

## ABI response to CP25/28, Progressing Fund Tokenisation

### [Executive Summary](#)

We welcome the opportunity to contribute to the discussion on the future of tokenisation. The recent growth and advancement in the technology for digital assets is clear, and the UK needs a regulatory framework that encourages innovation while maintaining strong protections and safeguards. The FCA's commitment to being a regulator for growth and a smarter regulator makes this an ideal moment to position the UK as a leader in tokenisation and it is essential we do not fall behind our international counterparts.

The vision outlined in this paper for the development of tokenisation presents significant opportunities to leverage the unique features of this technology and deliver meaningful benefits. Realising these will require a strong and consistent regulatory framework, focused on the use cases that offer the greatest value to consumers and businesses. As the voice of the insurance and long-term savings industry, we welcome the opportunity to further contribute to these discussions.

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

Changing investor habits are likely to play a role in the evolution and growth of tokenisation. Younger generations, having grown up in a fully digital environment, can have higher expectations of seamless, tech-enabled experiences in all aspects of life, including investing and saving. Tokenisation offers the potential for features such as atomic settlement, automated verification, and more personalised investment options, which can align well with these expectations.

That said, regardless of age or generations, all investors expect high levels of security, transparency, and trust in the products they use. A strong regulatory framework will be essential to support confidence in tokenised products for all investors.

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

Yes, the three phases represent a sensible approach. However, delivering the full benefits of each phase will require coordinated, cross-industry collaboration. While the technology exists, achieving scale, a strong secondary market, and efficient interoperability will depend on several factors aligning. These include the development and adoption of tokenised deposits and settlement assets that can interact with existing systems, given the likely incremental uptake in the technology. Also important to the development of the three phases will be the establishment of comprehensive standards, ownership rights, and robust privacy and data protection measures.

We encourage the FCA to ensure they take a customer centric approach when developing these phases further. The aspects of tokenisation that should be focused on must be the areas where there is a clear use case that benefits customers. Technological capability does not guarantee demand and it will be essential to prioritise initiatives that demonstrate a measurable improvement for end-users and commercial viability.

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

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

We acknowledge the potential benefits that ‘composability’ can have in relation to less liquid assets. By enabling features such as fractional ownership, automated trading mechanisms, and programmable asset management through smart contracts, composability can make assets like private credit, infrastructure, or real estate more accessible and tradable.

However, it is important for the regulators to anticipate who they expect will hold these digital assets in order to manage the risks appropriately. Without strong safeguards, such as clear disclosures, warnings and suitability checks, investors may develop unrealistic expectations, increasing the risk of poor decisions or market stress. For example, there are risks relating to the potential mismatch between the perceived liquidity of a tradeable token and the actual liquidity of the underlying asset. Retail investors who are not advised will need strong guidance and safeguards to prevent foreseeable harm.

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

We agree that utilising smart contracts to create more personalised on-chain model portfolios has the potential to bring benefits to consumers. Model portfolios linked to self-executing smart contracts could allow investments to be more closely aligned to individual needs and objectives. As with other model portfolios and similar services, periodic reviews will be important to ensuring the investments remain aligned with these needs and objectives. We also support the FCA’s early consideration of use cases in the long-term savings industry, such as exploring how tokenised portfolio management could interact with targeted support. However, the regulator must evidence if and where consumer and business demand exists for this use-case to ensure implementation is targeted correctly.

**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?**

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

Tokenising illiquid assets could introduce financial stability risks due to liquidity mismatches. This will likely be dependent on the nature of the underlying asset and the scale of holdings in the tokens. Also, composability, where multiple smart contracts can be combined to create new products, could add new complexities. Regulators will need to ensure robust audit frameworks and governance standards are in place to manage these risks effectively.

**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?**

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**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?**

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

The FCA should proactively support the development of tokenisation. The UK must not be left behind by other jurisdictions in developing an attractive regulatory environment that could be crucial to attracting investment and supporting growth. The FCA should be working with other regulators and government bodies to ensure there is a comprehensive regulatory environment for digital assets which balances providing certainty and protection with innovation and growth.

We encourage the FCA to work with stakeholders in identifying use cases backed by evidence which indicates a strong business case and consumer demand. Whilst the technological potential of tokenisation is wide-ranging, for it to have a meaningful impact for consumers and businesses, the regulators should prioritise those areas where there is a gap tokenisation can fill. The FCA should continue and develop initiatives such as the Digital Securities Sandbox and utilise policy making tools beyond discussion and consultation papers, such as policy sprints, to ensure their focuses are aligned with industry thinking and priorities. Engaging with international counterparts, who may be at different stages of development, will also ensure that common issues or risks are understood at the earliest opportunity.

Whilst we support the outcomes focused and technology neutral stance of the FCA, digital assets will undoubtedly introduce new and unique risks. The FCA should anticipate who they expect will engage with tokenisation and implement clear protections and safeguards. We also anticipate the growth and engagement with tokenisation will likely be incremental and the potential transition from a conventional off-chain system to a fully-on chain digitally native system will not be sudden. Therefore, it is essential that the FCA's rules, guidance, and expectations take into account the interaction between emerging tokenised models and existing market practices infrastructure.

## About us

The ABI is the definitive voice of the UK's world-leading insurance and long-term savings industry, which is the largest sector in Europe and the third largest in the world.

We represent more than 300 firms within our membership including most household names and specialist providers, providing peace of mind to customers across the UK.

Our sector is productive, inclusive and essential to the UK economy and together, we are driving change to protect and build a thriving society.

Find out more at [abi.org.uk](https://abi.org.uk)