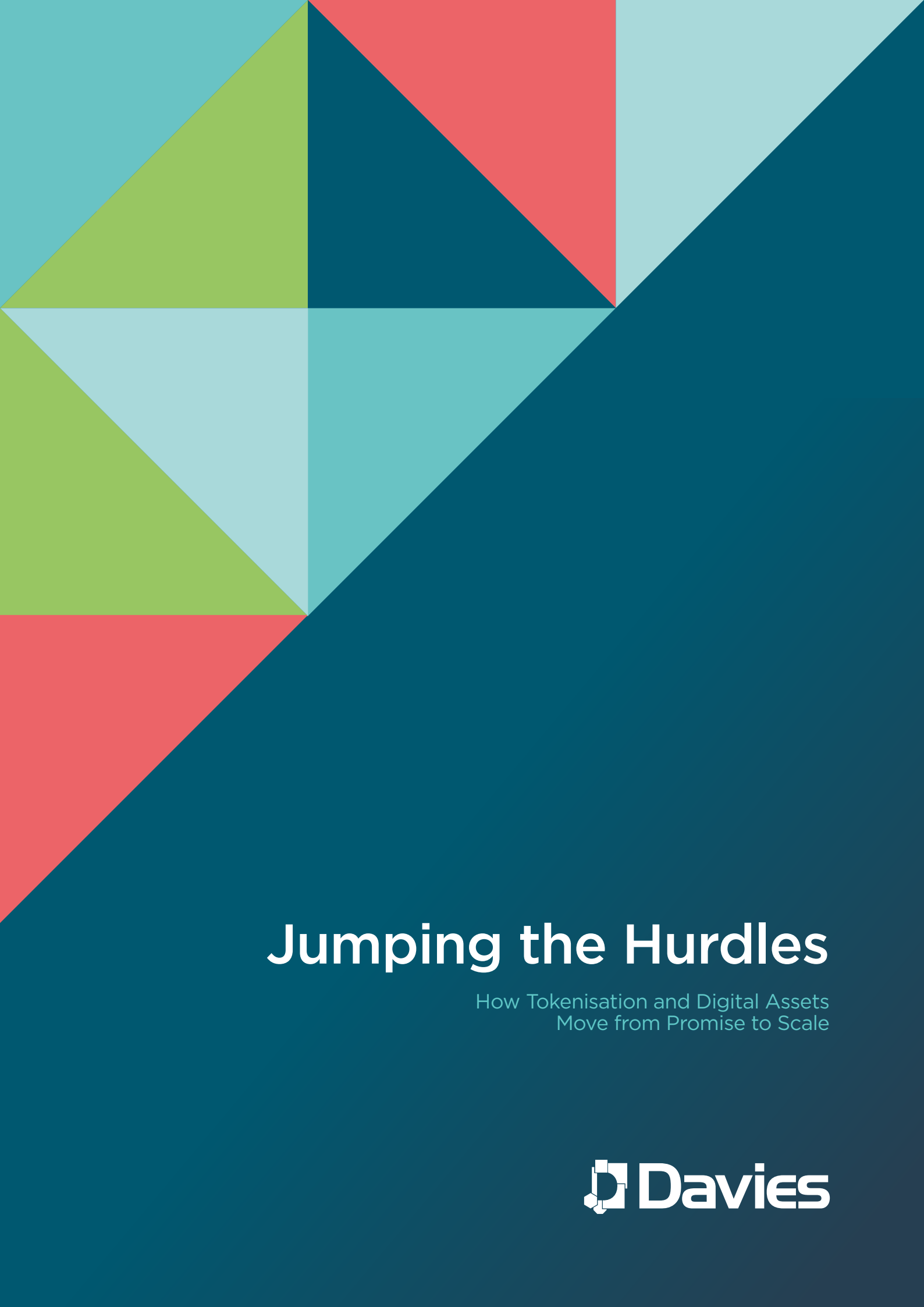




Jumping the Hurdles

How Tokenisation and Digital Assets
Move from Promise to Scale



Executive Summary

The debate surrounding digital assets has fundamentally changed.

For much of the last decade, the industry focused on whether blockchain technology could support institutional finance. Today, that question has largely been answered. Tokenised funds exist. Tokenised deposits exist. Stablecoins have become meaningful settlement mechanisms. Regulators are actively participating in digital asset programmes, and major asset managers are launching tokenised investment vehicles.

The challenge facing the industry is no longer proving that tokenisation works.

The challenge is achieving scale.

Many of the principles originally pioneered by digital asset and decentralised finance (DeFi), eco-systems programmable assets, digital cash, atomic settlement, transparent ownership records and real-time collateral mobility—are increasingly being adopted because they address long-standing inefficiencies in traditional financial infrastructure.

The next phase of growth will depend on whether the industry can successfully overcome five interconnected hurdles:

1. Regulatory alignment
2. Trusted digital cash
3. Interoperability
4. Liquidity
5. Operating model transformation

Each of these hurdles is already being addressed by regulators, asset managers, banks and infrastructure providers. The challenge is no longer innovation, it is coordination.

The Opportunity:

A New Financial Market Architecture

Traditional financial markets are highly resilient, trusted and liquid. However, they remain dependent upon multiple intermediaries, fragmented ownership records, separate movements of cash and securities, delayed settlement cycles and extensive reconciliation processes.

Each layer evolved to solve a market problem. Collectively, however, they introduce friction, cost and operational complexity.

Tokenisation presents a different architecture. Instead of multiple ownership records, there is the potential for a shared source of truth. Instead of manual intervention, there is programmability. Instead of delayed settlement, there is atomic settlement. Instead of static collateral, there is real-time collateral mobility.

The significance of tokenisation is not simply the digitisation of assets, but the digitisation of market infrastructure itself.



The Five Hurdles to Scale

The industry has already demonstrated that assets, money and collateral can exist on the blockchain.

The question now is whether digital markets can achieve institutional scale.

Five hurdles stand between today's pilots and tomorrow's market infrastructure:

Hurdle 1: Regulatory Alignment

Creating consistent legal, custody and ownership standards across jurisdictions.

Hurdle 4: Liquidity

Bringing sufficient capital, participation and market depth onto digital rails.

Hurdle 2: Trusted Digital Cash

Establishing institutional-grade digital settlement assets capable of supporting global capital markets.

Hurdle 5: Operating Model Transformation

Modernising legacy infrastructure and workflows built around traditional market structures. Individually these hurdles are significant. Collectively they will determine whether tokenisation becomes a niche innovation or the next generation of financial market infrastructure.

Hurdle 3: Interoperability

Connecting assets, money, collateral and infrastructure across multiple networks and ecosystems.

Hurdle One: Regulatory Alignment

The first hurdle is regulation.

Not because regulators oppose tokenisation, but because digital assets operate globally while regulation remains largely domestic.

Tokenised funds, securities and digital cash increasingly move across jurisdictions, creating questions around ownership rights, custody, settlement finality, investor protection and legal enforceability.

What is changing is the role regulators are playing. Historically, regulators were viewed primarily as risk managers. Increasingly, they are becoming market builders.

Institutional investors will not allocate significant capital to digital markets without confidence in legal ownership rights, custody protections and settlement certainty. Regulatory clarity therefore becomes a driver of scale rather than a constraint on growth.

What has made Project Guardian distinctive is its attempt to bring together regulators, banks, asset managers, market infrastructure providers and industry bodies to test end-to-end tokenised wholesale markets, including funds, bonds, FX and liquidity management, rather than focusing on a single market segment.

Its significance is that it demonstrates that regulators and industry participants can collaborate to build governance frameworks capable of supporting digital markets.

Project Guardian provides the clearest example of this shift.

The lesson is powerful.

Other markets are now accelerating the move into digital assets. Initiatives most likely to influence the future operating model for tokenised funds and institutional investment products The UK is advancing tokenised markets through the Digital Securities Sandbox (DSS), a joint Bank of England and FCA initiative that allows firms to test blockchain-based issuance, trading, settlement and custody of securities under modified regulatory rules. The FCA has also supported the development of tokenised funds, making the UK one of the leading jurisdictions for regulatory innovation in digital capital markets.

The EU is driving adoption through the DLT Pilot Regime, which enables market participants to operate tokenised trading venues and settlement systems with targeted regulatory exemptions. Alongside this, MiCA provides a harmonised regulatory framework for crypto-assets, helping create greater legal and regulatory certainty for digital asset markets across Europe. [Reg Digita... initiatives | Word]

In Hong Kong, the HKMA's Project Ensemble is focused on developing the settlement infrastructure needed for tokenised markets, including tokenised deposits and wholesale digital money. This is complemented by multiple tokenised green bond issuances that demonstrate the practical application of DLT in sovereign debt markets.

At a global level, Global Layer One (GL1) brings together major financial institutions to establish common governance, legal standards and technology requirements for interoperable tokenised asset networks. Unlike domestic regulatory initiatives, GL1 aims to solve cross-border interoperability challenges and create the foundations for scale in institutional tokenised asset markets.

As regulators increasingly align ownership frameworks, custody standards and digital asset rules, they are actively creating the trust necessary for institutional adoption.

Hurdle Two: Building Trusted Digital Cash

A fully digital capital market cannot exist without digital cash.

The first wave of tokenisation focused heavily on assets. However, every transaction ultimately requires settlement. As long as settlement relies on traditional payment infrastructure, many of the benefits of tokenisation remain constrained.

This is why digital cash has become one of the most important areas of market development.

Stablecoins have demonstrated strong demand for digital liquidity capable of moving continuously across networks. Tokenised deposits have demonstrated that regulated financial institutions can provide blockchain-native settlement mechanisms. Tokenised money market funds are increasingly combining liquidity, collateral utility and yield generation within a single digital instrument.

JPMorgan's Kinexys platform illustrates this evolution particularly clearly. It demonstrates that tokenised deposits can support treasury management, payments and liquidity movement within institutional environments. At the same time, stablecoins have shown that markets are willing to adopt digital settlement mechanisms when they solve genuine operational problems.

These developments demonstrate that the industry has moved beyond proving digital cash is possible. The debate has shifted toward determining which forms of digital cash become market standards and how those standards integrate with existing financial infrastructure.

The hurdle is no longer feasibility, it is standardisation and adoption.

Hurdle Three: Creating Interoperable Markets

If digital cash creates functionality, interoperability creates scale. The industry has demonstrated that assets can be tokenised. It has demonstrated that cash can be tokenised.

The last piece of the puzzle is ensuring those ecosystems can interact seamlessly. Without interoperability, tokenised markets risk reproducing the same fragmentation that exists within traditional finance.

Assets become trapped on one network. Cash remains on another. Collateral is isolated elsewhere. The result is not transformation but digitised fragmentation.

This is why interoperability has become one of the defining themes across institutional tokenisation strategies.

The vision of future market infrastructure must be built around connectivity rather than network dominance. Long-term value will come from connecting traditional systems, settlement platforms, collateral networks and digital assets into a single interoperable ecosystem.

The significance of interoperability is frequently underestimated. It is not simply a technical feature, but rather it is the mechanism through which scale emerges.

Every participant connected to a shared ecosystem expands:

Potential liquidity

Collateral mobility

Settlement flexibility

Distribution reach

Market utility

The internet did not become transformative because individual networks existed. It became transformative because networks connected through common standards.

Digital assets are approaching the same moment.

The institutions likely to shape future market infrastructure will not be those building the largest networks, but those building the connections between them.

Hurdle Four: Unlocking Liquidity

Markets do not scale because technology exists. They scale because capital participates.

One of the most important lessons from the past decade is that tokenisation alone does not create liquidity. Investors create liquidity. Institutions create liquidity. Confidence creates liquidity.

This is why the industry is increasingly focusing on highly liquid asset classes such as Treasury securities, money market funds, ETFs, public fixed income and collateral markets rather than niche digitally native products.

BlackRock's BUIDL fund and Franklin Templeton's (BENJI) blockchain-enabled money market initiatives are important not simply because they are tokenised products. They demonstrate that tokenisation can enhance efficiency, transparency and transferability while preserving familiar investment structures.

They also reveal a broader truth.

Investors are often willing to adopt new infrastructure long before they are willing to adopt new asset classes.

The future of tokenisation is not less about creating entirely new markets and more about enhancing markets that already possess liquidity, trust and scale.

Hurdle Five: Modernising Operating Models

The final hurdle may be the most difficult because it requires institutions themselves to change.

Technology can evolve quickly. Organisations often cannot.

Many financial institutions still operate systems and processes built around:

Settlement cycles

Reconciliation workflows

Manual intervention

Batch processing

Multiple intermediaries

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How DeFi Principles Are Beginning to Scale

The next five years are unlikely to produce a victory of DeFi over TradFi. However, something more significant is already taking place.

Traditional institutions are increasingly adopting the principles pioneered by digital asset ecosystems.

BlackRock is launching tokenised products.

JPMorgan is operating tokenised cash platforms.

BNY is advocating digital cash, collateral mobility and interoperable infrastructure.

Regulators are actively participating in tokenisation programmes rather than resisting them.



Increasingly, mainstream finance is embracing:

Programmable assets

Real-time collateral management

Programmable cash

Continuous markets

Shared ownership records

Interoperable infrastructure

Atomic settlement

The industry is not necessarily adopting DeFi platforms, but it is adopting DeFi principles. And those principles are beginning to demonstrate measurable economic advantages.

The Role of Asset Managers

Asset managers occupy a unique position within the digital asset ecosystem because they sit at the intersection of investors, issuers, distributors and market infrastructure.

Over the next five years, their role will become increasingly important in determining how quickly tokenisation reaches scale.

First, asset managers provide liquidity. Large pools of institutional capital are essential for creating efficient tokenised markets.

Second, they can accelerate adoption by bringing familiar products such as money market funds, Treasury funds, ETFs and fixed income strategies onto digital infrastructure.

Third, they will influence industry standards. As major users of custody, settlement and distribution infrastructure, asset managers will play an important role in shaping interoperability frameworks, digital cash ecosystems and operating model standards.

Finally, asset managers will help build investor confidence. The transition from innovation to mainstream adoption requires trusted institutions capable of bridging traditional and digital markets.

The industry's future infrastructure is still being built. Asset managers have an opportunity not merely to participate in that future, but to shape it.



Conclusion: From Pilot Programmes to Market Transformation

The evolution of digital assets is entering a new phase.

For the past decade, the industry has focused on proving that tokenisation could work. Today, the evidence is increasingly clear. Regulators are developing digital asset frameworks. Asset managers are launching tokenised funds. Banks are building digital cash infrastructure. Market infrastructure providers are investing in interoperability and collateral mobility. The foundations of a digital financial ecosystem are already being laid.

The challenge now is not innovation, it is industrialisation.

The next five years will be defined by the industry's ability to move from successful pilots and isolated use cases to connected, scalable market infrastructure. Success will depend on overcoming the five hurdles: regulatory alignment, trusted digital cash, interoperability, liquidity and operating model transformation. Importantly, none of these challenges can be solved in isolation. Digital cash requires regulatory certainty. Liquidity depends on interoperability. Institutional adoption requires trust. Each hurdle reinforces the others.

Among these, interoperability is likely to be the most important and the most challenging. Digital assets will not achieve scale simply because more assets are tokenised. They will achieve scale when assets, cash and collateral can move seamlessly across networks, jurisdictions and

institutions. The next generation of market leaders will not necessarily be those creating the largest platforms, but those building the connections between them.

Regulators will also play a defining role. The industry's future will not be shaped by deregulation or regulatory arbitrage. Instead, it will be shaped by the development of clear ownership rights, settlement frameworks, digital cash standards and cross-border governance models that allow capital to move with confidence into digital markets. Regulators are no longer merely supervising innovation; they are helping to create the conditions under which digital markets can scale.

The transition to T+1 provides a useful illustration of what comes next. While often viewed as a settlement initiative, it is fundamentally a modernisation programme, forcing firms to adopt automation, standardisation, better data and more efficient workflows. These same capabilities underpin tokenised markets. T+1 is therefore not the destination; it is a bridge to a more digital market structure where settlement becomes increasingly frictionless and market infrastructure becomes increasingly programmable.

The Cost of Standing Still

For asset managers, the greatest risk may not be investing too early in tokenisation. It may be waiting too long.

Every major infrastructure transition in financial markets has created winners and losers. The beneficiaries have rarely been the institutions that waited for complete certainty. The winners have typically been the firms that participated early enough to influence standards, build capabilities and establish market position before adoption became mainstream.

Tokenisation and digital assets are likely to follow a similar pattern.

Over the next five years, many of the industry's most important developments will occur below the product layer. Digital cash networks, interoperability standards, tokenised collateral ecosystems, digital distribution channels and next-generation settlement infrastructure are already being built. Asset managers that remain focused solely on traditional manufacturing models risk finding themselves cemented to legacy rails while liquidity, collateral and investor engagement increasingly migrate towards digital ecosystems.

The consequences extend beyond technology.

Distribution models will evolve. Investment products will become increasingly portable, fractional, programmable and globally accessible. Settlement cycles will shorten. Transfer agency functions will become increasingly automated.

Digital cash will begin replacing portions of today's fund subscription, redemption and liquidity-management processes. Asset managers that fail to prepare for these shifts will become operationally disadvantaged relative to competitors that have already adapted.

There is also a strategic risk.

The institutions that are helping design digital cash frameworks, interoperability standards and tokenised market infrastructure today will have a disproportionate influence over how future markets operate. Those that delay participation will inherit standards, operating models and distribution ecosystems shaped by others.

The future of finance will not emerge through a sudden replacement of traditional markets. It will emerge through the gradual adoption of digital market principles: programmable assets, digital cash, interoperable infrastructure and real-time movement of liquidity and collateral.

The foundations are already being built.

The question for asset managers is no longer whether tokenisation reaches scale. The question is whether they intend to help build the next generation of market infrastructure—or participate in it on someone else's terms.

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Registered Company No. 06479822. Registered in England and Wales
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