene and develop voluntary standards for tokenised securities.	The Law Commission, Parliament, the UK Jurisdiction Taskforce, the FCA, and HMT should provide legal and regulatory clarity around custody arrangements for tokenised securities.
	HMT should explore if there is industry appetite for a shared, national infrastructure for tokenised securities.	HMT should consider developing a principles-led approach to the application of the Client Assets Sourcebook (CASS) rules.  HMT should promote the UK as a centre of excellence on tokenised securities and other digital assets.
<p><b>Mission Three</b> Become a leader in global standards for the tokenized securities market</p>	The UK government should lean on its existing strengths and experiences to foster discussion and collaboration around supranational standards for securities tokenisation.	
	HMT should collaborate and partner with leading jurisdictions and connect to their pilots or sandboxes.	