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Financial Regulatory | Fintech & Digital Assets Update October 15, 2025

UK Fund Tokenisation Consultation and Roadmap – FCA Consultation Paper CP25/28

The FCA’s consultation represents a significant step towards modernising the UK’s asset management regulatory framework to accommodate DLT and tokenisation.

The Financial Conduct Authority (FCA) has published Consultation Paper CP25/28, setting out proposals and a roadmap to accelerate the adoption of fund tokenisation in the UK asset management sector. The consultation aims to provide regulatory clarity, operational flexibility, and a future vision for the use of distributed ledger technology (DLT) in authorised funds, with the objective of enhancing operational efficiency, consumer protection, and the UK’s global competitiveness in digital asset management.

This consultation marks a pivotal moment for the UK’s asset management industry, signalling a shift from exploratory pilots to the mainstreaming of tokenisation. The FCA’s approach demonstrates a willingness to balance innovation with robust regulatory oversight, positioning the UK as a potential global leader in digital asset management. By providing a clear regulatory pathway, the FCA is not only responding to industry demand for clarity but also proactively shaping the future landscape of investment products and services.

Key Proposals

1. Guidance for Tokenised Funds under the Blueprint Model. The FCA proposes guidance to clarify how authorised fund managers can operate tokenised fund registers using DLT, including both private-permissioned and public blockchain networks. The guidance

addresses how managers can meet regulatory obligations for consumer protection and market integrity, including the ability to make unilateral updates to the register, manage smart contracts, and ensure eligibility verification and KYC compliance.

2. Introduction of Direct Dealing (D2F) Model. The FCA proposes an optional, alternative dealing model - Direct to Fund (D2F) - allowing unit deals to take place directly between investors and the fund or its depositary, rather than through the authorised fund manager (AFM) as principal. This model is intended to reduce operational overheads, eliminate interim exposure to the AFM, and remove the need for client money safeguards, thereby simplifying fund operations and supporting the transition to tokenised funds.

3. Roadmap for Fund Tokenisation. The consultation sets out a staged roadmap for fund tokenisation, including:

    - Phase 1: Tokenisation of fund units and registers using DLT (current position).

    - Phase 2: Tokenisation of underlying assets, enabling direct holdings of tokenised assets by investors.

    - Phase 3: Tokenisation of cash flows, allowing for highly customisable, client-specific investment solutions.

4. The roadmap also addresses the use of tokenised money market fund (tMMF) units as collateral, the integration of digital cash instruments and stablecoins for settlement, and the potential for fully on-chain fund operations.

5. Supporting Future Tokenisation Models. The FCA explores future regulatory changes to accommodate advanced tokenisation models, such as composable finance, on-chain portfolio management, and the use of smart contracts for embedded compliance. The paper discusses the need for evolving standards in digital identity, investor protection, and market integrity as the industry moves towards more personalised, retail-scale portfolio management.

Taken together, these proposals reflect a forward-thinking regulatory philosophy. The FCA is not only addressing current operational and legal barriers but is also anticipating the next wave of innovation—where tokenisation could fundamentally reshape the relationship between investors, asset managers, and underlying assets. The staged roadmap provides a pragmatic yet ambitious framework, allowing the industry to innovate incrementally while maintaining regulatory guardrails.

Regulatory and Operational Considerations

- The proposals apply to UCITS management companies, UK AIFMs managing authorised funds, and depositaries of authorised funds, with broader relevance to portfolio managers, fintech firms, stablecoin issuers, and custodians.

- The FCA confirms a technology-neutral, outcomes-based approach, allowing the use of both private and public DLT networks, provided regulatory outcomes are met.

- The consultation addresses operational resilience, data privacy, anti-money laundering (AML) responsibilities, and the management of network risks, including contingency planning for DLT outages.

- Amendments to the Collective Investment Schemes sourcebook (COLL) are proposed to facilitate the use of DLT in fund registers and to implement the D2F model, including the introduction of Issues and Cancellations Accounts (IACs) for direct settlement between funds and investors.

From a strategic perspective, the FCA's technology-neutral stance is particularly noteworthy. By focusing on outcomes rather than prescribing specific technologies, the regulator is enabling a diverse range of market participants to experiment and compete. This approach is likely to foster innovation, attract international players, and support the development of a vibrant digital asset ecosystem in the UK. However, it also places the onus on firms to ensure that their chosen technological solutions are robust, secure, and compliant with regulatory expectations.

Cost-Benefit Analysis

The FCA estimates that the adoption of the D2F model could deliver a net present value benefit of £27m–£57m over ten years, primarily through reduced fund administration costs and lower fees for investors. The costs are expected to be minimal and largely limited to familiarisation with the new framework. The proposals are designed to be optional, allowing firms to adopt the new models where commercially appropriate.

While the projected cost savings are significant, the true value of these reforms may lie in their potential to catalyse broader market transformation. By lowering operational barriers and reducing friction in fund administration, the FCA is creating an environment where new entrants and innovative business models can thrive. This could lead to greater competition, more diverse product offerings, and ultimately better outcomes for investors. However, firms will need to carefully assess the operational and technological investments required to realise these benefits, particularly as the industry transitions from pilot projects to full-scale implementation.

Consumer Protection and Market Integrity

The FCA's proposals are intended to maintain high standards of consumer protection and market integrity, including for vulnerable consumers. The consultation highlights the potential for tokenisation to broaden access to investment products, increase competition, and deliver cost savings to consumers, while also recognising new risks associated with DLT, such as cybersecurity and liquidity management in stress scenarios.

As tokenisation matures, the challenge for regulators and industry participants will be to ensure that innovation does not come at the expense of consumer trust or market stability. The FCA's focus on operational resilience, data privacy, and AML controls is well-placed, but ongoing vigilance will be required as new risks emerge—particularly as more retail investors engage with tokenised products. The evolution of digital identity standards, smart contract auditing, and contingency planning for DLT outages will be critical to maintaining confidence in the system.

Next Steps

- Comments on Chapters 2–4 are requested by 21 November 2025, and on Chapter 5 by 12 December 2025.
- The FCA will review feedback and publish final regulatory requirements in a Policy Statement, expected in the first half of 2026.
- The FCA will continue to engage with industry and international regulators to support the development of global standards and best practices for fund tokenisation.

Looking ahead, the FCA's collaborative approach—working with industry, consumer groups, and international bodies—will be essential to shaping a regulatory framework that is both innovative and resilient. The UK's ability to influence global standards and attract investment will depend on the successful implementation of these proposals and the industry's willingness to embrace change.

In conclusion, the FCA's consultation represents a significant step towards modernising the UK's asset management regulatory framework to accommodate DLT and tokenisation. The proposals are designed to provide regulatory certainty, operational flexibility, and a clear pathway for innovation, supporting the UK's ambition to be a global leader in digital asset management while safeguarding consumer interests and market stability.

For asset managers, depositaries, fintechs, and other stakeholders, this is a moment to reflect not only on compliance but on strategic positioning for the future. Those who engage early and help shape the emerging standards will be best placed to capture the opportunities presented by tokenisation. As the regulatory landscape evolves, firms should consider how to leverage DLT to deliver more efficient, transparent, and personalised investment solutions—while remaining vigilant to new risks and responsibilities. The FCA's consultation is not just a regulatory update; it is an invitation to help define the next era of asset management in the UK and beyond.

The following Gibson Dunn lawyer prepared this update: Michelle Kirschner.

Gibson Dunn's lawyers are available to assist in addressing any questions you may have regarding these developments. If you wish to discuss any of the matters set out above, please contact the author or any member of Gibson Dunn's Fintech & Digital Assets or Financial Regulatory teams:

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