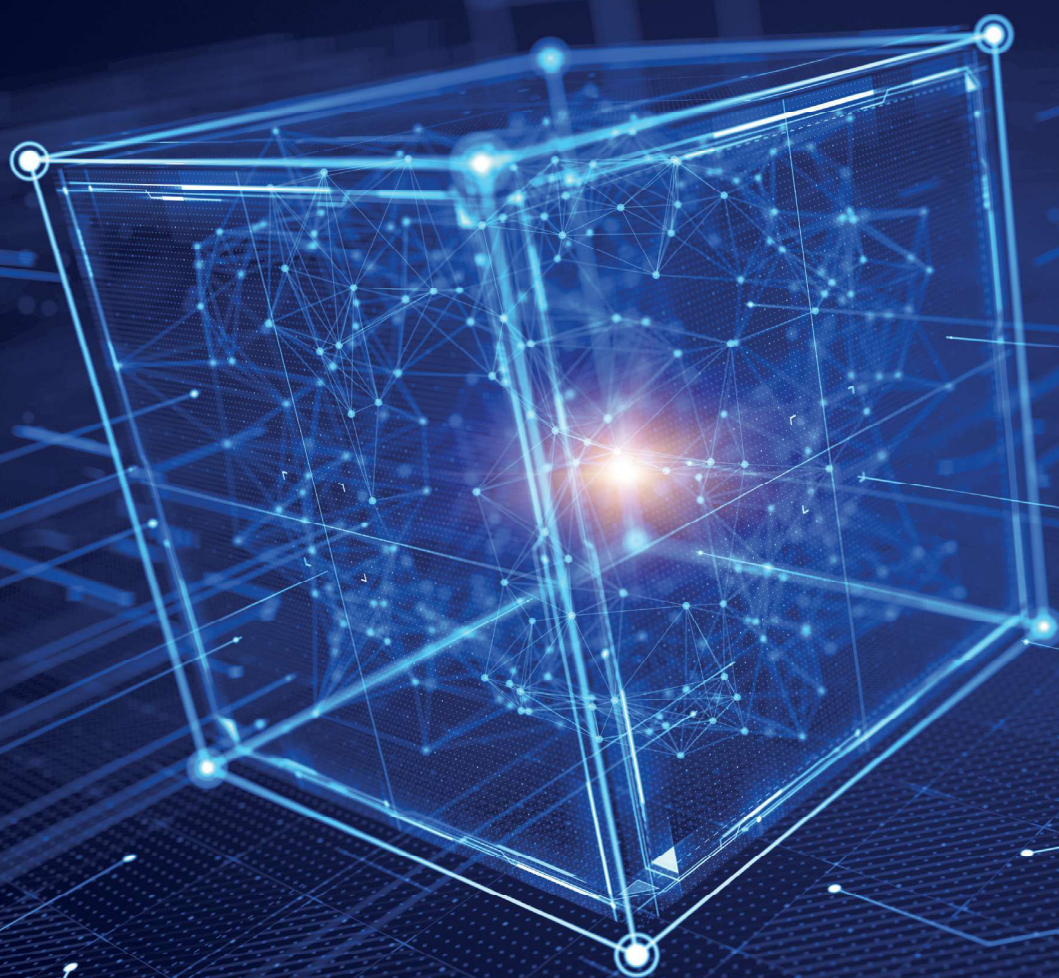


Money market funds: the quiet revolution in collateral management

Major fund houses have launched tokenised MMFs. Our expert panel discusses how this could lead to massive distribution opportunities and mitigate liquidity stress in the system



Tokenisation – the process of converting ownership of a fund into digital tokens on a blockchain – is redefining the landscape for money market funds (MMFs) and collateral management. For some people, the developments mark the beginning of a new digital frontier in asset management. But it is still early days, with much still to be proven.

“2024 has been a very significant year,” said John Allan, head of innovation and operations at The Investment Association, the UK fund management trade body.

Allan was discussing the tokenisation of MMFs at a recent Funds Europe roundtable, alongside representatives from funds, service providers and industry bodies.

One of the most powerful emerging use cases for MMF tokenisation is the deployment of tokenised MMFs as collateral – an innovation with the potential to alleviate systemic liquidity risks during periods of financial stress.

A parking space for liquidity

Traditionally, money market funds are used by institutional investors like pension funds and insurance companies as a parking space for liquidity and as a safe-haven during volatile markets. But when margin calls come knocking – as they did during the Covid-19 market turmoil and the UK’s 2022 gilt crisis – these same investors are forced to redeem their MMF holdings to post cash, creating strain across the financial system.

Veronica Iommi, secretary general of the Institutional Money Market Fund Association, illustrated the dynamic, saying: “During both the Covid-19 ‘dash for cash’ and the UK gilt crisis, money market fund redemptions were elevated as margin-sensitive investors – such as pension funds using MMFs as a liquidity store – redeemed their money market fund holdings in order to post cash collateral. In many cases, these cash proceeds were then subsequently reinvested into similar money market products or indeed into money market funds. If these funds could be posted directly as collateral, that would significantly reduce redemption »

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pressure and mitigate liquidity stress in the system.”

Here, tokenisation should offer an advantage for market actors in the sector.

A money market fund is a type of mutual fund that invests in short-term, high-quality debt securities, such as government bonds, commercial paper, and certificates of deposit. Its core goals are capital preservation, daily liquidity, and modest returns. MMFs are popular among institutional and retail investors as a cash-management tool due to their relative stability and ease of access.

As collateral, MMFs can be used in financial transactions to secure obligations, such as in derivatives trading or securities lending. When pledged as collateral, shares in MMFs are temporarily transferred or locked to ensure the party providing the collateral will fulfil its contractual duties. Their liquidity and predictable value make MMFs attractive for this role.

However, not all jurisdictions or counterparties accept MMFs as collateral, and eligibility may depend on factors like fund structure, regulation and risk profile. Tokenisation may improve their collateral utility.

While the use of MMFs as collateral isn't contingent on tokenisation, speakers were unanimous in their view that tokenisation makes the process smoother, faster, and more scalable.

“Tokenisation removes key operational constraints,” said Anna Matson, head of digital assets and innovation, EMEA, at Northern Trust. “It offers a real-time, on-chain representation of assets, making the funds verifiable, trackable, and easier to mobilise.” This is especially attractive for institutions navigating complex and fast-moving collateral obligations.

Thomas Eichenberger, chief strategy officer and deputy group CEO at Sygnum Bank, drew a compelling parallel. “Tokenised MMFs are to investment management what bitcoin ETFs were to institutional crypto adoption. They're an accelerator.”

Beyond the traditional asset management space, demand is also coming from crypto-native institutions

looking for stable, yield-bearing products. “Digital asset clients want exposure to non-crypto assets with on-chain transparency. Tokenised MMFs fit that bill perfectly,” said Eichenberger.

‘On-chain transparency’ refers to the visibility of transactions and data recorded directly on a blockchain. Since blockchains are decentralised and immutable, any transaction or event (such as the transfer of tokens or the execution of smart contracts) is publicly visible and verifiable by anyone, assuming they have access to the blockchain.

The infrastructure is coming together

While use cases abound, the panellists acknowledged that the tokenisation

ecosystem is still taking shape. Simon Keefe, head of digital solutions at the fund transaction network Calastone, spoke of how the company had evolved its tokenisation offering to focus on the distribution potential of blockchain by building a tokenised distribution platform as client demand began to rise.

Calastone research among asset managers has shown that fund houses expect tokenisation to reduce the average time it takes to launch a new fund from 12 weeks to nine weeks. They also expect that the necessary average seed funding required will fall from \$50.3 million to \$38.1 million.

“For years, there just wasn't investor demand,” Keefe said. “But in the last 18 months, that's changed. We've seen significant interest from providers, and



“If these funds could be posted directly as collateral, that would significantly reduce redemption pressure and mitigate liquidity stress in the system”

Veronica Iommi

now from investors as well—especially those in the DeFi [decentralised finance] space.”

He pointed to the example of Franklin Templeton and BlackRock, both of which have launched tokenised MMFs in the past two years. BlackRock’s “BUIDL” fund, managed via Securitize, has seen explosive growth in recent months, soaring to nearly \$2 billion in assets under management.

“There’s no big bang moment,” Keefe said, “but the growth curve is steepening.”

A regulatory catalyst

Panellists discussed regulatory developments. Kim Hochfeld of State Street Global Advisors (SSGA) praised the UK regulator for its industry engagement and willingness to explore how tokenised MMFs could reduce systemic risk.

“It’s a bit early to call this a watershed for the entire asset

management industry, but for the money market fund industry this could absolutely be a turning point - especially if collateral mobility is unlocked.”

She noted, however, that the underlying regulatory framework still needs work. “Whether tokenised or not, there are limitations around using MMFs as collateral.”

In the US, the Commodity Futures Trading Commission (CFTC) is reportedly looking at regulation that could unlock as much as \$350 trillion in collateral value - some of which could flow into tokenised MMFs. Such a move would cement the role of these instruments not just as yield-bearing assets, but as integral parts of financial infrastructure.

Traditional vs. digitally native competition

Yet as traditional players grapple with implementation, digitally native firms

are moving quickly. Keefe warned of potential disruption from upstarts like Circle, the issuer of USDC - a stablecoin pegged 1:1 with the dollar. Circle recently acquired a firm to launch a yield-bearing product similar to MMFs.

“These players are moving fast,” Keefe noted. “The risk is that traditional firms focus only on institutional collateral use cases and miss the broader opportunity in retail and digitally native markets.”

Indeed, the convergence of traditional finance and DeFi is one of the more intriguing undercurrents. With blockchain infrastructure in place, tokenised MMFs can potentially be used not just for collateral, but also for payments, treasury management, and automated portfolio allocation - all programmable on-chain.

Toward a digitally enabled future

While the future of tokenised MMFs is still unfolding, all participants agreed that the industry is witnessing the early chapters of a major transformation.

“Tokenisation gives us a concrete use case,” SSGA’s Kim Hochfeld, said. “People can see where the money is to be made. That clarity is what sets MMFs apart from other tokenisation efforts.”

Northern Trust’s Anna Matson echoed the sentiment, saying: “This is no longer theoretical. Big asset managers are launching real products. We’re moving into the practical phase, even if it’s incremental.”

As financial institutions rethink how they move, store, and manage collateral, tokenised MMFs are increasingly seen not just as a niche innovation but as a powerful tool with the potential to enhance market resilience, reduce friction, and unlock a new era of digital finance.

Regulatory and tech realities

Over the past two years, the IMMFA has made technology and innovation a strategic priority, expanding its membership to include tech providers and forming a working group focused on technology in the sector, said Veronica Iommi.

Recognising the growing role »

“Tokenised MMFs are to investment management what bitcoin ETFs were to institutional crypto adoption. They’re an accelerator”

Thomas Eichenberger

of digital asset innovation and its prominence in discussions with regulators, IMMFA recently published a white paper on tokenisation. The paper aims to educate stakeholders and demystify key concepts, and to show how tokenised MMFs can be used as margin collateral. IMMFA also wants to encourage best practices among members.

She said in the case of MMFs managed by IMMFA members, efforts have so far focused on tokenising existing MMFs (for example, sub-funds or share classes), rather than creating entirely new tokenised MMFs.

Although the push to use tokenised money market funds as collateral continues to gain momentum, the road to widespread adoption is lined with significant legal and technological hurdles.

Anna Matson of Northern Trust highlighted the key challenge. She said that while MMFs are naturally suited for collateral thanks to their stable net asset values and liquid underlying assets, their adoption is constrained by the inability to rehypothecate tokenised versions under existing structures.

Rehypothecation refers to when the collateral provided by an investor or borrower can be used by the financial institution (such as a bank or fund manager) for other purposes, like securing loans or other financial activities, without necessarily informing the original collateral owner.

“In traditional setups like under an ISDA Credit Support Annex, the recipient can reuse that collateral – it’s a key part of market liquidity,” Matson said, with reference to practices supported by the International Swaps and Derivatives Association, an industry body. “Tokenised MMFs need to reach a similar point, where they can be transferred, reused, and integrated into broader financial infrastructure.”

John Allan of the IA echoed the sentiment, noting the buy-in from banks who see the value of tokenised collateral for initial margin.

“But to unlock the full potential, you need reusability - that’s the nirvana.”

Fragmented infrastructure

A recurring theme in the discussion was the fragmented state of market infrastructure. Northern Trust’s Anna Matson noted that while various platforms are emerging, they remain siloed, making it difficult to scale tokenised MMFs into a truly reusable asset.

To solve this, industry participants are calling for standardisation and integration. “Until there’s scale and standardisation across platforms, we can’t build the network-effects that would allow true reusability,” Matson said.

Simon Keefe said Calastone would bridge existing legacy systems with blockchain-based tokenisation platforms. “We’re not trying to connect chains directly. Instead, we tokenise without burdening existing transfer agents, maintaining legacy connectivity while enabling interoperability across

public and private chains.”

He added that while some industry commentators warned of inefficiencies from running legacy and digital systems in parallel, Calastone’s approach recognises that compatibility of tokenisation with existing infrastructure is essential to drive adoption.

Regulatory clarity: the missing piece

Matson at Northern Trust also highlighted that some legal ambiguity remained “There’s a real need for legal clarity on what exactly a tokenised asset represents,” she said. “Does it affect exposures? Liabilities? These are big questions that regulators and lawyers need to address before institutional investors will fully embrace the model.”

However, Simon Keefe noted that tokens representing money market units were live use cases today and

“To unlock the full potential, you need reusability - that’s the nirvana”

John Allan





“This won’t be a big bang, you need to figure out the incremental pieces that drive adoption, and chip away at them”

Anna Matson

tokens therefore had the clarity needed to give institutional investors comfort and to foster wider market adoption of tokenised MMFs.

Real money is moving

Encouragingly, the conversation is no longer academic. Simon Keefe said that with investors in the DeFi space approaching fund managers for access to tokenised MMFs, then “real money is flowing” and the industry has moved beyond proof-of-concept.

This all signals a growing appetite for tokenised MMFs but also underscores the need for not only scalable infrastructure, but compliant infrastructure run by trusted entities. As SSGA’s Hochfeld said: “If you’re [a fund manager] going after institutional

money, there is demand for blue-chip, regulated entities.”

While the end goal - seamless, cross-platform reusability of tokenised MMFs - may be an ambitious one, the Funds Europe participants agreed that progress will be gradual. “This won’t be a big bang,” Anna Matson said. “You need to figure out the incremental pieces that drive adoption, and chip away at them.”

Public vs. private chains

As efforts around legal definitions, interoperability, and stakeholder coordination continue to evolve, the industry is edging closer to a future where tokenised money market funds can become fully fledged collateral assets. Yet, as this progress continues,

a debate exists between whether the industry should adopt private and public blockchain networks for tokenisation.

Broadly speaking, sell-side institutions - wary of security breaches and loss of control - tend to favour private chains. But fund managers recognise that it is public blockchains that offer the distribution potential.

“All the custody banks want private chains for security, while the buy-side wants public for reach. How do you reconcile that?” said Kim Hochfeld.

Thomas Eichenberger of Sygnum noted that while private chains still dominate in some discussions, there’s a growing shift toward “public yet permissioned” infrastructure - an attempt to blend the best of both worlds.

The choice between public or private blockchains is one of the most critical decisions in tokenising MMFs. Private blockchains, preferred by traditional institutions, offer more control, privacy, and compliance capabilities. Public chains, however, appeal for their decentralisation, transparency, and potential to integrate directly with DeFi ecosystems.

The UK’s FCA has so far leaned conservatively. Its tokenisation blueprint explicitly favours private networks, likely due to concerns around investor protection, AML/KYC compliance, and systemic risk. “The FCA clarified that funds using DLT for administration can only use private networks,” said John Allan of the IA. Allan is also a member of the FCA’s innovation advisory group.

In Switzerland, meanwhile, the 2021 DLT Act amended multiple existing federal laws to incorporate digital securities directly into Swiss legal frameworks. As Thomas Eichenberger explained: “The token itself can represent legal ownership with all rights and obligations - just as a traditional security would.”

Luxembourg, too, has thrown its weight behind blockchain with new legislation supporting tokenised assets. Meanwhile, Anna Matson pointed out that Ireland specifically does not allow a distributed-ledger form of a register, »

which is “quite different” from Luxembourg’s approach.

Regulatory fragmentation: a brake on progress

This patchwork of global regulatory stances is proving to be one of the biggest obstacles. While US policy has started to evolve - particularly following the repeal of the SEC’s Staff Accounting Bulletin (SAB) 121, allowing traditional custodians to handle digital assets - others lag.

SSGA’s Kim Hochfeld emphasised the significance. “With SAB 121 gone, one significant regulatory impediment for big custodians to offer digital custody services has been removed. This has the potential to be an important enabler for institutional investment.”

Yet, the divergence remains. The Basel Committee’s prudential treatment of crypto assets is another looming concern, with some language potentially penalising public-chain exposure with harsher capital requirements. This could deter institutions from leveraging public infrastructure - even if the technology itself is sound.

Still just a drop in the ocean

There’s no denying interest is building. BlackRock’s tokenised MMF pilot in the space has made headlines, while DeFi-

native platforms have shown what’s possible. The sums involved are still tiny relative to the \$9+ trillion global MMF industry. Kim Hochfeld said a \$2 billion DeFi MMF was a “drop in the ocean” for the MMF industry.

Adoption among traditional institutions remains slow, with many waiting for clearer regulation and operational models. Veronica Iommi, of IMMFA, emphasised this point. “Tokenised MMFs would be ideal as collateral, especially for margin-sensitive investors such as pension funds and insurance companies who often keep some of their liquidity in MMFs. But full adoption requires regulatory change to make them eligible assets.”

For now, most tokenised MMFs are merely wrappers around existing funds - using blockchain to distribute fund units, while the core remains in legacy infrastructure.

Even if institutional inertia slows the top-down approach, bottom-up pressure is mounting. Younger, crypto-savvy investors expect financial products to be fast, accessible and mobile-native. They may not care if an asset is tokenised - but they will care if it can’t be integrated into their DeFi wallets or AI-driven robo-advisors.

“They don’t care if it’s a fund or a token—they want outcomes. And they want those outcomes on the same

platforms where they already hold crypto,” said Anna Matson.

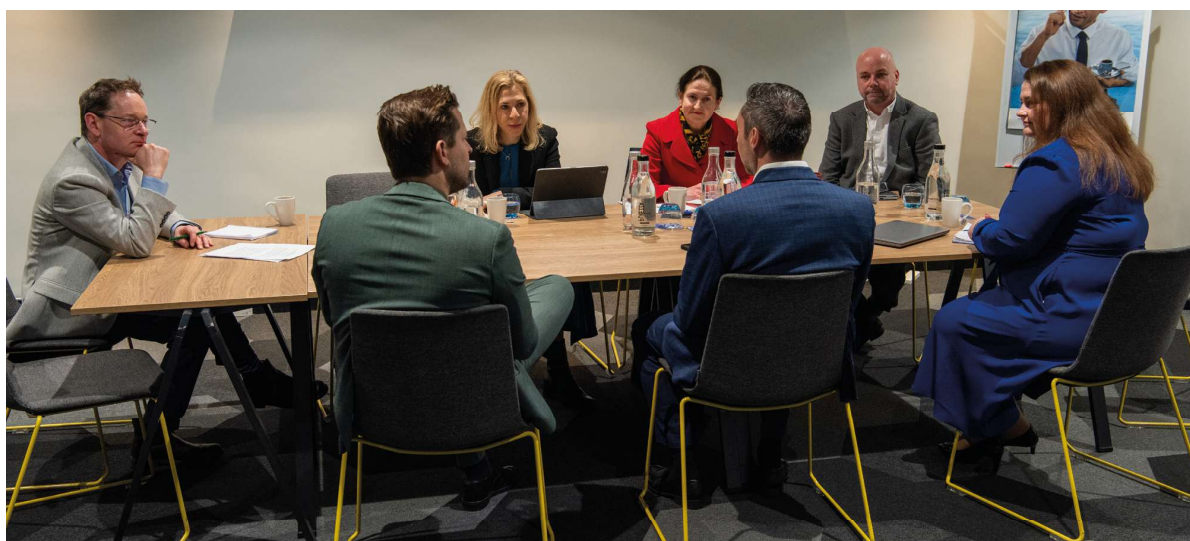
That’s echoed by John Allan of the IA, who repeated the often cited \$68 trillion intergenerational wealth transfer that is set to reshape the savings and investment landscape. “Younger investors don’t want to go to incumbent wealth managers. They want a DeFi app that lets them switch from crypto to MMFs with a tap.”

So, what’s next?

True transformation will hinge on resolving core issues: regulatory clarity, especially around public chains; operational interoperability between old and new infrastructure; and broader industry coordination a cross jurisdictions.

As with so many tech revolutions, early experimentation is messy. But with regulators like Switzerland leading the charge, and global asset managers like BlackRock and Franklin Templeton committing to the market, tokenised MMFs may well become the proof of concept that ushers DLT into the mainstream.

Whether that future is built on public or private chains - or some hybrid in between - remains to be seen. But one thing is clear: the old-world MMF is getting a digital facelift, and the implications are anything but marginal.





Tokenisation accelerates along the road to 2030

Our expert money market fund tokenisation panel hears that, while the technology underpinning tokenisation is no longer experimental, its integration into the everyday machinery of fund management remains uneven

Tokenisation is slowly reshaping the asset management landscape, particularly in money market funds (MMFs). This means the road to 2030 is beginning to take form. While the technology underpinning tokenisation is no longer experimental, its integration into the everyday machinery of fund management remains uneven. Critics would say it is hampered by legacy systems, entrenched operational models, and a steep investment curve.

Despite its early billing as a cost-cutting revolution, tokenisation has yet

to deliver on that promise across the full value chain. The theoretical savings exist, but practical realities have slowed their arrival.

Simon Keefe of Calastone said that while the technologies and models are “absolutely there” to make it happen, the efficiencies haven’t materialised across the board. Calastone - after investing heavily in backend infrastructure and processes in order to increase efficiencies for market actors - realised that tokenisation’s distribution potential was more important for its asset-manager clients. The firm recently launched Calastone Tokenised

Distribution - a “pioneering” solution that allows asset managers to tokenise any fund operating on Calastone’s network and distribute it seamlessly across blockchain-based channels.

Yet delivering cheaper products for investors requires more than digitising distribution, said Keefe. It demands “rethinking how a fund is constructed from the ground up”.

The expense ratio of a fund remains stubbornly complex. Keefe estimates that an average fund carries about 74 basis points in costs and that - according to Calastone’s research - this will grow by 32% over the next three »

“We’re not seeing this as a cost play. This is about flow and future AUM”

Kim Hochfeld

years. The costs - many of which are embedded within the asset manager’s internal operations - are not all being passed on to the investor, he said, but the costs are real, and they’re high. The goal is to cut that figure by half, but that involves unwinding years of accumulated operational complexity.

Calastone’s research - called “Decoding the economics of tokenisation: Transforming cost dynamics in asset management” - found that with tokenisation and the deployment of distributed ledger technology (DLT), asset managers could achieve savings of 23% in operating costs, equivalent to 0.13% of assets under management.

For Anna Matson of Northern Trust, the core value of tokenisation is data transparency and the enablement of firms to offer new capabilities, not just costs savings. She argued that the narrative around efficiency may be overplayed and added: “What’s more important now is what value you can add. What is it that can you embed that you couldn’t do before?”

It’s not a cost play

Still, cost pressure is very real, particularly given the fee compression that the whole industry “struggles” with, said Kim Hochfeld of State Street Global Advisors. Yet she stressed that for buy-side firms, tokenisation is not primarily about slashing expenses.

“We’re not seeing this as a cost play. This is about flow and future AUM.”

That doesn’t mean the cost component is irrelevant. It’s just that the expensive pieces lie with infrastructure providers, not the asset managers themselves. “We don’t need to develop digital custody or digital fund admin. This is something our service providers will handle. The initial cost to develop these capabilities can be high.”

This has naturally shifted the

dynamic in how firms select providers. Selection of fund administrators and custodians could now include a heavy emphasis on digital capabilities, albeit Hochfeld said that “until there is enough tokenised product, the digital piece is not yet important enough”. But it will be.

Layer on layer of infrastructure

The dual infrastructure model - where firms run both traditional and digital systems in parallel - is another reason cost savings have yet to take hold.

Thomas Eichenberger of Sygnum Bank noted the irony. “You may be managing your fund units as a token, but you’re still administering the fund on legacy infrastructure. You’re adding an additional layer instead of replacing one!”

He believes that only once legacy infrastructure is truly retired will tokenisation yield the efficiencies it’s meant to deliver.

Calastone’s Simon Keefe adds that many systems in use today wouldn’t make sense if designed from scratch with current technologies. “You’d look at it and go, ‘Oh my God, what’s that?’”

He said that years of regulation and piecemeal fixes have created an ecosystem that’s functional but far from

optimal. However, he also pointed out additional findings from Calastone’s research that show how tokenisation and DLT could optimise the industry, even as it stands today.

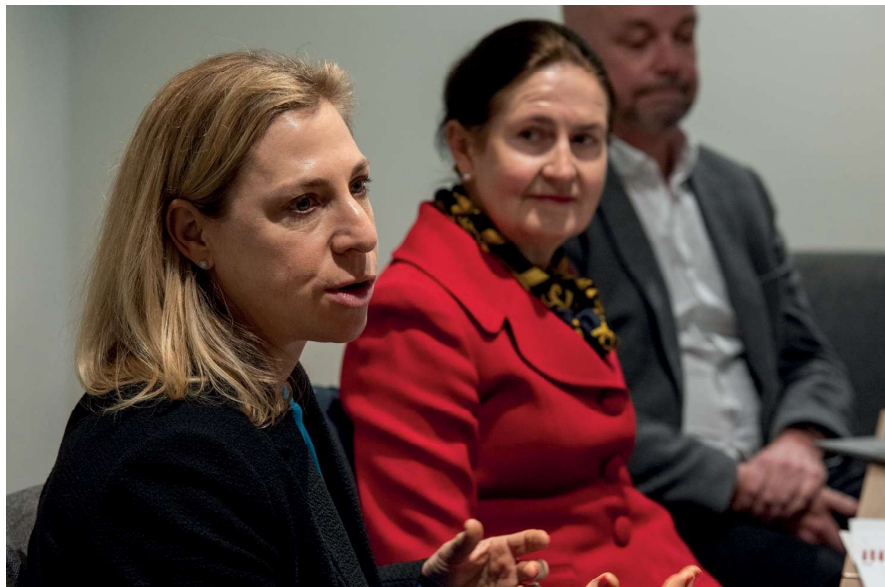
Along with the 23% savings in operational costs, the average fund today could deliver a total P&L improvement of between \$3.1 million and \$7.9 million through tokenisation. This includes revenue estimated at \$1.4 million to \$4.2 million per fund based on more competitive total expense ratios.

Industry-wide, asset management could achieve aggregate savings of \$135.3 billion across Ucits, UK and US (40 Act) funds, Keefe said.

Achieving this is not just a technical challenge today, as much as it is a cultural and organisational challenge. Keefe points to Singapore as an example of a jurisdiction moving decisively. “They’re doing this because they haven’t got the legacy infrastructure.” In contrast, the UK risks stagnation unless it fully commits to digital transformation.

“If UK plc wants to be a leader in the digital space and continue to be a leader in asset management, it needs to be really careful,” he said.

This is where initiatives like the UK’s Digital Securities Sandbox -



launched by the Bank of England and Financial Conduct Authority - are seen as crucial. John Allan, of The Investment Association, believes it can help the industry move toward standards and interoperability, allowing for the kind of economies of scale that could make tokenisation truly transformative. "It's not just about gilt issuance—it's about other digital securities we'll see through that sandbox."

But other jurisdictions are not waiting. Switzerland, the UAE, and Singapore are pushing forward with integrated digital capital markets, sometimes drawing talent away from more conservative financial centres. "There will be a drain of talent from the UK pretty quickly over the next few years," warned Calastone's Keefe.

As 2030 approaches, asset managers face a landscape where tokenisation is no longer a novelty but is also not yet fully mainstream. Real cost reductions and infrastructure gains remain aspirational for many, but the strategic direction is clear: outsourcing, jurisdictional agility, and technological readiness will increasingly define who thrives in this next phase - and who risks being left behind.

From technology to trust

As the Funds Europe discussion drew to a close, participants turned their attention to the future of tokenised funds and what will be required for institutional investors to engage more fully. For now, many remain cautious - not necessarily about the concept of tokenisation itself, but about the practical, operational and regulatory realities that surround it.

From the perspective of safekeeping of assets, the message was clear: institutional investors expect the same rigorous standards they already rely on, regardless of the technology layer.

"Investors don't want to access different platforms to see different sets of information," said Anna Matson of Northern Trust. "They want one view."

For custodians, then, the challenge lies in integrating new digital capabilities into their traditional frameworks without compromising security or simplicity.

While new technologies may introduce new risks, speakers emphasised that these technologies also offer the potential for greater security and resilience, if implemented correctly. This includes alignment with existing risk

and governance protocols. "It's not about reinventing everything," one speaker noted. "It's about marrying digital innovation with what's already trusted."

The panellists also drew attention to concerns around product integrity - particularly the rise of unregulated offerings mislabelled as money market funds. "We've seen products being marketed as tokenised MMFs that are not regulated money market funds at all," said Veronica Iommi of the Institutional Money Market Funds Association. The message was firm: proper legal and regulatory definitions matter and must be upheld to protect investors and preserve trust.

Yet despite these hurdles, there is clear optimism. Tokenisation is not simply a technological upgrade - it is also an opportunity to reimagine aspects of the industry, from cost reduction to access to collateral optimisation. The promise of delivering better value, reaching new demographics, and facilitating innovative use cases - like MMFs as settlement instruments or collateral - is driving further interest.

However, real adoption will depend on meaningful change: not just layering new tools on top of legacy systems, but reengineering infrastructure for a digital future. "Tokenisation must become the base layer, not the add-on," said one speaker. Another stressed that the winners will be those who can "bridge traditional and digital infrastructures seamlessly."

In the short term, 2024 has been described as a year of entry, marked by experimentation and cautious first steps. But 2025, said the panel, must be about scale: scaling adoption, lowering costs, building confidence, and delivering on the true potential of tokenisation.

As the conversation closed, a final insight pointed towards the convergence of technology and market forces: new investors with new expectations, a search for efficiency, and the expanding scope of what tokenised instruments - especially money market funds - can do. If custody, compliance and clarity can keep pace, then the evolution of tokenised finance will not only continue but accelerate.

“There will be a drain of talent from the UK pretty quickly over the next few years”

Simon Keefe

