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Response to the Wholesale Digital Markets Champion's Report

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AS A FORMAL RESPONSE TO THE WHOLESALE DIGITAL MARKETS
CHAMPION'S FIRST REPORT, SEPTEMBER 2026

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About This Paper

ISITC Europe CIC

ISITC Europe CIC (ISITC Europe) is a UK-registered, not-for-profit Community Interest Company serving the financial services industry – a cross-industry body of banks, asset managers, custodians, and other capital markets firms that promotes operational efficiency through education, innovation, and information exchange.

This paper is submitted by ISITC Europe as a formal response to the Wholesale Digital Markets Champion's first report in accordance with the Champion's invitation to receive feedback by 4 September 2026.

A Note on Purpose and Approach

This paper represents ISITC Europe's current thinking on how the UK digital financial markets programme will develop. It is published with the aim of shaping thinking, encouraging structured discussion, and providing a framework that practitioners, regulators, and policymakers can engage with, challenge, and refine. The digital markets landscape is moving quickly, regulatory positions are developing, and new market infrastructure is being built in real time. Some of what we have written will prove to be wrong or incomplete, either because events have moved on or because our analysis reflects imperfect information. We regard this as a feature rather than a failure: the value of publishing at this stage of the programme's development is precisely that it invites correction and challenge from those with better information or different perspectives. ISITC Europe welcomes responses to the analytical positions taken.

Disclaimer

This paper represents the independent views and analysis of the authors. It is not affiliated with, endorsed by, or produced on behalf of HM Treasury, the Bank of England, the Financial Conduct Authority, the Wholesale Digital Markets Champion or the Digital Markets Champion Industry Taskforce.

References to regulatory, policy and market developments are based on publicly available information considered current at the date of publication. Where the paper discusses future timelines, dependencies or potential market outcomes, these may represent the authors' analysis or expectations rather than confirmed commitments by the relevant authorities or market participants.

This paper is provided for information and discussion purposes only and does not constitute legal, regulatory, investment, financial or other professional advice. Readers should obtain appropriate professional advice before acting on matters discussed in this paper.

Where statements are classified as confirmed policy or regulatory position [CR], this reflects the authors' reading of published regulatory materials as at the date of publication. Readers should verify the current status of any regulatory position before acting on it.

Response Approach

The Wholesale Digital Markets Champion published his first report to the Chancellor in July 2026. It is now the primary Government reference document for UK digital wholesale financial markets and sets out the vision, priorities, and Action Group structure and delivery responsibilities to drive the programme over the next twelve months.

ISITC Europe's goal was to consider this programme from the perspective of financial services industry firms and provide an operational briefing to help them understand what digital markets mean for them specifically: what to build, when, in what priority order, and with what commercial case. Where the Champion's report answers the question "what needs to happen and who is responsible," ISITC Europe aimed to answer the question "what does it mean for my firm and what should I be doing now."

ISITC Europe has mapped its analysis against the Champion's report and categorised this as:

1. Areas of agreement

2. Operational considerations relating to the Champion's report conclusions
3. Recommendations, including mapping to the Action Groups and Orchestration Group

The main body of this paper is the ISITC Europe analysis. This section contains the areas of agreement, operational considerations, and recommendations.

How to read the evidential markers in this paper (taxonomy definitions and key)

Throughout this paper, statements about timelines, regulatory positions, and market developments are tagged with one of four markers to help readers distinguish between what is confirmed, what is targeted, what is ISITC Europe's own analysis, and what depends on conditions being met. The markers appear inline in the text in square brackets and only statements tagged [CR] and [PT] with a specific regulatory publication or programme target have the tag and a footnote to that source. Definitions for other tags are shown in the table below.

Tag	Category	Definition	Examples from this paper
[CR]	Confirmed policy or regulatory position or standard market practice	A decision already made and published by a named authority, or an established market practice or documented fact. The rule, policy, position, or practice is in force or operative. No further regulatory action or analytical inference is required to establish it.	PS 26/7 in force April 2026; Property Act 2025; FCA CP25/41 regime in force October 2027; PRA Dear CEO letter 2026; commercial bank money model for international bond settlement; GMRA as standard bilateral repo documentation; JPMorgan Kinexys \$350bn daily (self-reported).
[PT]	Announced programme target	A named authority has publicly stated an intention, goal, or target timeline but delivery depends on programme execution. The commitment is real but not yet delivered.	RT2 live service targeted 2028 (BoE/FCA, May 2026); DIGIT pilot no later than Q1 2027 (Champion's report)
[AA]	Authors' analysis	ISITC Europe's own analytical conclusion, drawn from confirmed positions and announced targets but not itself a regulatory commitment or industry announcement. Includes timing estimates, sequencing judgments, and assessments of commercial dynamics.	Parallel infrastructure period – transition costs concentrated at FMI level; PRA guidance expected 2028-2030; mainstream issuance threshold 2028-2030.
[SD]	Scenario dependency or	A conditional statement about what will happen if a condition is met or not met. These frame the range of outcomes for investment committees and boards, making explicit what depends on what.	If the downstream equivalence chain is not coordinated, early infrastructure investment may precede the regulatory framework.

ISITC Europe response to the Wholesale Digital Markets Champion's Report

Areas of agreement

There is significant agreement between the two documents, in particular:

- The three priority use cases identified by the Champion's report: repo, fixed income, and uncleared OTC derivatives [CR] ¹
- The emphasis on collateral mobility as the most commercially immediate benefit [CR] ²
- The centrality of RT2 synchronisation and DIGIT [PT] ³
- The buy-side considerations analysis [CR] ⁴: buy-side firms are less concerned with the underlying technology than whether tokenised assets deliver equal or better economics than traditional instruments
- The acknowledgement of the parallel infrastructure period [CR] ⁵

Operational considerations relating to the Champion's report conclusions

1. The scale of the opportunity requires qualification. The Champion's report cites analysis suggesting tokenisation could increase UK economic output by up to £33 billion annually and generate £14 billion in fiscal revenues by 2035 [CR] ⁶. These figures depend on three conditions [AA]: the UK becomes one of the leading jurisdictions for processing of tokenised global assets; tokenisation scales globally; and UK domestic adoption increases in line with major peers. This is a best-case scenario, not a central case. The opportunity is real but its scale under more conservative assumptions is materially smaller. Firms making investment decisions should be aware of the assumptions embedded in these projections.

2. The benefits of tokenisation are more specific than the headline narrative implies. The Champion's report presents a broad range of benefits – cost reduction, collateral efficiency, revenue opportunities, settlement improvement – without distinguishing between those that are genuinely DLT-specific and those that are achievable with existing technology through better process design. This paper explores this in Part 1. Five structural improvements are DLT-specific [AA]: (1) securities collateral mobility across a shared ledger network; (2) repo, enabling atomic intraday repo and dramatically increasing the velocity at which collateral can be deployed and redeployed throughout the trading day; (3) smart contract elimination of the corporate action intermediary chain; (4) the DAML model for securities lending that eliminates manufactured dividends; and (5) uncleared OTC derivatives lifecycle management through DAML smart contracts, eliminating the confirmation and reconciliation burden of bilateral derivatives documentation. Other benefits such as faster reconciliation, improved operational resilience, better position transparency are largely achievable with existing technology through T+1 investment.

3. The parallel infrastructure period involves real transition costs, concentrated at the FMI level rather than distributed across all market participants. The Champion's report acknowledges that firms will run digital and legacy systems in parallel during the transition and that benefits will only be fully realised after this transition period. The transition costs are real and should not be understated. The parallel infrastructure period is primarily a challenge for the firms building direct DLT connectivity: custodians, investment banks, fund administrators, and digital FMI providers. For most other market participants, this complexity is managed by

¹ Champion's report (source 1)

² Champion's report (1)

³ Champion's report (1) + FCA/BoE Call for Input (2)

⁴ Champion's report (1)

⁵ Champion's report (1)

⁶ Champion's report (1) + Barclays/PwC (24)

their service providers. Whether their custodian or platform uses the SFR designation route, the ICSD route, or both is irrelevant to an asset manager, insurer, or pension fund. A digital instrument appears in their portfolio through the same custodian relationship as a conventional instrument. Firms in the second group should focus their programme on understanding when their service providers will be ready and what new instrument types and opportunities will become available to them, rather than on building DLT infrastructure themselves [AA]. True operational simplification across the full range of instrument types and jurisdictions still requires international interoperability between national digital market infrastructures, which remains a 2035 to 2040 proposition at earliest [AA].

4. The commercial adoption question for mainstream issuers is harder than the report implies.

The commercial adoption question varies significantly by use case, and the report implies a more uniform picture than the evidence supports. For the five structural improvements that are genuinely DLT-specific (securities collateral mobility, intraday repo, corporate action automation, securities lending, and uncleared OTC derivatives lifecycle management), the commercial case is already strong for the firms that use them most heavily. JPMorgan Kinexys and Broadridge are processing over \$700 billion in daily repo on Canton today. These are not pilots: they are live institutional infrastructure with demonstrated commercial rationale. For these use cases, the question for relevant firms is not when the commercial case arrives but whether their own infrastructure is ready to participate.

For mainstream investment grade Eurobond issuance, the picture is different. The commercial case today is limited [AA]: the digital investor base is initially smaller than the conventional one, and any operational efficiency gain is quickly offset if pricing is worse because fewer investors can participate. Until digital instruments achieve UCITS eligibility, index inclusion, and standard PRA capital treatment, mainstream digital issuance makes limited commercial sense for most issuers. Early adoption is driven by specific commercial rationale: positioning advantage, programmable instrument features, or a strategic decision to build capability ahead of the mainstream market opening. For new instrument classes (tokenised private credit, infrastructure debt, real assets) the commercial case for immediate action is stronger still, since these instrument classes do not yet have a conventional alternative that digital has to compete with.

Firms need this granularity – distinguishing between use cases where the commercial case is already live and use cases where it depends on regulatory milestones – to make rational decisions about where to invest now and where to wait.

5. Settlement finality deserves more analytical attention. The Champion's report covers settlement finality in section 5.7 and Table 2. It correctly identifies SFR designation as requiring legislative attention [CR] ⁷. This paper devotes significantly more analytical attention to the two-leg architecture (RT2 for the cash leg (2028 [PT] ⁸) and statutory finality for the securities leg) because understanding this distinction is essential for any firm assessing when institutional participation at scale becomes possible. Statutory finality on the securities leg is provided by CSD/ICSD authorisation, which carries SFR designation as an inherent part of its status. ClearToken CSD Limited is actively pursuing ICSD authorisation through the Digital Securities Sandbox, the primary active route in the UK [CR] ⁹. The BoE Synchronisation Lab tests the technical cash leg mechanism and informs the design standards that a digital CSD must meet; it is a testing environment, not itself a source of settlement finality. The distinction between what is available before full statutory finality is achieved on both legs (collateral and repo between sophisticated bilateral counterparties, and instruments held in an ICSD where that ICSD's own designation provides the finality) and what requires the full two-leg architecture (the open institutional DvP market accessible to UCITS funds, insurers, and pension funds where instruments are not held in a designated ICSD) is the single most important thing a firm needs to know to plan its engagement timeline.

6. The downstream equivalence chain is more important than the report implies. The Champion's report references UCITS eligibility and index inclusion as desirable outcomes but does not analyse the chain of

⁷ Champion's report (1)

⁸ FCA/BoE Call for Input (2)

⁹ FCA. Digital Securities Sandbox (DSS) (47)

dependencies that connects regulated market admission to mainstream institutional participation. This paper treats this chain as critical: admission to a recognised regulated market under the FCA admissions framework (CP25/41, in force October 2027) is the prerequisite for UCITS eligibility, which is the prerequisite for inclusion in major bond indices (FTSE Russell, Bloomberg, ICE, S&P) [CRJ]¹⁰, which is the prerequisite for participation by the large proportion of institutional investment managed against benchmarks. However, the ICSD model may provide a complementary route that shortcuts parts of this chain. If digital instruments are held in a designated ICSD, whether ClearToken CSD or an incumbent ICSD, and treated as fungible with conventional equivalents, UCITS eligibility and index inclusion may follow from the ICSD's own designation rather than requiring separate regulatory determinations for each instrument. Whether regulators and index providers will accept this route has not yet been confirmed and should be an explicit question for the Taskforce's downstream equivalence workstream. Until this is resolved, the full downstream equivalence chain remains the prudent assumption for planning purposes. The downstream equivalence chain, whether navigated through regulated market admission or through the ICSD fungibility route, is not a regulatory technicality: it is the mechanism that determines when digital markets become a real market rather than a pilot.

Recommendations, Including Mapping to the Action Groups and Orchestration Group

The following seven recommendations are made by ISITC Europe to the Wholesale Digital Markets Champion and his Industry Taskforce. They are written from the perspective of the firms that need to act on the Champion's report's vision, identifying the specific outputs, timelines, and coordinating actions that the programme needs to deliver to make that action possible. They are framed as things the programme should do, not things individual firms should do. Firm-level guidance is set out in Part 4 of this paper.

The recommendations are ordered by urgency. The first three are prerequisites for mainstream institutional participation and should be treated as critical path items alongside RT2 synchronisation and SFR designation. The remaining four are important programme enablers that need to be initiated now to be ready when the infrastructure goes live.

The matrix at the end of this section maps each recommendation to the relevant Action Groups, the firms most dependent on the output, the required deliverable, the responsible party, and the target timing.

¹⁰ ICMA (28) + UCITS (38)

Recommendation 1: Treat ClearToken CSD's ICSD authorisation and the SFR designation that flows from it as explicit programme objectives with named owners and confirmed timelines

Statutory settlement finality for the securities leg of digital securities transactions is provided by designation as a settlement system under the Settlement Finality Regulations. For a CSD or ICSD, this designation is inherent to their authorisation status. Euroclear Bank and Clearstream hold SFR-equivalent designation through their CSD status, providing statutory finality for all instruments held in their systems. ClearToken CSD Limited is pursuing the same status through the Digital Securities Sandbox and the permanent regulatory framework, with the goal of providing settlement finality under English law for digital securities. When ClearToken CSD achieves ICSD authorisation, instruments held in its system will have statutory settlement finality under the UK SFR framework as an inherent consequence of that authorisation. ClearToken CSD is the only entity currently progressing towards this status in the UK. The incumbent ICSDs, Euroclear Bank and Clearstream, could extend their existing designation to digital instruments without new legislative change but have not committed to a timeline. This represents a significant potential secondary route but cannot be treated as a planning assumption in the absence of a public commitment.

The BoE has confirmed the RT2 live service for 2028 [PT] ¹¹. For instruments not held in a designated ICSD, the securities leg will have contractual finality only until ClearToken CSD or another digital CSD achieves ICSD authorisation and the SFR designation that flows from it. Contractual finality is insufficient for UCITS funds, insurers, pension funds, and most institutional asset managers operating under fiduciary mandates.

ISITC Europe recommends that the programme treats ClearToken CSD's ICSD authorisation as an explicit programme deliverable, with a named owner, a confirmed timeline, and regular public reporting on progress. The SFR designation that flows from ICSD authorisation is the mechanism that opens the institutional DvP market at scale. The key steps are:

Permanent regulatory framework for digital CSDs published by BoE and FCA (Q2 2027 [AA]); ClearToken CSD Gate 2 DSS assessment completed (2026-2027 [AA] ¹²); ICSD authorisation under permanent framework confirmed (2027-2028 [AA])

In parallel, ISITC Europe recommends that the Taskforce formally engages Euroclear Bank and Clearstream on extending their existing SFR-designated status to digital instruments and publishes a timeline commitment. This requires no new legislative change: it requires a commercial and operational decision by the incumbent ICSDs to accept digital instruments into their existing designated systems.

Separately, the BoE Synchronisation Lab should publish its design and assurance requirements for the RT2 synchronisation capability by Q1/Q2 2027 [AA] ¹³, so that ClearToken CSD and other digital FMI providers can incorporate these requirements into their authorisation applications and operational planning.

¹¹ FCA/BoE Call for Input (2)

¹² ClearToken CSD Limited is a Gate 1 DSS participant (14; 47). The 2026-2027 Gate 2 assessment timeline is [AA] based on DSS programme pace: no date has been confirmed by the FCA or ClearToken CSD.

¹³ The Synchronisation Lab was launched May 2026 (2; 3). The Q1/Q2 2027 timeline for publication of design and assurance requirements is [AA]. The BoE has stated it will publish requirements but has not confirmed a specific date.

Recommendation 2: Publish a coordinated downstream equivalence roadmap as a joint regulatory commitment

The downstream equivalence chain determines when the institutional investor base can participate at scale in digital markets. This covers regulated market admission (FCA admissions framework, CP25/41, in force October 2027 [CR] ¹⁴), UCITS eligibility, index inclusion, and permanent PRA capital treatment. Each step is owned by a different authority: the FCA, index providers (FTSE Russell, Bloomberg, ICE, S&P), and the PRA. There is currently no coordination mechanism ensuring these steps happen in sequence, and no public roadmap showing when the full chain will be in place.

ISITC Europe recommends that the Taskforce, led by AG3 working with AG1, establishes a formal cross-authority working group to coordinate the downstream equivalence chain and publishes a joint roadmap with named owners and target dates for each step. Without this roadmap, firms cannot make rational investment decisions about when mainstream digital issuance and portfolio allocation will become commercially viable and the risk is that infrastructure is built before the regulatory framework that makes it usable is in place.

Recommendation 3: Initiate the permanent PRA prudential framework for tokenised instruments now

The 2026 PRA Dear CEO letter [CR] ¹⁵ provides interim comfort but defers the permanent framework pending the Basel Committee's targeted review of cryptoassets. Tokenised assets receive the same prudential treatment as their non-tokenised equivalents where legal rights are identical and underlying risks are comparable. For insurance companies and pension funds, this is the last dependency before portfolio allocation to tokenised instruments becomes economically rational.

ISITC Europe recommends that the PRA begins its domestic analysis now so that it is ready to publish permanent guidance promptly once the admissions framework is live and the Basel review concludes. This includes identifying the key questions around risk-weighting, liquidity treatment, and concentration limits for tokenised instruments settled through RT2 synchronisation. Waiting until after Basel before beginning domestic analysis risks compounding the delay. A domestic work programme should be published by Q2 2027, with a commitment to final guidance within 12 months of the Basel review conclusion.

Recommendation 4: Ensure the digital CSD regulatory framework is designed to support multiple authorised providers

ClearToken CSD Limited is the only entity currently progressing towards ICSD authorisation for digital securities in the UK. This concentration is understandable at this early stage but creates a systemic dependency that should be addressed in the permanent regulatory framework.

ISITC Europe recommends that the BoE and FCA design the permanent digital CSD authorisation framework with explicit provision for multiple authorised providers, publishing clear, objective, measurable authorisation criteria that any entity can assess itself against, regardless of which DLT platform it uses. The framework should also require authorised digital CSDs to support interoperability with other authorised digital CSDs, so that participants are not locked to a single infrastructure provider. The incumbent ICSDs, Euroclear Bank and Clearstream, should be explicitly encouraged to seek extension of their existing SFD designations to digital instruments, providing competition and resilience alongside ClearToken CSD. The Taskforce should treat market structure resilience in digital CSD infrastructure as a standing programme item.

¹⁴ FCA CP25/41 (7) + Skadden analysis of commencement date (13)

¹⁵ PRA Dear CEO letter (10)

Recommendation 5: Publish a UK fund tokenisation market development roadmap coordinating PS 26/7 implementation

FCA PS 26/7 entered force in April 2026 but the market for UK tokenised funds is fragmented [CR] ¹⁶. In the absence of a coordinated framework, firms are making independent decisions about DLT register implementation, direct-to-fund dealing model adoption, and on-chain collateral eligibility. At the same time, US tokenised money market fund products (BUIDL, Franklin Templeton OnChain, Fidelity FILQ) are already at significant institutional scale [CR] ¹⁷ and creating competitive pressure for UK UCITS cash and money market funds.

ISITC Europe recommends that AG1, working through the IA IF3 Lab, publishes a UK fund tokenisation market development roadmap covering: the expected timeline for first DSS tokenised fund products going live; interoperability standards between different fund tokenisation platforms; the approach to on-chain collateral eligibility for UK tokenised fund units; and an assessment of the competitive pressure from US products and what the UK industry needs to do to ensure equivalent UK products exist before institutional investors shift cash management offshore. This roadmap is needed now. The competitive pressure is a 2026-2027 question, not a 2028 one.

Recommendation 6: Establish a legal certainty programme for smart contract instrument templates

Legal uncertainty around smart contract instrument templates is the primary barrier to commercial adoption for corporate and financial institution issuers beyond the early-mover cohort. Who owns the code? What happens in a dispute? How does English law govern smart contract execution when the counterparty is in a different jurisdiction? These questions need standard answers before mainstream issuers can commit to digital issuance programmes.

ISITC Europe recommends that the programme establishes a legal certainty initiative, building on DIGIT and the ICMA Digital Bond Data Taxonomy [CR] ¹⁸, to develop standard legal documentation for smart contract bond templates that corporate and financial institution issuers can adopt with confidence. This should be led by AG1 and AG2 working with ICMA and the legal community. The output should be a standard documentation framework for smart contract bonds, published by Q3 2027, so that it is available before the RT2 live service opens the market.

One route to legal certainty that deserves attention alongside the template documentation programme is the ICSD model described in Part 3. If an ICSD, whether an incumbent such as Euroclear Bank or Clearstream, or a new entrant such as ClearToken CSD Limited which is explicitly seeking ICSD authorisation under English law, develops standard acceptance criteria and legal documentation for digital instruments entering its systems, this could provide a faster and more widely applicable form of legal certainty than individual instrument template development. An instrument accepted into an ICSD on standard terms carries the legal framework of that ICSD's authorisation, reducing the need for bespoke template documentation for each issuer. ClearToken's ICSD ambition is particularly significant in this context: as a new entrant seeking authorisation specifically for digital securities under English law, ClearToken is well-placed to develop the acceptance criteria and documentation framework that would give issuers confidence without waiting for incumbent ICSDs to extend their existing frameworks to digital instruments. The Taskforce should assess the ICSD route to legal certainty alongside the template documentation approach, engaging ClearToken CSD as well as the incumbent ICSDs, and consider whether a coordinated programme would accelerate adoption. This assessment should form part of AG1's work programme.

¹⁶ PS 26/7 (4) + IA IF3 Lab (31)

¹⁷ BUIDL (19) + BENJI (20) + FILQ (40)

¹⁸ Champion's report (1) + ICMA (28)

Recommendation 7: Ensure insurance and pension fund constraints are explicitly represented in framework design from the outset

Insurance companies and pension funds are the largest end-investors in UK capital markets and the largest users of bilateral derivatives and securities collateral [CR] ¹⁹. This makes them central to the collateral mobility and OTC derivatives use cases that the Champion report identifies as priorities. They are also the most constrained by regulation: Solvency UK, LDI frameworks, and fiduciary mandates all impose requirements that are not always visible in framework design processes dominated by banks, custodians, and technology providers.

ISITC Europe recommends that the Taskforce establishes a formal mechanism for insurance and pension fund representation in AG3 and in the cross-regulatory coordination process, with a specific mandate to identify where framework design choices have unintended consequences for this investor class. In particular: the PRA prudential framework design should explicitly consider the Solvency UK and LDI implications of tokenised instrument treatment; and the collateral mobility framework should ensure that the collateral management arrangements available from 2028 are accessible to, and operationally viable for, pension fund and insurance company collateral management teams operating within their regulatory frameworks.

Recommendations Matrix

The following matrix maps each recommendation to the relevant Action Groups, dependent firm types, required outputs, responsible parties, and target timings.

Rec.	Recommendation title	Action Group(s)	Firms dependent	Required output	Owner	Timing	Priority
R1	SFR designation as explicit programme objective	AG4 (FMI and cash leg); Orchestration Group	Custodians, investment banks, asset managers, insurers, pension funds. Financial market infrastructures (CSDs, CCPs, payment systems)	ClearToken CSD Gate 2 DSS assessment completed (2026-2027 [AA]); permanent regulatory framework for digital CSDs published by BoE and FCA (Q2 2027 [AA]); iCSD authorisation confirmed (2027-2028 [AA]); Taskforce engagement with Euroclear Bank and Clearstream on extending their existing SFD-designated status to digital instruments, with timeline commitment published.	HMT; BoE; ClearToken CSD (ICSD applicant); other digital FMI providers	Q4 2026 – Q1 2028	High
R2	Coordinated downstream equivalence roadmap	AG3 (collateral and prudential); AG1 (issuance and funds)	Issuers, investment banks, asset managers, insurers, pension funds, broker-dealers	Joint cross-authority working group (Q1 2027); joint roadmap with named owners and target dates (Q2 2027)	Taskforce; FCA; PRA; IA; index providers	Q1 2027	High

¹⁹ ISDA margin survey (33)

Rec.	Recommendation title	Action Group(s)	Firms dependent	Required output	Owner	Timing	Priority
R3	Permanent PRA prudential framework initiated now	AG3 (collateral and prudential standards)	Insurers and pension funds; banks with capital constraints on tokenised instruments	PRA domestic work programme published Q2 2027; final guidance within 12 months of Basel review conclusion	PRA; Basel Committee	Q2 2027	High
R4	Digital CSD regulatory framework is designed to support multiple authorised providers	AG4 (FMI and cash leg)	All digital market participants; technology and digital FMI providers and ClearToken CSD.	BoE commitment to permanent digital CSD authorisation framework with explicit provision for multiple authorised providers; named measurable criteria	BoE	Q1 2028	High
R5	UK fund tokenisation and market development roadmap	AG1 (primary issuance and funds); IA IF3 Lab	Asset managers, wealth managers, fund administrators, transfer agents	UK fund tokenisation roadmap: DSS timeline, interoperability standards, on-chain collateral eligibility, competitive assessment vs US products	AG1; IA IF3 Lab	Q2 2027	High
R6	Legal certainty programme for smart contract templates	AG1 (primary issuance and funds); AG2 (secondary markets)	Corporate and financial institution issuers; investment banks; legal community	Standard legal documentation framework for smart contract bonds, published and freely available for adoption	AG1; AG2; ICMA; legal working group	Q3 2027	High
R7	Insurance and pension fund representation in framework design	AG3 (collateral and prudential standards); cross-regulatory coordination process	Insurance companies and pension funds; their custodians and prime brokers	Formal insurance and pension fund representation mechanism in AG3; explicit Solvency UK and LDI analysis in PRA framework design	Taskforce; AG3; PRA; FCA	Q1 2027	High

ISITC Europe notes that all seven recommendations are rated High priority. The first three are prerequisites for mainstream institutional participation and are on the critical path alongside RT2 synchronisation. Recommendations 4 through 7 are important programme enablers that need to be initiated now to be ready when the infrastructure goes live in 2028. ISITC Europe would welcome engagement with the Champion's Taskforce on any of these recommendations and stands ready to contribute to the working groups and coordination processes described above.

Executive Summary

Evidential markers are used throughout this paper: **[CR]** = confirmed policy or regulatory position or standard market practice; **[PT]** = announced programme target; **[AA]** = authors' analysis; **[SD]** = scenario or dependency. Full definitions are in the Response Approach section.

Introduction: Why This Analysis?

The UK's programme to develop digital financial markets infrastructure is advancing rapidly. However, because the programme spans multiple regulatory workstreams moving simultaneously, it is difficult for firms to isolate and understand the activities that relate specifically to realising the opportunities and managing the threats brought by tokenised securities.

This paper focuses on institutional financial markets with securities issued and settled with statutory finality through shared digital infrastructure. This will give retail and institutional investors certainty of ownership, enable efficient collateral mobility, and create the conditions for liquid markets in instrument classes that lack them today. Where instruments are admitted to a recognised regulated market, they become eligible for UCITS portfolios and index inclusion, enabling mainstream institutional distribution.

The questions this paper seeks to answer are:

Why are we doing this?	The case for digital markets
What might the world look like?	The end state for market participants, new products, scope and limits of the UK opportunity
What needs to happen and where are we?	Legal recognition, Listing and market infrastructure, RT2 synchronisation (cash leg), SFR designation (securities leg), Custody framework, Prudential framework, DLT performance
What does it mean for different types of market participants?	Issuers, Asset managers, Wealth managers, Investment banks (DCM and ECM), Broker dealers and IDBs, Custodians and PBs, Fund administrators, Insurance companies and pension funds, Platform and admin providers, Transfer agents

This paper is not about:

- **Crypto and Bitcoin:** Bitcoin, Ethereum, and similar cryptocurrencies are a distinct asset class that this paper does not address. Crypto ETFs are conventional fund vehicles providing exposure to those assets; they are not themselves a new asset class. However, there are some lessons to be learnt from those markets, particularly in post trade processing and the increased demand for 24/7 markets.
- **Stablecoins:** The paper does not cover stablecoins as part of the UK digital securities settlement programme. ISITC Europe recognises that the Champion's wider model explicitly contemplates a multi-money, multi-currency ecosystem but this is outside this paper's core critical path, which is that RT2 central bank money and existing commercial bank money systems provide the cash leg without requiring a stablecoin. Stablecoins become relevant in two scenarios outside this paper's scope: settlement outside RT2 operating windows, and cross-border corridors where neither central bank money nor an existing designated commercial bank money system is available. The Bank of England published its sterling-denominated systemic stablecoins policy statement in June 2026, confirming the

Banking Act 2009 pathway for recognition [CR] ²⁰. This is relevant context for future development but does not affect the core programme timeline described in this paper.

It is also important to note that:

- **This is not a digital big bang:** The 1986 Big Bang was a deregulatory event. It removed rules, and its benefits were felt within months. What this paper describes is the opposite: the construction of an entirely new legal and regulatory infrastructure for digital markets. Settlement finality frameworks, legal recognition of digital assets, custody rules, and prudential treatment all need to be built. That takes years, not months, and the timelines in this paper reflect that reality.
- **Digital markets are not a substitute for T+1 readiness but will help preparation for 24/7 markets:** The digital transition will introduce new settlement locations and new processes for a growing class of instruments. However, it will not replace or simplify existing settlement infrastructure for the foreseeable future. It will add to it. The operations, controls, and automation that firms need for today's T+1 environment are the same operations, controls, and automation they will need to manage the parallel infrastructure of the digital transition. There is no silver bullet coming. For firms in the second group described below, those for whom digital markets arrives as a new market through their intermediaries, the operational foundation needed for T+1 is the same foundation needed to process digital instruments efficiently when they arrive. The investment case for operational improvement is stronger than ever, and the window for making it before the digital transition adds further complexity is narrowing.

A note on terminology: this paper uses 'DLT' (Distributed Ledger Technology) as a broad term for digital ledger infrastructure. The systems relevant to the UK programme as described in this paper are permissioned rather than genuinely distributed. Access and validation are controlled by identified regulated entities, not open to all. The ledger is shared in the sense that participants see their own positions in real time, but it is not public or permissionless. This is a deliberate design choice: permissioned systems can meet the governance, finality, and operational resilience requirements of regulated market infrastructure in ways that public blockchains currently cannot. The Wholesale Digital Markets Champion's report notes that the UK should remain open to the competitive benefits of permissionless networks in the medium term and that the distinction between permissioned and public blockchains will become less binary as risk management layers develop. This paper agrees with that direction while focusing on what meets the current SFR designation requirements for the 2028 programme. One exception applies to fund tokenisation. The tokenised fund products described in Part 1, including Franklin Templeton BENJI, Baillie Gifford BAGEY, and BlackRock BUIDL, operate on public blockchains [CR] ²¹. This is consistent with the analysis in this paper because fund unit transfers settle through conventional payment systems rather than through RT2 synchronisation, and fund register maintenance does not require SFR designation. Public blockchains are therefore acceptable for this specific use case even where they would not meet the requirements for the designated settlement infrastructure described elsewhere in this paper.

A note on tax: tax treatment of tokenised instruments is a live and unresolved question that this paper does not address. The Wholesale Digital Markets Champion's report identifies this as a priority through Action Group 5, and firms should monitor developments there.

²⁰ BoE stablecoins (11)

²¹ BAGEY (18), BUIDL (19), BENJI (20)

Key Themes Covered in This Paper

Three conclusions that shape how firms should respond:

- First, trading does not change. For instruments admitted to conventional exchanges, brokers, order books, FIX protocol, and algorithmic trading are unchanged. The change is entirely in the post-trade layer. However, for new instrument classes that have not previously traded on conventional exchanges (tokenised private credit, infrastructure debt, real assets), new trading venues may emerge rather than simply extending existing ones [CR] ²². The success of crypto exchanges in attracting liquidity to entirely new asset classes demonstrates that vertically integrated platforms combining issuance, trading, and settlement can establish themselves where conventional market structure does not exist. This paper proceeds on the assumption that the near-term opportunity is in asset classes already traded conventionally, bonds and structured products, where existing trading infrastructure is unchanged. For genuinely new asset classes, the trading infrastructure question remains open.
- Second, for most firms this is a new market question, not a technology question. Custodians, prime brokers, investment banks, fund administrators, and digital FMI providers must engage with the technology directly, but for everyone else the DLT technology is managed by their intermediaries and will arrive as a new instrument type through existing relationships.
- Third, and regardless of the first two, every firm needs a formal digital markets programme now. The technology investment decision varies by firm type and timeline. The programme and governance decision does not. A governed, cross-functional programme with board visibility, the right people around the table, and a reporting line upward is needed, not a watching brief or horizon-scanning exercise. Part 4 of this paper sets out what the programme looks like for each firm type.

The opportunities are real and the timeline is set	The Bank of England has committed to a live RT2 synchronisation service for tokenised securities settlement targeted for 2028 [PT] ²³ . This is not a vision; it is a delivery commitment with 18 organisations already in the Synchronisation Lab [CR] ²⁴ . For the first time, the path from the current state to institutional digital financial markets has a confirmed first milestone.
Capital markets exist to serve issuers and investors	Digital infrastructure matters because it makes capital markets work better for issuers and end investors. For issuers: lower issuance costs, automated lifecycle management, access to a broader international investor base. For end investors: access to previously illiquid asset classes, faster settlement and improved income certainty. Fractionalisation enables access to asset classes previously unavailable at retail or smaller institutional scale (private credit, infrastructure debt, real assets). For both: more transparent, more efficient markets with fewer operational failures.
The UK is well placed to participate early in international digital securities markets	The opportunity is most accessible in international corporate and financial institution bonds, where issuers and investors have a sixty-year track record of comfort with offshore registration and English law governance and the digital transition preserves rather than transforms London's existing role. For domestic UK securities (gilts, equities, sterling corporate bonds), CREST will adopt DLT technology on the DTCC model: the register stays domestic and regulated, the technology modernises. Foreign sovereign debt and equities will remain in their national registries. The opportunity is real, but its scope is more precisely defined than the headline digital markets narrative often implies.

²² NYSE (53)

²³ FCA/BoE Call for Input (2)

²⁴ BoE Synch Lab announcement (3)

Multi-currency is available from the start	Sterling settles in RT2 central bank money from 2028 [PT] ²⁵. The securities leg requires statutory finality, provided by CSD/ICSD authorisation, which carries SFR designation as an inherent part of its status. ClearToken CSD Limited is pursuing ICSD authorisation through the Digital Securities Sandbox [PT] ²⁶, the primary active route in the UK. ClearToken's ICSD goal is directly relevant to multi-currency availability: an English law ICSD holding digital instruments across multiple currencies provides multi-currency statutory settlement finality through its own CSD designation, exactly as Euroclear Bank provides today for conventional international bonds [AA]. For dollar and euro-denominated instruments, the commercial bank money model that has operated the Eurobond market for sixty years applies and no new cash settlement infrastructure is required [AA].
The advantages are not marginal — but are precisely scoped	DLT enables five structural improvements unavailable with current technology: (1) securities collateral mobility across a shared ledger network; (2) repo, enabling atomic intraday repo and dramatically increasing the velocity at which collateral can be deployed and redeployed throughout the trading day; (3) smart contract elimination of the corporate action intermediary chain; (4) the DAML model for securities lending that eliminates manufactured dividends; and (5) uncleared OTC derivatives lifecycle management through DAML smart contracts, eliminating the confirmation and reconciliation burden of bilateral derivatives documentation. The Champion's report identifies repo and OTC derivatives as priority use cases for exactly this reason [CRI] ²⁷. Other claimed benefits (faster reconciliation, improved operational resilience, better position transparency) are largely achievable with existing technology through better process design and T+1 investment [AA].
Trading does not change; settlement does [AA]	For instruments admitted to conventional exchanges, brokers, exchanges, market makers, and algorithmic trading infrastructure are unchanged. The change begins once a trade is executed, in the netting, settlement, custody, and asset servicing and post trade infrastructure layers. More frequent net settlement cycles, potentially multiple times daily, are possible with process redesign. For natively digital instruments, what changes is the technology underneath and the direct synchronisation between the DLT asset ledger and RT2. For new instrument classes that have not previously traded on conventional exchanges (tokenised private credit, infrastructure debt, real assets), new trading venues may emerge rather than simply extending existing ones. The success of crypto exchanges in attracting liquidity to entirely new asset classes demonstrates that vertically integrated platforms combining issuance, trading, and settlement can establish themselves where conventional market structure does not exist. This paper proceeds on the assumption that the near-term opportunity is in asset classes already traded conventionally, bonds and structured products, where existing trading infrastructure is unchanged. For genuinely new asset classes, the trading infrastructure question remains open.
For most firms, digital markets is a new market question, not a technology question [AA]	Two groups of firms face quite different challenges. Custodians, prime brokers, investment banks, fund administrators, platform providers, and digital FMI providers must engage with the technology directly, building DLT connectivity, managing digital keys, and routing digital instruments through their systems. For everyone else (asset managers, insurers, pension funds, wealth managers, broker-dealers, and end investors), digital markets will arrive as a new instrument type in their existing systems, delivered through their existing custodian, infrastructure and broker relationships. Their question is not whether to invest in DLT, but when their providers will offer digital instruments and when the regulatory framework will allow them to hold them.

²⁵ FCA/BoE Call for Input (2)

²⁶ ClearToken (14)

²⁷ Champion's report (1)

Every firm needs a formal programme now [AA]	Digital markets is a standing board agenda item, not a horizon-scanning exercise. For firms with significant cross-border collateral management, OTC derivatives books, or custody operations across multiple time zones, extended-hours and ultimately continuous market operation is a related but distinct agenda item that has its own commercial drivers and its own dependencies. The demand for 24/7 collateral mobility is real now, independently of the 2028 RT2 programme. Some firms may choose to treat digital markets and 24/7 market operation as a single programme item; others may separate them. Either approach is valid, but boards should be aware that the 24/7 question is not the same as the digital markets question and will not be resolved by the same timeline. Every firm, regardless of where it sits on the technology timeline, should establish a cross-functional digital markets programme now, modelled on how firms managed MiFID II, T+1, or EMIR. The steering group should include front office, technology, operations, product, legal, compliance, and supplier management. The programme covers four workstreams: regulatory and market monitoring; technology and infrastructure assessment; product and commercial planning; and client and board communication. The intensity varies: firms actively building infrastructure now are running a more resource-intensive programme than firms in the planning phase but the governance structure and workstreams are the same for everyone.
Triggers and approaches by firm type	The digital markets transition involves two parallel workstreams that most firms need to manage separately. The first is a technology and infrastructure programme: building or connecting to DLT infrastructure, digital custody, and settlement connectivity. The second is a business readiness programme covering product development, client communication, competitive positioning, and board governance. Seven types of firm face active technology decisions now and should be investing in infrastructure: investment banks (DIGIT pilot [PT] ²⁸), custodians (infrastructure lead times), fund administrators (same infrastructure lead time as custodians), platform and administration providers, transfer agents (fund tokenisation is underway now via PS 26/7 [CR] ²⁹ and DSS [PT] ³⁰), issuers considering early-mover advantage, and digital FMI providers (ClearToken and others participating in the BoE Synchronisation Lab). Other firm types (asset managers, insurers, pension funds, wealth managers, broker-dealers) are in the planning phase on technology but should have their programme established and running now. The BoE's Q1/Q2 2027 publication of synchronisation design requirements [PT] ³¹ is the event that makes the 2028 live service plannable and should be defined in the programme's terms of reference as the trigger to escalate from planning phase to active technology investment. The Wholesale Digital Markets Champion's Taskforce and its nine Action Groups will produce outputs over the next twelve months, including the end-to-end repo use case trial (target spring 2027) [PT] ³², interoperability standards, and legal and regulatory best practice guides, that will inform both workstreams. Monitoring the Taskforce's progress at theglobalcity.uk/digital-markets-champion is a standing item for every firm's programme.

²⁸ Champion's report (1)

²⁹ FCA. Policy Statement PS 26/7(4)

³⁰ DSS dashboard source (47)

³¹ FCA/BoE Call for Input (2)

³² Champion's report (1)

Key Dates, Dependencies, and Suggested Approaches

Note on timeline basis: The trigger events and timelines shown in this section are based on ClearToken CSD Limited achieving ICSD authorisation. This is the primary active route to statutory settlement finality on the securities leg in the UK. The 2028 timeline reflects DSS Gate 2 assessment in 2026-2027, the BoE and FCA publishing the permanent regulatory framework for digital CSDs in 2027, and ICSD authorisation confirmed in 2027-2028. This is the single most important variable in the programme timeline: firms should treat monitoring ClearToken CSD's Gate 2 DSS progress as a standing item in their digital markets programme. If the incumbent ICSDs (Euroclear Bank or Clearstream) choose to extend their existing SFD-designated status to digital instruments, trigger events for instruments settled through those ICSDs may occur independently of ClearToken's timeline. Neither incumbent ICSD has committed to a public timeline for doing so. This paper will be updated as the regulatory position develops [AA].

The following charts and table translate the framework above into suggested timelines and dependencies by firm type.

Note:

- All timelines assume statutory settlement finality on both legs: RT2 for the cash leg (2028 confirmed) [PT] ³³ and ClearToken CSD ICSD authorisation for the securities leg (target Q4 2027/Q1 2028) [AA]. The only participants who can operate meaningfully without full SFR designation are those in the collateral, repo, money market, and uncleared OTC derivatives space: large sophisticated bilateral counterparties operating within GMRA documentation (for repo and collateral) and ISDA master agreements with Credit Support Annexes (for derivatives margin) who can accept contractual finality [AA]. These use cases do not require RT2 synchronisation or central bank money. Commercial bank money through existing correspondent banking arrangements is sufficient for the cash leg [CR] ³⁴.
- The timelines shown reflect bond and fixed income instruments, where the regulatory framework and infrastructure are most advanced. Digital equity issuance follows later, dependent on CREST completing its own digital transition, adopting DLT technology while remaining the regulated authoritative register, as DTCC is doing in the US [AA]. The timeline for this is not yet confirmed but is unlikely before 2030. This paper proceeds on the assumption that domestic equities will remain in national registries, consistent with how countries have responded to previous attempts at cross-border CSD consolidation [AA]. The DEMAT Taskforce report of July 2026, recommending 4 January 2028 [PT] ³⁵ as the date from which paper share certificates cease to be legal proof of ownership, confirms that UK equity digitisation is proceeding within the existing CREST/intermediated model rather than on commercial DLT platforms [PT] ³⁶. If the regulatory framework evolves to allow digital equity issuance outside national CSD infrastructure, the timeline could be earlier [AA].
- Fund tokenisation operates on a separate and earlier timeline. FCA PS 26/7 came into effect in April 2026 [CR] ³⁷, enabling fund registers to be maintained on DLT and direct-to-fund dealing models now. Fund unit transfers settle through existing payment systems: RT2 synchronisation and SFR designation are not required [AA]. The timelines shown in the charts below for asset managers and wealth managers reflect the portfolio holdings and digital securities workstream. The fund product workstream for these firms is active now and does not depend on the 2028 infrastructure being in place [AA].

³³ FCA/BoE Call for Input (2)

³⁴ Euroclear (48) + Clearstream (49)

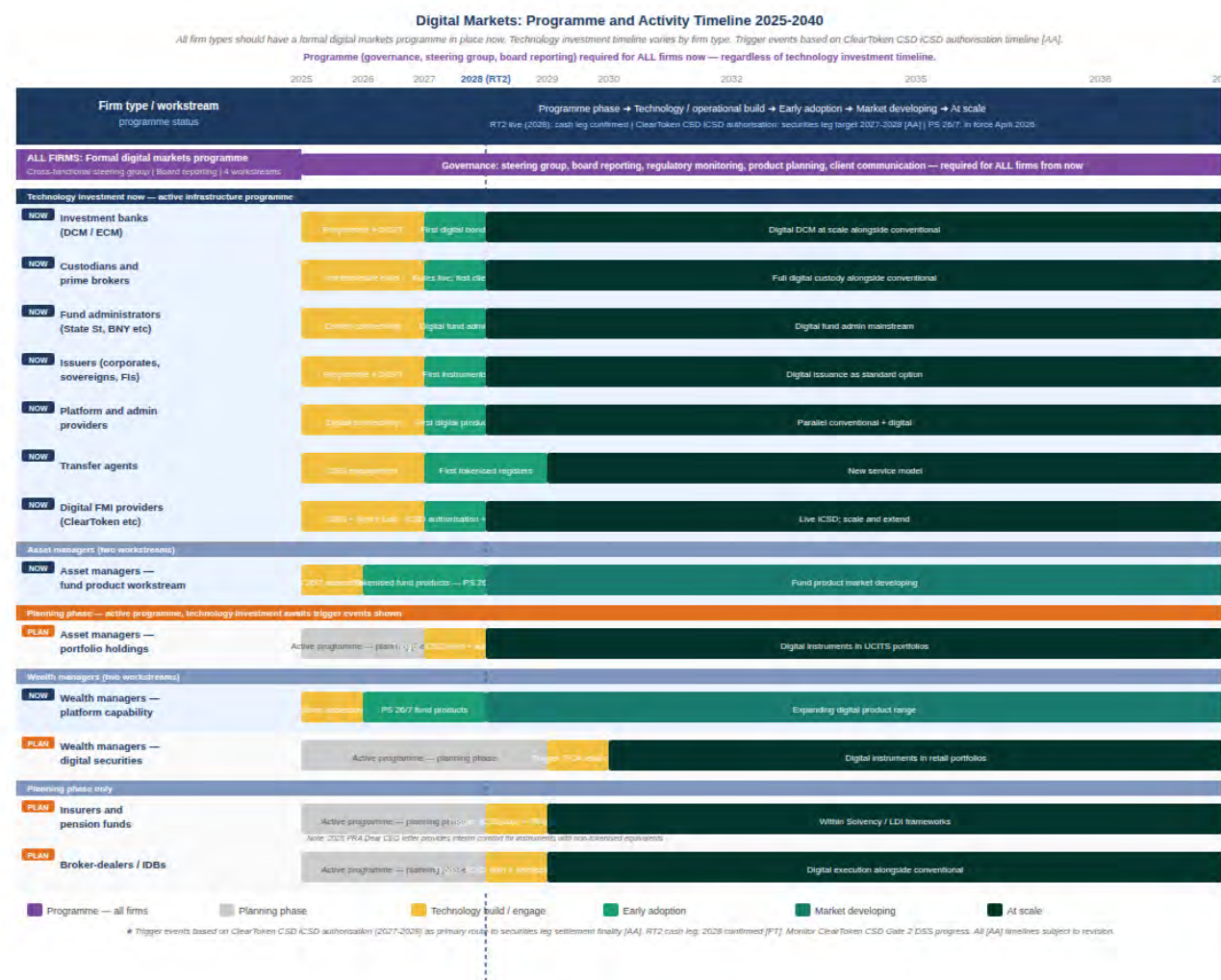
³⁵ DEMAT Taskforce (12)

³⁶ DEMAT Taskforce (12)

³⁷ PS 26/7 (4)

The chart below shows the programme and technology timeline for all firm types. The purple row applies to every firm.

Programme and activity timeline 2025-2040



Note on financial market infrastructures: existing FMIs, including Euroclear UK (CREST), LCH, and other CCPs, are not shown separately in this chart as their digital transition programmes are in early stages and timelines are not yet confirmed. CREST is expected to adopt DLT technology within its existing regulatory framework (on the DTCC model), and LCH and other CCPs will need to extend their clearing capability to digital instruments as market volumes develop. These transitions are material to the programme, and their timelines will be addressed in future editions of this paper.

Timeline based on ClearToken CSD achieving ICSD authorisation (2027-2028) as the primary route to statutory settlement finality on the securities leg. RT2 cash leg: 2028 confirmed. All timelines are authors' analysis [AA] except where marked [PT]. Monitor ClearToken CSD Gate 2 DSS progress as the primary near-term tracking item.

Dependencies by firm type

Firm Type	Requirement / dependency
Investment (DCM/ECM) banks	Statutory settlement finality on both legs. FCA admissions framework in force (October 2027) [CR] ³⁸ . RT2 synchronisation design and assurance requirements (BoE Q1/Q2 2027) [PT] ³⁹ . Note: UK RIE admission is required for UCITS-eligible mainstream distribution. Eurobond-style digital bond issuance to sophisticated institutional counterparties can proceed before this. Bespoke digital bond issuance to sophisticated counterparties and uncleared OTC derivatives lifecycle management on DAML available now within existing frameworks. Mainstream UCITS-eligible digital bond issuance likely from 2028.
Custodians and prime brokers	Statutory settlement finality on both legs. FCA CP25/40 custody rules (2027) [PT] ⁴⁰ . RT2 synchronisation design and assurance requirements (BoE Q1/Q2 2027) [PT] ⁴¹ . Collateral and margin management for uncleared OTC derivatives is a significant new service opportunity as derivative positions and collateral converge on the same ledger network. The infrastructure lead time is two to three years. Firms that wait for the full framework before starting will not be ready when it arrives.
Fund administrators (State Street, BNY Mellon, Northern Trust, HSBC, etc)	Statutory settlement finality on both legs. FCA CP25/40 custody rules (fund assets held on DLT). FCA PS 26/7 (fund unit tokenisation infrastructure) [CR] ⁴² . RT2 synchronisation design requirements (BoE Q1/Q2 2027) [PT] ⁴³ for digital securities held in funds. Canton network connectivity for tokenised unit collateral infrastructure. The infrastructure lead time is two to three years [CR] ⁴⁴ : the same argument as custodians applies. Near-term: monitor whether institutional investors are shifting cash management to US tokenised money market fund products (BUIDL model) [CR] ⁴⁵ before equivalent UK products exist.
Issuers (corporates, sovereigns, financial institutions)	Statutory settlement finality on both legs. Admission to a recognised regulated market, either through the FCA admissions framework for UK RIE admission [CR] ⁴⁶ , or through other recognised exchanges (e.g. Luxembourg) for international bond issuance. For early issuance to sophisticated bilateral counterparties, neither is required. Without finality, digital instruments cannot be held by the mainstream institutional investor base.
Sovereign issuers (gilts / DIGIT)	DIGIT pilot establishing the legal and technical template for digital gilt issuance: no later than Q1 2027 (Champion's report target) [PT] ⁴⁷ . HMT/DMO programme decisions on digital gilt issuance scale and timeline. Statutory settlement finality on both legs.
Platform administration and providers	Fund tokenisation: FCA PS 26/7 and CP25/40 custody rules [CR] ⁴⁸ (settlement finality not required as fund units settle through existing payment systems). Digital securities distribution to clients: statutory settlement finality on both legs, FCA admissions framework, and UCITS eligibility confirmed. Both: RT2 synchronisation design and assurance requirements (BoE Q1/Q2 2027) [PT] ⁴⁹ .

³⁸ FCA CP25/41 (7)

³⁹ FCA/BoE Call for Input (2)

⁴⁰ FCA CP25/40 (6)

⁴¹ FCA/BoE Call for Input (2)

⁴² PS 26/7 (4)

⁴³ FCA/BoE Call for Input (2)

⁴⁴ Fund admin digital programmes (50)

⁴⁵ Blackrock BUIDL (19)

⁴⁶ FCA CP25/41 (7)

⁴⁷ Champion's report (1)

⁴⁸ PS 26/7 (4) + CP25/40 (6)

⁴⁹ FCA/BoE Call for Input (2)

Firm Type	Requirement / dependency
Transfer agents	Digital fund registers: FCA PS 26/7 and first DSS tokenised fund unit live [CR] ⁵⁰ . Finality is not required as fund unit transfers settle through existing payment systems. Securities register services: statutory settlement finality on both legs, SFR designation, BoE synchronisation design requirements (Q1/Q2 2027). The Equiniti/Bullish acquisition illustrates how transfer agents are already repositioning toward digital infrastructure [CR] ⁵¹ .
Technology providers / Digital FMI providers – ClearToken and equivalents	RT2 synchronisation delivers the cash leg (2028 confirmed) [PT] ⁵² . Securities leg finality is provided by ClearToken CSD's ICSD authorisation, which carries SFR designation as an inherent part of its status. ClearToken CSD is the primary active candidate in the UK (target 2027-2028 [AA]). The functioning of the open institutional DvP market depends on this being delivered. Firms in this category should engage directly with the Bank of England Synchronisation Lab.
Asset managers (UCITS / AIF)	Two workstreams with different dependencies. Fund product workstream (active now). FCA PS 26/7 in force: firms can maintain fund registers on DLT and offer direct-to-fund dealing now [CR] ⁵³ . No RT2 synchronisation or SFR designation required as fund units settle through existing payment systems. Engage with fund administrator and transfer agent on PS 26/7 capability; monitor competitor product launches; assess whether to launch tokenised share classes. Engage with AG1 (primary issuance and funds) and the IA IF3 Lab. Portfolio holdings workstream (planning phase): statutory settlement finality on both legs (RT2 cash leg 2028, SFR designation for securities leg) [PT] ⁵⁴ ; admission of tokenised instruments to a recognised regulated market confirming UCITS eligibility; PRA prudential guidance. Fiduciary mandates require statutory finality: contractual finality alone is not sufficient for UCITS and AIF mandates [CR] ⁵⁵ . Near-term: monitor whether institutional cash allocation is shifting to US tokenised money market fund products for on-chain collateral [CR] ⁵⁶ . This affects sterling liquidity fund AUM regardless of UK digital market timelines.
Insurers and pension funds	Statutory settlement finality on both legs. PRA prudential guidance on capital treatment (not yet started, earliest 2029-2030). Solvency UK / LDI eligibility confirmed. Without PRA guidance, tokenised instruments risk adverse capital treatment. Engage with the FCA's cross-regulatory coordination process to ensure insurance and pension fund constraints are represented in framework design. Note: the 2026 PRA Dear CEO letter confirms interim treatment. [CR] ⁵⁷ . Tokenised assets receive the same prudential treatment as non-tokenised equivalents where legal rights are identical and underlying risks are comparable. This provides interim comfort but does not resolve the permanent framework.
Wealth managers	Two workstreams with different dependencies. Platform capability for tokenised fund products (active now): FCA PS 26/7 is in force, clients can in principle access tokenised fund products now if the platform supports them [CR] ⁵⁸ . No RT2 synchronisation or SFR designation is required. Assess platform and custody infrastructure capability to support PS 26/7 products; engage custodians and platform providers on their timeline; begin client education now as demand is arriving well before the regulatory framework for direct retail access to tokenised instruments is in place. Engage with AG1 (primary issuance and funds) Taskforce outputs and the IA IF3 Lab. Digital securities distribution workstream (planning phase): statutory settlement finality on both legs; FCA rules on the categorisation, promotion, and direct retail distribution of tokenised instruments confirmed [AA] ; UCITS eligibility established. Without finality, platforms cannot offer digital instruments directly to retail clients within regulated wrappers. FCA rules on direct retail distribution of tokenised instruments are unlikely before 2029-2031, but PS 26/7 tokenised fund product access does not require this and is available now.

⁵⁰ PS 26/7 (4) + DSS Dashboard (47)

⁵¹ Equiniti / Bullish (45)

⁵² FCA/BoE Call for Input (2)

⁵³ PS 26/7 (4)

⁵⁴ FCA/BoE Call for Input (2)

⁵⁵ UCITS Sourcebook (38)

⁵⁶ Blackrock BUIDL (19)

⁵⁷ PRA Dear CEO (10)

⁵⁸ PS 26/7 (4)

Firm Type	Requirement / dependency
Broker-dealers / IDBs	Statutory settlement finality on both legs. First tokenised instrument admitted to a UK RIE [AA]. Without finality, clearing through a CCP is not possible and the market cannot develop beyond bilateral trades between sophisticated counterparties.

Conclusion

The digital transition in UK financial markets is real, confirmed, and closer than many firms appreciate. The 2028 RT2 live service is a fixed point around which planning can begin but RT2 alone delivers only part of the picture.

The open institutional DvP market, accessible to UCITS funds, pension funds, and insurers, requires statutory settlement finality on the securities leg. This is achievable through CSD/ICSD authorisation, which carries SFR designation as an inherent part of its status. ClearToken CSD Limited is the primary active candidate in the UK, pursuing ICSD authorisation through the Digital Securities Sandbox. When achieved, instruments held in ClearToken CSD will have statutory settlement finality as a consequence of that authorisation. Monitoring ClearToken CSD's Gate 2 DSS progress is the single most important variable in the programme's timeline [AA].

What is settlement finality and why does it matter?	Settlement finality means that a transfer of securities or cash is legally irrevocable. It cannot be unwound, even if one of the parties subsequently becomes insolvent. Without statutory settlement finality, a liquidator could challenge a completed transaction and claw back assets already transferred. For institutional investors operating under fiduciary mandates (UCITS funds, pension funds, insurance companies) statutory finality is not optional: it is the legal foundation that makes a settled transaction actually settled. Contractual finality (where the parties agree by contract that a transaction is final) is not sufficient for these investors. In the UK, statutory finality for payment systems is provided by the Settlement Finality Regulations (SFR). The programme described in this paper requires statutory finality on two legs: the cash leg through RT2 central bank money (confirmed 2028 target) and the securities leg through SFR designation provided by ICSD authorisation and the SFR designation that flows from it (target Q4 2027/Q1 2028, authors' analysis).
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For firms that need to build infrastructure, the lead times mean that starting now, before the full regulatory framework is published, is not premature, it is necessary.

For firms whose programme is currently in the planning phase on the portfolio holdings and digital securities workstream, the Q1/Q2 2027 publication of the BoE's synchronisation design requirements is the event that makes the 2028 live service plannable and should be defined in the programme's terms of reference as the trigger to escalate from planning to active technology investment. For asset managers and wealth managers on the fund product workstream, the trigger has already fired: PS 26/7 is live, competitor products are arriving in 2026-2027, and the programme should be active now on that workstream regardless of where the firm sits on the broader digital securities timeline.

The rest of this paper provides the detail behind these conclusions, and Part 4 sets out what the digital markets programme looks like for each firm type.

Glossary and Acronyms

This glossary covers the main terms and acronyms used in this paper. Where a term has a specific technical meaning in the context of UK financial market regulation, that meaning is given.

Term / Acronym	Definition
AIF / AIFM	Alternative Investment Fund / Alternative Investment Fund Manager. AIFs are funds not structured as UCITS, including hedge funds, private equity funds, and real estate funds. AIFMs are regulated under the UK AIFMD framework.
AML	Anti-Money Laundering. The regulatory framework requiring financial institutions to detect and report suspicious activity that may constitute money laundering.
BUIDL	BlackRock USD Institutional Digital Liquidity Fund. A tokenised money market fund issued as ERC-20 tokens on Ethereum, launched by BlackRock in 2024. Used as a reference example of tokenised fund units as on-chain collateral.
Canton	Canton Network. The permissioned distributed ledger platform that runs DAML smart contracts. Used by JPMorgan Kinexys, Goldman Sachs GS DAP, DTCC, ClearToken, and others. Co-chaired by Euroclear.
CASS	Client Assets Sourcebook. The FCA rulebook governing how firms hold client money and assets. CP25/40 proposes extending CASS to digital asset custody.
CCP	Central Counterparty. A financial market infrastructure that interposes itself between the two sides of a transaction, becoming the buyer to every seller and the seller to every buyer, thereby reducing counterparty risk. Examples: LCH, ICE Clear Europe, ClearToken CT Clear (in development).
CHAPS	Clearing House Automated Payment System. The UK's high-value sterling payment system, processing £93.9 trillion in 2025. Operated by the Bank of England.
CP25/40	FCA Consultation Paper 25/40: Cryptoassets: Custody of Client Assets (December 2025). Proposes the custody regulatory framework for digital assets.
CP25/41	FCA Consultation Paper 25/41: Admissions and disclosures regime for cryptoassets (December 2025). The framework for admitting tokenised instruments to UK recognised investment exchanges. Regime in force October 2027.
CREST	The UK central securities depository for gilts and equities, operated by Euroclear UK & International under Bank of England supervision. The authoritative register for UK domestic securities.
CSD	Central Securities Depository. The entity that maintains the authoritative register of securities ownership and processes settlement. UK: CREST. International: Euroclear Bank, Clearstream. US: DTC.
DAML	Digital Asset Modelling Language. A smart contract programming language created by Digital Asset, designed specifically for financial contracts. Used to encode instrument terms, lifecycle events, and holding transfers.
DIGIT	Digital Gilt Instrument. HM Treasury's programme to pilot the issuance of a UK sovereign bond natively on a DLT ledger. Target issuance no later than Q1 2027 (Champion's report).
DLT	Distributed Ledger Technology. Umbrella term for digital ledger infrastructure including blockchains and related systems. In this paper, refers specifically to permissioned ledger systems operated by identified regulated entities.
DMO	Debt Management Office. The UK Government agency responsible for managing the national debt, including gilt issuance. An executive agency of HM Treasury. The DMO would be the issuer of digital gilts under DIGIT.
DSS	Digital Securities Sandbox. A joint Bank of England/FCA initiative enabling firms to test and adopt DLT for digital securities in a controlled live setting. 16 firms currently participating. Gate 2 (go-live) is the next milestone. ClearToken CSD Limited passed Gate 1 in December 2024 and is

Term / Acronym	Definition
	progressing its Gate 2 application to operate as a Digital Securities Depository (DSD), with the ultimate goal of ICSD authorisation. DSS authorisation provides a modified form of settlement finality protection within the sandbox environment, distinct from but preparatory to full SFR designation.
DTC / DTCC	Depository Trust Company / Depository Trust & Clearing Corporation. The US central securities depository and post-trade infrastructure provider. DTCC is building Canton-based tokenisation capability.
DvP	Delivery versus Payment. The settlement mechanism where the transfer of securities and the transfer of cash are linked so that delivery occurs if and only if payment occurs. CREST already provides DvP today. RT2 synchronisation extends DvP to natively digital instruments.
EMIR	European Market Infrastructure Regulation. The EU regulation governing OTC derivatives, central counterparties, and trade repositories. Retained in UK law as UK EMIR. Requires initial and variation margin for uncleared OTC derivatives.
FCA	Financial Conduct Authority. The UK conduct regulator for financial services firms. Responsible for CP25/40, CP25/41, PS 26/7, and the admissions framework for digital securities.
FMI	Financial Market Infrastructure. Systemically important systems for clearing, settlement, and payment. Examples: CCPs, CSDs, payment systems. Relevant here as the institutions that may need to evolve to support tokenised markets.
Finality / SFPS	Finality International: a consortium-backed initiative operating the Sterling Finality Payment System (SFPS), authorised by the Bank of England as a payment system. SFPS provides tokenised central bank money for wholesale settlement, particularly relevant for settlement outside RT2 operating windows and for cross-border corridors.
FX	Foreign Exchange. Currency trading markets. UK is the largest FX market globally. The Lloyds/Aberdeen/Archax July 2025 transaction used tokenised collateral for FX trades.
GBTD	Great British Tokenised Deposit. A private sector-led platform enabling different banks' tokenised deposits to interact, providing programmable commercial bank money. DSS participant and Synchronisation Lab participant.
GMRA	Global Master Repurchase Agreement. The standard bilateral documentation framework for repo transactions. Sophisticated bilateral counterparties operating under GMRA can accept contractual rather than statutory finality for collateral and repo from 2028.
GMSLA	Global Master Securities Lending Agreement. The standard bilateral documentation framework for securities lending transactions. See also GMRA.
HMT	HM Treasury. His Majesty's Treasury. Responsible for DIGIT, the Wholesale Financial Markets Digital Strategy, and legislative changes needed for digital securities.
IDB	Inter-Dealer Broker. A broker intermediating trades between dealers (banks and other wholesale market makers) rather than with end investors. Examples: TP ICAP, BGC, Tradition.
ICMA	International Capital Market Association. The trade association for the international bond market. Developing the ICMA Digital Bond Data Taxonomy and standards for digital bonds.
ICSD (International Central Securities Depository):	A CSD that holds and settles securities across multiple jurisdictions and currencies, providing settlement finality for internationally issued instruments. Euroclear Bank and Clearstream Banking Luxembourg are the established ICSDs for the Eurobond market. ClearToken CSD Limited is seeking ICSD authorisation under English law specifically for digital securities, which would make it the first new entrant ICSD in the UK digital markets programme.
ISLA	International Securities Lending Association. The trade association for the securities lending market. Working with Digital Asset on the digital securities lending framework.
ISDA CDM	International Swaps and Derivatives Association Common Domain Model. A standardised, machine-readable representation of derivatives trade terms, events, and processes. Enables the DAML smart contract model for uncleared OTC derivatives lifecycle management.

Term / Acronym	Definition
KYC	Know Your Customer. The regulatory requirement to verify the identity of clients before providing financial services. A key challenge in tokenised markets where assets can transfer between on-chain addresses.
LDI	Liability-Driven Investment. An investment strategy used by pension funds to match assets to liabilities, typically involving significant use of gilts and interest rate derivatives. LDI frameworks require statutory finality for the instruments held.
PFMI	Principles for Financial Market Infrastructures. The CPMI-IOSCO standards that apply to systemically important FMIs including CSDs and CCPs. SFR designation requires meeting PFMI requirements, including deterministic finality, sufficient throughput, and five-nines operational availability.
POS	Place of Settlement. The field in trade and settlement instruction systems identifying where a security settles (e.g. CREST, Euroclear Bank). Adding a new digital settlement location to static data is one of the key technical changes for firms participating in digital markets.
PRA	Prudential Regulation Authority. The UK prudential regulator for banks, building societies, and insurers. Responsible for capital treatment of tokenised assets under Solvency UK and UK CRR.
PS 26/7	FCA Policy Statement 26/7: Progressing Fund Tokenisation (April 2026). Rules and guidance enabling authorised funds to maintain their fund register on DLT and offer a direct-to-fund dealing model. In force immediately.
PvP	Payment versus Payment. The settlement mechanism for FX transactions where both payment legs are linked and settle simultaneously. Analogous to DvP for securities. Available from RT2 synchronisation.
RCH	Recognised Clearing House. A designation under FSMA 2000 for UK-based CCPs. ClearToken CT Clear is seeking RCH authorisation.
Repo agreement (repurchase agreement)	A Repo (repurchase agreement) is a short-term borrowing mechanism in which a seller agrees to repurchase securities at a specified price on a specified date.
RIE	Recognised Investment Exchange. A UK-based exchange recognised by the FCA under FSMA 2000 (e.g. London Stock Exchange, ICE Futures Europe). Admission to a UK RIE under the FCA admissions framework (CP25/41) generates the full set of UK downstream regulatory consequences — UCITS eligibility, PRA capital treatment, index inclusion.
RT2	Real-Time Gross Settlement 2. The Bank of England's next-generation RTGS (Real-Time Gross Settlement) system. Goes live 2028. The Synchronisation Lab is testing the connection between DLT asset ledgers and RT2 — the cash leg of digital securities settlement.
RTGS	Real-Time Gross Settlement. The settlement of payment instructions on a transaction-by-transaction basis, continuously throughout the day, using central bank money. RT2 is the UK RTGS system from 2028.
SFD / SFR	Settlement Finality Directive / Settlement Finality Regulations. The EU directive (and its UK retained law equivalent) that provides statutory protection for settlement instructions in designated systems, preventing insolvency clawback. SFR designation is the hard dependency for the open institutional DvP market.
Solvency UK	The UK's insurance capital framework, derived from Solvency II following Brexit. Governs capital requirements for insurance companies including capital treatment of investment assets.
SSI	Standard Settlement Instructions. The pre-agreed instructions for where a counterparty's securities and cash should be delivered. SSI maintenance is an operational function that transfers to the participant registry in a smart contract world, with associated fraud risk considerations.
Synchronisation Lab	Synchronisation Lab: A Bank of England testing environment launched in May 2026 to test the technical mechanism of connecting DLT asset ledgers to RT2 for atomic cash and asset settlement. The Lab is not a regulatory approval process and does not grant settlement finality to participants. Its outputs inform the BoE's design and assurance requirements, which digital CSDs seeking ICSD authorisation must satisfy as part of their authorisation process. Eighteen organisations are participating, including Swift, LSEG, ClearToken, Chainlink, Partior, and Baton Systems. The BoE

Term / Acronym	Definition
	will publish design and assurance requirements based on Lab outputs in Q1/Q2 2027. Firms seeking ICSD or digital CSD authorisation should treat the Lab's published requirements as a key input to their authorisation applications.
UCITS	Undertakings for Collective Investment in Transferable Securities. The EU (and retained UK) regulatory framework for retail investment funds. UCITS funds can only hold transferable securities admitted to a recognised regulated market. UCITS eligibility is a major downstream consequence of UK RIE admission for tokenised instruments.
UK CRR	UK Capital Requirements Regulation. The UK version of the EU Capital Requirements Regulation, governing capital requirements for banks and investment firms. Currently applies potentially 100% risk weight to tokenised assets not on a recognised regulated market.
UMR	Uncleared Margin Rules. Regulations requiring bilateral initial margin for uncleared OTC derivatives above certain thresholds, phased in since 2016. A major driver of collateral demand and the trapped collateral problem.

Part 1: Why Are We Doing This? The Case for Digital Financial Markets

Capital markets exist to connect those who need capital with those who have it. Regulated intermediaries (banks, brokers, custodians, exchanges and post trade infrastructures) exist to make that connection efficient and safe. The question that digital financial markets infrastructure must answer is: does it make the connection and the velocity of deployment of capital better? The answer, in specific and important ways, is yes but the benefits are more specific than much of the commentary on this subject implies. Some improvements are genuinely new and only possible with DLT. Others are improvements that are available today with existing technology and which firms should be pursuing anyway as part of T+1 readiness.

The Cost of the Current Infrastructure

The current post-trade infrastructure that processes securities transactions is built on an architectural model that has become expensive, fragile, and increasingly difficult to change. Every participant in the current market maintains their own copy of the truth. A custodian's books show a client holding 10 million shares. Euroclear CREST, the UK Central Depository, books show the same. The asset manager's own records show the same. The fund administrator shows the same. At the end of every day all of these copies are reconciled against each other. When they disagree, operations teams investigate and resolve the breaks.

Around this core reconciliation burden are layered further costs: failed settlement management; corporate action processing through chains of intermediaries; collateral management across geographically dispersed custodians; and the technology cost of maintaining legacy systems that are expensive to run and expensive to change. A mid-tier bank settling a securities transaction will typically route through a sequence of internal systems (order management, trade capture, settlement instruction, cash management, position-keeping, and reconciliation) alongside connectivity to external infrastructure. Each system maintains its own records, each interface is a potential reconciliation point, and the complexity compounds when cross-border settlement involves multiple CSDs and currencies.

This is the infrastructure cost. The risk cost is harder to quantify but arguably more important. Complex, fragmented systems with multiple reconciliation points are sources of operational risk. Each interface is a potential point of failure, each manual intervention a source of error, and the aggregate complexity creates a cyber-attack surface that is broad and difficult to defend. The significant investment that firms and regulators make in operational resilience is in part a response to this complexity.

What Digital Infrastructure Actually Solves — and What It Does Not

It is important to be precise about what DLT specifically enables and replaces versus what could be achieved with better process design and more investment in existing technology. Both matter but for different reasons. DLT-specific benefits represent a structural shift that existing technology cannot replicate but it does not mean that the services provided by intermediaries will all be replaced. Process improvements represent work that firms should be doing regardless, because they are needed for T+1 readiness and will form the operational foundation for any future digital model.

What DLT enables — structural improvements unavailable with current technology

Securities collateral mobility 24/7. This is the most commercially significant DLT-specific benefit (and it is important to be clear that this means non-cash collateral: government bonds, high-grade corporate bonds, and equities used as margin. Cash collateral is already highly mobile through existing payment systems, although not yet 24/7). The problem is with securities and commodities (e.g. gold), used as collateral, which today sit in specific custody locations (CREST, Euroclear, DTC, local custodians across dozens of markets) and are difficult to move quickly. A UK pension fund's custodian with gilts in CREST, US Treasuries at DTC, and European bonds at Euroclear facing a margin call at 10am needs those assets at a specific CCP by noon. It must identify eligible assets, check haircuts, instruct the relevant sub-custodian, and wait for the conventional

settlement process. Intraday settlement is severely constrained; cross-CSD movement involves multiple instruction chains. The result is trapped collateral: assets sitting where they are not needed while margin calls go unmet by eligible assets that exist but cannot be mobilised in time. A shared ledger changes this fundamentally: a tokenised gilt moves instantly and indivisibly to any counterparty on the same network, at any time, with no intermediary and no settlement window. JPMorgan Kinexys, processing \$350 billion daily in repo, demonstrates this at scale [CR] ⁵⁹. Broadridge's digital repo platform processed \$368 billion in average daily repo transactions in April 2026 [CR] ⁶⁰. An ISSA 2025 survey found an 11.6% reduction in collateral buffering requirements and a 13.4% reduction in settlement failures [CR] ⁶¹ among firms using tokenised collateral infrastructure. For pension funds and insurers, the benefit is delivered by their prime broker, custodian, or fund administrator, who mobilises their collateral on their behalf. The DLT technology is invisible to them. This benefit does not require SFR designation or RT2 synchronisation. It is available to sophisticated bilateral institutional counterparties on existing shared ledger infrastructure now, and at scale as the UK synchronisation infrastructure develops.

Sophisticated bilateral institutional counterparties means firms with the legal documentation infrastructure, internal credit assessment capability, and regulatory permission to accept contractual rather than statutory finality in bilateral arrangements. In practice these are the major banks, prime brokers, and largest institutional investors with sophisticated treasury and collateral management functions operating under GMRA and GMSLA documentation. It does not include UCITS funds, retail-facing wealth managers, or insurers and pension funds acting within Solvency UK or LDI frameworks, all of which require statutory finality.

Repo — increasing the velocity of capital deployment. A Repo (repurchase agreement) is a short-term borrowing mechanism in which a seller agrees to repurchase securities at a specified price on a specified date. For financial institutions, repo is one of the primary mechanisms for funding their securities positions and for deploying excess liquidity against collateral. The velocity of repo – how quickly collateral can be mobilised, used, returned, and reused – determines how efficiently capital can be deployed across a firm's book throughout the day. DLT changes repo mechanics fundamentally. Today, repo requires instruction chains, custodian involvement, and settlement windows that limit the speed and frequency of repo transactions. On a shared ledger, a tokenised gilt can be sold and simultaneously received as collateral for cash in a single atomic operation, with the security returned and cash settled at maturity without manual intervention. The result is faster, cheaper repo with lower operational risk and, crucially, the ability to run intraday repo multiple times against the same collateral, dramatically increasing collateral velocity. JPMorgan Kinexys processes \$350 billion in daily repo on Canton. Broadridge's digital repo platform processed \$368 billion in average daily transactions in April 2026. These are not pilots: they are live institutional infrastructure demonstrating the repo opportunity at scale. The Wholesale Digital Markets Champion has made repo and collateral the central use case for the Taskforce's Orchestration Group, with an end-to-end repo trial targeted for spring 2027.

Corporate action automation. A bond issued natively on a DLT ledger with smart contract lifecycle management encodes coupon payments, redemptions, and other corporate actions as executable code. The smart contract reads the current holder on the ledger at the moment of execution and routes the payment to the registered cash account in the participant registry. This eliminates the current chain of fiscal agent, ICSD, CSD, custodian, and sub-custodian, each of which maintains separate records and each of which is a potential source of error, delay, or misrouting. A conventional CSD database does not contain executable code that processes payments; that requires the separate chain of service providers. The improvement is structural, not marginal. It does require that settlement instructions are correctly registered and maintained in the participant registry: the equivalent of today's SSI maintenance problem, which transfers rather than disappears.

SSI fraud risk: smart contract automation removes the intermediary chain but also removes the intermediary checks that currently provide fraud detection. A coupon payment executes automatically to the registered cash account. If that entry is wrong, through error or fraud, the payment routes to the wrong account, finally and

⁵⁹ Kinexys (15)

⁶⁰ Broadridge (16)

⁶¹ ISSA (17)

immediately. The participant registry requires the same rigorous controls as SSI databases today: strict entitlement management, multi-party authorisation for changes, audit trails, and real-time monitoring. This risk is specific to unilateral smart contract payments (corporate action income such as coupon payments, dividends, and fund distributions) where the contract executes automatically to the registered account without requiring a matching instruction from the recipient. DvP and PvP settlement are significantly less exposed because both legs require matching instructions; a fraudulent SSI change causes a settlement fail rather than a completed fraud.

Securities lending — eliminating manufactured dividends. DAML's contract model can simultaneously record that a borrower holds a token (for settlement purposes) and that the lender retains the economic entitlement (for corporate action purposes). At the record date, the smart contract pays the dividend to the lender's account. No manufactured dividend; no withholding tax complexity. Loan recalls can also be automated: a borrower's return obligation linked to the settlement ledger enables automated recall triggered by the lender's settlement need. As with collateral mobility, the benefit is managed by the securities lending desk at an investment bank or the agent lender at a custodian; the beneficial owner whose securities are lent simply receives better dividend equivalents and fewer failed recalls. ISLA and Digital Asset have been developing the digital securities lending framework on this basis. [CR]⁶²

Uncleared OTC derivatives lifecycle management. Uncleared OTC derivatives (interest rate swaps, credit default swaps, FX options, and equity derivatives traded bilaterally rather than through a CCP) are documented under ISDA master agreements with individual trade confirmations. The lifecycle management is operationally complex: initial and variation margin must be calculated and moved daily under EMIR and UMR; coupon payments, resets, and termination payments must be processed; and the confirmation and reconciliation of trade terms between counterparties is a significant burden. Each counterparty maintains its own records and reconciles them against the other. The bilateral nature means there is no authoritative shared record. A DAML smart contract encoding an interest rate swap has the trade terms agreed once at inception with no separate confirmation process, no bilateral reconciliation of terms because both parties read from the same contract. Lifecycle events execute automatically from the contract. Margin calls can be calculated from the on-chain position and collateral moved instantly and indivisibly on the same ledger. The ISDA Common Domain Model provides the standardised representation of derivative trade terms [CR]⁶³ that makes this possible. This is the structural connection between the derivative use case and the collateral mobility use case: the largest users of uncleared OTC derivatives (major banks, insurance companies, pension funds) are also the largest users of securities collateral for initial margin under EMIR and UMR [CR]⁶⁴. If both the derivative position and the collateral are on the same ledger network, margin calculation and collateral movement can be automated end-to-end. This is the full ecosystem that JPMorgan Kinexys and the other major Canton participants are building toward, and it is why the Wholesale Digital Markets Champion identifies repo and OTC derivatives as two of the three priority use cases for the Taskforce.

Where improvement is possible but not DLT-dependent — strategic investments for today and tomorrow

The following are improvements that digital infrastructure facilitates but which could also be achieved, or substantially achieved, with better process design using existing technology. Firms should be pursuing these improvements regardless, because they are needed for T+1 readiness and will form the operational foundation for any future digital model.

Settlement frequency. More frequent net settlement cycles reduce the window in which position uncertainty exists. This requires changes to netting engine processes and settlement operations but does not require DLT. A new CCP or netting engine built on conventional technology could run continuous net settlement cycles. The ClearToken/Nasdaq partnership for CT Clear is one example where improvements in CCP technology are not dependent on DLT but more reliant on cloud technology to provide greater efficiencies and continuous

⁶² ISLA (27)

⁶³ ISDA CDM (26)

⁶⁴ ISDA margin survey (33)

clearing for digital assets compared to conventional platforms. Firms that invest in better data architecture, automation of settlement instruction generation, and real-time connectivity to CSDs will benefit immediately and will be better placed for any future digital/24/7 model.

Failed settlement management. Most fails occur because stock is not available: the seller has lent it out or is short. Digital infrastructure does not solve these causes. More frequent settlement means fails are identified faster, reducing the period of uncertainty for downstream participants. The knock-on effect of a fail, the chain of dependent settlements that cannot complete, is not reduced by settlement frequency, but earlier identification allows earlier resolution. The automation of settlement instruction generation and improvement of securities lending recall processes are achievable with existing technology and T+1 investment.

Operational resilience and compliance. Operational resilience does not improve materially with DLT. The dependency map for important business services (risk systems, client systems, trading and position systems, etc) remains complex regardless of what the settlement layer does. Adding a DLT settlement layer potentially adds complexity during the transition. Compliance and sanctions screening continues in existing bank and SWIFT infrastructure. The DLT settlement layer does not do transaction-level sanctions screening. The permissioned network membership provides some compliance assurance as only regulated, identified participants can be on the network but does not replace AML and sanctions screening processes.

Reconciliation. CSDs today already maintain an authoritative record. CREST is the authoritative record for UK gilts and equities. The reconciliation burden exists because each participant maintains their own copy in internal systems, and those copies must be reconciled against the CSD and against each other. Most firms currently reconcile against their custodian's view and will continue to do. The end state is not a single ledger. A firm holding UK gilts, international bonds, US equities, and EU securities will have positions across CREST's digital register, Euroclear, DTC, and their respective custodians. Each requires reconciliation. The reconciliation burden changes rather than reduces. The volume of reconciliation events does not fall. More frequent settlement cycles mean more events to reconcile. During the transition period, firms will have to manage reconciliation across both conventional and digital infrastructure simultaneously, which increases rather than reduces the total burden in the near term.

Where claimed benefits do not hold up

24/7 markets. Digital settlement infrastructure has no inherent operating hours, and the Bank of England is consulting on extended RTGS hours. But settlement infrastructure does not create markets. Trading requires liquidity, market makers, and oversight which are all organised around conventional market hours for good reasons. However, the demand for extended hours and ultimately continuous market operation is real and growing, particularly for collateral management. Today, margin calls can arrive during Asian or US market hours when European collateral cannot be mobilised because CREST and conventional settlement systems are closed. A shared ledger with no inherent operating hours addresses this directly: a tokenised gilt can be moved as collateral at any time, without waiting for a settlement window to open. For institutions with significant cross-border derivatives exposures and collateral obligations across multiple time zones, this is a material operational improvement rather than a marginal convenience. The practical constraint is not the technology but the markets themselves: liquidity, market makers, and price discovery are organised around conventional hours and will not shift simply because infrastructure can operate continuously. The near-term benefit is therefore collateral mobility outside conventional hours; the longer-term possibility of genuinely continuous markets depends on liquidity developing to support them.

A note on terminology: "atomic settlement" is used in two distinct ways. In this paper it means that the cash leg and the asset leg of a net settlement finalise simultaneously. Neither can complete without the other. This is DvP, which CREST already provides today. The popular usage of "atomic" to mean one instantaneous settlement per individual trade with no netting is not what this paper describes and would eliminate the netting efficiency that makes current settlement manageable.

Settlement Efficiency — A Note on Continuous Net Settlement

For instruments admitted to conventional exchanges, brokers, exchanges, market makers, and algorithmic trading infrastructure are unchanged. FIX protocol, order books, best execution all stay as today. The change begins once a trade is executed. Today, trades accumulate throughout the day and are netted in a batch at end of day, with net positions settling the following day. More frequent net settlement cycles, potentially multiple times daily, are possible with process redesign whether or not instruments are on a DLT ledger. For natively digital instruments settling through RT2 synchronisation, the net position settles with statutory finality on both legs simultaneously: cash through RT2 (central bank money finality, provided by the payment system) and securities through the DLT ledger (statutory finality provided by ClearToken CSD's ICSD authorisation), with the cash and securities legs released simultaneously by ClearToken's settlement mechanism. The settlement outcome is the same as CREST delivers today for conventional instruments: DvP with statutory finality in central bank money. What is new is the connection between the DLT asset ledger and RT2. This synchronisation mechanism does not exist today, and creating it is the purpose of the Synchronisation Lab and the 2028 RT2 live service target.

One design consideration: more frequent settlement cycles reduce the pool of trades available for netting in each cycle, which reduces compression efficiency and increases gross liquidity requirements. This is a real trade-off: faster settlement in exchange for lower netting efficiency. DTCC's own analysis [CRJ](#) ⁶⁵ concluded that real-time settlement would lose the significant benefits that netting provides, which is why T+1 rather than T+0 was the industry's chosen step.

Fund Tokenisation — A Parallel Track

Most retail investment flows through funds rather than direct securities. Fund tokenisation is a real opportunity, but the sector is generally further behind cash securities in operational automation, and significant improvements are available with existing technology. The FCA, in its supervisory work on operational resilience in asset management, has noted that many fund administrators rely on manual processes and legacy systems [CRJ](#) ⁶⁶. The Investment Association has identified fund processing automation as an industry priority. In the authors' view, much of the inefficiency in fund operations could be addressed with existing technology and does not require DLT infrastructure. Investing in fund operations automation now is worthwhile regardless of digital markets. It improves current operations and will be the required foundation for any future digital model. DLT provides an additional layer of improvement on top of that investment.

It is worth distinguishing three different things that are described as fund tokenisation, because they have different use cases, different regulatory pathways, and different implications for different readers.

Type A — Tokenised investment funds: putting the register on DLT. This is what FCA PS 26/7 and the DSS work is primarily about. An existing authorised fund (a UCITS equity fund, a bond fund, a money market fund) continues to operate exactly as today: investors buy and sell units, the fund manager manages the portfolio, the fund administrator calculates NAV. What changes is that the register of unitholders is maintained on a DLT ledger rather than in a conventional transfer agent database, and optionally a direct-to-fund dealing model becomes available. The retail or institutional investor's experience is broadly unchanged. Franklin Templeton's BENJI fund in the US is the closest example to this model at scale: the register of unitholders is maintained on-chain, though the underlying fund structure is a conventional SEC-registered money market fund. In June 2026, Baillie Gifford launched the UK's first fully tokenised investment fund (\$BAGEY), issued natively on Ethereum and Solana [CRJ](#) ⁶⁷ with BNY as fund administrator.

Type B — Tokenised fund units as on-chain collateral instruments. This is a distinct development with a different primary purpose. BlackRock's BUIDL fund (BlackRock USD Institutional Digital Liquidity Fund) issues

⁶⁵ DTCC (32)

⁶⁶ FCA (37)

⁶⁷ CityAM/Baillie Gifford (18)

ERC-20 tokens on Ethereum [CRJ]⁶⁸ representing units in a money market fund; Fidelity has launched a similar product [CRJ]⁶⁹; Franklin Templeton's OnChain US Government Money Fund tokenises units on Stellar and Polygon [CRJ]⁷⁰. These are not primarily investment funds in the conventional sense: they are institutional collateral instruments. BUIDL requires a minimum investment of \$5 million and is designed for banks and institutional investors who want a yielding alternative to non-yielding cash margin. A BUIDL token can be posted as margin in an institutional on-chain arrangement without the unit first being redeemed, allowing institutions to earn money market returns on assets posted as collateral. BUIDL reached over \$500 million AUM within months of launch, demonstrating strong institutional demand for this specific use case. This is a real extension of the collateral mobility benefit: a money market fund unit that is itself a token can move and be pledged on the same ledger network as other tokenised assets.

Type C — Fund of funds. If underlying funds remain conventional, a tokenised fund of funds has a digital wrapper around a conventional core, and the dealing speed and NAV calculation of the underlying funds remain the bottleneck. The benefit is limited by its slowest link.

A note on public blockchains: The examples in Type A and Type B (BENJI, BAGEY, BUIDL) all use public blockchains (Ethereum, Solana, Stellar, Polygon). This may appear to contradict what this paper says elsewhere about public blockchains not meeting SFR designation requirements. The distinction is important: fund unit transfers settle through conventional payment systems, not through RT2 synchronisation. A fund register on a public blockchain does not require SFR designation because the securities settlement finality requirements do not apply. The money moving when units are bought and redeemed goes through conventional payment infrastructure. Public blockchains are acceptable for fund register maintenance, where the finality requirements are different and lower than for DvP securities settlement. They are not acceptable for the DvP settlement infrastructure that requires SFR designation. These are different use cases with different finality requirements.

The FCA published PS 26/7 on fund tokenisation in April 2026 [CRJ]⁷¹, with rules and guidance entering force immediately. Firms can now maintain fund registers on DLT and offer a direct-to-fund dealing model within the FCA's Handbook framework. These are both optional. Live tokenised fund products are likely to emerge from DSS participants during 2026-2027 [PTJ]⁷², with broader market adoption following as the regulatory framework matures and commercial propositions develop. As noted above, fund tokenisation does not require RT2 synchronisation or SFR designation. Unlike direct securities settlement, fund units settle through existing payment systems.

There is a legitimate strategic question for transfer agents and fund administrators facing genuinely old legacy systems: is it better to invest in improving existing systems, which will need to be changed again when DLT arrives, or to invest in DLT-native infrastructure now and skip the intermediate step? Where the investment required to modernise, legacy systems is substantial, going directly to DLT may be more cost-effective than a conventional upgrade followed by a DLT migration. This is a firm-specific strategic question that depends on the state of existing systems, the timeline for DLT adoption, and the competitive pressure from digital-native entrants.

The Wholesale Digital Markets Champion's Action Group 1 (primary issuance and funds) is specifically addressing fund tokenisation as part of its workstream. The Investment Association's IF3 Lab has been developing the fund tokenisation framework and is coordinating industry engagement. Firms active in this space should engage with AG1 outputs and the IF3 Lab programme as the primary coordination mechanisms for UK fund tokenisation standards and best practice.

Competitive pressure for UK UCITS cash funds: if UK institutional investors adopt US tokenised money market fund products such as BUIDL for on-chain collateral management before equivalent UK products exist, UK UCITS

⁶⁸ Blackrock (19)

⁶⁹ Fidelity FILQ (40)

⁷⁰ Franklin Templeton (20)

⁷¹ PS 26/7 (4)

⁷² DSS dashboard (47)

cash funds face asset outflows to US competitors. This is a near-term consideration for UK fund managers, particularly those running sterling liquidity and money market strategies, rather than a 2028 question.

The Issuer Perspective

The improvements for issuers from DLT are concentrated in two areas: automated lifecycle management through smart contracts (real and DLT-specific), and the elimination of several intermediary roles that currently add cost. The paying agent function becomes automated smart contract execution, and for natively digital instruments, the mechanical register-maintenance function is performed by the ledger infrastructure rather than a separate service provider, though the surrounding corporate action notification, regulatory reporting, and shareholder communication functions continue.

The "lower issuance cost" claim requires qualification. The legal cost of navigating a new framework and developing instrument templates is a significant upfront cost that partially offsets ongoing savings. Early issuers bear a higher cost than later issuers who benefit from established templates. The DIGIT digital gilt pilot is designed to address this, establishing the legal and technical precedent in a live environment reduces the uncertainty that subsequent issuers face when navigating the new framework for the first time.

The "broader investor access" claim is also qualified. Access is constrained by regulation (UCITS eligibility, PRA capital treatment) and by the investor base's own readiness to hold digital instruments. An instrument that cannot be held in a UCITS fund or receives adverse PRA capital treatment has a limited investor base regardless of how efficiently it settles.

For retail investors, access depends on which route is being considered. Through fund wrappers under PS 26/7, retail investors can now access tokenised fund products. The fund structure provides the same regulatory protection as a conventional fund and the DLT register is invisible to the investor; no new rules on retail distribution of tokenised instruments are needed for this route. For direct retail access to tokenised instruments held directly in platforms and wrappers, the position is different. The opportunity is access to asset classes (tokenised private credit, infrastructure debt, real assets) that are currently unavailable to retail investors due to operational friction rather than regulatory prohibition. But direct retail access also depends on SFR designation enabling the open institutional market, and on the FCA publishing rules on the categorisation, promotion, and direct retail distribution of tokenised instruments. Those rules have not yet been published. The FCA's cross-authority roadmap for digital wholesale markets is expected later in 2026, with specific rule changes mostly to be consulted on in 2027. Rules on direct retail distribution of tokenised instruments are unlikely to be finalised before 2028-2029 at the earliest. These depend on the admissions framework (CP25/41) and custody rules (CP25/40) being finalised first, on RT2 being live to support settlement at scale, and on a sufficient population of UCITS-eligible digital instruments existing for retail investors to access.

Where the technology expands the market is in programmable instruments: features that currently exist but are operationally complex or impossible to implement at scale. Two examples are: automatic step-up coupons, where the bond's interest rate increases at predetermined trigger points such as a credit rating downgrade. Today, the paying agent must monitor the trigger and manually adjust the payment, whereas a smart contract does this automatically. The second example is green bond proceeds monitoring, where a conventional green bond relies on annual reporting and third-party verification that proceeds are used for qualifying purposes. A smart contract green bond holds proceeds in a contract that only releases them when specified conditions are verified, giving investors real-time assurance rather than trust-based annual reporting.

The End Investor Perspective

Access to previously illiquid asset classes. Private credit, infrastructure debt, and real assets have illiquidity premiums reflecting two separate things: operational friction and structural illiquidity. Digital infrastructure addresses the first but not the second. The illiquidity premium only partially compresses: the operational

friction component reduces; the structural liquidity component does not, unless and until market depth develops.

Fractionalisation (direct access at smaller ticket sizes). Private credit, infrastructure debt, and real assets carry minimum investment sizes that effectively exclude all but the largest institutional investors. Tokenisation allows these instruments to be fractionalised: a £100 million infrastructure bond can be divided into £10,000 units held directly, with smart contract income distribution, without a fund wrapper. This is a structural expansion of the investable universe: retail and smaller institutional investors can access the credit premium and diversification of asset classes currently available only to sovereign wealth funds and the largest pension funds. DLT removes the operational friction that makes fractionalisation currently uneconomic (manual transfer documentation, bilateral settlement, no standardised secondary market).

Securities collateral efficiency. Institutional investors benefit directly from the securities collateral mobility improvement described above. For institutions with large derivatives books requiring daily margin, instant mobility of securities collateral across the ledger network is a direct reduction in funding cost. This benefit is delivered through the investor's prime broker, custodian, or fund administrator. The DLT technology is managed by the intermediary.

Position transparency. Settlement positions update more frequently as net settlement cycles become shorter. Instead of a single overnight update, custodians reflect settled positions multiple times during the day. Trading positions continue to be tracked separately in the investor's own systems as trades execute, as they are today.

Corporate action reliability. For instruments held on a digital ledger, income payments execute through smart contracts and arrive faster and more reliably. For a retail client, the payment arrives at the platform or custodian as nominee, which then credits the client account. The chain is shorter, but the final step remains. The improvement is experienced as faster, more reliable income crediting.

Regulatory constraints. Until PRA prudential guidance on tokenised assets is published (expected 2028-2030) insurance companies and banks face unfavourable capital treatment for tokenised instruments. The 2026 PRA Dear CEO letter provides interim comfort: tokenised assets should receive the same prudential treatment as non-tokenised equivalents where legal rights are identical and underlying risks are comparable but does not resolve the permanent framework for instruments without non-tokenised equivalents. UCITS eligibility requires admission to a recognised regulated market and updated eligibility rules. Until these are resolved, mainstream portfolio allocation is constrained regardless of the operational improvements.

Addressing the "Technology Looking for a Solution" Challenge

The challenge is worth taking seriously on two levels: can digital market infrastructure work for institutions, and is it commercially worth adopting?

Can it work institutionally?

For the use cases where DLT is valuable (securities collateral mobility, corporate action automation, the DAML securities lending model, and uncleared OTC derivatives lifecycle management) the answer is clearly yes. The technology is sound, commercially advanced, and being built now by major institutions. This is not technology looking for a solution; these are solutions to problems the industry has had for decades.

For other claimed benefits, the picture is more nuanced. Faster break identification is achievable with more frequent settlement cycles on conventional technology and better real-time data feeds. It is not DLT-specific. Operational resilience does not improve materially with DLT. The dependency map for important business services remains complex regardless of what the settlement layer does, and DLT potentially adds complexity during transition. Position transparency improves with settlement frequency, not with the technology itself.

Is it commercially worth adopting — and for whom?

The answer depends critically on which type of firm is asking the question. There are two quite different groups.

The first group (custodians, prime brokers, investment banks doing digital DCM, fund administrators, digital FMI providers, platform providers) must engage with the technology directly. They need to build DLT connectivity, manage digital keys, offer digital settlement and custody to clients, and route digital instruments through their systems. For them the technology question is real, the infrastructure investment is substantial, and the timing matters. The commercial question for them is when to invest and how, not whether.

The second group (asset managers, insurers, pension funds, wealth managers, broker-dealers, and most end investors) will experience digital markets as a new market, not new technology. A new digital bond instrument appears in their custodian's system. They can buy it through their existing broker. It settles through their existing custodian. It appears in their portfolio alongside conventional instruments. The underlying DLT technology is invisible to them, abstracted away by their intermediaries, exactly as CREST, Euroclear, and DTC are abstracted away today. For these firms the commercial question is not "should we invest in DLT" but "when will our custodian and prime broker offer digital instruments, and when will the regulatory framework allow us to hold them." That is a standard new market question, not a technology question.

For inter-dealer brokers, a digital bond is another instrument to make markets in. The settlement mechanics are their counterparties' problem. They will engage when liquidity develops, not when the technology is ready.

The commercial case for the active now firms varies by instrument class. For mainstream investment grade Eurobond issuers, the case today is limited. The digital investor base is initially smaller than the conventional one, and any operational efficiency gain is quickly offset if the price achieved is worse because fewer investors can participate. Until digital instruments achieve UCITS eligibility, index inclusion, and standard PRA capital treatment – opening the full institutional investor universe – mainstream digital issuance makes limited commercial sense for most issuers. Early adoption is driven by specific commercial rationale: positioning advantage, programmable instrument features unavailable in conventional bonds, or a strategic decision to build capability ahead of the mainstream market opening.

For new instrument classes (tokenised private credit, infrastructure debt, real assets) the commercial case is stronger. The conventional alternative is not a liquid market with millions of potential buyers but a small bilateral market with high operational friction. The operational improvements such as securities collateral mobility, automated lifecycle management, and secondary market feasibility make commercial sense even at an early stage.

The transition dynamic matters. The first issuers bear the highest cost: template development, legal uncertainty, narrow investor base. Subsequent issuers benefit from established templates, regulatory certainty, and a growing investor base at lower cost. DIGIT is partly designed to solve this. By establishing the legal and technical precedent in a live environment, it reduces the uncertainty that subsequent issuers of all types face when navigating the new framework for the first time. The threshold at which mainstream digital issuance becomes commercially rational is likely 2028-2030 as UCITS eligibility and PRA guidance arrive.

In summary: digital markets are coming, the technology works for the use cases where it matters most, and the commercial case is clear for some participants and instrument classes now. For others it becomes clear over 2028-2030. Firms should invest in the operational foundations, automation, data quality, settlement instruction management, that they need for T+1 readiness and that will serve them in any future digital model. They should not wait for digital markets to solve operational problems that can and should be solved today.

Part 2: What Might the World Look Like?

The End State for Market Participants

Part 1 describes the structural improvements that DLT enables. This section briefly describes what these improvements look like from the perspective of different market participants in the end state and identifies the new products and opportunities the transition creates. The scope and limits of the UK opportunity are then set out in full, as this is where important qualifications to the headline narrative are needed.

For issuers

In the end state, a corporate or sovereign issuer issues new bonds or equities directly onto a digital ledger using a pre-validated smart contract template. Lifecycle management – coupon payments, covenant testing, maturity redemption – is automated. The investor base is global: any firm with access to the ledger network and a settlement bank with an RT2 account (or equivalent) can subscribe. The issuer's cost of issuance and ongoing administration is materially lower than for an equivalent conventional instrument. Where the instrument is admitted to a recognised regulated market, either a UK RIE under the FCA's admissions framework or another recognised exchange such as Luxembourg, it becomes eligible for UCITS funds and receives standard PRA capital treatment. Secondary market trading is operationally more feasible. Currently, secondary trading in private credit and other OTC instruments requires bilateral negotiation of transfer documentation and manual settlement processes with no standardised post-trade mechanism. A shared ledger with smart contract transfers removes the need for bilateral transfer documentation and provides a consistent settlement process, making secondary market activity viable where it is currently too costly to support.

For institutional investors

A UK pension fund in the end state holds a diversified portfolio that includes conventional securities alongside digital instruments: digital gilts settled through RT2 synchronisation, tokenised private credit instruments with secondary liquidity, and tokenised infrastructure bonds with automated coupon payments. Settlement positions update more frequently as net settlement cycles become shorter. Instead of a single overnight update, custodians reflect settled positions multiple times during the day. Collateral is managed dynamically: a margin call from a derivatives CCP triggers automatic securities collateral mobilisation from wherever on the ledger network it is most efficiently sourced. Corporate actions execute automatically. The operations team that currently handles reconciliation, fail management, and corporate action processing is significantly smaller.

For intermediaries

The intermediary landscape changes but does not disappear. Brokers continue to add value in price discovery, liquidity sourcing, and best execution: the pre-trade and execution functions are unchanged. Investment banks continue to structure and distribute new instruments. However, new intermediaries and infrastructures will emerge. New or established CCPs will continue to provide central clearing for derivatives and, over time, for tokenised securities because, despite the initial attractiveness of instant settlement, not all participants want to pre-fund trades or settle simultaneously. Credit risk management will, therefore, remain critical for safe markets. The functions that change are (i) custody, which shifts from maintaining a proprietary database record reconciled against a CSD to managing client positions directly on a shared ledger, with new responsibilities for key management, wallet architecture, and on-chain transaction processing and (ii) asset servicing, which becomes automated through smart contracts rather than processed through intermediary chains.

For most asset managers and wealth managers, the more important question is whether their existing providers (custodians, fund administrators, platform providers) are building digital capability at the right pace,

and whether new entrants with digital-native propositions might offer materially better service. The threat is less to the asset manager or wealth manager directly than to the infrastructure providers serving them.

For fund managers and wealth managers

For fund managers and wealth managers, the end state picture has two distinct dimensions that are covered separately in this paper. The fund product dimension (tokenised fund registers, direct-to-fund dealing, and tokenised fund units as collateral instruments) is already developing under PS 26/7 and is described in detail in the Fund Tokenisation section of Part 1, including the Type A, B, and C distinctions and the competitive pressure from US tokenised money market fund products. The portfolio holdings and digital securities distribution dimension (when and how fund managers can hold tokenised instruments in portfolios, and when wealth managers can offer them directly to clients) follows the institutional market timeline described in this section and in Part 3. Part 4 sets out the programme implications for both firm types, with the two workstreams treated separately.

New Products for Wealth Managers and Their Clients

Fractional access to institutional-grade assets

Private credit, infrastructure debt, and real assets currently have minimum investment sizes that exclude all but the largest institutional investors or require fund wrappers that add cost and reduce transparency. A tokenised infrastructure bond can be fractionalised so that a wealth management client can hold a proportional interest directly: not through a fund, but in the specific bond financing a specific project, with the coupon paid automatically and the credit position fully transparent. This represents a real expansion of the investable universe for wealth management clients, with access to asset classes and portfolio diversification that institutional investors currently enjoy but retail investors currently cannot access without giving up transparency and control.

Trading and settlement outside conventional hours

Digital settlement infrastructure has no inherent operating hours. A DLT ledger can in principle operate continuously but the greatest dependency is on the cash leg of the transaction. The Bank of England is consulting on extended RTGS hours. For settlement outside RT2 operating windows, a regulated stablecoin with statutory finality could in principle provide the cash leg. This is one of the use cases where stablecoins become relevant, though it is outside the scope of the current UK programme and the framework for it is not yet in place.

What digital infrastructure does not do is create markets where none exist. Trading requires liquidity, market makers, and oversight which are all organised around conventional market hours for good reasons. Outside those hours, spreads widen significantly and execution quality deteriorates. The practical benefit for wealth management clients is therefore more modest than the 24/7 narrative suggests: faster settlement during normal market hours means positions are reflected in client accounts more quickly, and clients in different time zones may find it marginally easier to transact during their own business hours. These are real but incremental improvements.

Transparency and reporting

For instruments held on a digital ledger, position data updates more frequently as settlement events occur, improving the timeliness of reporting that flows through the custodian to the wealth manager's platform. Income from smart contract instruments is processed automatically by the smart contract and credited through the custodian chain more quickly and reliably than today's manual corporate action processes. One limit worth noting: the longstanding problem of beneficial ownership visibility, seeing through nominee layers to actual underlying investors, is not automatically resolved by digital infrastructure. Whether a permissioned ledger design reveals beneficial ownership depends on design choices and disclosure frameworks that have not yet been resolved.

Secondary Market Liquidity — The Key Test

The Wholesale Digital Markets Champion identifies secondary market liquidity as the key test of success for tokenisation. Issuing a tokenised security has limited value if it cannot be traded, used as collateral, or used in repo. This paper agrees. The conditions for secondary market liquidity to develop in tokenised bonds are distinct from the conditions for issuance, and they take longer to establish.

Four conditions need to converge. First, sufficient issuance volume to create a meaningful float. A secondary market requires enough instruments outstanding that buyers and sellers can find each other and price discovery has some basis. Early digital bond issuances will be too small and too infrequent to support meaningful secondary liquidity. Second, admission to recognised regulated markets so that UCITS funds and benchmark-constrained institutional investors can participate. Without these buyers, the secondary market remains bilateral and thin. Third, trading venues and market-making infrastructure adapted for digital instruments. This covers existing exchanges extending their infrastructure and/or new trading venues authorised under the FCA admissions framework. Fourth, post-trade infrastructure capable of supporting secondary market trading at scale. A functioning secondary market requires not just a trading venue but clearing, settlement, and custody infrastructure that can handle the volume and variety of secondary transactions. For most conventional securities, this infrastructure exists and needs only to be extended to digital instruments. For new instrument classes without conventional equivalents, it needs to be built. Central to this is a CCP function for digital instruments: without a central counterparty willing to clear digital bond trades, institutional market makers cannot commit the balance sheet required to provide meaningful liquidity. ClearToken's CT Clear (under development with Nasdaq, seeking RCH authorisation) is the UK's primary candidate for this function. Its authorisation and operational readiness is therefore a fourth prerequisite for secondary market liquidity, alongside the three conditions above.

These conditions converge in the 2028-2030 period as the admissions framework comes into force, UCITS eligibility is confirmed, and issuance volume builds through DIGIT and early corporate issuances. Until then, secondary market activity in tokenised bonds will remain bilateral between sophisticated counterparties: real but limited. Repo and collateral use cases do not require exchange admission or UCITS eligibility and are therefore available from 2028 without waiting for secondary market liquidity to develop.

This analysis applies to bonds and fixed income instruments. Digital equity issuance outside national CSD infrastructure is not anticipated in the near term. Domestic equities will remain in national registries as described in the scope and limits section below.

The Scope and Limits of the UK Opportunity

The following analysis of the scope and limits of the UK digital markets opportunity represents the authors' own assessment [\[AA\]](#). In some respects, it is more cautious than the Wholesale Digital Markets Champion's report and is offered as analytical context for firms making investment and planning decisions rather than as a challenge to the direction of the programme.

What the UK opportunity actually covers

The opportunity for the UK to establish itself as a centre for the processing of global digital securities is real, but it is more specific than the "digital big bang" narrative implies. The instruments and markets where the UK's infrastructure advantage applies directly are those where issuers and investors have already demonstrated, over sixty years, that they are comfortable with offshore registration and third-party settlement. The Eurobond analogy is a useful one.

The Eurobond market emerged in London from 1963 because a combination of factors aligned: a structural disadvantage in the incumbent jurisdiction (US interest equalisation tax), London's legal infrastructure (English law, international arbitration), professional ecosystem, and regulatory flexibility. The register has always been in Luxembourg (Clearstream) and Brussels (Euroclear Bank), not London. The settlement has always used commercial bank money. Yet the issuance, trading, legal documentation, and professional ecosystem are

London's. The digital transition preserves this structure rather than changing it: settlement and registration migrate to digital infrastructure operated by the same institutions (Euroclear Bank, Clearstream) using the same Canton technology the UK is proving through the Synchronisation Lab. London's role in issuance, trading, and legal documentation continues unchanged. The benefit to the UK from the digital transition in this market is continuity and early operational experience, not a new competitive advantage.

The ICSD model is not merely a future possibility dependent on Euroclear Bank or Clearstream choosing to extend their services to digital instruments. It is already being pursued by a new entrant. ClearToken CSD Limited is explicitly seeking international CSD (ICSD) authorisation with the goal of providing settlement with legal finality under English law for digital securities. There is no regulatory reason why ICSD status should be restricted to incumbent ICSDs: it is an authorisation available to any entity meeting the regulatory requirements. If ClearToken achieves ICSD authorisation, digital instruments held in ClearToken's system would carry statutory settlement finality and could potentially be treated as fungible with conventional instruments by regulators, addressing the downstream equivalence questions about UCITS eligibility and PRA capital treatment through the fungibility route rather than through separate rule changes. This is the most significant development in the UK digital markets infrastructure programme and should be monitored closely by all market participants.

UK-first live transaction: In July 2025, Lloyds Banking Group, Aberdeen Investments, and Archax completed the first UK institutional transaction using tokenised money market fund units and tokenised UK gilts as collateral for foreign exchange trades [CR] ⁷³. Lloyds confirmed that digital assets can be used in regulated financial markets under existing legal frameworks. This is the collateral mobility benefit described in Part 1, demonstrated live at institutional scale in the UK.

Three tiers of instrument

Tier 1 — International corporate and financial institution bonds: These instruments are not currently in CREST and do not raise national register sovereignty concerns. Issuers and investors have a sixty-year track record of comfort with offshore registration and English law governance. The digital successor to this market will almost certainly follow the same pattern. Euroclear Bank, as co-chair of the Canton Foundation, is tracking the Synchronisation Lab closely and is not starting from scratch. The authors expect it to extend its existing settlement capability to digital instruments on the same infrastructure, likely as a material change to its existing SFD designation, within 12 to 24 months of the RT2 synchronisation service going live with SFR designation achieved. This reflects the time needed for Euroclear Bank to build and test the synchronisation mechanism within its own systems, complete the material change notification to its existing SFD designation with the National Bank of Belgium and its supervisory college, and onboard its participant base to the new digital settlement model. No public timeline has been confirmed. The path is materially shorter than a fresh designation because Euroclear Bank already holds SFD designation and already settles in commercial bank money across multiple currencies and markets. The market does not relocate; it becomes digital in the same structure it currently operates in. This is a large and addressable market (the Eurobond market is approximately \$14 trillion [CR] ⁷⁴) and the digital transition represents continuity for London rather than either a threat or a transformative competitive opportunity.

Tier 2 — Domestic sterling securities: UK gilts, UK equities, and UK-listed corporate bonds will eventually be digital, but on CREST's own digital transition, not on a commercial DLT platform. The DTCC model in the US is instructive: DTCC is building its own Canton-based tokenisation capability rather than delegating the register to Digital Asset. CREST will follow the same path, adopting DLT technology as a technology procurement decision while remaining the Bank of England-supervised authoritative register for UK securities. The technology modernises while the governance and regulatory framework remains unchanged but it is not the commercial opportunity for new entrant DLT operators, and the DLT-specific network effects described in Part 1 do not apply in the same way to a single-entity register. The DEMAT Taskforce report of July 2026,

⁷³ Lloyds/Aberdeen/Archax (21)

⁷⁴ ICMA (28)

recommending 4 January 2028 [CR] ⁷⁵ as the date from which paper share certificates cease to be legal proof of ownership, confirms that UK equity digitisation is proceeding within the existing CREST/intermediated model rather than on commercial DLT platforms.

Tier 3 — Foreign sovereign debt and foreign equities: US Treasuries and US equities will remain in DTC. German bunds and German equities will remain in Clearstream Frankfurt. French OATs and French equities will remain in Euroclear France. The CSDR experience with the persistence of national CSDs operating largely as before despite the expectation of consolidation demonstrates how strongly countries regard their national registers as critical infrastructure. Digital infrastructure does not weaken this political economy; if anything, it strengthens it by adding new sovereignty concerns about who controls the code, who can freeze assets, and whose courts have jurisdiction.

The register as critical national infrastructure

The register of ownership of a country's securities is critical national infrastructure in a direct and practical sense. A government's ability to enforce sanctions against registered holders, respond to a financial crisis involving its bonds, and maintain the legal integrity of its capital markets depends on the register being accessible to and enforceable by its domestic authorities. When CREST was sold to Euroclear, it remained under Bank of England supervision and subject to UK law. The ownership changed but the regulatory control and jurisdictional anchoring did not.

For DLT-based registers, this concern is amplified. A conventional CSD is a database operated by a regulated entity in a known jurisdiction. A DLT ledger's governance depends on the platform operator, the smart contract code, and the upgrade process. Questions of who controls these, who can modify them, and which jurisdiction's law governs disputes are less straightforward than for a conventional database. National authorities will want clear answers to these questions before they accept a commercially operated DLT platform as the authoritative register for their most important securities.

Canton's de facto standard position

Section 5.1 of the Champion's report addresses network effects and their impact on market structures. The UK's goal is to be technology neutral, and this is being managed by the Digital Markets Champion Industry Taskforce.

Canton is currently the leading DLT platform for institutional digital markets in the UK programme, with significant institutional adoption. JPMorgan Kinexys, Goldman Sachs GS DAP, DTCC's tokenisation programme, Euroclear (as Canton Foundation co-chair), ClearToken, and Franklin Templeton are all using Canton as their underlying technology [CR] ⁷⁶. The DAML instrument template library represents a substantial investment that participants can draw on. However, Canton's position reflects the quality of its institutional participants and technology rather than regulatory lock-in. Canton is the technology substrate these institutions currently use. The regulated entities, such as ClearToken CSD, ClearToken CCP, and JPMorgan Kinexys, are where the real institutional relationships and regulatory authorisations reside. An institution seeking to transact with JPMorgan Kinexys has a commercial incentive to use the same infrastructure, but that stickiness is institutional rather than platform specific. A regulated entity could in principle migrate to a different DLT platform, subject to rebuild costs and material change processes. This is why the framework should remain genuinely platform-agnostic, as Recommendation 4 of this paper proposes.

Any institution that needs to transact with these counterparties has a commercial incentive to use compatible infrastructure. The DAML instrument template library, representing years of legal and technical investment by Goldman Sachs, JPMorgan, and others, is a meaningful practical advantage for participants in the Digital Asset ecosystem. However, building on an alternative platform does not mean building in complete isolation: the DAML language and template library are distinct from the Canton platform specifically, and interoperability standards being developed through the Taskforce's work could reduce platform dependency over time.

⁷⁵ DEMAT Taskforce (12)

⁷⁶ Canton/Messari (23)

The parallel infrastructure period — concentrated costs, manageable transition.

The transition to digital markets does not simplify operations immediately for the firms that build direct DLT connectivity: custodians, investment banks, fund administrators, and digital FMI providers. For these firms, the period from 2028 through the early 2030s involves managing both conventional and digital settlement infrastructure simultaneously, with associated reconciliation and operational complexity. For most other market participants, this complexity is managed by their service providers. Whether their custodian or platform uses the ICSD route or any other approach is irrelevant to an asset manager, insurer, or pension fund. A digital instrument appears in their portfolio through the same custodian relationship as a conventional instrument. Firms in the second group should focus their programme on understanding when their service providers will be ready and what new instrument types and opportunities will become available to them, rather than on building DLT infrastructure themselves [AA].

True operational simplification across all instrument types and jurisdictions still requires international interoperability between national digital market infrastructures. Given the CSDR experience and the register sovereignty concerns described above, this is a 2035-2040 proposition at earliest. Until then, parallel infrastructure is the reality.

The UK's advantage

With these qualifications, the UK opportunity is still real and significant:

- International corporate and financial institution bonds: the digital Eurobond market. A large market where the UK's infrastructure, English law, and professional ecosystem apply directly, and where the digital transition preserves London's existing role in issuance, trading, and legal documentation.
- Collateral management and repo between large sophisticated institutional counterparties. This is available now on existing Canton infrastructure, and increasingly from 2028 as UK synchronisation infrastructure goes live, delivering immediate intraday liquidity improvements. The Wholesale Digital Markets Champion has made repo and collateral the central use case for the Taskforce's work over the next twelve months.
- Uncleared OTC derivatives lifecycle management: a fourth structural use case where DAML smart contracts eliminate the confirmation and reconciliation burden and enable end-to-end automation from trade inception through margin management.
- New instrument classes, tokenised private credit, infrastructure debt, real assets, fund units, that are not currently in CREST and do not carry register sovereignty concerns. A new market rather than a migration of an existing one.
- The legal and professional ecosystem – English law, London's lawyers, ICMA and ISLA standard-setting – which provides the documentation and governance framework for digital securities regardless of where the technology is built.

Part 3: What Needs to Happen and Where Are We?

Evidential markers are used throughout this paper: [CR] = confirmed policy or regulatory position; [PT] = announced programme target; [AA] = authors' analysis; [SD] = scenario or dependency. Full definitions are in the Response Approach section.

The RT2 Synchronisation Breakthrough

The most important development in UK digital financial markets in 2026 is the Bank of England's commitment to deliver a live RT2 synchronisation service targeted for 2028, confirmed in the joint FCA/BoE Call for Input published 18 May 2026 [PT] ⁷⁷.

RT2 synchronisation enables atomic DvP settlement of tokenised securities with cash leg finality from RTGS, and securities leg finality is provided by ClearToken CSD's iCSD authorisation and the SFR designation that flows from it. ClearToken Depository Limited (as the entity providing RT2 connectivity) sits between the DLT ledger and the settlement banks' RT2 accounts, instructing RT2 to earmark cash simultaneously as the DLT ledger confirms the asset transfer, then releasing both atomically. If either leg fails, neither executes.

RT2 synchronisation provides statutory finality for the cash leg. Once RT2 has settled, the sterling payment is final and irrevocable. The securities leg requires separate treatment. RT2 finality for the cash leg does not automatically extend to the asset transfer on the DLT ledger. A liquidator could in principle challenge the asset transfer even where the RT2 cash payment is final. Statutory protection for the securities leg requires SFR designation.

SFR designation is therefore a hard dependency for institutional participation at scale. Without it, the securities leg has contractual finality only, which most institutional participants operating under fiduciary mandates cannot accept. Statutory finality on the securities leg is achievable on or close to the 2028 timeline if the BoE, HMT, and ClearToken CSD treat the ICSD/CSD authorisation process as an explicit programme objective from now, alongside the RT2 synchronisation capability going live.

The Synchronisation Lab, launched May 2026, is testing the synchronised settlement model specifically for the collateral and repo use case (the simultaneous movement of a tokenised security and a cash payment across the DLT asset ledger and RT2 respectively). Participants include Swift, LSEG, ClearToken, Chainlink, Partior, Baton Systems, and others [CR] ⁷⁸. The Lab is not testing settlement finality for all securities transaction types or for cleared transactions through a CCP. Its scope is the specific synchronisation arrangement that links the DLT securities leg to the RT2 cash leg for repo and collateral transactions. The SFR designation being sought through the Lab process applies to this synchronisation arrangement, not to the full universe of securities settlement. The Lab runs for six months, with the BoE committing to publish design and assurance requirements for the RT2 synchronisation capability in Q1/Q2 2027, to be used by digital FMI providers including ClearToken connecting their systems to RT2. The Lab is a testing environment. It informs regulatory requirements but does not itself grant settlement finality or SFR designation to participants.

DIGIT (HM Treasury's digital gilt pilot) is the sovereign precedent. The Wholesale Digital Markets Champion's report sets a target of pilot issuance no later than Q1 2027 [PT] ⁷⁹. A UK government bond issued natively on a DLT ledger, settled through RT2 synchronisation, establishes the legal template and market confidence that catalyses subsequent corporate and financial institution digital issuance.

⁷⁷ FCA/BoE Call for Input (2)

⁷⁸ BoE Synch Lab (3)

⁷⁹ Champion's report (1)

Multi-Currency Settlement: The Commercial Bank Money Model

RT2 settles in sterling. For dollar and euro-denominated instruments, the commercial bank money model that has operated the international bond market for sixty years continues unchanged. Euroclear Bank and Clearstream already settle across multiple currencies through commercial bank money and hold SFD designation. What changes for digital instruments is not the cash leg but the securities leg: statutory finality for the asset transfer requires SFR designation. This is achievable on the same timeline as the RT2 service [AA]. The dollar and euro cash legs are available now; the combined statutory finality model becomes available when SFR designation is achieved.

A Note on Stablecoins and the GBTD

The paper does not cover stablecoins as part of the UK digital securities settlement programme. The authors recognise that the Champion's wider model explicitly contemplates a multi-money, multi-currency ecosystem but this is outside this paper's core critical path, which is that RT2 central bank money and existing commercial bank money systems provide the cash leg without requiring a stablecoin.

For sterling settlement, RT2 central bank money is available and is a superior solution. For non-sterling settlement, the commercial bank money model through existing SFD-designated systems provides statutory finality without requiring a stablecoin. Stablecoins are therefore not on the UK critical path for the programme described in this paper. They become relevant in specific scenarios outside this paper's scope: cross-border corridors where neither central bank money nor an existing designated commercial bank money system is available, and out-of-hours settlement outside RT2 operating windows.

Two developments are relevant context. The Bank of England published its sterling-denominated systemic stablecoins policy statement in June 2026 [CR]⁸⁰, alongside a draft Code of Practice, confirming the Banking Act 2009 pathway for recognition. This moves the stablecoin settlement pathway forward materially, though no stablecoin has yet been recognised. The Great British Tokenised Deposit (GBTD) [CR]⁸¹ is a private sector-led platform enabling different banks' tokenised deposits to interact, providing programmable commercial bank money that can support a range of wholesale use cases. GBTD is a DSS participant and Synchronisation Lab participant. For on-chain settlement within the UK where central bank money is not available, GBTD provides the commercial bank money alternative to a stablecoin. Appendix C covers the settlement finality considerations.

A further development relevant to cash leg settlement is Finality International, which operates the Sterling Finality Payment System (SFPS). SFPS has been authorised by the Bank of England as a payment system and enables tokenised central bank money to be used for wholesale settlement between SFPS participants. Unlike a stablecoin, SFPS operates in central bank money and carries the associated finality. SFPS is particularly relevant for settlement outside RT2 operating windows and for cross-border corridors which are the use cases where RT2 central bank money is not available. It is operated by a consortium of major banks and sits alongside RT2 rather than competing with it.

How Institutional Participants Access the System: The Tiered Model

The synchronisation model preserves the existing tiered access structure of conventional settlement exactly. RT2 accounts are held by settlement banks, the major clearing banks with direct RTGS access: Barclays, HSBC, Lloyds, NatWest, JPMorgan UK, Citibank and others. ClearToken Depository Limited (as the entity providing RT2 connectivity) sits between the DLT ledger and the settlement banks' RT2 accounts.

In a tokenised bond trade where BlackRock buys from Goldman Sachs: BlackRock instructs its custodian (e.g. State Street) to settle. ClearToken earmarks sterling in State Street's RT2 account while simultaneously confirming the bond transfer on the DLT ledger, with settlement finality provided on the cash leg by RT2 and

⁸⁰ BoE Stablecoins (11)

⁸¹ DSS materials (47)

on the securities leg by ClearToken CSD's authorisation as a designated securities depository. Both legs release atomically. State Street's RT2 account is debited, Barclays (as Goldman Sachs's settlement bank) is credited through RT2, the bond moves on the ledger. BlackRock's custodian reflects the new holding. No new licence category is required for BlackRock or Goldman Sachs. They access the system through their existing custodian and settlement bank relationships, exactly as they do today.

The Six-Layer Framework

The path to institutional digital markets requires six interdependent layers to be substantially complete. L3 (RT2 Synchronisation) and L4 (SFR Designation) are both critical path items.

Layer	What is needed	Current position	Timeline	Status
L1 — Legal recognition	Tokenised securities recognised for all downstream purposes: UCITS eligibility, Solvency UK capital treatment, index inclusion	Property Act 2025 and FCA Cryptoassets Order 2025 in place [CR] ⁸² . FCA CP25/41 admissions framework regime in force October 2027. UCITS eligibility rules and PRA prudential guidance to follow. See Appendix A.	First admissions: 2027-2029	In progress
L2 — Listing & market infrastructure	Tokenised instruments admissible to a recognised regulated market. UK RIE admission under the FCA admissions framework generates the full set of UK downstream consequences: UCITS eligibility under UK rules, standard PRA capital treatment, and UK index inclusion. International corporate bonds may achieve UCITS eligibility through admission to other recognised regulated markets (e.g. Luxembourg) without UK RIE admission. Initial bilateral institutional issuance does not require exchange admission of any kind.	DSS: 16 firms near live issuance. DIGIT digital gilt: Champion's report target Q1 2027. FCA CP25/41 framework in force October 2027 [CR] ⁸³ .	First UK RIE admission: 2027-2029. International bonds via other recognised markets: potentially earlier.	In progress
L3 — RT2 Synchronisation (cash leg) ★	Live RT2 synchronisation service: statutory cash finality from RTGS for sterling settlement. The synchronisation mechanism connects DLT asset ledgers to RT2, enabling atomic release of cash and asset simultaneously. The BoE Synchronisation Lab is the testing environment for this mechanism. It informs the design and assurance requirements that digital CSDs must meet but does not itself provide settlement finality.	Synchronisation Lab: 18 participants including Swift, LSEG, ClearToken, Chainlink. Live service targeted 2028 (BoE/FCA confirmed May 2026 [PT] ⁸⁴). Synchronisation design and assurance requirements: Q1/Q2 2027.	Lab: 2026. Design: Q1/Q2 2027. Live: 2028	On track — 2028

⁸² Property Act (8) + Cryptoassets Order (9)

⁸³ FCA CP25/41 (7)

⁸⁴ FCA/BoE Call for Input (2)

Layer	What is needed	Current position	Timeline	Status
L4 — CSD/ICSD Authorisation (securities leg) ★	Statutory settlement finality for the securities leg: protecting asset transfers against insolvency clawback. This is provided by CSD/ICSD authorisation: a regulated CSD holding digital securities provides finality for assets in its system through its own SFD designation, exactly as Euroclear Bank and Clearstream provide today. ClearToken CSD Limited is the primary active route in the UK, pursuing ICSD authorisation through the Digital Securities Sandbox. The incumbent ICSDs could extend their existing designations to digital instruments without new legislation but have not committed to a timeline.	ClearToken CSD Limited: DSS Gate 1 passed (December 2024). Gate 2 application in progress. Seeking ICSD authorisation providing settlement finality under English law. Incumbent ICSDs: no public timeline commitment for digital instrument extension.	Gate 2 assessment: 2026-2027. ICSD authorisation: 2027-2028 [AA] .	In progress: ClearToken CSD active. Incumbent ICSDs: not yet initiated.
L5 — Custody framework	FCA-regulated custody framework for digital assets equivalent to CASS	FCA CP25/40 — rules expected 2027 [PT] ⁸⁵ . FCA confirmed CASS 17 will not apply to specified cryptoassets. Major custodians are building digital custody capability. Gap between rules and compliant service: 6-12 months for firms building now. See Appendix E.	Rules: 2027. Service live: 2027-2028	On track
L6 — Prudential framework (PRA)	PRA guidance on capital treatment of tokenised assets under Solvency UK and UK CRR	The 2026 PRA Dear CEO letter confirms interim treatment [CR] ⁸⁶ : tokenised assets receive the same prudential treatment as non-tokenised equivalents where legal rights are identical and underlying risks are comparable. This provides interim comfort but does not resolve the permanent framework for instruments without non-tokenised equivalents. Permanent framework deferred to at least 2028, awaiting Basel Committee targeted review of cryptoassets. See Appendix F.	Interim Dear CEO guidance: 2026. Permanent guidance: 2028-2030	Interim guidance issued — permanent framework not started

★ L3 (RT2 Synchronisation) and L4 (SFR Designation) are both critical path items. L3 delivers the cash leg with RT2 central bank money finality, a confirmed 2028 target. L4 delivers the securities leg with statutory finality. Without both, the open institutional DvP market does not exist. Once both are in place, L1 and L2 (legal recognition and listing) determine which instruments can be held by UCITS funds and other regulated investment vehicles requiring exchange admission. Sophisticated institutional counterparties can participate through bilateral arrangements before L1 and L2 are fully resolved. L5 (custody) and L6 (PRA prudential treatment) determine the economics of holding them.

⁸⁵ FCA CP25/40 (6)

⁸⁶ PRA Dear CEO (10)

The Technology Question

Canton Network is the DLT platform used by ClearToken, JPMorgan Kinexys, DTCC, and others as the underlying technology for their services. For RT2 and PvP use cases, Canton meets the deterministic finality requirement. However, it is not Canton that seeks regulatory approval: it is the regulated entities using Canton that must satisfy the relevant regulators. ClearToken Depository Limited (for CT Settle synchronisation) must demonstrate to the Bank of England that its service meets the requirements for the synchronisation capability. ClearToken CSD Limited (for CSD/ICSD authorisation) must satisfy the DSS assessment requirements. Canton's performance characteristics are the technical evidence these entities use to support their regulatory submissions; but the authorisation applicants are the regulated entities, not the technology platform. This distinction matters because it means that regulatory approval is portable across technology providers. If a regulated entity chose to migrate to a different DLT platform in future, the regulatory approvals would follow the entity, not the platform. This assessment is underway through the Lab. Technical detail is in Appendix G.

The preferred long-term outcome, once the first designation is achieved, is that the BoE publishes platform-agnostic standards allowing other operators and platforms to seek designation over time, addressing both commercial monopoly risk and operational resilience.

How to read this timeline: confirmed commitments vs authors' analysis

Confirmed commitments (published by named authorities): RT2 synchronisation live service targeted 2028 (BoE/FCA, May 2026); FCA admissions framework regime in force October 2027 (FCA); T+1 transition October 2027 (confirmed); PS 26/7 fund tokenisation in force April 2026 (FCA); DIGIT pilot issuance no later than Q1 2027 (Champion's report target, July 2026).

Authors' analysis of the securities leg timeline: ClearToken CSD achieving iCSD authorisation, and the SFR designation that flows from it, is the authors' analysis of what is achievable given DSS Gate 2 assessment in 2026-2027 and the permanent regulatory framework expected in 2027. No date has been confirmed by the BoE, FCA, or ClearToken CSD. The timeline depends on DSS Gate 2 assessment being completed, the permanent regulatory framework for digital CSDs being published, and ClearToken CSD meeting the authorisation requirements. A 2027-2028 target is plausible on current trajectory but should be treated as authors' analysis [AA] rather than a confirmed commitment. This is the single most important variable in the programme timeline.

Authors' analysis of downstream consequences: PRA prudential guidance 2028-2030; FCA rules on direct retail distribution of tokenised instruments unlikely before 2028-2029; mainstream institutional participation 2028-2030. These follow from the confirmed and target dates above plus the authors' assessment of regulatory sequencing and adoption timelines.

The critical dependency: The critical dependency is when ClearToken CSD achieves ICSD authorisation and the SFR designation that flows from it. This is the point at which statutory settlement finality becomes available on the securities leg for instruments held in its system. If ICSD authorisation is achieved on or close to the 2028 RT2 live service date, the open institutional DvP market for instruments held in ClearToken CSD launches in 2028. If it is delayed, the RT2 service goes live and the collateral and repo use cases between sophisticated bilateral counterparties become available, but the open institutional DvP market accessible to UCITS funds, insurers, and pension funds waits. Monitoring ClearToken CSD's Gate 2 DSS progress and ICSD authorisation application is therefore the single most important near-term tracking item for any firm planning around the 2028 timeline. [AA]

The Integrated Domestic Timeline

Note on timeline basis: The integrated timeline below is based on ClearToken CSD Limited achieving ICSD authorisation, the primary active route to statutory settlement finality on the securities leg. The 2028 milestone reflects DSS Gate 2 assessment (2026-2027), permanent regulatory framework publication (2027), and ICSD authorisation confirmed (2027-2028). All are authors' analysis [AA] except where individually marked [PT]. Monitor ClearToken CSD's Gate 2 DSS progress as the most important near-term tracking item.

2025-2027: FCA CP25/41 admissions framework regime in force October 2027. FCA CP25/40 custody rules finalised (2027). DIGIT digital gilt pilot – target issuance no later than Q1 2027 (Champion’s report). Synchronisation Lab completes (late 2026); ClearToken CSD Limited progressing DSS Gate 2 application — ICSD authorisation under English law [\[PT\]](#)⁸⁷. If achieved ahead of or alongside the 2028 SFR designation, provides an earlier route to statutory settlement finality for instruments held in ClearToken’s system; BoE publishes synchronisation design and assurance requirements (Q1/Q2 2027). T+1 transition completed (October 2027). Collateral management and repo between sophisticated institutional counterparties is already operating on existing Canton infrastructure at significant scale. JPMorgan Kinexys and Broadridge together process over \$700 billion in daily repo. This use case does not require RT2 synchronisation, SFR designation, or central bank money. Commercial bank money through existing correspondent banking arrangements is sufficient for the cash leg, and contractual finality is sufficient for the asset leg between documented bilateral counterparties. UK firms can connect to this infrastructure now.

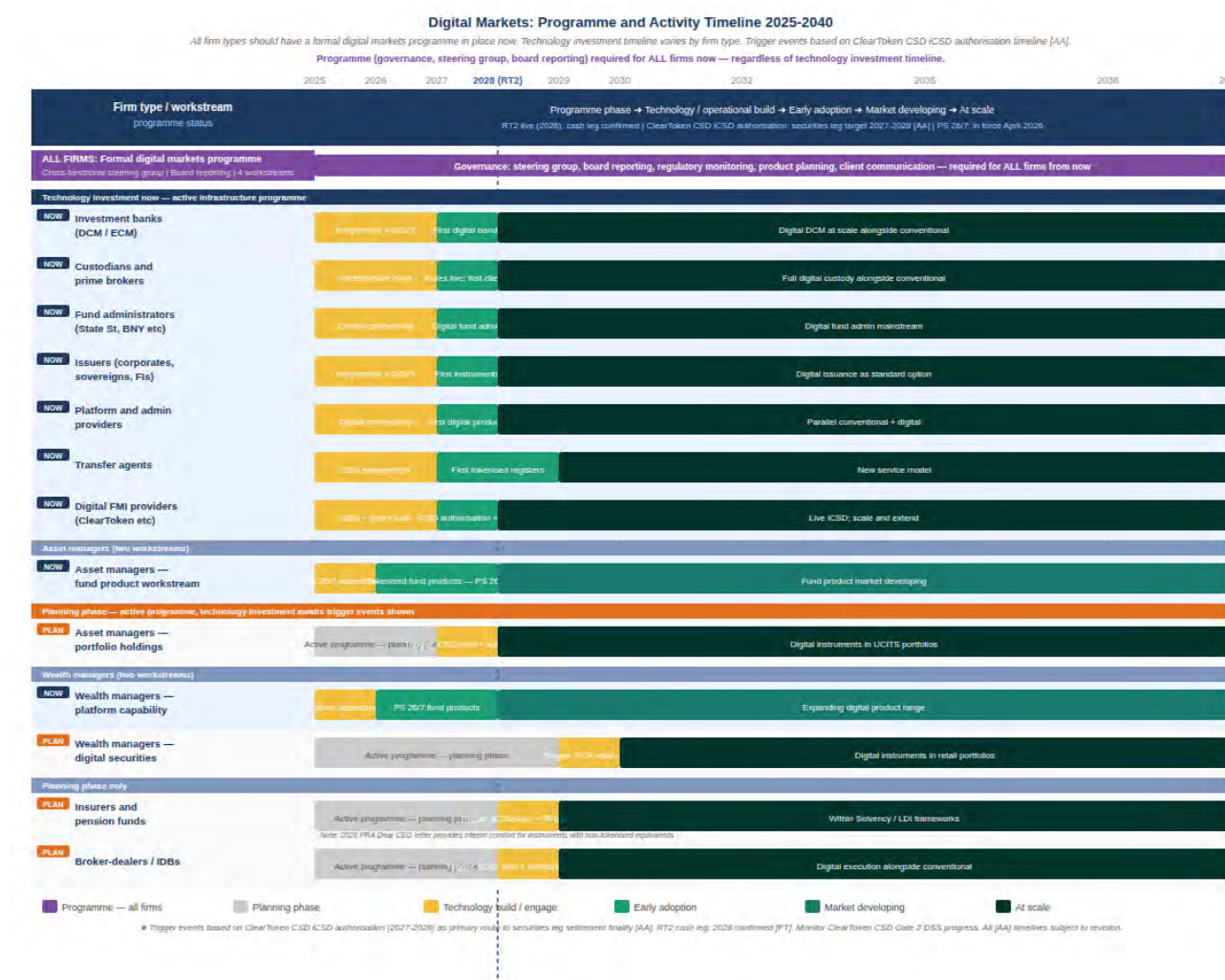
2028: RT2 synchronisation service goes live. If SFR designation is achieved on the target timeline (Q4 2027 or Q1 2028), the open institutional DvP market launches simultaneously: UCITS funds and other asset managers can participate. Insurers and pension funds follow when PRA prudential guidance is published: expected 2029-2030. Initial asset classes: gilts, sterling money market instruments, select corporate bonds with existing smart contract instrument templates. Dollar and euro instruments through Euroclear Bank's existing commercial bank money model extended to digital instruments. If SFR designation is delayed, the RT2 connection and collateral/repo use cases are live, but the open institutional DvP market waits.

2028-2030: PRA prudential guidance on tokenised assets. UCITS eligibility rules updated. Index inclusion criteria adapted. ClearToken CT Clear achieves BoE RCH authorisation. Additional asset classes onboarded as instrument templates are developed. Secondary market liquidity begins to develop as issuance volume grows, and UCITS-eligible instruments attract benchmark-constrained buyers.

2030-2035: Mainstream institutional portfolios able to hold tokenised instruments on standard regulatory terms. Full Solvency UK and UK CRR treatment aligned. Digital issuance increasingly default for new instruments. Existing instruments begin migration through organic growth of the digital proportion through new issuance.

⁸⁷ ClearToken (14)

The integrated timeline above translates into the following participant activity timeline.



Note on financial market infrastructures: existing FMIs, including Euroclear UK (CREST), LCH, and other CCPs, are not shown separately in this chart as their digital transition programmes are in early stages and timelines are not yet confirmed. CREST is expected to adopt DLT technology within its existing regulatory framework (on the DTCC model), and LCH and other CCPs will need to extend their clearing capability to digital instruments as market volumes develop. These transitions are material to the programme, and their timelines will be addressed in future editions of this paper.

Timeline based on ClearToken CSD achieving ICSD authorisation (2027-2028) as the primary route to statutory settlement finality on the securities leg. RT2 cash leg: 2028 confirmed. All timelines are authors' analysis [AA] except where marked [PT]. Monitor ClearToken CSD Gate 2 DSS progress as the primary near-term tracking item.

Cross-Border: Closer Than It Appears

Two different cross-border questions are often conflated. They have very different timelines.

Serving international participants from a UK-linked venue — available from 2028: A dollar-denominated tokenised bond settled through a UK-SFR-designated ICSD, or through Euroclear Bank's equivalent digital capability deployed on the same infrastructure, does not require a UK-US bilateral finality agreement. The designated system provides the settlement finality; the counterparties are using it by choice. This is how the Eurobond market has always worked: US issuers, global investors, English law, settlement in Brussels and Luxembourg, no bilateral treaty required. The digital successor follows the same model: international participants can access digital settlement in multiple currencies from approximately 2028; through the same institutions and infrastructure they use today.

Mutual finality recognition between national frameworks — mid-2030s: What requires bilateral agreement is a UK institution using a foreign digital settlement system and wanting that finality recognised by UK courts (or vice versa). This matters enormously. The majority of cross-border securities transactions involve a UK institution using foreign settlement infrastructure, and statutory recognition of that finality in UK courts requires bilateral agreement. Post-Brexit, UK and EU SFD frameworks are separate. No negotiation has begun. EU SFD amendment (2029-2031) is needed first; bilateral recognition follows. The US structural asymmetry with no CBDC and no established DLT finality pathway makes UK-US cross-border digital finality a 2035+ proposition.

One model that could accelerate both interoperability and downstream equivalence is what might be called the ICSD model. Euroclear Bank and Clearstream already provide interoperability for conventional securities. Assets held in one ICSD can be used alongside assets in the other, and both accept securities from dozens of national CSDs. If an ICSD extends this model to digital instruments, accepting tokenised bonds into its systems on the same terms as conventional bonds, then those digital instruments become fungible with their conventional equivalents in the ICSD's books. A tokenised EUR-denominated bond held in Euroclear Bank alongside a conventional EUR bond of equivalent terms would be treated identically by Euroclear Bank's settlement and collateral management systems. This fungibility has significant implications for the downstream equivalence questions that currently limit mainstream institutional adoption. If a digital instrument is held in an SFD-designated ICSD and treated as fungible with its non-digital equivalent, the UCITS eligibility question may resolve through the ICSD's existing regulatory treatment rather than requiring a separate FCA eligibility ruling. The PRA capital treatment question may similarly resolve through equivalence: if the instrument is treated as fungible by the ICSD, the PRA may accept that the capital treatment follows the non-digital equivalent. Whether regulators accept this route to equivalence is not yet determined, but the ICSD model represents the fastest plausible path to mainstream institutional adoption and deserves explicit attention in the Taskforce's downstream equivalence work.

The authors' conclusion is that international participants can access digital securities settlement from approximately 2028 through existing infrastructure extended to digital instruments. No new bilateral agreements are required for the initial market. The network of mutual recognition agreements between national frameworks takes until the mid-2030s.

A note for fund managers and wealth managers

The infrastructure programme described in this section, RT2 synchronisation, SFR designation, the six-layer framework, is the foundation for the institutional digital securities market. Fund tokenisation under PS 26/7 does not depend on this infrastructure: fund unit transfers settle through existing payment systems and neither RT2 synchronisation nor SFR designation is required. The timeline for fund tokenisation is therefore earlier and separate from the timeline described in this section. Fund managers and wealth managers should refer to the Fund Tokenisation section in Part 1 for the relevant framework, and to Part 4 for the programme implications.

Part 4: What Does This Mean for Industry Participants?

Capital markets exist to serve issuers and end investors. The digital markets transition affects all market participants, but in different ways and on different timelines. As established in Part 1, the technology and infrastructure challenge falls primarily on one group (custodians, prime brokers, investment banks, fund administrators, digital FMI providers, platform providers, and transfer agents) who must build DLT connectivity, manage digital keys, and route digital instruments through their systems. For the second group (asset managers, insurers, pension funds, wealth managers, broker-dealers, and end investors) the technology is managed by their intermediaries and will arrive as a new instrument type through existing relationships.

But the business planning, product development, client communication, and board governance challenge falls on every firm. Regardless of where a firm sits on the technology timeline, all firms should establish a formal internal digital markets programme now. This is not a watching brief assigned to one person. It is a cross-functional programme with board visibility, a defined steering group, and workstreams covering technology, operations, product, legal, compliance, and client engagement. The programme may not require significant resource in the near term for all firms, but it needs to exist, it needs the right people engaged, and it needs to report to the board.

Digital as an Attribute, not a New System

For most firms, participating in digital markets will not require replacing existing trading and position-keeping systems. Digital settlement capability is most likely to appear as a change within existing systems rather than a wholesale replacement. What changes is the Place of Settlement (POS), the field already present in trade and settlement instruction systems that identifies where a security settles. For a digital instrument settling through RT2 synchronisation, counterparties agree a new POS at the trade level, requiring the new settlement location to be added to static data. Everything else in the processing chain, cash accounting, position reporting, regulatory reporting, etc, works through existing systems with this one change in where the settlement instruction is directed.

The firms that face more substantial change are custodians, fund administrators, and settlement banks whose core function is the management of assets on ledgers and the routing of settlement instructions. For them, the digital ledger is not just a new POS but new infrastructure to manage, with new key management, new connectivity, and new operational processes. This is why these firms need to begin building now.

The Digital Markets Programme — What Every Firm Needs

The appropriate model for the digital markets programme is closer to how firms managed MiFID II, T+1, or EMIR than a horizon-scanning exercise. A cross-functional steering group with the right representation and a reporting line to the board. The programme intensity varies by firm type (some firms are building infrastructure now; others are in a planning and assessment phase) but the programme structure is the same.

The steering group should include representatives from: front office (relevant business lines); technology; operations and settlement; product development and marketing; legal and compliance; supplier management (for custodian, administrator, and platform relationships); and risk. The terms of reference should cover monitoring the external programme; assessing the firm's own readiness and dependencies; defining trigger events that would prompt a move to active investment; and reporting to the board at least annually.

Four programme workstreams apply to every firm, with different levels of activity depending on where the firm sits:

Regulatory and market monitoring: Quarterly review of BoE Synchronisation Lab progress, FCA CP25/41 and CP25/40 developments, PRA prudential guidance, Champion's report Taskforce outputs, competitor announcements, and client-facing publications. Standing item for the programme in every firm.

Technology and infrastructure assessment: Understanding what connectivity, custody capability, and system changes will be required and on what timeline, including whether that means building now or scoping requirements for future investment. For most firms in the planning phase, this begins as a series of questions to their custodians, administrators, and platform providers: what are you building, and when will it be available?

Product and commercial planning: What new products or services will digital markets make possible or necessary? What is the competitive position relative to firms moving faster? What are clients asking now and what will they ask in 2027-2028? What is the firm's public position on digital markets and how is it communicated?

Client and board communication: How are clients kept informed about what is happening and what it means for them? What does the board need to know, and how often? What does the firm's external communications position look like as digital markets moves from specialist topic to mainstream news?

The BoE's Q1/Q2 2027 publication of synchronisation design requirements is the event that makes the 2028 live service plannable. This should be defined in advance as the trigger for the programme to move from planning phase to active investment phase for firms not already investing. The Wholesale Digital Markets Champion's Taskforce outputs, including the end-to-end repo use case trial (target spring 2027), interoperability standards, and best practice guides, are standing items for the programme monitoring workstream. Progress at theglobalcity.uk/digital-markets-champion.

Guide by Participant Type

Issuers — corporates, sovereigns, financial institutions

Programme scope: The issuer digital markets programme sits primarily in Group Treasury and Corporate Finance, with Legal, Investor Relations (IR), and Communications involved. It covers two questions: when and whether to issue digitally (a strategic and commercial decision); and how to respond to investor and intermediary questions about the firm's digital plans (a communications and positioning decision). Both questions need a considered answer now, even if the answer is "not yet."

Near-term priorities: All issuers should: establish a board-level view on digital markets and when digital issuance makes commercial sense for the firm; brief IR and treasury teams so they can respond to investor and intermediary questions with authority; monitor what peer issuers are doing and the commercial terms on which early digital bonds are being issued; engage with DCM banking relationships to understand what is being built and on what timeline; and monitor DIGIT (the legal and technical template that DIGIT establishes will determine when mainstream corporate digital issuance becomes straightforward). Engage with AG1 (primary issuance and funds) and AG2 (secondary markets) Taskforce outputs. For early movers: engage with DIGIT process and assess whether a digital bond issuance makes commercial sense in 2027-2028 as a positioning exercise. For international bond issuers, UCITS eligibility may be achieved through admission to other recognised markets such as Luxembourg independently of the FCA admissions framework.

Key trigger: First comparable peer issuer issues a digital instrument at demonstrably lower cost or broader distribution than a conventional equivalent. This is the point at which digital issuance moves from a positioning exercise to a mainstream commercial decision. For sovereign issuers: DIGIT pilot issuance (target Q1 2027).

Programme ownership: Group Treasury, Corporate Finance / DCM relationship, Investor Relations, Legal, Communications.

Asset managers — UCITS and alternative fund managers

Programme scope: Asset managers face two genuinely distinct digital markets questions that require separate programme workstreams with different stakeholders. The fund product workstream – should we launch

tokenised fund share classes under PS 26/7, and what does our fund product roadmap look like relative to competitors? – is owned by product, distribution, and the fund administrator relationship. It is active now. The portfolio holdings workstream – when and how do we hold tokenised instruments in our portfolios? – is owned by investments, risk, and compliance. It is in the planning phase, dependent on ClearToken CSD achieving iCSD authorisation (which carries SFR designation as an inherent consequence), RT2 going live, and regulated market admission being established for tokenised instruments. These workstreams should not be conflated: the people, triggers, and timelines are different.

Near-term priorities — fund product workstream (active now): PS 26/7 is live and competitors may launch tokenised fund products in 2026-2027. Assess whether to launch tokenised share classes or DLT-based fund registers; engage with fund administrator and transfer agent on their PS 26/7 capability and timeline; assess whether the firm's distribution platform can support tokenised fund units; monitor competitor product launches and client demand signals. Engage with AG1 (primary issuance and funds) and the IA IF3 Lab programme as the primary coordination mechanisms for UK fund tokenisation. Monitor whether institutional cash allocation is shifting to US tokenised money market fund products such as BUIDL: this affects sterling liquidity and money market AUM regardless of UK digital market timelines.

Near-term priorities — portfolio holdings workstream (planning phase): Establish the steering group and terms of reference; brief the investment committee and board on what digital markets means for portfolio management; engage custodians and prime brokers on their digital custody timeline; assess which asset classes in existing portfolios (private credit, infrastructure debt, sterling bonds) are most likely to be tokenised first and where the secondary liquidity benefit would be greatest; define the trigger events that would prompt active investment. Maintain a DSS observer position if resources allow.

Key trigger — portfolio holdings: RT2 synchronisation live (2028) AND admission of tokenised instruments to a recognised regulated market confirmed: the point at which fiduciary mandates can be satisfied and UCITS eligibility is established.

Programme ownership: Head of Product (fund product workstream); Head of Investments, Head of Operations, Head of Risk, Compliance (portfolio holdings workstream). Both report to the same steering group.

Wealth managers

Programme scope: Wealth managers face two digital markets questions with different timelines. The platform capability workstream (can our platform support tokenised fund products and when?) is active now, driven by PS 26/7 and growing client demand. The digital securities distribution workstream (when and how do we offer tokenised instruments directly to clients?) is in the planning phase, dependent on the FCA publishing rules on the categorisation, promotion, and direct retail distribution of tokenised instruments. Both need programme ownership and board visibility.

Near-term priorities — platform capability workstream (active now): Assess whether existing platform and custody infrastructure can support PS 26/7 tokenised fund products. Client demand is arriving before the regulatory framework for direct retail access to tokenised instruments is in place. Engage custodians and platform providers on their PS 26/7 capability and timeline. Begin client education now: the gap between what sophisticated clients are reading about digital markets and what their wealth manager can offer them is growing and needs to be managed proactively. Establish a clear internal position on digital markets that relationship managers can use in client conversations. Monitor AG1 (primary issuance and funds) Taskforce outputs and the IA IF3 Lab programme.

Near-term priorities — digital securities distribution workstream (planning phase): Establish the steering group; brief the board on the digital securities opportunity and timeline; assess the product implications of digital instruments for client portfolios; engage with custodians and platform providers on their digital custody and distribution roadmap; define trigger events.

Near-term priorities — fund product workstream (active now): PS 26/7 is live and clients can access tokenised fund products now if the platform supports them. Assess which fund managers in the distribution network are

launching tokenised share classes or DLT-based registers and ensure the platform can support them ahead of client demand. This is separate from the digital securities distribution workstream and does not require waiting for any further regulatory trigger.

Key trigger — digital securities distribution: FCA rules on the categorisation, promotion, and direct retail distribution of tokenised instruments published (expected 2029-2031), noting that PS 26/7 tokenised fund product access does not require this trigger and is available now.

Programme ownership: Head of Investments, Head of Product, Technology, Compliance, Client Advisory.
Board briefing: at least annually.

Investment banks — DCM and ECM

Programme scope: Investment banks are in the active now group on both technology and business planning. The technology workstream covers building tokenised issuance capability alongside conventional DCM and connecting to DLT and digital custody infrastructure. The business planning workstream covers defining the digital DCM proposition, building the pipeline, training coverage teams, and positioning with issuer clients. Both are live programmes.

Technology workstream: Engage with DIGIT pilot process. Build tokenised issuance capability alongside conventional DCM: bespoke digital bond transactions to sophisticated counterparties are available today within existing frameworks. Engage with FCA CP25/41 outcome (feedback closed 3 July 2026; FCA response expected H2 2026). Build relationships with DSS infrastructure participants. Assess DAML smart contract model and ISDA Common Domain Model participation for uncleared OTC derivatives lifecycle management. Also: securities lending desks should assess the digital securities lending framework being developed by ISLA and Digital Asset. Engage with AG1 (primary issuance and funds), AG2 (secondary markets), and the Orchestration Group (repo use case).

Business planning and client communication: Define the firm's digital DCM proposition and internal position now: what is the pipeline for digital bond mandates in 2027-2028; what is said to issuer clients who ask about digital capabilities today; how is the firm positioned relative to competitors; what does the product team need to develop to support digital bond issuance at scale; what training does DCM coverage need to have informed conversations with issuers about digital markets.

Key trigger for UCITS-eligible UK mainstream issuance: FCA admissions framework in force (October 2027) + DIGIT outcome established. Bespoke digital bond issuance to sophisticated institutional counterparties, and international bonds achieving UCITS eligibility through other recognised markets, can proceed before this.

Programme ownership: Head of DCM/ECM, Securities Lending, Legal and Compliance, Technology, Risk. Board / ExCo visibility: active programme with regular updates.

Broker-dealers and inter-dealer brokers

Programme scope: Pre-trade and execution functions are unchanged: price discovery, liquidity sourcing, and best execution continue as today. The digital markets programme for broker-dealers is primarily in the planning phase: understanding what digital instruments mean for post-trade processes, what the settlement mechanics look like, and when liquidity in digital instruments will develop sufficiently to make market-making viable. For inter-dealer brokers, a digital bond is another instrument to make markets in. The settlement mechanics are their counterparties' problem. They will engage when liquidity develops, not when the technology is ready. But the programme needs to exist, coverage needs to be briefed, and the competitive landscape needs to be monitored.

Near-term priorities: Establish the steering group; monitor DSS participants and venue licensing; assess what post-trade changes the operations team will face when digital instruments begin to flow; brief trading and

coverage teams on what digital markets is and what it is not; establish a clear external position for use with clients and counterparties who ask about digital market readiness.

Key trigger: First tokenised instrument admitted to a UK RIE with a trading venue (2028-2030). This is the point at which secondary market liquidity begins to develop, and market-making becomes viable.

Programme ownership: Head of Trading, Head of Operations, Risk, Compliance. Board briefing: at least annually.

Custodians and prime brokers

Programme scope: The most directly affected intermediary type. The technology programme is active and cannot wait digital custody infrastructure has two-to-three-year lead times. The business planning programme runs in parallel: defining the digital custody product proposition, communicating the timeline to clients, and positioning against digital-native competitors.

Technology workstream: Digital custody infrastructure (key management, wallet architecture, multi-signature governance, DLT ledger integration) must begin now. Firms that wait for the full regulatory framework before starting will not be ready when it arrives. Engage actively in FCA CP25/40 consultation. Consider Synchronisation Lab engagement through a partner firm. Build collateral management and margin workflows for uncleared OTC derivatives as derivative positions and collateral converge on the same ledger network. This is a significant new service opportunity. Engage with AG3 (collateral and prudential standards), AG4 (FMI and cash leg), and the Orchestration Group (repo use case).

Business planning and client communication: Define the digital custody product proposition: what services will be offered, on what timeline, and at what price. Manage client communication proactively: existing clients are asking about digital markets readiness and prospective clients are beginning to use it as a selection criterion. Address the transition period: what does client reporting look like when clients hold both conventional and digital instruments? What is the firm's public position on digital markets and when does it go external?

Key trigger: FCA CP25/40 custody rules finalised (2027) AND BoE synchronisation design requirements published (Q1/Q2 2027) but infrastructure investment should begin well before these dates.

Programme ownership: Head of Operations and Settlement, Head of Securities Services, Head of Product, Risk, Compliance, Technology, Legal. Board / ExCo: active programme with regular updates.

Fund administrators

Fund administrators (State Street, BNY Mellon, Northern Trust, HSBC, Citi, JPMorgan, etc) provide NAV calculation, fund accounting, and custody of fund assets. For many UK funds they also act as depositary. They are distinct from transfer agents (who manage the unit register and investor transactions) and from platform providers (who distribute funds to end investors). The fund administrator faces the most significant functional change of any participant type, because of both the infrastructure build required and the immediate commercial pressure from PS 26/7 and the BUIDL-type tokenised fund unit model.

Programme scope: Two active workstreams running in parallel. The technology workstream covers building Canton network connectivity, tokenised unit infrastructure, and digital asset custody capability. The commercial workstream covers defining the proposition to fund manager clients who are assessing tokenised fund products under PS 26/7 now and also responding to the competitive pressure from US tokenised money market fund products before equivalent UK products exist.

Technology workstream: Building Canton network connectivity, tokenised unit infrastructure, and digital asset custody capability takes two to three years so begin now. The infrastructure that enables tokenised fund units to be used as collateral (KYC/AML status attached to each token, smart contract mechanics allowing transfer without redemption) sits within the fund administrator's domain and is a new capability with no conventional equivalent. Engage with FCA PS 26/7 implementation, FCA CP25/40 custody rules consultation,

and DSS participants. Engage with AG1 (primary issuance and funds) and AG3 (collateral and prudential standards).

Business planning and client communication: The commercial question is immediate: fund managers are assessing whether to launch tokenised share classes under PS 26/7 now, and they are asking their fund administrators whether they can support it and on what timeline. Define the proposition: can you support PS 26/7 tokenised fund registers now, what does it cost, and what is the timeline? How does the firm respond to fund managers who ask about Canton connectivity? What is the position on the BUIDL-type tokenised fund unit model and when will it be offered to UK fund managers? Communicate the roadmap to existing fund manager clients proactively to avoid them moving to a competitor with clearer digital capabilities.

Key trigger: FCA PS 26/7 fund tokenisation framework (already live) and first DSS tokenised fund unit live: these are immediate. For digital securities held in funds: RT2 synchronisation design requirements (BoE Q1/Q2 2027).

Programme ownership: CTO, Head of Fund Services, Head of Product, Head of Client Management, Risk. Board / ExCo: active programme with regular updates.

Insurance companies and pension funds

Programme scope: The PRA capital treatment constraint means that portfolio allocation to tokenised instruments is not rational until PRA prudential guidance is published. This is expected 2028-2030. But the programme needs to exist now, covering investment strategy assessment, collateral management, OTC derivatives lifecycle management, and regulatory engagement. The programme is in the planning and assessment phase, not the investment phase.

Near-term priorities: Establish the steering group with representation from investments, risk, treasury, legal, and compliance. Brief the board and investment committee annually on the digital markets landscape and the firm's position. Assess which parts of the portfolio will be most affected when digital instruments are available: private credit, infrastructure debt, money market instruments. For firms with large derivatives books, assess the OTC derivatives lifecycle management use case: when will counterparties be on the same Canton network, and what does end-to-end automation of margin calculation and collateral movement mean for treasury operations? Assess the collateral mobility benefit – this is available through custodian/prime broker from 2028 without any separate action required. Engage with the FCA's cross-regulatory coordination process to ensure insurance and pension fund constraints are represented in framework design. Engage with AG3 (collateral and prudential standards) Taskforce outputs.

Key trigger — portfolio allocation: PRA prudential guidance on tokenised assets published (expected 2028-2030). This is the point at which tokenised instruments become economically rational to hold. Note: the 2026 PRA Dear CEO letter provides interim comfort for instruments with non-tokenised equivalents but does not resolve the permanent framework.

Key trigger — collateral and OTC derivatives: RT2 synchronisation live (2028), at which point collateral mobility and OTC derivatives margin automation become available through custodian/prime broker relationships without separate action.

Programme ownership: Chief Investment Officer, Head of Treasury, Risk, Legal, Compliance. Board briefing: at least annually, with a specific focus on the PRA guidance timeline and what the investment implications will be when it arrives.

Platform and administration providers — FNZ, Bravura, SS&C and similar

Note: this section covers platform, wrap, and fund administration providers, the firms that provide the technology and operational infrastructure through which wealth managers, fund managers, and retail investors access and administer their portfolios. These firms sit at different points on the build-versus-buy spectrum: some primarily provide software that their clients operate themselves; others provide fully outsourced services; and most provide some combination of both. FNZ, Bravura, and SS&C are examples, each with a different mix of technology and outsourcing. What they share is the same digital transition challenge: they need to build capability to support digital instruments before their clients require it, and the same infrastructure lead time argument applies regardless of their delivery model. The large custodian banks that also act as fund administrators (State Street, BNY Mellon, Northern Trust, HSBC, etc) are covered in the fund administrators' section above.

Programme scope: Platform providers are the infrastructure through which most retail investors and many institutional investors access their portfolios. The technology programme is active. The same infrastructure lead time argument as custodians applies. The business planning programme covers defining what digital instruments look like in the platform, how to communicate the timeline to wealth manager and fund manager clients, and how to respond to competitive pressure from digital-native platforms.

Technology workstream: Assess what digital custody connectivity is needed and begin building. Assess how tokenised instruments will be represented in the position-keeping system, how automated corporate actions from smart contracts will be processed, and what changes when the fund register is a DLT ledger. Build PS 26/7 tokenised fund product support now: client demand from wealth managers is arriving. Engage with AG4 (FMI and cash leg) Taskforce outputs.

Business planning and client communication: Define the proposition to wealth manager and fund manager clients: when will PS 26/7 tokenised fund products be supported, what does a digital instrument look like in client reporting, and what is the transition plan for clients holding both conventional and digital instruments? Communicate the roadmap proactively. Assess competitive positioning relative to digital-native platform providers building without legacy infrastructure overhead.

Key trigger: FCA PS 26/7 fund tokenisation (already live so this is immediate for platform PS 26/7 support). FCA CP25/40 custody rules and RT2 synchronisation design requirements (Q1/Q2 2027) for broader digital securities support.

Programme ownership: CTO, Head of Product, Head of Operations, Head of Client Propositions. Board / ExCo: active programme with regular updates.

Transfer agents

The acquisition of Equiniti by Bullish announced in May 2026 [\[CR\]](#) ⁸⁸ (a crypto exchange acquiring one of the UK's major transfer agents to build tokenised securities infrastructure) illustrates how the industry is already repositioning. The register-maintenance function is being automated; the question is whether existing transfer agents lead that transition or follow it.

Programme scope: Transfer agents (SS&C, Computershare, Equiniti (EQ), and others) face both a technology build and an existential commercial question. The technology programme covers building digital-native register infrastructure. The commercial programme covers defining what the transfer agent service looks like when register maintenance is automated, what the revenue model is, and how to retain and develop client relationships as the function changes.

Technology workstream: Engage with DSS participants now and assess which register functions can be automated. Build digital-native administration capability. The Franklin Templeton BENJI and Baillie Gifford BAGEY models demonstrate that on-chain fund registers are operational at scale. The question is when UK fund managers and platforms will require this capability. Monitor the development of US tokenised fund unit

⁸⁸ Equiniti/Bullish (45)

products and their adoption by UK institutional investors. Engage with AG1 (primary issuance and funds) Taskforce outputs.

Business planning and client communication: The commercial question is fundamental: if the mechanical register-maintenance function is performed by the ledger infrastructure, what does the transfer agent do and what does it charge? New capabilities such as smart contract governance, on-chain compliance monitoring, regulatory reporting, and exception management need to replace processing revenue. Define the proposition now: which fund managers are assessing PS 26/7 tokenised registers, and can the firm support them? Communicate the digital roadmap proactively to existing clients to avoid them assessing alternatives without the firm's input.

Key trigger: FCA PS 26/7 fund tokenisation (already live so this is immediate). First DSS tokenised fund unit live is the point at which the market standard begins to be set.

Programme ownership: CTO, Head of Operations, Head of Client Propositions, Head of Product. Board / ExCo: active programme with regular updates.

Digital FMI providers

This section covers firms seeking to operate as digital FMI providers. ClearToken is the most significant firm in this section. It is building the UK's first horizontally integrated FMI for digital and tokenised assets, combining ClearToken Depository Limited (FCA-authorised, providing payment and settlement services including RT2 connectivity), ClearToken CSD Limited (seeking CSD/ICSD authorisation through the Digital Securities Sandbox), and ClearToken CCP Limited (seeking RCH authorisation from the Bank of England). Other firms providing digital market infrastructure (Broadridge (digital repo), Calastone (fund transaction network), and Digital Asset (DAML platform)) face different programme considerations depending on whether they are seeking FMI authorisation or providing technology and services to regulated entities.

Programme scope: The core regulatory authorisations being sought are conventional FMI categories: CSD/ICSD for the securities depository and settlement finality function, and CCP/RCH for central clearing. These are not new regulatory categories: they are established frameworks being applied to digital assets for the first time. The technology underpinning these entities is new; the regulatory structure is not. For technology firms in the Lab, both workstreams are fully active (the technical engagement and the commercial programme).

Technology workstream: Synchronisation Lab engagement is the immediate priority. The BoE's Q1/Q2 2027 publication of design and assurance requirements will define the technical specification to build to — but the Lab is the place to be now, both to inform those requirements and to position for the live service. The functioning of the open institutional DvP market depends on this being delivered. Engage with AG4 (FMI and cash leg) and the Orchestration Group as the primary coordination mechanisms for the repo use case trial.

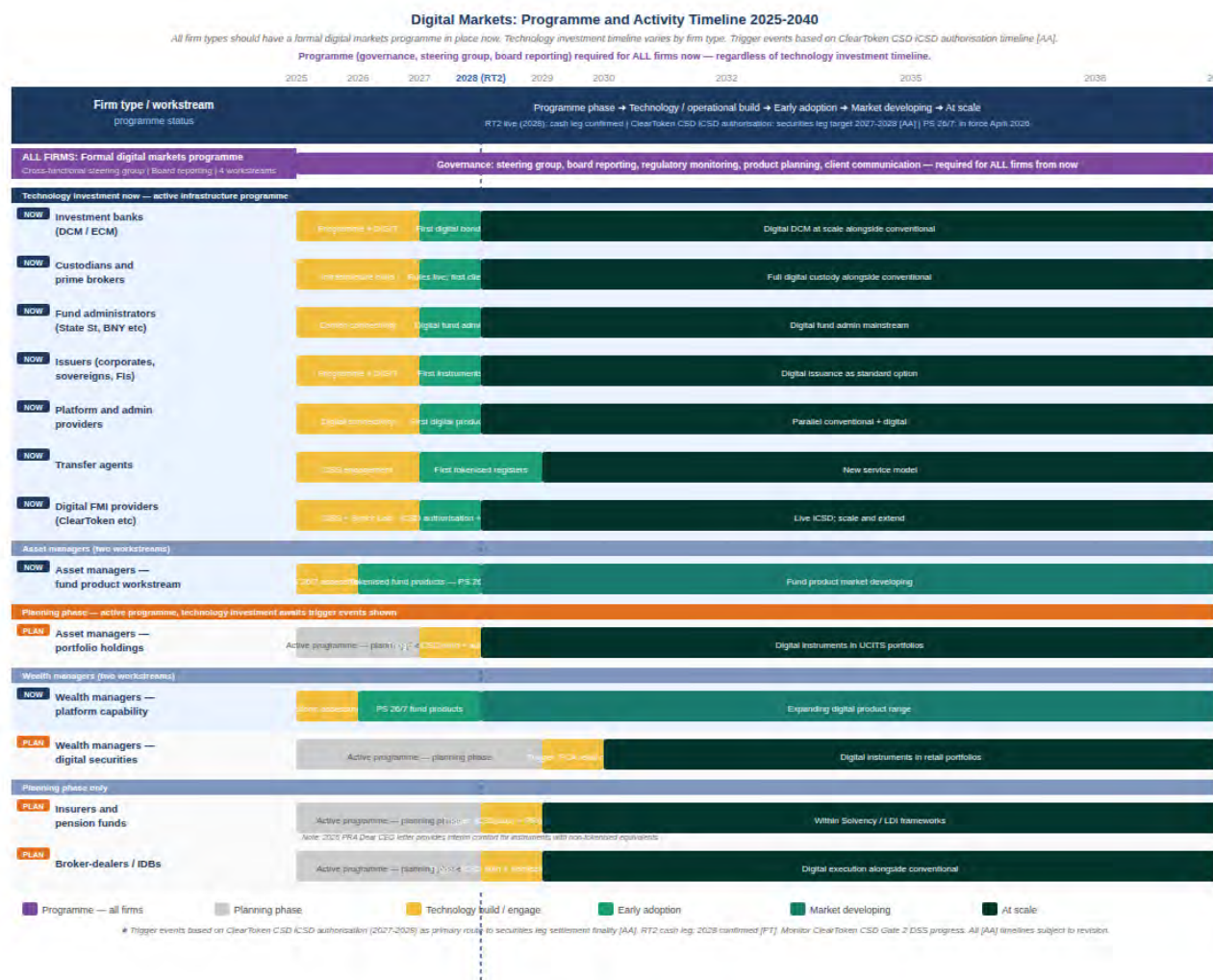
Business planning and client communication: The commercial programme needs to run alongside the technical engagement. Define the commercial model for the live service: who are the clients, what is the pricing model, and how is the service contracted? Build the business development pipeline: which custodians, banks, and fund administrators are potential clients for synchronisation services, and what conversations are underway? Manage the relationship with the Bank of England as both technical counterparty and future regulator. Communicate Synchronisation Lab participation and progress to potential clients who are assessing their options.

Key trigger: BoE synchronisation design and assurance requirements published (Q1/Q2 2027). This is the specification to build to for the live 2028 service.

Programme ownership: CEO / CTO, Regulatory Affairs, Business Development, Legal. Board / ExCo: active programme with regular updates.

The chart below summarises the programme and technology timeline for all firm types covered in this guide.

Participant Triggers



Note on financial market infrastructures: existing FMIs, including Euroclear UK (CREST), LCH, and other CCPs, are not shown separately in this chart as their digital transition programmes are in early stages and timelines are not yet confirmed. CREST is expected to adopt DLT technology within its existing regulatory framework (on the DTCC model), and LCH and other CCPs will need to extend their clearing capability to digital instruments as market volumes develop. These transitions are material to the programme, and their timelines will be addressed in future editions of this paper.

Timeline based on ClearToken CSD achieving ICSD authorisation (2027-2028) as the primary route to statutory settlement finality on the securities leg. RT2 cash leg: 2028 confirmed. All timelines are authors' analysis [AA] except where marked [PT]. Monitor ClearToken CSD Gate 2 DSS progress as the primary near-term tracking item.

All firm types should have a formal digital markets programme in place now. The distinction is not between firms that act and firms that watch. It is between firms whose programme is actively investing in technology now and firms whose programme is in a planning and assessment phase. Seven firm types are investing in technology now: investment banks (DIGIT pilot and early digital issuance), custodians (infrastructure lead times), fund administrators (same lead time argument plus immediate PS 26/7 commercial pressure), platform and administration providers (same lead time argument), transfer agents (fund tokenisation underway via PS 26/7), issuers considering early-

mover advantage, and digital FMI providers (ClearToken and others participating in the BoE Synchronisation Lab). For all others, the programme is in the planning phase, but it is an active, governed programme with board visibility, not a passive monitoring exercise.

Appendices (A to J)

Technical and regulatory background for readers who want fuller explanations of concepts referenced in the main document.

Appendix A — Downstream Equivalence: UCITS, Solvency UK and Index Inclusion

Appendix B — The BoE DLT Innovation Challenge

Appendix C — Banking Act 2009 Designation: Stablecoin Finality

Appendix D — Issuer Override: The Stablecoin Freeze Problem

Appendix E — FCA CP25/40: Custody of Digital Assets

Appendix F — PRA Capital Treatment: Why It Matters

Appendix G — DLT Platforms: DAML, Canton and Alternatives

Appendix H — Public Blockchains and Settlement System Designation: Why Finality Type Remains the Constraint

Appendix I — Fund Tokenisation: The Franklin Templeton and Baillie Gifford Models

Appendix J — Securities Collateral Mobility: The Trapped Collateral Problem

Appendix A — Downstream Equivalence: UCITS, Solvency UK and Index Inclusion

"Downstream equivalence" means the chain of regulatory and commercial consequences that flow from a security being admitted to a recognised regulated market. Their absence effectively excludes tokenised instruments from mainstream institutional portfolios regardless of their legal structure.

UCITS eligibility

UCITS funds, with trillions in global assets, must hold "transferable securities" admitted to a regulated market [CR] ⁸⁹ or demonstrably liquid assets. A tokenised bond not admitted to a recognised regulated market does not satisfy UCITS eligibility rules. A recognised regulated market includes UK RIEs admitted under the FCA admissions framework but also includes other recognised exchanges such as Luxembourg Stock Exchange, meaning international digital bonds may achieve UCITS eligibility without UK RIE admission. Tokenised bonds distributed to sophisticated institutional counterparties without any exchange admission can be issued and settled before the admissions framework is complete. Until the FCA CP25/41 admissions framework is operational and UCITS eligibility rules are updated, UCITS fund managers cannot include tokenised instruments in their funds regardless of how attractively they are priced.

Solvency UK capital treatment

Insurance companies under Solvency UK must hold regulatory capital [CR] ⁹⁰ against their investment assets proportional to the risk of those assets. A tokenised bond not admitted to a recognised regulated market is currently treated as a non-standard asset, potentially attracting equity-like capital charges. This makes holding tokenised instruments economically unattractive even for an insurer that would otherwise want to hold them. Banks face similar treatment under UK CRR. The 2026 PRA Dear CEO letter provides interim comfort for instruments with non-tokenised equivalents: where legal rights are identical and underlying risks are comparable, the same prudential treatment applies. But the permanent framework is deferred and instruments without non-tokenised equivalents remain exposed to adverse treatment.

Index inclusion

Major indices (FTSE Russell, Bloomberg, ICE, S&P) require instruments to be listed on a recognised regulated market. Tokenised instruments excluded from indices are excluded from the large proportion of institutional investment managed against benchmarks. For bond indices, the adaptation once regulated market admission is achieved is relatively straightforward. For equity indices, additional complexity arises around smart contract voting mechanisms, liquidity thresholds, and free float calculations.

Appendix B — The BoE DLT Innovation Challenge

The Bank of England and BIS Innovation Hub published the DLT Innovation Challenge final report in May 2026. Participants: Ava Labs, Chainlink/Aave Labs, Circle, Digital Asset/KPMG, Hedera, HSBC, Kaleido, Rayls, and the Scottish Centre of Excellence in Digital Trust and DLT.

Headline finding: "No single model delivers fast, deterministic finality without shifting risk or trust assumptions." [CR] ⁹¹ Key findings: improving speed or scalability introduces new dependencies; enhancing decentralisation complicates governance; interoperability shifts rather than eliminates trust assumptions; permissioned ledgers require off-chain governance components. This is a deliberate design characteristic, not a gap.

Digital Asset participated as "Digital Asset/KPMG." The trade-off conclusion does not mean DAML/Canton is inadequate. It means the Bank had not yet made policy choices about which trade-offs are acceptable for regulated infrastructure. The Synchronisation Lab is the mechanism through which those choices are being made in practice.

⁸⁹ UCITS sourcebook (38)

⁹⁰ PRA UK Solvency (39)

⁹¹ BoE DLT Challenge (5)

Appendix C — Banking Act 2009 Designation: Stablecoin Finality

For RT2-synchronised transactions, finality comes from RT2. Stablecoin finality is not required. For use cases outside RT2 (cross-border, 24/7 out-of-hours, non-sterling), a cash settlement asset with independent finality may be needed. The route to statutory finality for a UK stablecoin runs through the Banking Act 2009, under which the Bank of England can recognise payment systems as systemically important. The Bank published its sterling-denominated systemic stablecoins policy statement and draft Code of Practice in June 2026, confirming this pathway. No stablecoin has yet been recognised. The Great British Tokenised Deposit (GBTD) provides a commercial bank money alternative for on-chain settlement in the near term.

Appendix D — Issuer Override: The Stablecoin Freeze Problem

All major regulated stablecoins contain an issuer-controlled capability to freeze or reverse transactions. This is required for OFAC sanctions compliance and AML obligations. The FCA stablecoin regime (October 2027) will similarly require this capability. The problem is that settlement finality means no party can unilaterally reverse a completed transfer. An issuer override capability means the issuer can reverse it. These are incompatible. For RT2-synchronised transactions, this problem does not arise finality comes from RT2. For stablecoin use cases outside RT2, the override problem remains unresolved in any jurisdiction.

Appendix E — FCA CP25/40: Custody of Digital Assets

FCA CP25/40 (December 2025, full title "Cryptoassets: Custody of Client Assets") proposes bringing digital asset custody within the CASS framework. The FCA confirmed in the May 2026 Call for Input that CASS 17 rules will not apply to specified investment cryptoassets, simplifying the framework.

The private key custody problem

Under conventional CASS, "holding" a security means it is recorded in the client's name in CREST. Under digital asset custody, "holding" means controlling the private key that authorises transfers on the blockchain. CP25/40 consults on who legally holds an asset controlled by a cryptographic key; how client money rules apply to on-chain assets; how insolvency of a custodian is handled when assets are in smart contracts.

The insolvency treatment problem

If assets are in a smart contract and the custodian becomes insolvent, can an insolvency practitioner access and distribute them? Can a court order their transfer? These questions are not fully answered by existing UK insolvency law. Specialist digital infrastructure providers have developed technical approaches to key management and asset segregation that the FCA rules will validate and standardise. Rules expected 2027; custodians using these providers and building now can be live within 6-12 months of publication.

Appendix F — PRA Capital Treatment: Why It Matters

The PRA sets rules for regulatory capital that banks and insurers must hold against their assets. Capital has a cost: it cannot be deployed elsewhere.

The 2026 Dear CEO letter — interim guidance

In 2026, the PRA issued a Dear CEO letter confirming [CR]⁹² that for PRA-regulated banks, building societies, and designated investment firms, tokenised assets should in general receive the same prudential treatment as their non-tokenised equivalents where legal rights are identical and underlying risks are comparable. This is a partial and interim improvement: it provides comfort for tokenised versions of instruments that already exist in conventional form but does not resolve the treatment of instruments without non-tokenised

⁹² PRA Dear CEO (10)

equivalents. The permanent prudential framework is deferred to at least 2028 [AA], awaiting the outcome of the Basel Committee's targeted review of cryptoassets. International, rather than domestic, timelines are driving this deferral.

How tokenised instruments without non-tokenised equivalents are currently treated

A tokenised bond with no conventional equivalent, a natively digital instrument with programmable features not replicated in any conventional bond, is treated as a non-standard asset. Under Solvency UK, potentially equity-like capital charges. Under UK CRR, potentially 100% risk weight. An insurer may need to hold several times more capital against such an instrument than against an economically equivalent conventional bond, making it economically irrational to hold regardless of yield or credit quality.

Why permanent PRA guidance is essential

The PRA guidance must follow the legal recognition and admissions framework being developed: the Property Act and FCA Cryptoassets Order establishing legal recognition of digital assets, and the FCA admissions framework (CP25/41, regime in force October 2027) establishing which digital instruments can be admitted to recognised regulated markets. Until these are in place, the PRA cannot meaningfully calibrate capital treatment for instruments whose legal status and market eligibility remain uncertain. Once the admissions framework is live, the PRA must make independent judgements about risk-weighting, liquidity treatment, and concentration limits for tokenised instruments settled through RT2 synchronisation. Permanent guidance is the final condition for mainstream institutional portfolio allocation. Expected 2028-2030.

Appendix G — DLT Platforms: DAML, Canton and Alternatives

This appendix covers the DLT platforms and smart contract infrastructure referenced in this paper. The main platform is the Digital Asset ecosystem (DAML as the smart contract language and Canton Network as the settlement ledger) covered in its first two sections. The third section briefly describes alternative platforms.

DAML and the Canton Network

DAML (Digital Asset Modelling Language) is a smart contract language created by Digital Asset. It encodes legally binding financial agreements in code, preserving the bilateral private nature of financial contracts. Key feature: DAML separates the instrument (what the asset is: its rights, obligations and lifecycle events) from the holding (who owns how much). Instrument templates are built once per asset class. This is a one-time legal and technical investment. Holding transfers are then routine operations, analogous to how CREST transfers a gilt without re-examining its terms.

Canton Network is the permissioned distributed ledger platform that runs DAML contracts. There are two layers: application-specific subnets (high throughput for within-institution workflows) and the Global Synchronizer (cross-institutional coordination, 100-1,000 TPS in production, 200ms-5 second global finality). The 100,000 TPS figure in Digital Asset's marketing materials refers to subnet testing, not the Global Synchronizer. Canton figures are self-reported rather than independently verified from public dashboards.

Canton is used by JPMorgan Kinexys, ClearToken, Goldman Sachs GS DAP, Franklin Templeton, Broadridge, and the DTCC tokenisation programme.

The Daml Finance template library

Daml Finance (Digital Asset's open-source library, source: docs.daml.com [CR] ⁹³) provides out-of-the-box reference implementations for: Tokens (simple instruments including currencies); Bonds (fixed rate, floating rate, callable, inflation-linked, and zero coupon); Equities (including dividends, bonus issues, rights issues, stock splits, and mergers); Options; Swaps (interest rate, currency, FX, credit default, asset, and FpML swaps); and Structured products. These are developer reference implementations and production-grade versions

⁹³ DAML Finance (35)

require customisation and legal validation. The library does not cover all instrument types: real estate tokens, fund units, infrastructure bonds, and private credit instruments require custom template development.

Alternative platforms — TauriPay and Hedera

Other platforms exist with different technical architectures. TauriPay uses FIFO sequential processing with binary finality [CR] ⁹⁴. Hedera uses Hashgraph consensus with deterministic finality and participated in the BoE DLT Innovation Challenge. Neither is currently part of the Synchronisation Lab process.

A note on the distinction between platform and regulated entity: Canton is the technology platform; the entities seeking regulatory authorisation are ClearToken Depository Limited (for synchronisation capability and CT Settle), ClearToken CSD Limited (for CSD/ICSD authorisation through the DSS), and ClearToken CCP Limited (for RCH authorisation). Canton's performance characteristics are evidence in those processes, but Canton itself does not hold regulatory authorisation. This means that an alternative DLT platform meeting the same technical standards could in principle be used by a regulated entity. This is consistent with the platform-agnostic approach that this paper recommends (see Recommendation 4). The Daml Finance template library referenced in this appendix is Digital Asset's open-source library and is distinct from the Canton platform specifically.

Appendix H — Public Blockchains and Settlement System Designation: Why Finality Type Remains the Constraint.

Public blockchains currently do not meet the finality requirements for CSD/ICSD authorisation, which carries SFR designation as an inherent part of its status as a designated settlement system. The fundamental incompatibility is finality type. SFR designation requires that transfer orders are legally final and protected against insolvency, which requires deterministic finality. Public blockchains produce probabilistic finality: reversal of a confirmed transaction is statistically unlikely but mathematically possible through chain reorganisation or consensus failure.

The operational availability requirement (five-nines availability under PFMI Principle 17 [CR] ⁹⁵, equating to less than five minutes of unplanned disruption per year) is a second constraint [CR] ⁹⁶. Public blockchains have experienced multi-hour complete outages. The test for designated settlement infrastructure is a sustained record of extremely high availability over many years. Developments such as Solana's Alpenglowl upgrade (targeting deterministic finality, planned Q3 2026 [PT] ⁹⁷) may address the finality type objection. The regulatory framework being built now should be designed to accommodate their use. The Wholesale Digital Markets Champion's report explicitly notes that the UK should remain open to the competitive benefits of permissionless networks in the medium term, with a full approach to be developed.

Appendix I — Fund Tokenisation: The Franklin Templeton and Baillie Gifford Models

Franklin Templeton's BENJI fund, a tokenised money market fund launched in the US in 2021 [CR] ⁹⁸, maintains the register of unitholders on-chain using Polygon (an Ethereum Layer 2 blockchain) and Stellar. The register of who holds how many units is the authoritative record on the blockchain rather than in a conventional transfer agent database. Distributions are calculated and paid automatically. The fund has operated at scale, demonstrating that on-chain fund registers are operationally viable.

⁹⁴ TauriPay (43)

⁹⁵ CPMI-IOSCO (29)

⁹⁶ Chainspect/Etherscan (53)

⁹⁷ Solana (44)

⁹⁸ Franklin Templeton (20)

In June 2026, Baillie Gifford launched the UK's first fully tokenised investment fund (\$BAGEY) [CR] ⁹⁹, partnering with BNY, issued natively on the Ethereum and Solana blockchains. This is the first UK live example of a fully tokenised fund rather than a conventional fund with a digital register.

What BENJI and BAGEY demonstrate is that the register-maintenance function can migrate to a DLT ledger without disrupting the investment management function; smart contract automation of distribution payments is operational; and institutional-grade fund operations are achievable on a blockchain-based register.

What these funds do not demonstrate is SFR finality. Both use public blockchains with probabilistic finality, not the permissioned deterministic systems required for SFR designation. Their success is therefore not evidence that the DLT performance question for DvP settlement is resolved but it is evidence that DLT works for fund register maintenance, where the finality requirements are lower. Fund unit transfers settle through conventional payment systems, not through RT2 synchronisation.

Tokenised fund units — a distinct development

The BENJI model tokenises the register of a conventional fund. A distinct and further development is the tokenisation of the fund unit itself, where the unit is an on-chain token that can be transferred and used as collateral directly. BlackRock's BUIDL fund issues ERC-20 tokens on Ethereum [CR] ¹⁰⁰; Franklin Templeton's OnChain US Government Money Fund issues tokens on Stellar and Polygon; Fidelity has launched comparable products. These are live and at significant scale — BUIDL exceeded \$500 million AUM within months of launch [CR] ¹⁰¹.

The distinction from BENJI matters: a tokenised fund unit can be used as on-chain collateral without redemption. A BUIDL token posted as margin remains a yield-bearing money market instrument while serving as collateral, eliminating the opportunity cost of holding non-yielding cash margin. This is a real extension of the collateral mobility benefit: money market fund units that are themselves tokens can participate in the same on-chain collateral ecosystem as tokenised bonds and other digital assets.

These products are currently US-domiciled and operate outside the UK regulatory framework described in this paper. Whether equivalent UK-domiciled tokenised fund unit products emerge depends on PS 26/7 implementation and the FCA custody framework under CP25/40. The scale of institutional demand demonstrated by BUIDL is relevant context for UK policymakers and market participants assessing the commercial case for UK digital fund products.

Appendix J — Securities Collateral Mobility: The Trapped Collateral Problem

This appendix expands on the securities collateral mobility benefit described in Part 1, which is identified as the most commercially significant DLT-specific improvement available from 2028.

What collateral is and why it matters

Collateral is assets pledged to a counterparty to secure an obligation. In financial markets the primary uses are initial and variation margin for derivatives (posted to CCPs and bilateral counterparties under EMIR/UMR); repo (securities sold with an agreement to repurchase, where the security is the collateral for the cash loan); and securities lending (collateral posted by the borrower against the borrowed securities). The assets used as collateral are non-cash securities: government bonds, high-grade corporate bonds, and equities. Cash collateral is already highly mobile through existing payment systems; the collateral mobility problem described here applies specifically to securities used as collateral.

The trapped collateral problem

Collateral today is held across multiple custodians and CSDs: CREST for UK gilts and equities, Euroclear Bank for international bonds, DTC for US securities, and local custodians in dozens of markets for domestic

⁹⁹ CityAM / Baillie Gifford (18)

¹⁰⁰ BlackRock (19)

¹⁰¹ BlackRock (19)

securities. Moving collateral between these locations requires bilateral instructions, matching, and settlement through conventional systems with their own operating windows and cut-off times.

The problem is most acute intraday. Consider a UK pension fund with gilts in CREST, US Treasuries at DTC, and European bonds at Euroclear Bank. A margin call arrives at 10am requiring eligible collateral at a specific CCP by noon. The fund's custodian must identify which assets are eligible under the CCP's eligibility criteria; check the applicable haircuts; instruct the relevant sub-custodian to transfer the assets; wait for the custodian to process the instruction; wait for the conventional settlement process in the relevant CSD; and confirm the transfer has occurred. In practice, intraday settlement in most CSDs is limited or impossible on a same-day basis. The margin call may go unmet by eligible assets that exist but cannot be mobilised in time.

The result is trapped collateral: assets sitting in one location that cannot be efficiently mobilised to where they are needed. The cost of this inefficiency is real: institutions must hold larger collateral buffers than the actual risk exposure requires, simply to ensure sufficient eligible assets are available in each location at all times. The Bank for International Settlements and ISDA have published extensively on this problem [CR] ¹⁰². ISDA's annual margin survey documents the scale of collateral posted across bilateral and cleared derivatives markets [CR] ¹⁰³. A 2025 ISSA survey found an 11.6% reduction [CR] ¹⁰⁴ in collateral buffering requirements and a 13.4% reduction in settlement failures among firms using tokenised collateral infrastructure.

Live UK examples

In July 2025, Lloyds Banking Group, Aberdeen Investments, and Archax completed the first UK institutional transaction [CR] ¹⁰⁵ using tokenised money market fund units and tokenised UK gilts as collateral for FX trades. Lloyds confirmed that digital assets can be used in regulated financial markets under existing legal frameworks. In February 2026, Digital Asset, alongside a working group [CR] ¹⁰⁶ of leading financial institutions, completed a groundbreaking cross-border intraday repo with tokenised gilts [CR] ¹⁰⁷. This was the first cross-currency transaction using tokenised gilts against non-GBP tokenised deposits.

What DLT changes

On a shared DLT ledger, a tokenised gilt moves instantly and indivisibly to any counterparty on the same network, at any time, with no intermediary and no settlement window. When the pension fund's custodian and the CCP are both participants on the same Canton network, the custodian can move eligible collateral from the fund's position to the CCP's margin account in a single atomic transaction that completes in seconds, automatically, within the parameters the fund has agreed with its custodian. No instruction chain, no cut-off time, no same-day settlement constraint. The fund sees the benefit as improved margin economics and lower funding costs; the mechanics are handled entirely by the custodian.

This changes the collateral management problem fundamentally. Instead of maintaining large static buffers in each location, a fund can hold its collateral pool in a single location and mobilise it dynamically as margin requirements change throughout the day. BCG analysis estimates that collateral efficiency improvements would generate hundreds of millions of pounds of annual economic value for an average wholesale bank and contribute up to 4% uplift in return on equity [CR] ¹⁰⁸.

The OTC derivatives connection

The collateral mobility benefit connects directly to the uncleared OTC derivatives use case. The largest users of bilateral derivatives for hedging (major banks, insurance companies, pension funds) are also the largest users of securities collateral for initial margin under EMIR and UMR. If both the derivative position and the collateral are on the same Canton ledger network, the margin call calculation and collateral movement can be

¹⁰² BIS (30)

¹⁰³ ISDA margin survey (33)

¹⁰⁴ ISSA (17)

¹⁰⁵ Lloyds / Aberdeen / Archax (21)

¹⁰⁶ Digital Asset (22)

¹⁰⁷ Digital Asset (22)

¹⁰⁸ BCG (25)

automated end-to-end through DAML smart contracts. This is the full ecosystem that JPMorgan Kinexys and the other major Canton participants are building toward, and why the Wholesale Digital Markets Champion identifies repo, collateral, and OTC derivatives as priority use cases for the Taskforce.

JPMorgan Kinexys and Broadridge at scale

JPMorgan Kinexys, processing \$350 billion daily in repo [CR] ¹⁰⁹, demonstrates this benefit at the largest scale currently operating. Broadridge's digital repo platform processed \$368 billion [CR] ¹¹⁰ in average daily repo transactions in April 2026. This is equivalent to nearly \$8 trillion over the month. Both demonstrate that the collateral mobility benefit is not a future possibility; it is operating today on Canton at institutional scale.

Why SFR designation is not required for this use case

The collateral mobility benefit is available as soon as the shared ledger network is operational and does not require RT2 synchronisation or SFR designation. Collateral and repo transactions between large sophisticated institutional counterparties operating under GMRA and GMSLA documentation can accept contractual finality for the asset leg, and commercial bank money through existing correspondent banking arrangements is sufficient for the cash leg. Central bank money finality through RT2 is not required. SFR designation is needed for the open institutional DvP market (UCITS funds, insurers, pension funds) where fiduciary mandates require statutory protection on both legs. For the collateral and repo market between sophisticated bilateral counterparties, the benefit is available now on existing Canton infrastructure, and at institutional scale from when the UK synchronisation infrastructure goes live.

The intermediary role

Most institutional investors will access this benefit through their prime broker, custodian, or fund administrator rather than directly. The client sees the benefit as improved margin economics and lower funding costs; the DLT technology is invisible to them. This is consistent with the two-groups framework in Part 1: collateral mobility is a direct technology question for custodians, prime brokers, and fund administrators, and a new service question for their clients.

¹⁰⁹ Kinexys (15)

¹¹⁰ Broadridge (16)

Sources Table

The following 53 sources support the statements in this paper. Each source is numbered for footnote reference and tagged with the evidential taxonomy category.

Tag key: [CR] Confirmed regulatory position or established market practice [PT] Announced programme target [AA] Authors' analysis [SD] Scenario or dependency

#	Source	Type	Tag	Key claims supported / notes
1	Wholesale Digital Markets Champion. First report to the Chancellor: Forward Look for Tokenising UK Markets (City of London Corporation, July 2026)	Government	[PT]	DIGIT Q1 2027 target; nine Action Groups; repo/OTC/fixed income priority use cases; £33bn/£14bn economic figures (attributed to Barclays/PwC). Also covers HMT DIGIT digital gilt announcement.
2	FCA and Bank of England. Joint Call for Input on tokenisation in UK wholesale markets (18 May 2026). bankofengland.co.uk	Regulatory	[PT]	RT2 live service targeted 2028; Synchronisation Lab launch and 18 participants; design requirements Q1/Q2 2027.
3	Bank of England. Synchronisation Lab — participant announcement (May 2026). bankofengland.co.uk	Regulatory	[CR]	Lab participants confirmed: Swift, LSEG, ClearToken, Chainlink, Partior, Baton Systems and others.
4	FCA. Policy Statement PS 26/7: Progressing Fund Tokenisation (30 April 2026). fca.org.uk	Regulatory	[CR]	Fund tokenisation framework in force; DLT fund registers permitted; direct-to-fund dealing model optional; rules effective immediately.
5	Bank of England and BIS Innovation Hub. DLT Innovation Challenge Final Report (May 2026). bankofengland.co.uk	Regulatory	[CR]	"No single model delivers deterministic finality without shifting risk or trust assumptions." Challenge participants listed.
6	FCA. Consultation Paper CP25/40: Cryptoassets: Custody of Client Assets (December 2025). fca.org.uk	Regulatory	[PT]	Custody rules framework; FCA confirmed CASS 17 not to apply to specified cryptoassets. Rules expected 2027.
7	FCA. Consultation Paper CP25/41: Admissions and disclosures regime for cryptoassets (December 2025). fca.org.uk	Regulatory	[CR]	Admissions framework regime confirmed in force October 2027. FCA/HMT Cryptoasset Regulations full commencement 25 October 2027.
8	Property (Digital Assets etc) Act 2025. legislation.gov.uk	Legislative	[CR]	Legal recognition of digital assets as property under English law.
9	HM Treasury. Cryptoassets Order 2025. legislation.gov.uk	Legislative	[CR]	Cryptoasset regulatory framework; specified investment cryptoassets defined.
10	PRA. Dear CEO letter: Prudential Treatment of Tokenised Assets, Stablecoins, and other Cryptoasset Exposures (Bank of England, 2026). bankofengland.co.uk	Regulatory	[CR]	Interim treatment: tokenised assets receive same prudential treatment as non-tokenised equivalents where legal rights identical and risks comparable. Permanent framework deferred.
11	Bank of England. Sterling-denominated systemic stablecoins: policy statement and draft Code of Practice (June 2026). bankofengland.co.uk	Regulatory	[CR]	Banking Act 2009 pathway for stablecoin recognition confirmed; draft Code of Practice published.
12	DEMAT Taskforce. Final report (July 2026). https://www.gov.uk/government/publications/dematerialisation-market-action-taskforce	Government	[CR]	Recommendation: 4 January 2028 as date from which paper share certificates cease to be legal proof of ownership. UK equity digitisation within existing CREST model confirmed.
13	FCA/HMT. Cryptoasset Regulations — full commencement 25 October 2027 (Skadden analysis, April 2026). skadden.com	Legal analysis	[CR]	October 2027 full commencement date for cryptoassets regulatory regime.

#	Source	Type	Tag	Key claims supported / notes
14	ClearToken group. ClearToken Depository Limited: FCA-authorised November 2025, CT Settle live December 2025. ClearToken CSD Limited: DSS Gate 1 passed December 2024, Gate 2 application in progress, seeking ICSD authorisation. ClearToken CCP Limited: BoE submission for RCH authorisation in progress. CT Clear development with Nasdaq Eqlipse Clearing. ClearToken seeks ICSD authorisation providing settlement finality under English law. cleartoken.io; City Week 2026 sponsor description; Markets Media March 2026.	Market	[CR]	ClearToken is building the UK's first horizontally integrated digital FMI: ClearToken Depository Limited (FCA-authorised, CT Settle operational December 2025), ClearToken CSD Limited (DSS Gate 1, seeking ICSD authorisation), and ClearToken CCP Limited (seeking RCH authorisation).
15	JPMorgan Kinexys. Published statistics and investor presentations (2024-2025). jpmorgan.com	Market (self-reported)	[CR]	\$350 billion daily repo processing. Note: self-reported; not independently verified.
16	Broadridge. Digital repo platform statistics (broadridge.com, April 2026)	Market (self-reported)	[CR]	\$368 billion average daily repo transactions April 2026. Note: self-reported; not independently verified.
17	ISSA November 2025 report "The Case for Collateral Tokenisation," published by the International Securities Services Association (ISSA) Digital Assets Working Group and The ValueExchange,	Industry survey	[CR]	11.6% reduction in collateral buffering requirements; 13.4% reduction in settlement failures among firms using tokenised collateral infrastructure.
18	CityAM. Baillie Gifford \$BAGEY fund launch (June 2026). cityam.com	Market	[CR]	UK's first fully tokenised investment fund; issued natively on Ethereum and Solana; BNY as fund administrator.
19	BlackRock. BUIDL fund published materials and AUM data (blackrock.com, 2024)	Market (self-reported)	[CR]	ERC-20 tokens on Ethereum; \$500m+ AUM within months of launch; \$5m minimum investment; institutional collateral use. Note: self-reported.
20	Franklin Templeton. BENJI fund published materials (franklintempleton.com, 2021 onwards)	Market (self-reported)	[CR]	On-chain fund register on Polygon and Stellar; SEC-registered money market fund. Note: self-reported.
21	Lloyds Banking Group / Aberdeen Investments / Archax. UK-first tokenised collateral transaction (July 2025). Publicly reported.	Market	[CR]	First UK institutional transaction using tokenised MMF units and tokenised gilts as collateral for FX trades. Lloyds confirmed digital assets usable under existing legal frameworks.
22	Digital Asset. Cross-border intraday repo with tokenised gilts (February 2026). Publicly announced. digitalasset.com	Market (self-reported)	[CR]	First cross-currency transaction using tokenised gilts against non-GBP tokenised deposits. Note: self-reported.
23	Canton Network. Year-end statistics (December 2025). Messari. Comprehensive Overview of Canton Network (May 2026). messari.io	Market (self-reported) / Secondary	[CR]	Canton participants; 100-1,000 TPS Global Synchronizer; 200ms-5 second finality. Note: Canton figures self-reported; Messari is secondary source.
24	Barclays and PwC. Rewiring Finance: Tokenisation as a Catalyst for UK Growth (2026)	Industry report	[CR]	£33bn annual UK output increase and £14bn fiscal revenues by 2035 — conditions: UK leads, global tokenisation scales, domestic adoption matches peers.
25	Boston Consulting Group. The Future of Digital Assets (BCG, 2026)	Industry report	[CR]	\$88 trillion global projection; 1-2% collateral efficiency improvement; 4% RoE uplift.
26	ISDA. Common Domain Model (isda.org)	Industry standard	[CR]	Standardised, machine-readable representation of derivatives trade terms, events, and processes. Enables DAML smart contract model for OTC derivatives.
27	ISLA. Digital securities lending framework (isla.co.uk). Digital Asset partnership.	Industry	[CR]	ISLA and Digital Asset developing digital securities lending framework;

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28	ICMA. Digital bond standards and Bond Data Taxonomy (icmagroup.org). International bond market statistics.	Industry	[CR]	DAML contract model for eliminating manufactured dividends. Eurobond market approximately \$14 trillion; ICMA Digital Bond Data Taxonomy; digital bond documentation standards.
29	CPMI-IOSCO. Principles for Financial Market Infrastructures (bis.org)	International regulatory	[CR]	PFMI standards: deterministic finality; sufficient throughput; five-nines operational availability (Principle 17: less than five minutes unplanned disruption per year).
30	Bank for International Settlements. Working Paper No. 561: Connecting the dots: payment systems and settlement (2022); Working Paper No. 565: Collateral in the digital age (2023); Developments in Collateral Management Services (CPMI, 2023); Tokenisation in the context of money and other assets (2023); Project Agorá and the Unified Ledger initiative (2024). bis.org	International regulatory	[CR]	Trapped collateral problem; collateral buffer inefficiency; the case for shared ledger infrastructure to mobilise securities collateral; interoperability between domestic payment systems as prerequisite for cross-border collateral mobility. Multiple BIS publications support the collateral mobility analysis in Appendix J.
31	Investment Association. Tokenised funds series Paper 1 (2020); IF3 Lab programme (theia.org). Investment Association published work on fund processing automation.	Industry	[CR/PT]	Fund tokenisation framework; IF3 Lab coordinating industry engagement on PS 26/7 implementation; fund processing automation as industry priority.
32	DTCC. Published analysis of T+1 transition and netting efficiency (dtcc.com). Published descriptions of corporate action processing function (dtcc.com).	Market	[CR]	Real-time settlement loses significant netting benefits; T+1 chosen over T+0. Corporate action processing intermediary chain described.
33	ISDA. Annual margin survey (isda.org)	Industry survey	[CR]	Scale of collateral posted across bilateral and cleared derivatives markets; initial and variation margin requirements.
34	Bank of England. CHAPS statistics (bankofengland.co.uk)	Regulatory	[CR]	£93.9 trillion processed through CHAPS in 2025. (Glossary only, not referenced)
35	Digital Asset. Daml Finance documentation (docs.daml.com)	Market (self-reported)	[CR]	DAML instrument template library: bonds (fixed, floating, callable, inflation-linked, zero coupon), equities, options, swaps, structured products. Note: self-reported.
36	Mayer Brown. Analysis of FCA/BoE Call for Input (June 2026). mayerbrown.com	Legal analysis	[AA]	Legal framework analysis of tokenisation regulatory developments. (not referenced)
37	FCA. Supervisory work on operational resilience in asset management including "Custody and Fund Services Supervision Strategy" Dear CEO letter issued on 13 December 2024. fca.org.uk.	Regulatory	[CR]	Many fund administrators rely on manual processes and legacy systems.
38	UCITS Directive (2009/65/EC as retained in UK law) and FCA COLL sourcebook. fca.org.uk	Legislative/Regulatory	[CR]	Transferable securities definition; UCITS eligibility requirements; admission to recognised regulated market required.
39	PRA. Solvency UK rules and UK Capital Requirements Regulation. bankofengland.co.uk	Regulatory	[CR]	Capital treatment of non-standard assets; potentially equity-like charges for tokenised instruments without non-tokenised equivalents; potentially 100% risk weight under UK CRR.
40	Markets Media / Apex Group. Fidelity International FILQ launch (May 2026). marketsmedia.com; apexgroup.com. Fidelity tokenised money market fund announcement (2024).	Market	[CR]	Fidelity USD Digital Liquidity Fund (FILQ) launch May 2026: Sygnum, JP Morgan, Chainlink, Apex Group; AAA-

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				mf Moody's rating. Earlier 2024 Fidelity tokenised money market fund announcement.
41	Funds Europe. Schroders Capital / Hannover Re tokenised ILS platform (April 2026). funds-europe.com	Market	[CR]	First real-world collateralised reinsurance transaction on tokenisation platform; smart contracts automate collateral management. (Not referenced)
42	EIB and AIIB. Digital bond issuances using DAML (2021-2024). Publicly announced.	Market	[CR]	Live digital bond issuances establishing DAML instrument template precedent.
43	TauriPay. Platform documentation (tauripay.com, 2026)	Market (self-reported)	[CR]	FIFO sequential processing with binary finality. Note: self-reported.
44	Solana Foundation. Network Health Report (June 2025). solana.com. Updated status: Alpenglow upgrade on track for mainnet activation late Q3 or early Q4 2026, tied to Agave 4.3 client release. U.Today / TradingView (2026). tradingview.com	Market (self-reported)	[PT]	Alpenglow upgrade targeting deterministic finality; mainnet activation targeted late Q3 or early Q4 2026, tied to Agave 4.3 client release following community approval and testnet trials.
45	Equiniti/Bullish acquisition (May 2026). Widely reported.	Market	[CR]	Crypto exchange acquiring major UK transfer agent to build tokenised securities infrastructure.
46	HM Treasury. UK Wholesale Financial Markets Digital Strategy (July 2025). gov.uk	Government	[CR/PT]	UK Government digital markets strategy; foundation for Champion report programme. (not referenced)
47	FCA. Digital Securities Sandbox (DSS) materials and dashboard. fca.org.uk/markets/digital-securities-sandbox	Regulatory	[CR]	DSS Gate 2 firms near live issuance; sandbox participants and progress. Note: verify current figure on FCA dashboard before submission.
48	Euroclear Bank. Settlement across multiple currencies and markets; commercial bank money model. euroclear.com	Market	[CR]	Euroclear Bank settles international securities in commercial bank money across multiple currencies. Established model for non-sterling settlement without central bank money. Euroclear Bank is co-chair of Canton Foundation.
49	Clearstream Banking Luxembourg. SFD designation (ECB assessment). clearstream.com	Regulatory/Market	[CR]	Clearstream Banking Luxembourg is SFD-designated; settles international securities in commercial bank money. Supports non-sterling settlement model for international digital bonds.
50	State Street, BNY Mellon, Northern Trust, HSBC. Fund administration digital programmes. Publicly announced.	Market (self-reported)	[CR]	Major fund administrators publicly building digital custody and fund administration capability. Note: self-reported through public announcements.
51	UK Finance and Oliver Wyman. Tokenised Securities in the UK (2026)	Industry report	[CR]	UK market context for tokenised securities; industry analysis. (not referenced)
52	FIX Trading Community. Blockchain Basics paper. fixtradingcommunity.org	Industry	[CR]	Blockchain and DLT infrastructure standards relevant to financial markets trading. (not referenced)
53	Chainspect and Etherscan. Real-time blockchain performance data. chainspect.app; etherscan.io	Market	[CR]	Public blockchain performance metrics; throughput, finality, and uptime data for Ethereum and other public blockchains referenced in Appendix H.
53	New York Stock Exchange / Intercontinental Exchange. NYSE Develops Tokenized Securities Platform (press release, 19 January	Market	[CR]	NYSE building dedicated venue for 24/7 trading and on-chain settlement

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	2026); NYSE Rule Change SR-NYSE-2026-17 approved by SEC 17 April 2026. ir.theice.com .			of tokenised securities — new venue rather than extension of existing infrastructure. Also supports: Nasdaq filing to SEC for tokenised equities trading (September 2025).