



**TOPICS:**

Technology

**SOURCE:**

International Monetary Fund

## IMF: Tokenized Finance

- The note presents **tokenization as a structural transformation of the financial system** rather than a marginal technological upgrade. Tokenization - defined as the representation of financial assets and liabilities on programmable shared ledgers - enables real-time, "atomic" settlement, integrating trading, clearing and settlement into a single synchronized process. This shifts the locus of trust **from regulated intermediaries to infrastructure and code**, fundamentally altering liquidity dynamics, risk management and governance frameworks.
- The note distinguishes **tokenization from prior digitization** by emphasizing programmability, shared ledgers and near-instant settlement finality. These features enhance efficiency but remove traditional temporal buffers (e.g., batch settlement), increasing the need for continuous liquidity management and potentially amplifying systemic risks. Tokenized money emerges in three forms: tokenized bank deposits, stablecoins and wholesale central bank digital currencies (wCBDCs), each reflecting different allocations of public and private sector risk.
- Across banking and capital markets, tokenization **compresses operational processes and enables automation through smart contracts**. While this reduces reconciliation costs and counterparty risk, it introduces procyclicality and algorithmic vulnerabilities,

particularly through automated margin calls and collateral triggers. Financial market infrastructures (FMIs) may gain efficiency via permissioned shared ledgers, but increased concentration and interoperability challenges could heighten systemic fragility.

- From a regulatory perspective, the note highlights **critical challenges in legal certainty, governance of code, and cross-border supervision**. As financial logic becomes embedded in algorithms, risks may originate from coding errors or data failures, necessitating new oversight approaches focused on infrastructure resilience and auditability. Furthermore, tokenization complicates crisis management due to its borderless nature, creating tension between global operations and nationally bounded regulatory authority.
- The note outlines **three potential future scenarios**: a coordinated system anchored in public money, a fragmented ecosystem, or a private-sector-dominated model. It recommends a policy framework centered on **five pillars**: anchoring settlement in safe assets, ensuring legal clarity, promoting interoperability, implementing consistent global standards and adapting liquidity and crisis management tools.

