



**TOPICS:**

Technology

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European Central Bank

## ECB: Tokenised Money Market Funds - New Technology, Familiar Risks?

- The study provides a **structured assessment of tokenised money market funds (TMMFs)**, focusing on their design, market development and financial stability implications.
- TMMFs are conventional money market funds whose shares are issued and recorded as digital tokens on distributed ledger technology (DLT). While they invest in similar low-risk, short-term assets as traditional MMFs and fall under existing regulatory frameworks (e.g. the EU MMF Regulation), their tokenised structure introduces **new functionalities and risks**.
- The **market remains small** - around €7 billion globally - **but is expanding rapidly**, having roughly doubled in size within a year. TMMFs are still negligible compared to traditional MMFs and stablecoins but exhibit significantly faster growth. Market concentration is high, with the largest ten funds accounting for over 90% of total assets.
- From a **design perspective**, TMMFs primarily tokenise liabilities (fund shares), while underlying assets largely remain off-chain. Core processes - such as settlement, record-keeping, and asset management -

- are often only partially on-chain, requiring reliance on intermediaries and increasing operational complexity.
- Compared with traditional MMFs, TMMFs offer **potential benefits** including near real-time settlement, 24/7 accessibility, enhanced transparency and programmability via smart contracts. These features enable new use cases, such as using fund tokens as collateral or enabling peer-to-peer transfers. However, practical constraints persist because many processes remain tied to traditional infrastructure.
- From a **financial stability perspective**, TMMFs inherit traditional MMF vulnerabilities - particularly liquidity mismatch and susceptibility to investor runs - while potentially amplifying them. The speed, transparency and programmability of DLT may accelerate redemption dynamics and contagion effects. Additional risks arise from operational dependencies, cyber vulnerabilities, and interconnections with stablecoins and broader digital asset markets.

