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3 July 2026

Response to FCA and Bank of England Call for Input on the Future of Tokenisation

Coinbase Global, Inc. (together with its UK affiliate CB Payments, Ltd. and its other affiliates, "**Coinbase**") appreciates the opportunity to respond to the call for input on "The future of tokenisation: A joint vision from the authorities for UK wholesale financial markets" ("**the CfI**") published jointly by the Financial Conduct Authority ("**the FCA**") and the Bank of England ("**the Bank**"), including the Prudential Regulation Authority ("**the PRA**").

We strongly welcome the publication of a joint FCA–Bank vision for tokenisation and, in particular, the commitment to give firms in the Digital Securities Sandbox ("**DSS**") a route to permanent authorisation. This is a significant and positive step.

With the momentum of the US–UK Taskforce on Markets of the Future and the appointment of a Wholesale Digital Markets Champion, there is a once-in-a-generation opportunity for the UK to lead the transformation of global capital markets. To seize it, the UK must raise its level of ambition — embracing public permissionless blockchains, stablecoins as a crucial onchain settlement asset, and tokenisation that leverages the potential of decentralised finance ("**DeFi**"). These technologies will be transformative in democratising access to financial services.

We stand ready to assist the authorities in this important endeavour and look forward to continued engagement.

Yours sincerely,

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Introduction

The UK has a generational opportunity to lead the development of digital financial markets. We welcome the Call for Input ("**CfI**") from the Bank, the PRA and the FCA on the future of tokenisation, and the joint vision it sets out to facilitate the adoption of tokenised securities and the market infrastructure that underpins them. The FCA's decision to align the safeguarding framework for tokenised securities with rules for traditional securities, and the PRA's intention to apply equivalent prudential treatment to tokenised and non-tokenised assets where rights and risks are comparable, are important steps towards technology-neutral regulation by outcome rather than by form.

However, the vision outlined by the FCA and Bank is in most ways just a continuation of many features of traditional securities markets: centralised persons standing behind every part of the value chain, settlement through Central Securities Depositories ("**CSDs**"), anchored by central bank money rather than onchain stablecoins.

UK authorities should be bolder. Imposing unnecessary barriers to consumer participation in investment markets will negatively impact UK growth and wealth generation for future generations of consumers. Recognising that traditional brokerage models can be vastly improved upon by embracing the full potential of tokenised assets that travel and trade on open blockchain networks will allow the UK to tackle these issues effectively.

This is already occurring in other jurisdictions, and most notably the United States. For the UK to realise the same potential it must lean into the features that allow tokenised markets to improve outcomes in financial markets. This includes support for permissionless, resilient infrastructure; stablecoins as core settlement assets; and shared open standards that emerge from global markets rather than from a single domestic framework.

In this spirit we make the following recommendations:

Support DeFi as critical infrastructure for tokenised capital markets.

Open blockchain networks operate without the need for intermediaries, have fewer points of failure, and provide neutral and interoperable base layers that facilitate a competitive ecosystem in place of today's fragmented private systems. Decentralised finance can support trusted and efficient markets without replicating fully centralised legacy systems.

The CfI promotes an agnostic approach to different forms of DLT, and the presence of decentralised protocols proposed in the CfI is welcome. However the broader expectations set out in the CfI challenge these principles in practice. Specifically, the authorities propose that identifiable, centralised providers would need to stand behind every activity and every part of a value chain in tokenised markets, including decentralised protocols and public blockchain infrastructure outside of their control.

A practical consequence of the proposed approach is a de facto ban on centralised actors providing access to DeFi protocols, because they would face unworkable obligations and incur undue liability for providing access to decentralised systems. This means in practice, governance, record-keeping, and settlement would likely be limited to closed, private infrastructure, where fully centralised control is maintained.

Even though blockchain systems serve as the settlement layer for onchain transactions, and are already recognised in other jurisdictions like the US as the official record for such transactions,[1] the CfI proposes that CSDs or similarly centralised Digital Securities Depositories ("**DSDs**") would need to be responsible for record management and settlement. While centralised, offchain networks should still be permitted, governed by existing rules and regulations, end-to-end centralisation should not be required for onchain finance. Doing so would reintroduce centralised vulnerabilities and single points of failure, diverge from the international direction of travel towards decentralised environments, and undermine interoperability in cross-border tokenised markets.

The Bank and FCA must prioritise decentralisation in the roadmap to support innovative technologies with the potential to underpin transformative improvements to the financial system. Doing so would be wholly consistent with their vision for an outcomes-based framework by ensuring decentralised protocols and systems are not precluded by requirements for centralised providers to stand behind systems beyond their control.

Commit to a permanent tokenisation regime beyond the DSS within two years.

Tokenised security issuance, trading, and settlement is currently permitted only in the DSS and subject to strict limits. The DSS is a valuable testing environment that contains elements of 'live' financial activity, but on the current trajectory it may be the end of the decade or beyond before legislative change allows for a permanent framework, with the prospect of an extension of the DSS floated in the CfI as an alternative. Absent a clear timeline, the vision set out is for limited sandbox activity, not a permanent, functioning regulatory framework.

Firms need the confidence of a long-term framework to commit to long-term investment in the UK. Imposed limits on activity necessarily constrain growth and the speed with which the UK can move towards a permanent regulatory framework. Innovation drives

[1] *SEC Division of Trading and Markets, Frequently Asked Questions Relating to Crypto Asset Activities and Distributed Ledger Technology, Q11 (stating that a registered transfer agent may use distributed ledger technology as its "official Master Securityholder File" and need not maintain a duplicate or "digital twin" exclusively off-chain, subject to compliance with applicable federal securities laws),* SEC.gov.

growth, and sufficient scope for new products and services to develop leads to activity which can inform iterative regulation over time as the sector evolves.

The Bank and FCA should set out a dated commitment to a permanent regime covering issuance, trading and settlement of tokenised securities within two years, rather than leaving the DSS open-ended with strict quantitative caps that cannot support market-scale investment. This would allow the UK to remain competitive with sufficient time to develop a regulatory framework which can evolve over time.

Unlock regulated stablecoins as the core settlement asset for tokenised markets at scale.

Interoperability and efficiency at scale require onchain fiat as a settlement instrument with deep liquidity. Stablecoins are the only onchain instruments that meet these requirements, and progress in other jurisdictions, including the US, has made clear that stablecoins will be the core settlement asset in both retail and institutional markets that necessarily span across borders.

In contrast, the CfI contemplates a central bank money anchor that does not yet exist, and is otherwise unnecessary given the BoE's finalised framework for 'systemic' stablecoins, which by design have access to central bank money. Other stablecoin frameworks, such as GENIUS stablecoins in the US, offer similarly robust designs for institutional grade settlement. The UK must unequivocally remove any ambiguity as to whether stablecoin settlement will be permitted beyond the DSS as not doing so will materially disincentivise investment in tokenisation.

Moreover, restrictive regulatory proposals for systemic stablecoins, including rigid issuance caps and backing assets held in unremunerated central bank deposits limits the ability to utilise stablecoins in UK tokenised markets further. Ex-ante issuance caps set at £40 billion would prevent stablecoins from scaling to the levels required to meet demand for reliable securities settlement.

The FCA and Bank should therefore commit to a regulatory framework that permits regulated stablecoins as a settlement asset at scale in tokenised markets, including those regulated in jurisdictions such as the EU and the US, leveraging the US-UK Taskforce for Markets of the Future.

The Opportunities and Benefits to the UK from Tokenisation

The FCA and Bank frame the opportunities of tokenisation primarily in terms of operational efficiency, risk reduction, improved transparency and expanded collateral use, particularly in post-trade processes.

We agree and detail how they can be achieved below. We also describe how tokenisation will increase and democratise participation in financial markets. These benefits are substantial, and should be explicitly recognised by regulation that does not reinforce the barriers to entry present in traditional systems.

The roadmap identifies some important opportunities

We welcome the importance the CfI places on post-trade processes and collateral. When new and innovative products are forced into legacy post-trade structures – with multi-day off-chain settlement, siloed collateral systems and restricted hours – their efficiency gains and liquidity potential are eroded. A holistic view of issuance, trading, settlement, custody and collateral is the correct starting point.

Open blockchain networks support transparency where transaction flows and protocol-level governance are externally auditable. They remove the frictions of mismatched time zones, do not discriminate on participation, and allow for processes including corporate actions and collateral substitution to be automated through smart contract programmability, reducing manual operational risk and cost.

UK financial markets face a participation problem

Globally, two-thirds of adults do not participate in equity and bond markets, and participation is skewed to higher-income households in developed economies. In the UK the problem is particularly acute. Individual equity ownership in the UK remains the lowest in the G7, despite government programmes to promote greater participation, and UK households hold almost £300 billion in zero-interest accounts, eroding their purchasing power to inflation over time.

This participation problem exacerbates a growth problem. The strength of domestic investment sources is a decisive factor for businesses deciding whether to publicly list and where to do so. Low participation has contributed to UK equity issuance and IPO activity falling by roughly 90% over the last decade, with growth-stage UK companies resorting to private capital or listing overseas.

These outcomes are driven by structural barriers to entry. Broker relationships are a prerequisite to accessing traditional securities markets, and often include minimum balance requirements which shut out smaller investors. Limited trading hours fragmented across time zones may not fit with the schedules of working people, and multi-day settlement cycles trap capital. Siloed local infrastructure makes cross-border investment in increasingly globalised capital markets costly and complex.

Tokenisation helps democratise access to financial services

Blockchains support 24/7 trading, faster settlement, and programmable features that allow individuals to customise their trading experience. This means they can trade fractionalised securities in amounts they can afford, at a time that suits them, and collateralise or settle them near-instantly so that investment and access to capital are not mutually exclusive.

Borderless technology means UK consumers could access domestic and international investments without the costly cross-border fees incurred within traditional offchain markets. They could access these markets through a wider range of onchain providers, or directly through optional self-custody, allowing them to participate even if they do not have the wealth profile sought by traditional brokerages.

Businesses could access this wider domestic investment pool as well as investors overseas through tokenised markets. The US is moving decisively on tokenisation, representing a substantial opportunity for UK companies to access inward investment from this significant market more cheaply and efficiently than through legacy systems. Globally-minded companies that could access greater domestic and overseas investment would be more likely to commit to the UK as a place to list and do business.

However, realising these benefits to their full extent requires regulation to accommodate the presence of decentralised services without centralised providers across every value chain. Restrictive brokerage terms and asset availability, limited trading hours, and delayed settlement stem from a reliance on centralised systems, where each intermediary and each jurisdiction has different operating hours, access terms, and local infrastructure.

Regulation should be guided by opportunities to reduce the reliance on fragmented systems of centralised intermediaries, and in turn support wider participation in more efficient and democratised financial markets.

The Vision, Principles, and Priorities in the Bank and FCA Roadmap

The FCA and Bank articulate a 5 to 10 year vision of digital wholesale markets in which tokenised securities, cash and collateral move more efficiently across the trade lifecycle, supported by a joint roadmap built on the Government's Wholesale Financial Markets Digital Strategy. The principles and priorities in the CfI are summarised below:

Principles		
Identifiable accountable persons should be present across a value chain, with CSDs or DSDs managing records and ensuring settlement finality.	There should be fair, orderly and resilient trading conditions including controls to respond to market abuse and market disruption, and KYC, AML and sanctions implementation.	A direct relationship between issuers and holders should be maintained. Tokens isolated from an underlying non-tokenised security bring risks to address.
Intermediaries should act in the interest of their clients to ensure confidence in markets.	Central bank money should anchor wholesale settlement, without liquidity fragmentation.	Regulators will be neutral between DLT and non-DLT, and different types of DLT.
Priorities		
Issuance and settlement rules with a pathway to permanent authorisation for DSS firms.	Equivalent prudential treatment of tokenised and non-tokenised assets.	Access to innovative central bank money settlement for digital asset ledgers.
Resilient non-natively tokenised securities and openness to primary issuance.	Safeguarding framework which operates effectively alongside traditional safeguarding rules.	Support for a digital gilt (DIGIT) to catalyse DLT adoption in UK markets.

We welcome the scale of ambition and technology-agnostic approach in many areas. Regulation guided by risk and outcome would not presuppose the possibilities of certain technologies, ensuring innovation is not blocked where it can deliver good outcomes for consumers and businesses. As a result, we support the PRA's intention to apply uniform prudential treatment to on- and offchain securities, including their use as collateral. This recognises similar underlying rights and economic functions and avoids structural disadvantages based on technology use.

The uniform treatment of on- and offchain securities in economic and rights terms should not mean identical infrastructure and intermediary chains, or there would be little benefit to pursuing tokenisation to improve efficiency and participation. Regulation should therefore provide the conditions for the market to function well, and allow for differences in infrastructure where legal and economic rights are robust.

However the FCA and Bank expect centralised actors at every stage of a value chain and the application of controls within decentralised environments. These principles would embed the limitations of centralised, fully intermediated legacy systems into tokenised markets, at the expense of innovation which would address them.

Technology neutrality should apply in practice, not only in principle

The CfI states that regulatory treatment should generally be dictated by risks and mitigants rather than the specific ledger technology used, and it recognises that public chains, automated onchain monitoring and smart contracts may support privacy, market abuse controls and reporting outcomes. We strongly support that approach which means regulation can accommodate innovation if it can deliver strong outcomes in new ways.

However other proposals in the CfI risk narrowing the practical market design space far more than this principle suggests. The FCA and Bank propose there must be an identifiable person responsible for each stage in the value chain and that securities admitted to trading on a regulated venue should settle only through a CSD or DSD, blocking the diverse range of onchain intermediaries who are experienced in providing robust custody, settlement, and record-keeping in a blockchain environment. Taken together, those positions risk confining tokenisation to closed, heavily intermediated models, even where decentralised or public infrastructure could achieve the same outcomes more efficiently.

If a centralised provider is forced into a strict liability relationship with systems they cannot control, maintaining a viable and compliant business would require them to bring operations back into private systems where liability maps onto control. This undermines the opportunity for decentralised systems that do not rely on the compliance of a single private actor and would reimpose barriers to entry and information asymmetries.

If a provider controls a customer's trading or safeguards their assets, they should be appropriately regulated to protect those who rely on them. These intermediated routes and the use of private infrastructure should continue to be available to institutional and retail participants who may prefer to engage with a centralised system.

However this should not come at the expense of decentralised and hybrid routes that can also fulfil the functions required in a robust tokenised market. The operation of decentralised systems can be externally verified through transparent and immutable blockchain records, and deliver consistent rules which could not be altered unilaterally, avoiding single points of failure. Public blockchains can support fast and predictable settlement, whether through contractual agreement (which the CfI notes is a valid method to achieve finality in certain markets), technical or probabilistic thresholds which make reversal unfeasible, or atomic settlement that allows execution, clearing, and settlement to occur in a single process with reduced counterparty risk. DLT-based settlement could be legally accommodated through reform to the Settlement Finality Regulations. We note this was contemplated in the Bank's 2025 stablecoin consultation but is omitted here.

DeFi cannot be prohibited by regulation. As the cost savings and efficiencies are significant, many will seek offshore or less visible routes to decentralised securities markets if they are not accommodated within a proportionate regulatory framework. This would lead to less visibility for regulators and an inability for regulated providers to offer support to customers seeking to interact with DeFi. This is against the direction of travel in the US, where a forthcoming SEC innovation exemption will allow for tokenised securities to trade in decentralised environments, and in Abu Dhabi where the FSRA has approved tokenised equity structures which are portable to DeFi.

The roadmap should support a model for tokenised securities trading in decentralised environments by removing the expectations for an identifiable person to stand behind every part of a value chain and for settlement to be delivered only through CSDs and DSDs. Regulation should target genuine intermediation and the site of unilateral control over a system or financial activity, as this is where customers are reliant on a firm to deliver good outcomes. Where centralised actors interact with decentralised infrastructure, regulation should focus on appropriate due diligence, operational resilience assessments, and clear disclosures for consumers, rather than obligations which could only be met by foreclosing decentralisation within regulated tokenised markets.

KYC and AML outcomes should be delivered proportionately at the regulated perimeter

The CfI proposes that primary and secondary market activity must be subject to Know-your-customer ("**KYC**") and anti-money laundering ("**AML**") checks. We welcome the recognition that technological solutions such as KYC-permitted wallet lists, programmable freezing, remote attestation and zero-knowledge proofs may be supported to enable such obligations to be met in onchain environments, as they aid automated processes that offer the chance to make tokenised markets more efficient without compromising protections and financial crime controls.

However the CfI does not address whether a participant who has already been onboarded by a regulated intermediary can rely on this verification when transacting elsewhere; or how obligations would apply in peer-to-peer trading in decentralised environments where no centralised operator controls the protocol being used. The expectation that all participants are subject to KYC is therefore not reconciled with the commitment to technology neutrality and support for decentralised infrastructure. The benefits of tokenised securities are enhanced by the efficiencies and accessibility of DeFi services. Constraining every transfer to a new onboarding obligation would undermine these benefits and recreate the gated architecture that tokenisation can improve upon.

Decentralisation and robust protections against illicit activity are compatible if obligations are mapped to control. To achieve this, the FCA and Bank should pursue a "smart KYC" model similar to that which will be supported in the US, with KYC and AML requirements applied when a participant becomes the customer of a regulated entity, for example at the point of minting, redemption, custody, fiat on- and off-ramping, or exercising of certain shareholder rights such as dividends, voting and corporate actions. By applying strong requirements at these touchpoints, peer-to-peer transfers and decentralised activity could be carried out without additional gating, where centralised providers do not possess the requisite control to mandate it.

This approach would be consistent with requirements in traditional markets that extend to a firm's customers rather than every downstream holder, and with the Financial Action Task Force ("**FATF**") Travel Rule that targets centralised gateways.

A smart KYC approach would also allow for protections against illicit activity beyond these touchpoints. Centralised providers responsible for tokenising securities could retain the ability to pause trading or selectively freeze tokens to comply with sanctions and other legal obligations. This would ensure that intervention against illicit activity is possible on an ongoing basis by providers with asset-level control. In addition, where a provider controls the operation of a centralised protocol, intermediates transactions, or holds customer assets, obligations can be mapped to the extent of their control.

Beyond the protections that can be provided by centralised providers, blockchain technology can support immutable and transparent transaction records without reliance on a centralised entity. Once a wallet is linked to an identified person through a regulated touchpoint, its activity can be traced in the secondary market. Onchain clustering and surveillance tools can also help regulators and market participants identify suspicious patterns in ways that are often richer than traditional surveillance based on fragmented offchain records.

The FCA and Bank should therefore permit a smart KYC approach in which obligations are targeted at regulated gateways and points where key rights are exercised, alongside asset-level controls held by firms who tokenise securities and proportionate reliance on prior KYC and identity attestations carried out by other regulated firms. This approach would be faithful to the outcomes the CfI proposes, compatible with the technologies that facilitate the greatest potential benefits of tokenisation, and aligned with FATF principles.

Orderly and resilient markets can be assured without regulating decentralised protocols

Operational resilience should also be assessed on the basis of actual failure points. The CfI notes code weaknesses and majority-control attacks as relevant risks. These are important risks to address, but recent incidents have often reflected compromised credentials and centralised single points of failure rather than an inherent flaw in public blockchain infrastructure itself.

The resilience advantage of AMMs and other decentralised trading protocols is that they do not depend on a single operator, matching engine or small set of market makers to keep markets functioning. Liquidity is pooled and can remain in place even when individual actors would otherwise pull back in stressed conditions. Comparing ETH-USDC trading through decentralised automated market-makers ("**AMM**"), and centralised order-books ("**CLOB**") during both normal conditions and stress events in October 2025, AMMs were more resilient in stress than CLOB venues, where the latter had wider bid-ask spreads, thinner order books, and more significant price impacts. AMM liquidity remained comparatively stable and trading costs were cheaper and more predictable. However, CLOB price efficiency was somewhat greater than among AMMs during normal conditions. These dynamic factors highlight the benefit of a diverse trading environment where both centralised and decentralised routes are available. This reduces reliance on a specific form of venue or infrastructure, and in turn helps to provide alternative liquidity sources during periods of pull-back.

The FCA and Bank should therefore apply clear requirements for centralised providers rather than assuming that decentralisation is itself incompatible with delivering good outcomes. Firms could be required to carry out adequate due diligence and resilience assessments before providing access to certain infrastructure, and to maintain strong safeguarding and security arrangements in their own regulated activity. We therefore support the FCA's proposal to apply its custody regime to firms safeguarding tokenised securities.

Robust rights and information flows do not require direct issuer-holder relationships

The FCA and Bank propose that a direct relationship between issuers and holders will need to be maintained in tokenised markets. It is important that holders have a clear claim to the rights they possess and an ability to exercise those rights, but we do not agree that this requires a *direct* relationship between issuers and the ultimate beneficial owners.

In traditional markets, issuers do not in practice have a direct relationship with all ultimate beneficial owners, and do not control secondary market trading. In many cases beneficial ownership records are maintained by broker-dealers without the issuer's direct involvement. In nominee structures, the nominee is the registered holder, the company is not party to the nominee trust arrangement, and the beneficial owner sits behind the nominee rather than on the issuer's register. UK public companies may have rights to request disclosure of beneficial owners underlying nominees, but needing to request that information through intermediaries itself shows that the relationship is indirect rather than direct.

The Bank and FCA aim to ensure transparent information flows and the ability to clearly exercise rights. A tokenised arrangement should therefore be acceptable if it preserves those outcomes through clear rights, reliable communications, and a robust mechanism for recording ownership records in the secondary market, whether by a regulated centralised entity or through transparent and auditable blockchain records.

Interoperability and International Alignment

Interoperability and avoiding liquidity fragmentation are core objectives in the CfI, but international alignment and cross-border considerations are notably absent. Securities markets are global, and tokenisation offers particular benefits in cross-border trading because blockchains are borderless and operate 24/7, supporting international use without time zone mismatches, and costly, multi-day settlement using offchain rails.

Interoperability at a domestic level is therefore not sufficient for a successful and competitive UK tokenised securities framework that allows UK businesses and consumers to access international investment and obtain efficiency gains in the areas of greatest friction within existing markets. Other jurisdictions are moving with increasing clarity on tokenisation, public-chain experimentation and cross-border tokenised use cases. In the United States stablecoin legislation has passed and broader market-structure legislation is advancing, and the US is positioning itself as a reference point for mutual recognition and interoperable tokenised market infrastructure, with stablecoins and decentralisation as core pillars of its approach. In Singapore, MAS is inviting engagement on cross-border frictions, and Project BLOOM is framed around borderless, liquid, open and multi-currency settlement using regulated stablecoins and other forms of digital money.

The UK does not need identical rules to other jurisdictions, but it does need compatibility with the forms of infrastructure, settlement and market access that are emerging internationally to allow for participation in global tokenised markets. This requires decisive work on international standards so that infrastructure and operational flows are compatible; the ability for stablecoins to operate at scale given their unique ability to support cross-border onchain settlement; and a pursuit of mutual recognition agreements to allow for effective cross-border market access.

Pursuing market-led international standards will support interoperability

The CfI identifies liquidity fragmentation as a central risk that interoperability standards can help address. The FCA and Bank do not propose a single regulator-selected technical standard for tokenised markets. We agree with this approach because it allows the market to converge around the systems and standards that prove most effective in practice.

Public blockchains already offer a neutral, shared layer on which issuers, investors, venues, wallets and settlement assets can interact without each participant being forced into the same closed stack. Cross-chain interoperability has developed, including bridge services that abstract the movement of assets across networks. The ability for shared wallets, marketplaces and developer tools to support multiple blockchains means there is no need for every participant to utilise identical rails or agree to use a single centralised private system. The FCA and Bank should therefore support market-led interoperability rather than try to recreate legacy, centralised plumbing onchain.

Market participants have an incentive to promote common standards because it reduces uncertainty and allows access to a wider investment and customer pool. Regulators can assist in promoting the standards which are emerging in the market by building regulation which accommodates them. The CfI references IEEE 3205-2023 as an example of an open standard for messaging and cross-chain communication. In tokenised markets, interoperability also requires common token and data standards, compatible custody and settlement interfaces, and the ability to move collateral or cash between traditional and onchain environments without legal or operational discontinuity.

Token contracts are the natural place to encode many of the outcomes the CfI sets out including clear ownership, transfer restrictions, freeze/seize mechanisms, and corporate-action workflows. The authorities should therefore provide functional expectations for token contracts, including that they represent clear beneficial ownership rights and support issuer-controlled freeze and clawback functions for sanctions and legal compliance. Crucially, the authorities should clarify that these expectations can be met through market-led open standards, not only proprietary schemas or closed ledgers.

The UK is already participating in international initiatives including Project Guardian and the US-UK Taskforce for Markets of the Future, holds leading roles at the FSB and IOSCO, and will chair the G20 in 2027. The CfI highlights the importance of active UK engagement in international standard-setting, but this should become a specific policy track to achieve international alignment on standards which recognise effective market practices.

Stablecoins should be able to operate at scale in international tokenised markets

The CfI proposes that strong wholesale market infrastructure needs to be grounded in, "even where not exclusively using", central bank money, with potential support for stablecoins in some cases.

lHowever, central bank money is not yet onchain in the UK, and therefore not a viable solution for markets that are ready to move onchain today. So while we support the Bank's work to allow for the synchronised atomic settlement of digital assets in central bank money by 2028, with extended operating hours for its real-time gross settlement system ("**RTGS**"), the UK must look to stablecoins, and the recently proposed framework, if it wants to keep pace with the rest of the world.

Stablecoins are the only scalable onchain settlement asset capable of supporting tokenisation at scale and across borders, and key jurisdictions including the US have enabled them as the core settlement asset for tokenised securities. We therefore welcome the proposal in the CfI to "shortly" allow stablecoins as a cash leg in the DSS, but believe the UK needs to go further to support stablecoins at scale in the long-term.

The FCA and Bank should therefore commit to regulated stablecoins as wholesale settlement assets beyond the DSS, and to do so the Bank's systemic stablecoin regime must be revised to remove practical constraints that would make wholesale use at scale unviable. It is critical that the proposed regime – which considers primarily retail and corporate payment-system concerns – also considers the needs of capital-market settlement, without rigid issuance limits.

Wholesale settlement, treasury, market-making and institutional liquidity management require a reliable supply with the ability to scale with tokenised markets. Market participants would be unwilling to build services which utilise stablecoins if a hard stop on supply would be implemented when the market grows. As stablecoins are crucial to effective cross-border trading, issuance limits need to be removed to achieve the goal of competitive UK tokenised markets which offer a material improvement on legacy systems, and preserve sterling's role as a reserve currency in global finance.

The UK should also prioritise mutual recognition of regulated stablecoin regimes which deliver similar outcomes in relation to clear redemption rights and robust backing, beginning with the United States and EU, so that dollar-, euro- and sterling-denominated stablecoins can be used across retail, commercial and wholesale contexts without unnecessary localisation or fragmentation of liquidity.

If the UK does not secure a workable route for recognised overseas stablecoins and for mutual recognition of comparable regimes, global liquidity will concentrate elsewhere and UK tokenised markets will be disadvantaged from the outset. This would risk undermining the opportunity to provide UK consumers with a wider range of high-quality investments, and to unlock access to inward investment for UK businesses from international sources.

Tokenisation Beyond the DSS

For securities such as bonds, equities and ETF units admitted to trading on a regulated venue, the CfI makes clear that settlement should take place through a CSD or DSD. As DSDs are only permitted in the DSS, in practice, that means the DSS is currently the only live route for core onchain market infrastructure of this kind in the UK. The CfI says the Bank and FCA will ensure there is a "clear pathway" for firms moving outside the DSS, which is welcome. But it also notes the authorities will consider whether to extend or further modify the DSS as an alternative.

The DSS is a valuable testing environment. It allows firms to test issuance, trading and settlement of tokenised securities in live conditions with a staged glidepath from experimentation to scaling. But by design, the DSS is temporary as rules and permissions expire, and capped aggregate and per-instrument caps apply. These may be sensible constraints for a controlled testing environment, but are not the conditions for a mature or competitive tokenised securities market.

However, the authorities have not committed to what comes after the DSS with enough precision to support serious long-term investment. The end state is described only as a "possible new permanent regime" with initial consultation on potential rule changes not expected until at least 2027. This requires firms to invest now against an end state that is only partially described. That does not provide enough incentive to justify the investment needed to build tokenisation infrastructure that keeps pace with the rest of the world.

In contrast to the DSS, the SEC is preparing an innovation exemption to facilitate trading of tokenised securities in decentralised environments, and tokenised securities trading outside of a sandbox environment. If firms can see a concrete near-term pathway for tokenised securities in the US, but continued uncertainty on which models will be permitted in the UK once the DSS ends, investment and liquidity will gravitate elsewhere.

There is now enough progress to move beyond that uncertainty. The DSS is already live in structure, has admitted a meaningful first cohort, and is designed with a staged glidepath from testing to scaling. The authorities should now commit to moving tokenised securities issuance, trading and settlement into a permanent authorisation regime.

The final roadmap should therefore include a dated commitment to a permanent regime within two years, rather than leaving firms with an open-ended possibility of DSS extension. This should specify where alternative tokenised models will be permitted outside the DSS, and confirm that activities and settlement assets successfully used within the DSS, including tokenised deposits and stablecoins, will have a credible route into the steady-state regime rather than being confined to sandbox testing. Without these commitments, the UK's tokenisation strategy remains a strategy for experimentation, not one for durable market formation.

Safeguarding of Specified Investment Cryptoassets

The FCA previously proposed to bring tokenised securities, or specified investment cryptoassets ("**SICs**"), into the new cryptoasset safeguarding regime set out in its proposed CASS 17 sourcebook, rather than to apply existing traditional securities safeguarding rules in CASS 6. The FCA has now confirmed it will not take this approach, and is seeking to apply common safeguarding rules across on- and off-chain securities with some adjustments to recognise the nature of blockchain technology.

In our response to the FCA's consultation on cross-cutting cryptoasset rules (CP26/4) we supported the policy objective of a single custody framework for digital assets as a pragmatic first step, but identified the risk of different treatment for onchain and offchain securities with substantially similar rights. The revised approach is therefore sensible because it preserves the goal of equivalent outcomes without creating inconsistencies or barriers between tokenised and non-tokenised securities.

We agree with the benefits of a technology-agnostic safeguarding framework that protects client assets, supports fungibility and interoperability, and accommodates both self-custody and transient settlement holdings. The approach set out in the CfI avoids forcing securities with substantially similar rights and economic functions into two separate custody models, while preserving space to build a longer-term framework that is technology-agnostic rather than simply technology-blind.

However, CASS 6 is a traditional safe custody asset regime. By contrast, the proposed CASS 17 regime is built for cryptoasset safeguarding and therefore focuses on issues such as protecting clients' ownership rights in omnibus wallet structures, key management, onchain and offchain recordkeeping and reconciliation, and appointment of third parties in cryptoasset custody chains.

As a result, an approach which relies on traditional safeguarding standards in CASS 6 must be subject to targeted adjustment to accommodate DLT-specific concepts and the securing of assets and records onchain.

Private keys and multi-party custody chains

A workable framework needs clear rules on when a person is deemed to be safeguarding an asset, how responsibility is allocated in multi-party computation, sharding and other distributed key-management models. Such models are unique to onchain markets and rules to accommodate them have been subject to refinement and extensive consultation within the CASS 17 framework for cryptoassets.

For SICs safeguarding, there is an opportunity to leverage this work by aligning with the expectation in CASS 17 that obligations attach to the entity with the effective ability to bring about a transfer of the asset rather than to any party that merely facilitates access or issues instructions; and that this means "negative control" through the holding of a key shard that cannot unilaterally bring about a transfer, would be insufficient.

Without a control-based concept that maps to how safeguarding works in a DLT context, the regime risks placing safeguarding obligations on the wrong entity, missing the party that can in fact move the asset, and creating uncertainty around liability, segregation and recovery precisely where client protection needs to be strongest.

The framework should also be flexible to accommodate third-party and multi-party custody chains. A safeguarding regime built around a narrow traditional custody chain could either force firms into inefficient structures or push specialised functions outside the regulated perimeter in ways that reduce transparency and accountability rather than improving them. CASS 6 recognises the need for oversight of third parties, but DLT custody models allow for more varied and specialised custody chains, including across borders given the global nature of many onchain systems.

Rules should therefore remain outcomes-based and permit a range of secure architectures, including intra-group and specialist sub-custody, provided firms can demonstrate robust due diligence, governance, and clear allocation of responsibility.

Fungibility and interoperability

The framework should preserve fungibility and interoperability between tokenised and non-tokenised securities. Forcing tokenised securities into a separate custody model could disrupt trading and collateral management, especially where firms safeguard both forms of asset. If tokenised securities cannot move effectively with the rest of the market, they will trade in thinner pools, be harder to use as collateral, and create avoidable basis and operational risk between legally equivalent forms of the same asset, undermining one of tokenisation's core promised benefits. Therefore, the safeguarding regime should allow custodians to move between onchain and offchain representations without breaking ownership certainty or operational coherence.

Our response to the FCA's draft cryptoasset perimeter guidance stressed that the boundary between SICs, qualifying cryptoassets, and tokenised structures that are legally separate from the underlying security should be cross-referenced in the safeguarding rules. Without this, firms will struggle to determine which regime applies, leading to avoidable classification risk and operational friction.

The FCA should progress to a safeguarding framework that delivers uniform outcomes across onchain and offchain markets, while making targeted adjustments for private-key control, onchain reconciliation, mixed custody chains, token-specific perimeter issues and the operational realities of settlement and collateral use in DLT markets.