



Letter from the Investment Company Institute

21 November 2025

David Burrows and Joshua Castle
Funds and Asset Management Policy
Wholesale Buy Side
Financial Conduct Authority
12 Endeavor Square
London E20 1JN
To be submitted electronically to:
Cp25-28@fca.org.uk

Re: *Progressing Fund Tokenisation*

Dear Mr. Burrows and Mr. Castle:

The Investment Company Institute (ICI)¹ appreciates the opportunity to provide feedback to the Financial Conduct Authority (FCA) regarding its consultation paper on Progressing Fund Tokenisation (CP25/28).² ICI's mission is to strengthen the foundation of the asset management industry for the ultimate benefit of the long-term individual investor. Our members have significant experience and expertise in serving more than 120 million retail investors in jurisdictions around the world, including in the United Kingdom (UK). These investors rely on regulated funds, like UK and EU-domiciled UCITS, to achieve important financial goals, including saving for retirement and education. By supporting the financial health and wellbeing of individual investors, the asset management industry contributes to economic growth by investing client assets in capital markets, providing a critical source of long-term stable funding for companies and projects.

We support the FCA's objective of allowing fund managers flexibility to operate funds in the most efficient way and enhancing the competitiveness of the UK as a global hub for asset management. The FCA's efforts to provide firms with greater clarity surrounding the adoption of tokenization in fund management through the issuance of guidance for operating a

¹ The [Investment Company Institute](https://www.ici.org) (ICI) is the leading association representing the global asset management industry in service of individual investors. ICI members are located in North America, Europe, and Asia and manage fund assets of US\$52.2 trillion, including mutual funds, exchange-traded funds (ETFs), UCITS, closed-end funds, unit investment trusts (UITs) and similar funds in these different jurisdictions. ICI has offices in Washington DC, Brussels, and London.

² The CP25/28 is available at <https://www.fca.org.uk/publication/consultation/cp25-28.pdf>.

tokenized fund under the Blueprint model, as well as rules and guidance for an alternative, streamlined dealing model for conventional and tokenized authorised funds (“direct to fund”), will facilitate the achievement of this goal. We set out below our views on the benefits of tokenization, recommended regulatory principles for digital assets, concerns regarding the application of the Client Assets Sourcebook, and areas where additional regulatory alignment is needed. These comments are responsive to multiple questions in Chapters 2-4.

I. Benefits of Tokenisation

Innovations in digital assets, such as tokenization, have the potential to drive meaningful transformation across the industry. The tokenization process, for example, offers several benefits, including:

- **Increased Liquidity:** Tokenized securities have the capability to be traded around the clock and provide for instant settlement. Such features decrease transaction delays, reduce counterparty risk, and lower operational costs, thereby increasing liquidity and making assets instantly accessible.
- **Efficiency:** Smart contracts enable automation of processes such as anti-money laundering, know your customer, dividend distribution, and fund administration, reducing operational costs and improving overall efficiency.
- **Transparency:** Blockchain-based ledgers enhance transaction transparency and reduce recordkeeping costs.
- **Yield Payments:** Dividends may be calculated with greater precision, even for intraday transactions.
- **Accessibility:** A broader range of investors, including those previously underserved by traditional products, may participate.

ICI members are at the forefront of introducing blockchain-based investment products, including tokenized money market funds (TMMFs). These innovative offerings expand client choice and represent significant advancements within the financial sector by integrating traditional investment vehicles for investors with blockchain technology. TMMFs stand out as a particularly significant example of the types of advantages and additional choices that digital assets can provide to funds and fund investors.

We appreciate the FCA’s assurances that it will continue to take a technology positive approach to interpreting the rules for operating authorised fund registers in the Collective Investment Schemes sourcebook (COLL), and the corresponding content in the Open-ended Investment Companies (OEIC) Regulations, which are generally technology neutral and outcomes-based. This approach, together with regulatory certainty, will facilitate further progress in their field of digital asset innovation, for the benefit of investors and the boarder economy.

II. Recommended Digital Asset Regulatory Principles

The role of crypto assets in funds and other financial products is evolving rapidly, and ICI and its members are continuing to evaluate how regulation can best foster innovation while also

addressing investor protection concerns. To promote continued growth in regulated crypto products and tokenization, ICI believes that regulators, including the FCA, should be guided by the following principles as they modernize their regulatory frameworks to address digital innovation:

- New market entrants should meet the same rigorous standards as current participants to ensure a level playing field and avoid regulatory arbitrage.
- Regulators should adopt a technology-neutral approach to regulating crypto assets, including tokenized funds, considering the existing robust regulatory frameworks applicable to market participants.
- Any proposed regulations should be principles-based rather than prescriptive, striking a balance between mitigating risks and preserving access to the benefits and opportunities offered by crypto assets and tokenization.
- Regulations should allow sufficient flexibility for market participants to develop best practices without imposing unnecessary compliance burdens, particularly on smaller entities seeking market entry.
- Regulators should issue guidance or updated regulations to ensure the secure custody of crypto assets.
- Regulators should not mandate a transition to T+0 or instantaneous settlement. Transitioning to shorter timeframes requires extensive study and significant resources.
- As the FCA enhances the regulatory regime to encourage and support crypto innovation, it should do so in a transparent manner, leveraging valuable stakeholder input along the way through notice and comment.

III. Proposed Direct Dealing Model and Concerns Regarding the Application of the CASS

We fully support the FCA's introduction of a new direct dealing model for processing unitholder deals in units of authorised funds, where the fund or its depositary acts as principal in unit deals with end investors, rather than the authorised fund manager (AFM). If properly implemented, the new model will not only help AFMs to transition to a tokenised fund environment, but also provide AFMs with flexibility and choice to determine the most efficient dealing model for a given fund, its investors, and distribution channels. The current UK dealing model and related Client Assets Sourcebook regime (CASS) is an international outlier that imposes a significant compliance burden on firms, with no discernible consumer benefit. The proposed changes would broadly replicate the regimes in other key markets in which international managers operate. If implemented appropriately, these changes will increase consumer protection and operational benefits for asset managers, to the benefit of investors.

We have one major concern with the proposal that, if not addressed, risks gutting the attractiveness of the direct dealing model. Namely, draft rule COLL 6.2.7BR(1) and paragraphs 3.25 and 3.35 of CP25/28 suggest that there are scenarios in which money received into the Issues and Cancellations Account (IAC) of a fund may need to subsequently be considered as client money of the AFM. In our view, however, there is no basis for taking the position that monies received into the IAC should be considered the responsibility of the AFM rather than

the fund. Should the FCA take the position that monies received may require client money protection from the AFM, the operational burden of the client money regime will still be required in full. Because in this situation there would be no operational benefits in moving to the new regime, managers are unlikely to do so, which undermines the entire purpose of the proposed changes. If the direct dealing option is introduced, it must be done in a way that clearly removes AFMs from the scope of the CASS.

IV. Issues Related to Tokenisation that Require Further Alignment

We agree with the FCA's general approach, implemented when it introduced the Blueprint, of recognizing that the principles and outcomes set out in the regulations remain valid and necessary in the context of DLT/blockchain based register systems, and we believe that the proposed guidance will, overall, constructively support firms launching authorised funds. However, broader regulatory uncertainty remains with respect to two important issues regarding fund tokenization: (1) the definition of "cryptoasset" in the Money Laundering Regulations (MLRs) and (2) the scope of the regulated activity of safekeeping cryptoassets, as put forward in the draft Financial Services and Markets Act 2000 (Regulated Activities and Miscellaneous Provisions)(Cryptoassets) Order 2025 (RAO), both of which are described in more detail below. Although these issues do not fall directly under the scope of the CP25/28, unless and until they are favorably resolved, they will continue to pose a significant friction to fund tokenization in the United Kingdom.

MLRs definition of "cryptoasset." Due to the very broad definition of the activities of a "cryptoasset exchange provider" in the MLRs, firms engaging with "specified investment cryptoassets" – such as the establishment of tokenized UCITS or alternative investment funds (AIFs) – are potentially required to separately register specifically for this activity with the FCA, in addition to already complying with the MLRs as applicable to the operators of UCITS or AIFs. The current proposal³ to exempt firms that hold licenses for the new cryptoasset activities under the Regulated Activities Order does not eliminate this issue.⁴

Safekeeping cryptoassets: The proposed language of the RAO regarding safekeeping of cryptoassets is drafted very broadly and appears to include within scope a duly authorised UCITS management company acting as registrar and transfer agent for a fund, using DLT technology to perform its activities. Because the management company will – and must, by

³ See draft Financial Services and Markets Act 2000 (Regulated Activities and Miscellaneous Provisions)(Cryptoassets) Order 2025 (RAO), available at https://assets.publishing.service.gov.uk/media/680f6387faff81833fcae94b/0302425_draft_RAO_SI.pdf.

⁴ The current proposal to exempt firms that hold licenses for the new cryptoasset activities under the Regulated Activities Order does not eliminate this issue because it applies to "qualifying cryptoassets," which specifically excludes "specified investment cryptoassets," which includes tokenized UCITS or AIFs. As a consequence, an appropriately licensed operator of a UCITS or AIF, with the appropriate existing Part4A permission, does not need an additional RAO license to use DLT to issue or record the issuance of shares in the UCITS or AIF, but may need to obtain the additional AML/KYC registration with the FCA, when the activity and firm is already subject to the MLRs provisions that apply to the relevant specified investment (shares in the UCITS or AIF).

law – retain the ability to control the disposition of the tokenized shares, including transferring from one shareholder to another, this activity should not require an additional safekeeping license. This is part of effective recordkeeping, rather than safekeeping or asset custody. The RAO should clearly distinguish between the different roles that parties play, and clearly exempt the management company's activities.

We encourage the FCA to engage with HM Treasury in order to, collectively, establish a regulatory framework for cryptoassets, including tokenization, that operates seamlessly and takes into account these and other considerations as they arise.

We appreciate your consideration of our feedback. If you have any questions regarding our submission, please reach out to me at tracey.wingate@ici.org or Eva Mykolenko at emykolenko@ici.org.

Sincerely,

/s/ Tracey Wingate

Tracey Wingate
Head of Global Affairs