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Keynote Speech

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Tokenisation: an opportunity for the EU's financial sector agenda?

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Good afternoon, ladies and gentlemen,

Let me start by thanking our hosts. Mr. Bule, Ante Zigman, colleagues at HANFA, many thanks for having me today. It is my great pleasure to open the conference in the beautiful city of Dubrovnik. We have two exciting days ahead of us not just thanks to the stunning location but also because of the timely and fascinating topics on the agenda at the intersection of technology and capital markets.

Over the course of this conference, we will be hearing a lot about new technologies such as artificial intelligence, cloud computing and their potential to transform our capital markets. [I am sure you have all already appreciated how powerful these AI tools can be in our everyday life]. We are clearly in the middle of a new industrial revolution. I am looking forward to learning more about recent trends and new initiatives in the upcoming panels.

In my introductory remarks today, I would like to discuss an innovation that could reshape how we think about assets, participation, and access to capital markets, namely tokenisation.

Over the past few years, we have been witnessing a gradual but notable shift in how financial markets operate, driven by innovation in digital technologies. As we work towards advancing Europe's flagship project of building a true Savings and Investment Union (SIU), ensuring it duly accounts for innovation and new technologies is crucial. This shift invites us all - policy makers, regulators, supervisors and businesses - to reflect on how regulatory frameworks, supervisory tools and market infrastructures may need to adapt to the use of distributed ledger technology (DLT) while harnessing associated risks. In the face of global competitive pressures, it is ever more important we get this reflection right.

Tokenisation, or the representation of financial instruments in digital form on distributed ledgers, is one such technology with the potential to bring significant efficiency gains. This is not just a technological evolution. It could lead to a transformational change of our markets. With the right legal framework, it can contribute to the goals of the SIU by improving interoperability, transparency and cross-border efficiency. It can also cut costs for businesses by embedding compliance and reporting obligations directly into digital assets, while giving supervisors tools for real-time oversight.

At its heart, tokenisation does not invent entirely new assets. Rather, it represents familiar instruments (shares, fund units, or bonds) in a new “digital wrapper”. We are already seeing a range of financial instruments being brought to DLT platforms. For now, they remain limited in scale but the number of projects in development is growing. A number of financial firms (financial market infrastructures, banks, asset managers), have announced DLT based initiatives moving from pilots to real life use cases Just last week, Google announced an institutional-grade ledger designed to support tokenisation and real-time settlement — a reminder that major technology players are also now entering this space.

Today, the market for tokenised assets is estimated at around USD 600 billion, with forecasts pointing to rapid growth in the years ahead.[1,2] AFME reports that issuance of tokenised fixed-income instruments more than tripled in 2024, reaching EUR 3 billion globally, with Europe representing more than half of the amounts issued.[3]

In the fixed-income market, Europe has taken a leading role, supported by early private- and public-sector initiatives. Société Générale and Santander were the first to issue covered bonds as a security token on a public DLT as early as 2019. In 2022, the European Investment Bank was one of the first public sector entities to issue a syndicated digital bond on a trading venue (the Luxembourg Stock Exchange). And in Germany, the Federal Ministry of Finance has launched digital bond pilots to explore how sovereign debt can be modernised, ensuring that the safest assets in our financial system can also benefit from this innovation. These initiatives have demonstrated how tokenisation can broaden access, lower issuance costs, and support faster and more efficient secondary trading.

Despite these promising signs, most tokenisation initiatives remain small and largely illiquid. Instruments are typically issued via private placements and held to maturity. Interoperability between issuance platforms is limited.

In the equities market, several Fintech firms have developed offerings that provide exposure to listed shares or DLT-based derivatives backed by corporate stock through SPVs. These tokenised instruments can provide always-on access and fractionalisation but typically do not confer shareholder rights. If structured as synthetic claims rather than direct ownership, this can create a specific risk of investor misunderstanding and underlines the need for clear communication and safeguards.

[1] https://ripple.com/insights/asset-tokenization-financial-services/
[2] Tokenized financial assets: From pilot to scale | McKinsey
[3] AFME DLT-Based Capital Market Report 2024.pdf

In the asset management sector, development is most advanced in the US where the first SEC-registered tokenised money market fund was launched in 2021.Since then, other fund managers have followed. It is estimated that tokenised funds have increased 80% this year and represent USD 7 billion in assets under management. This is an area where industry leaders have been expressing that digital assets will become mainstream.

As these projects expand, it is clear that efficiency gains—lower costs, 24/7 availability, or real-time contract execution—are among the key drivers. This is why tokenisation is often mentioned as a means to improve post trade efficiency. For regulators and policymakers, the priority must be to ensure that such innovation develops within a framework that safeguards investors interests and preserves financial stability.

How fast tokenisation can deliver on its promise is hard to tell. The shift from account-based models to DLT-based systems is not a mere technical adjustment. It has far-reaching consequences for how ownership is recorded, how investor rights are enforced, and how settlement finality and custody are secured. For Europe, this raises the question of whether existing frameworks such as MiFID II, UCITS, AIFMD, and CSDR are fit for purpose in a DLT environment—or whether targeted adaptations are warranted. Various stakeholders have been calling for greater legal clarity and regulatory convergence to give market participants the confidence to scale tokenisation projects.

That is where the EU's DLT Pilot Regime comes in—giving market participants and regulators a sandbox to work through the various legal and operational hurdles.

Testing tokenisation through the DLT Pilot Regime

The DLT Pilot is one example of how Europe has allowed these innovations in real world applications. It allows firms to operate DLT-based trading and settlement systems under targeted exemptions to the existing regulatory frameworks. So far, uptake has been modest, but the projects authorised across several Member States already provide useful insights.

ESMA has been closely involved from the outset: assessing applications, ensuring supervisory consistency and clarifying how exemptions interact with existing rules. We have also issued guidance to facilitate a harmonised interpretation of the Pilot's provisions across the European Union, so that similar business models are treated similarly across jurisdictions.

Earlier this year, ESMA published its first report on the functioning of the Pilot, drawing lessons on trading and settlement of tokenised instruments, managing custody, but also outlining how investor protection standards can be upheld in this new environment. We further flagged where current frameworks — MiFID II, CSDR, or settlement finality rules — may not fit neatly onto DLT-based models.

ESMA made a number of strategic recommendations on how to make the regime more attractive. In particular, we have suggested amendments to the Pilot Regime to make it permanent and allow for more flexibility in the regulatory thresholds or eligible assets depending on the risks of each business model. These findings will feed into the Commission's review of the Pilot. They give policymakers concrete evidence for deciding whether certain elements of the Pilot should become a permanent feature of EU law, and where targeted adjustments to the broader rulebook may be needed.

Meanwhile, the regulatory learnings identified in the Pilot regime have already been valuable. We now have a stronger understanding of how public DLT fits within existing legal frameworks. We also have insights into the evolving role of CSDs and custodians, possible liquidity fragmentation across ledgers, and the implications of operational incidents.

Other jurisdictions are also encouraging market experimentation similar in spirit to EU's pilot. For example, in the UK, the FCA and Bank of England have launched a Digital Securities Sandbox allowing firms to test DLT-based issuance, trading, and settlement under a modified regime.

MiCA: a harmonised framework paving the way for tokenisation

Alongside tokenisation, a pillar of Europe's digital finance agenda is the implementation of the Markets in Crypto-Assets Regulation (MiCA). For the first time, MiCA provides a single EU-wide rulebook for the provision of crypto-assets services in Europe.

ESMA has been closely engaged from day one in helping NCAs apply the new MiCA regime consistently and effectively. The authorisation of crypto-asset service providers is a critical step, and one where vigilance is essential to avoid regulatory arbitrage and uneven application across Member States. Many of these players are active in the crypto space as well as in developments of offers around tokenised securities.

The lessons we are learning from MiCA will also be highly relevant as we look ahead to the tokenisation of traditional financial instruments. In particular— regulatory clarity and single rulebook from the start —will be essential if tokenisation of financial instruments is to develop safely and at scale.

Since crypto-assets are built on the same underlying technology as all tokenised assets, the implementation of MiCA and the ongoing supervisory work underway has also provided EU regulators with understanding of the risks and legal uncertainties posed by DLT. Policymakers could capitalise on this knowledge, if they decide to render the existing regime

fit-for-purpose for the wider market for tokenised financial instruments. ESMA stands ready to contribute to that reflection.

As tokenisation moves beyond experimentation, European policymakers must ensure its orderly adoption and preserve financial stability. One major obstacle commonly referred to is the lack of digital currency for wholesale.

Because a wholesale digital euro is not yet available, the DLT Pilot Regime has taken a pragmatic approach by allowing settlement in tokenised commercial bank money and e-money tokens. This flexibility has already allowed market participants to issue digital bonds and test delivery-versus-payment on-chain. But these alternatives are only interim solutions. As ECB Executive Board member Piero Cipollone has underlined, adapting Europe's wholesale settlement systems is essential to anchor tokenisation in a stable monetary framework.

In this context, central bank money will remain the benchmark for safety and stability in wholesale markets. To move in that direction, the ECB is exploring how to achieve this through initiatives such as Pontes, which would link DLT platforms to TARGET Services, and Appia, which aims to support a more integrated DLT-based ecosystem.

The precise design of these initiatives—including eligibility criteria and policy parameters—is still under consideration. ESMA stands ready to contribute to this exercise. Our engagement with DLT market infrastructures under the Pilot has already given us direct insights into the operational and regulatory challenges faced by participants. These lessons will be critical as the EU seeks to scale tokenisation without compromising financial stability.

Looking beyond the EU, the Bank of England has also recently launched an initiative to design a synchronisation interface linking its wholesale settlement system with external ledgers so that tokenised assets can be settled securely in central bank money.

In the US, the situation is moving fast. In July, the President's Working Group on Digital Assets issued a roadmap for U.S. digital asset policy outlining legislative and regulatory steps to clarify market structure and to empower the SEC and CFTC with oversight responsibilities. In a recent speech, SEC Chair Paul Atkins announced the launch of "Project Crypto"—that he qualified as an " initiative to modernize the securities rules and regulations to enable America's financial markets to move on-chain".

Given the speed at which the market is expected to grow it will be important to keep pace and agree swiftly on the way forward. Now is a good time to share ideas on how to support the EU's competitiveness.

Cooperation within international standard-setters, such as IOSCO and the FSB, will be key to foster regulatory dialogue, limit divergences and preserve financial stability.

Ladies and Gentlemen,

In a rapidly growing environment, Europe and other global jurisdictions are already taking steps to adapt their legal frameworks to accommodate tokenisation, starting with regulatory clarity and market experimentation.

EU initiatives, such as the DLT Pilot and the ECB Pontes project are important milestones in the process. Insights gathered in these two projects will eventually give regulators and policymakers the tools they need to adapt the EU's legal frameworks that cover the entire lifecycle of tokenised assets from issuance to settlement and custody—while keeping investor protection and financial stability at the core.

At ESMA, we are keen to continue to explore what new technologies may bring, how innovation can improve the efficiency of our financial markets and what new risks would need to be mitigated. Our teams are engaged in regular outreach with market participants both incumbents and new players to fully grasp the promise of each offer and identify potential risks. As we further our understanding, we will be working with the national competent authorities to assess the implications for investor protection, financial stability, and the integrity of our markets and deliver guidance where needed.

As the market develops, we look forward to contributing to shape the future of European markets in the digital age.

Thanks for your attention. I wish you an insightful conference and look forward to keeping our dialogue open during the conference and after.