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Christopher Kirkpatrick, Secretary
Commodity Futures Trading Commission
Three Lafayette Centre, 1155 21st Street NW
Washington, DC 20581

Via: <https://www.comments.cftc.gov>

Request for Feedback: Tokenized Collateral and Stablecoins Initiative

Dear Mr. Kirkpatrick:

State Street Corporation ("State Street"), welcomes the opportunity to comment on the Commodity Futures Trading Commission's ("CFTC") initiative to explore the use of tokenized collateral in the derivatives market. This includes the CFTC's request for feedback on the Global Market Advisory Committee's ("GMAC") recommendations to expand the use of non-cash assets as collateral through the use of distributed ledger technology ("DLT"), which we strongly endorse.¹

Headquartered in Boston, Massachusetts, State Street is a global custody bank which specializes in the provision of financial services to institutional investor clients, such as asset owners, asset managers and official sector institutions. This includes investment servicing, investment management, data and analytics, and investment research and trading. With \$51.7 trillion in assets

¹ 'Recommendations to Expand Use of non-Cash Collateral Through the Use of Distributed Ledger Technology', Digital Asset Markets Subcommittee of the CFTC Global Markets Advisory Committee, November 21, 2024.

under custody and administration and \$5.4 trillion in assets under management, State Street offers its clients the ability to hold assets and transact in more than 100 geographic markets globally.²

State Street is organized as a United States (“US”) bank holding company (“BHC”), with operations conducted through several entities, primarily its wholly-owned Massachusetts state-chartered insured depository institution subsidiary, State Street Bank and Trust Company. State Street Investment Management (“SSIM”) is the investment management division of State Street, managing assets on behalf of institutional investors globally. SSIM is the world’s fourth-largest asset manager and sponsors the SPDR® family of exchange traded funds. As a US BHC, State Street is subject to consolidated supervision by the Federal Reserve System.

In order to help drive the tokenization of collateral assets, which is critical to promoting the long-term efficiency and competitiveness of the US capital markets, we urge the CFTC to work with the industry to issue guidance on certain legal, contractual and practical matters, as described in greater detail below.

GMAC Recommendations

As noted by the GMAC, the CFTC has long permitted the use of non-cash assets as collateral to satisfy margin requirements for cleared and uncleared derivatives. This includes shares in certain money market funds (“MMFs”) that meet eligibility requirements specified by the CFTC and the federal banking agencies. As a practical matter, however, there are a series of operational challenges that today greatly constrain the use of MMF shares as regulatory margin. First, the process for transferring or pledging non-cash assets, including shares of MMFs, is complex and requires the sequential involvement of multiple financial market intermediaries, each with its own internal systems and processes.

Second, the ability to undertake secondary transfers of MMF shares without the involvement of the fund issuer or transfer agent is limited. Thus, to the extent that a derivatives market participant wishes to make use of shares of MMFs as collateral, it must first redeem its ownership stake in the MMF for cash and then transfer the cash to the collateral taker, requesting in turn that the

² As of September 30, 2025.

collateral taker use the inbound cash to repurchase the same MMF shares on its behalf. This process is operationally inefficient and can exacerbate market volatility during periods of stress.

Given these constraints, it is often quite challenging to meet applicable deadlines for posting regulatory margin using shares of MMFs and other non-cash assets, and market participants will therefore routinely use cash to satisfy margin requirements even when the use of non-cash collateral is both permissible and preferable. Indeed, the use of cash collateral has several negative effects that impact on the efficiency of the US capital markets. This includes an increase in counterparty credit risk to the entity holding the cash collateral on deposit and a drag on investment performance from having to hold cash balances that would otherwise be invested in accordance with the entity's or fund's mandate.

In response, market participants are actively exploring the use of DLT to solve today's challenges, including through the tokenization of shares of MMFs, where ownership rights are digitally represented and transferred between entities using blockchain technology, thus permitting greater speed and efficiencies in the transfer of collateral assets.

The ability of tokenized MMFs to quickly improve the competitiveness of the exchange of collateral in the derivatives market is greatly supported by the fact that its use does not require changes to the established legal or regulatory framework for regulatory margin. The GMAC recommendations helpfully support this point, noting how the use of DLT can effectively meet existing rules for collateral eligibility, the books and records obligations of derivatives market participants, the assessment of legal enforceability, compliance with asset segregation and custody mandates, the review of credit and custodial risk, and due diligence processes to assess and mitigate information security risks.

Additional Clarity and Guidance

As noted in our introductory comments, we appreciate and strongly support the CFTC's initiative for the use of tokenized collateral in the derivatives market, and the GMAC's recommendations for how to expand industry use of non-cash assets, such as shares of MMFs, through DLT. Tokenization has the potential to greatly improve the efficiency of the derivatives market by both expanding the pool of assets available for use and the velocity at which these assets can be transferred through the financial system. Tokenization also has the ability to increase

competitiveness in the collateral market with a more diverse range of participants, addressing market demands to improve efficiencies and reduce risk.

Additionally, the ability to post tokenized shares of MMFs as collateral is expected to enhance the operational resilience and stability of MMF subscription and redemption activity. By facilitating near-instantaneous settlement and reducing the need for frequent cash conversions, tokenization mitigates pro-cyclical redemption flows and supports orderly market functioning, thereby promoting greater stability in the underlying MMF during periods of elevated collateral demand.

As tokenization begins to accelerate, guardrails should be provided for the use of digitally native assets as collateral, while also making provisions for digital twin representations of traditionally issued assets, such as shares of MMFs, increasing in the process both market confidence and acceptance.

In support of these objectives, we recommend that the CFTC consider, with the assistance of the industry, the following additional clarifications and guidance:

- Regulatory Equivalence: The CFTC should harmonize the use of digitally native assets as eligible collateral in accordance with existing guidance for traditionally issued assets, including the establishment of equivalent haircuts for regulatory margin.
- Contractual Standards: The CFTC should provide guidance for contractual agreements that govern collateralization activities (e.g., CSA, ISDA, GMSLA, GMRA), to address new risks and appropriate carve-outs for tokenized assets. This includes confirmation of the governing law and enforceability of the transfer of ownership on a cross-border basis and consideration of a new default or termination event related to the failure of the DLT platform or loss of the private key.
- Legal Documentation: The CFTC should charge the industry with the development of best practices for standardized legal documentation, harmonizing common definitions of core terms like securities, collateral and cash to explicitly include tokenized assets, and other related administrative matters that might otherwise hinder broad industry acceptance.
- Insolvency Provisions: The CFTC should promote clear legal provisions on the ability of the collateral taker to access its interest in the tokenized collateral in the event of counterparty

default, insolvency or administration proceeding. This includes confirmation that a change in DLT entries is sufficient for a legally effective transfer of collateral and guidance regarding the right of the collateral taker to liquidate or dispose of the tokenized collateral by re-purchase or sale in a timely manner.

- Custodial Control: The CFTC should clarify the operational standards that must be met by custodial entities to ensure the safety of non-cash collateral and the timely settlement of transactions. This includes the exclusive ability of the custodial entity to effectuate transactions that involve a change in beneficial ownership of the non-cash asset.
- Digital Twins: The CFTC should address the counterparty and insolvency risks that may arise from the bifurcation between the digitally native tokenized asset and the underlying traditional assets held in custody. This includes the establishment of clear provisions for collateral access and settlement finality in the event of default.
- Cross-Border Treatment: The CFTC should work with its counterparts to facilitate the cross-border use of tokenized collateral, including through the development of uniform definitions and standards, the ability to interoperate DLT platforms on a cross-border basis, and clarity on the legal status of tokenized collateral exchanged across borders in the event of insolvency.

Conclusion

Thank you once again for the opportunity to offer our views on the CFTC's initiative for the use of tokenized collateral in the derivatives market. To summarize, we welcome the CFTC's effort to drive greater efficiencies in the market through the use of tokenized assets, and we strongly endorse the recommendations of the GMAC for expanding the use of non-cash collateral through the use of DLT.

We believe that the use of tokenized collateral has the ability to drive greater competition in the derivatives market with a more diverse range of participants, and we urge continued engagement with industry stakeholders to refine guidance in several critical areas to ensure greater regulatory and legal certainty.

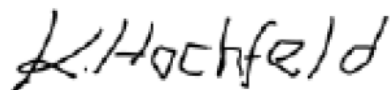
We look forward to collaborating further on this important initiative. Please feel free to contact us should you have any questions.

Sincerely,



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