State Street Corporation
20 Churchill Place
London E14 5HJ

statestreet.com

21 November 2025

David Burrows and Joshua Castle
Fund and Asset Management Policy
Financial Conduct Authority,
12 Endeavour Square,
London, E20 1JN

Submitted via: cp25-28@fca.org.uk

Re: Consultation paper 25/28 – Progressing Fund Tokenisation

Dear Sir/Madam:

State Street Corporation ("State Street") appreciates the opportunity to contribute to the consultation paper issued by the Financial Conduct Authority ("FCA") on its proposed guidance to advance fund tokenisation in the UK. Our comments address Chapters 2, 3 and 4 of the consultation.

State Street is one of the world's leading providers of financial services to institutional investors including investment servicing, investment management and investment research and trading. With $51.7 trillion in assets under custody and/or administration and $5.4 trillion in assets under management (as of 30 September 2025), State Street operates globally in more than 100 geographic markets and employs approximately 52,000 worldwide.

This response is informed by the perspectives of our diverse investment servicing offering in the UK, represented by our UK-domiciled depositary and trustee entity, State Street Trustees Limited, and our UK-domiciled investment management firm, State Street Global Advisors Limited. Moreover, State Street has this year launched transfer agency services in the UK, supported by our partner ZILO™, a FinTech specialising in global asset and wealth management software. We have also contributed to industry responses, namely submissions by the UK Depositary Association ("UKDA"), the Association of Global Custodians ("AGC") and the Investment Association ("IA").

State Street supports the FCA's objective to foster a safe, competitive and transparent digital asset ecosystem in the UK. As a global custody bank and asset manager, we see our role as improving trust and safety in digital asset custody, providing the foundational infrastructure for tokenisation services and expanding investors' access to tokenised assets.

To achieve this, the regulatory framework must continue to uphold the foundational principles of asset segregation, operational resilience and functional separation that ensure systemic stability and full investor protection in the traditional assets space. As a custody bank we are also committed to apply the highest standards that we currently adopt for traditional assets to the digital space. As such, State Street applies its global financial crime compliance program consistently across traditional and digital asset businesses.

The program mandates sanctions, anti-money laundering ("AML"), and politically-exposed persons ("PEP") screening for all customers and transactions, leveraging enterprise-wide screening systems and governance controls. Digital asset activities are subject to the same risk-based standards, including list management, alert handling and remediation protocols, thereby ensuring compliance with applicable laws and internal policies.

We support the FCA's overall policy direction, particularly with respect to the explicit support for distributed ledger technology ("DLT") based fund registers, the direct-to-fund ("D2F") dealing models, and the use of digital cash instruments and qualifying stablecoins as ancillary digital assets for issuance, subscriptions, cancellations and collateral. These are progressive steps that would align the UK's approach with other leading international jurisdictions.

Nevertheless, we envisage a number of implementation issues that will need to be addressed ahead of finalising any Policy Statement. In particular, the following foundational issues have not, in our view, been adequately addressed in the FCA's proposal:

- We welcome the FCA's support for the D2F model. This will bring the UK on par with other international jurisdictions and will offer market participants a consistent operating model cutting across jurisdictions. However, the industry will need to operate both traditional (box/principal) and tokenised models in parallel for several years; therefore, we urge the FCA to provide clarity on the roles, responsibilities and liability within this hybrid environment. The ultimate goal of this transition should be full adoption of the D2F model over time.
- Managing this transition will require further consideration of unintended consequences, notably with respect to resolving significant operational, legal and governance challenges which could impact depositaries and trustees—including, but not limited to, AML

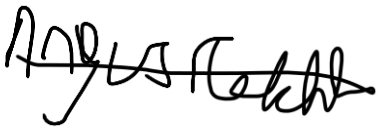
responsibilities. The D2F model offers increased efficiencies to fund managers, but the FCA should not lose sight of the risk of transferring responsibilities to the depositary. We, therefore, seek confirmation that there will be no impact from client money rules and that AML responsibilities on depositaries will be mitigated.

- We also welcome the FCA's new approach as regards public networks, since we believe public permissioned networks is where the industry should be headed. This, however, creates some practical questions in terms of contingency arrangements, AML checks and gas fees where further work between industry and the regulators will be warranted.
- In managing this hybrid ecosystem, it is also important to clarify the application of CASS rules in both hybrid and D2F models. We believe there should be absolute clarity that under D2F models CASS rules would not apply, unless in limited tail-events where the fund manager is not able to identify the relevant investor base.
- Further clarifications on the regulatory treatment of fund register operators is also needed. There several considerations that are relevant when operating a fund register, including onchain/offchain data integration, audit and privacy standards, business continuity planning.
- We strongly encourage broader adoption of tokenised MMFs ("tMMFs"). Enabling tMMFs to be posted directly as collateral can transform collateral management from a slow, siloed, and resource-intensive process into a real-time and yield-optimised digital asset ecosystem. We recommend that the FCA continues to work on industry pilots and reports to enable tMMFs as collateral both within and outside of the Digital Securities Sandbox (DSS), including in the cleared space. Arguably, within the DSS framework, digitally native assets considerably reduce challenges related to collateral look-through compared to traditional tokenised assets. To scale up the tMMFs use case, it will be important for both industry and the regulators to address this fundamental disparity.
- Finally, we note the critical importance of nuanced token taxonomies and interoperable token standards, hence we encourage the FCA to collaborate with industry and international regulators with a view to harmonising approaches and facilitating cross-border activity.

Further detailed comments can be found below in our responses to specific consultation questions.

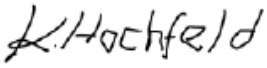
State Street looks forward to working with the FCA and industry peers to address these outstanding challenges and ensure that the UK remains a competitive and trusted investment center in the digital age. We appreciate the FCA's willingness to engage with industry stakeholders throughout this process. Please do not hesitate to contact us if you would like to discuss this submission further.

Yours Sincerely,



Angus Fletcher

Senior Vice President and Global Head of Digital Solutions, State Street Bank & Trust Company



Kim Hochfeld

Senior Vice President and Global Head of Cash and Digital Assets, State Street Investment Management

Consultation Questions

Q1: Does the proposed guidance provide adequate clarity on how firms can use DLT to support the operation of fund registers?

State Street welcomes the proposed guidance and believes that it is positive step towards formalising regulatory support for the UK Fund Tokenisation Blueprint model. We would like to offer some constructive points where we think the guidance falls short of providing adequate clarity:

- **Governance around smart contracts** – Smart contracts introduce automation benefits but also risks for the digital ecosystem if incorrectly coded. A single error could impact thousands of investors simultaneously. See our response to Question 3 for further detail.
- **Use of public networks and data privacy laws** – While privacy concerns in a DLT environment should remain front and center in the regulatory framework, the data privacy expectations as currently expressed are incompatible with the design of many public-permissionless blockchains. We refer to this and other network-related issues in our response to Question 5.
- **Legal domicile** – The requirement that firms should ensure the fund has "legal domicile and jurisdiction for service of legal documents in the UK" creates a degree of uncertainty. It would be helpful to provide clear guidance on what aspects of the use of DLT call this into question and how those can be addressed.
- **Use of tMMFs as collateral** – Tokenisation has the potential to greatly improve the efficiency of collateral management by both expanding the pool of assets available for use and the velocity at which these assets can be transferred through the financial system. The ability to post tokenised 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, tokenisation mitigates pro-cyclical redemption flows and supports orderly market functioning, thereby promoting greater stability in the underlying MMF during periods of elevated collateral demand. While the proposed confirmation that tMMFs are eligible under UK EMIR for uncleared collateral purposes is helpful, work must continue between industry and regulators to encourage market adoption and scalability. 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. Digitally native assets considerably reduce challenges related to collateral look through compared to traditional tokenized assets. To scale up the tMMFs use case, it

will be important for both industry and regulators to address this fundamental disparity. We also refer to the consultation response submitted by the International Swaps and Derivatives Association ("ISDA") which highlights important legal and regulatory considerations for collateral eligibility.

Q2: Are there any challenges in meeting the current requirements where DLT platforms are used, or in respect of emerging use-cases?

We believe that in the current regime a number of challenges may arise when operating or using DLT platforms.

- **Operating a DLT** – Clarity as to how an entity responsible for safekeeping tokenised fund interests can meet its obligations where the registrar of the fund interest has the ability to unilaterally make modifications in the fund register (and, as a result, to the tokens it has minted) impacting fund interests that are being safekept by a third party.
- **On and off chain data** – The proposed guidance, while recognising that hybrid models (where on and off-chain records coexist), notes that where all data is not entirely available on-chain, both on and off-chain data must be merged to meet unitholder inspection requirements. It is not clear if this applies to only the digital share class of a traditional fund or whether it requires aggregating investor data across both traditional and digital share class holdings. In other words, do both traditional share class holdings and digital share class holdings have to be reproduced in legible form where the records are merged together?
- **Business Continuity Planning for DLT Outages** – Clearer guidance would help firms design resilient systems aligned with the FCA's operational resilience framework. In particular, it is important to clarify the circumstances in which alternative arrangements are needed to ensure records could be maintained.
- **Legal Transfer of title** – Further clarifying that transfers of fund interest tokens from one wallet to another is a legally effective transfer of the title to the fund interest under UK law would be helpful. Moreover, it should also be clarified that minting of a token on a DLT and depositing it in a wallet are sufficient to evidence the legal title to that share interest (i.e., the minting of the token is sufficient to legally issue a fund interest, and the registrar's subsequent creation of a ledger from the wallet addresses is sufficient to legally conclude that the wallet owner is the owner of the fund interest).

Q3: Do our existing rules and proposed guidance provide sufficient flexibility to allow for firms operating the register to use smart contracts for the purposes above?

As mentioned, smart contracts introduce automation benefits but also systemic risk if incorrectly coded. Appropriate smart-contract auditing standards and protocols for ongoing risk monitoring will therefore be required especially for public permissioned/permissionless frameworks.

We recommend that the FCA continues to work with the industry in order to ensure that formal control processes, emergency pause mechanisms and resolution processes are part of the best practices adopted by the industry. We would also welcome guidance on which party has ultimate responsibility for the operation of the smart contract and validating its operation.

Q4: What role can regulators play in supporting the development of token standards that promote effective governance and positive consumer outcomes?

State Street believes that regulators have an important role to play when it comes to defining token standards by supporting interoperability and minimum expectations on outcomes, in particular with respect to AML/KYC standards. Creating a safe harbor for certain tokens that meet minimum requirements (e.g., ERC-3643) should also be considered, together with audit controls that are sufficiently flexible to support innovation in smart contract design.

We would welcome an initiative to convene relevant SMEs across industry in order to help design this framework. To ensure international coordination, particularly with the U.S., this work could be undertaken in the context of the new Transatlantic Taskforce for Markets of the Future.

Q5: Do our COLL rules and proposed guidance provide sufficient flexibility to support fund tokenisation use-cases that use public networks?

We welcome the FCA's new approach as regards public networks, as we believe public permissioned networks is where the industry should be heading towards. We also welcome the FCA clarification that use of public networks would not be categorised as outsourcing arrangements. However, public networks do raise some practical questions in terms of contingency arrangements, AML checks and gas fees where further work between industry together and the regulators will be required.

This includes a consideration of the implications that a public permissionless network would have on transparency and privacy. We believe that strong controls can be implemented to avoid such privacy and confidentiality risks materialising. For example, maintaining a level of pseudonymity on chain while personal data remains securely managed off chain in GDPR-compliant registries. Without exposing personal data on-chain, this solution ensures that DLT transactions remain pseudonymous and auditable.

Q6: Do the proposals in this Chapter provide adequate flexibility for firms considering tokenisation and the migration to T+1 securities settlement?

We believe that there is flexibility to cover tokenisation and T+1, however, as one of the core benefits of tokenisation is the potential for 24/7 real time settlement, it will be important to consider how this could change processes and activities that currently exist, as well as giving rise to new risks.

Q7: Do you support the introduction of an optional regime to allow for direct dealing in authorised funds?

We support the principle of introducing an optional regime for direct dealing in authorised funds, recognising that this aligns with international practices and would be a material enhancement of the competitiveness and efficiency of the UK funds industry.

However, we would like to draw the FCA's attention on the need to resolve significant operational, legal, and governance challenges that the proposed model introduces which may impact depositaries and trustees. These include:

- **Operational and Oversight Challenges** – Depositaries will need to adapt oversight and control frameworks to accommodate direct investor interaction, which may affect responsibilities for safeguarding assets, monitoring investor flows, and managing settlement risks. The coexistence of traditional and direct dealing models could effectively require dual oversight which will increase administrative burdens and costs;
- **AML responsibilities** – The proposed guidance lacks clarity on the allocation of AML responsibilities. It is essential that investor-level financial crime checks (KYC, sanctions screening, transaction monitoring) remain solely with the Authorised Fund Manager (AFM). If the Issues and Cancellations Account ("IAC") is held in the depositary's name, depositaries may still be required to negotiate and oversee AML arrangements. We support industry efforts led by the UK Depositary Association and the Investment Association to updated Joint Money Laundering Steering Group guidance to explicitly confirm AFMs sole responsibility, and recommend that the FCA supports this initiative.
- **IAC structures –** The introduction of IACs will significantly increase operational complexity for depositaries requiring daily oversight of multiple accounts which require reconciliation of inflows/outflows, and management of settlement failures.
- **Personal data exposure** – Clear allocation of responsibilities between AFMs and depositaries is essential to avoid gaps or duplication in GDPR compliance obligations. Circumstances in which the IAC is opened in the depositary's name could result in the depositary accessing investor-level information (e.g., names, account details) during reconciliations or oversight processes, thus creating potential risk of data and privacy breaches. Firms must ensure that any personal data shared is proportionate and relevant to

the depositary's role, and is subject to contractual safeguards and encryption. For more details on operational scenarios that could trigger GDPR risks we refer to the response submitted by the UK Depositary Association.

- **Client money considerations** – To mitigate possible implications for client money handling, we recommend that the FCA provides guidance on the classification of funds held in the IAC as either scheme property or client money for regulatory purposes. This would require clarifying the interaction between CASS requirements interact with COLL obligations, particularly in cases where the accounts are established in the depositary's name.

Q9: Do you agree with our proposals in respect of overdrafts and limits on fund exposure to a given bank or group? If not, why?

We agree in principle with including the IAC as scheme property within existing borrowing and exposure rules, and support the logic behind the proposals on overdrafts and exposure limits. However, there are significant operational and practical challenges that must be addressed, particularly for umbrella fund structures.

A key concern is the difficulty of attributing overdrafts to individual sub-funds when accounts are commingled. Manual intervention would be required to monitor, reconcile and allocate overdrafts correctly, increasing the risk of error and administrative burden. Firms would need robust controls, detailed record-keeping, and, potentially, enhanced technology solutions to ensure compliance.

Q10: Do you agree we should include all cash held at a given bank within our spread of risk rules for UCITS and NURS? If not, why?

We agree with the proposal to include all cash held at a given bank within the spread of risk rules for UCITS and NURS. This approach is consistent with diversification principles and helps mitigate concentration risk, ensuring that fund assets are not unduly exposed to a single counterparty.

Q11: Do you agree with our proposed accounting controls in respect of use of IAC? If not, why?

We have concerns about the practical implementation of the proposed accounting controls, particularly around reconciliation processes and the management of unattributed sums.

To reduce operational risk and ensure consistency, we recommend that the FCA defines minimum reconciliation frequency and reporting standards, provides objective criteria for applying the reasonable belief standard and sets clear timelines and procedures for managing unattributed sums. Such clarity will help depositaries fulfil their oversight responsibilities effectively and maintain confidence in the integrity of the direct dealing model.

Q12: Do you agree with our proposal to provide additional clarity on cash held by LTAF and the requirement to appoint an external valuer? If not, why?

We agree with the proposal to provide additional clarity on cash held by Long-Term Asset Funds ("LTAFs") and the requirement to appoint an external valuer. Clear guidance will help ensure consistency across the industry and support robust governance standards.

However, we recommend that the FCA confirm the term "cash" encompasses both cash and near-cash assets (such as short-term deposits and money market instruments), rather than being limited solely to cash deposits. This clarification is important to avoid ambiguity and ensure that firms can apply the rules appropriately in line with the liquidity management needs of LTAFs.

Q17: Are there any other purposes for which funds, fund managers, or investors may need to hold cryptoassets to support fund operations on-chain?

We welcome guidance that funds are able to hold tokenised versions of assets eligible in a conventional form. Holding tokenised government bonds (e.g. DIGIT) or money market instruments could facilitate the burn/mint process as part of the subscription and redemption process.

Q18: Would our potential amendments to COLL provide sufficient flexibility for firms to use digital cash and money like instruments for operational purposes, including unit dealing?

We believe that COLL 5.2.6B(4)(a)(ii) is out of place. Clause (i) of the definition of "ancillary digital asset" refers to fiat backed stablecoins, but clause (ii) talks about assets that are required to initiate transactions on the network (e.g., gas fees), and stablecoins are typically not required for that (it would be more likely be a cryptocurrency (e.g., ether). Either the "and" at the end of clause (i) should be replaced with an "or", or clause (ii) should be deleted (which would have the effect of prohibiting funds from holding cryptocurrencies needed to pay gas fees).

Q19: Would a limited sandbox or standard waivers/modifications be appropriate routes to allow us to develop a final regime in collaboration with industry? What features may be desirable in such a regime?

The use of the IF3 Lab and its interaction with the Digital Securities Sandbox are helpful existing sandbox mechanisms that can be further leveraged. As the FCA develops their approach, standard waivers/modifications could be considered to support industry development.

Q21: Would our existing rules, including the Consumer Duty, provide enough protection for investors if we allow a fund to hold cryptoassets for settlement and fund operational purposes only?

Yes, we think that the scope of the Consumer Duty is broad enough to protect investors in tokenised funds, even where cryptoassets are held for operational purposes such as settlement or payment of gas fees. However, tokenisation introduces digital processes that may inadvertently exclude vulnerable customers or those with limited digital access. This also raises important questions about inclusivity and we would welcome guidance from the FCA on how to balance inclusivity with the integrity and efficiency of tokenised processes.

Q22: Are there other associated regulatory, operational or commercial barriers to investing in tokenised assets? What could we do to address these issues?

We support a more holistic approach with respect to the educational efforts needed to ensure broader acceptance of MMF units as eligible collateral also in cleared transactions. In this context, the Bank of England's recent exploratory discussion paper on moves to mandatory clearing of gilts is relevant, as is the U.S. Securities and Exchange Commission's move to mandatory clearing of all US Treasury transactions. We recommend progressing these FCA efforts in conjunction with other jurisdictions, particularly the U.S., by leveraging the recently launched Transatlantic Taskforce for Markets of the Future.