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Technology

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Futures Industry Association

FIA: Adoption of Tokenization Beneficial for Cleared Derivatives Industry

- The Futures Industry Association (FIA) explores **the transformative potential of tokenisation in cleared derivatives markets**, focusing primarily on enhancing collateral mobility and settlement efficiency. **Tokenisation** - defined as the digital representation of assets on distributed ledger technology (DLT), particularly blockchain - **can significantly modernise post-trade processes** by enabling near-instantaneous settlement and reducing reliance on traditional banking hours and infrastructure.
- The paper outlines several **key benefits of tokenisation**. These include faster collateral transfer, improved liquidity access, enhanced accuracy through shared data records, and the potential for automation via smart contracts. Critically, tokenisation could support extended and potentially continuous trading by decoupling settlement from conventional banking hours.
- **Adoption is accelerating**, with developments such as tokenised money market funds, stablecoins, and distributed ledger applications in repo markets and clearinghouses.

- Major institutions including JP Morgan, DTCC, CME Group, and Eurex are conducting trials or forming partnerships to explore tokenisation use cases.
- Additionally, global regulatory bodies and central banks are increasingly supportive, evidenced by initiatives like Project Guardian (MAS) and BIS-led pilots.
- However, **challenges remain**. These include fragmentation across blockchain networks, the need for interoperability, privacy concerns, legal enforceability, and prudential treatment under existing capital rules. The industry must also ensure that blockchain systems meet institutional standards for reliability, security, and integration with legacy systems.
- To address these, **FIA recommends**: Enhancing industry education around blockchain technologies; Fostering legal certainty through regulatory clarity; Focusing initially on tokenising conventional, regulator-approved collateral (e.g., government bonds, money market funds); Promoting collaboration through pilot projects and standard-setting initiatives.

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