



TOPICS:

Technology

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International Organization of Securities Commissions

IOSCO Publishes Final Report on Financial Asset Tokenization

- This IOSCO report evaluates **the adoption, risks, and regulatory responses surrounding the tokenization of financial assets** using distributed ledger technology (DLT). It offers a comprehensive overview of the emerging tokenization ecosystem, focusing on **fixed income products and money market funds (MMFs)**, while highlighting implications for market integrity and investor protection.
- **Tokenization** is defined as the creation or representation of **traditional financial assets as digital tokens on programmable platforms**. Proponents argue that it offers benefits such as fractional ownership, faster settlement, enhanced transparency, and improved operational efficiency. However, the report emphasizes that these benefits remain largely unproven in commercial practice. Adoption is limited and fragmented, with most activity confined to pilot programs and specific asset classes, such as bonds and MMFs.
- IOSCO's analysis reveals that **tokenization has not fundamentally altered market structures or the roles of key financial intermediaries**. For example, the UBS digital bond

issued on the SIX Digital Exchange retains the same legal structure and process flow as traditional bonds. Similarly, tokenized MMFs like BlackRock's BUIDL fund operate within hybrid on-chain/off-chain frameworks, with off-chain systems often serving as the legal record of ownership.

- **Risks identified** include **legal uncertainty** around token ownership, **operational vulnerabilities** (e.g., cyber threats, smart contract bugs), and **systemic concerns** linked to increased market interconnectedness. The use of tokenized assets in crypto-linked activities, such as stablecoin reserves, introduces further complexity.
- In response, regulators have applied **existing frameworks**, issued **targeted guidance**, and introduced **sandbox regimes**. IOSCO recommends a technology-neutral regulatory approach, aligning with its established principles. The report concludes that while tokenization presents potential efficiencies, its evolution must be accompanied by robust risk management and clear regulatory oversight to maintain market trust and resilience.

