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Submissions report: Tokenisation in financial markets

Summary of feedback themes, along with our response, from our consultation on tokenisation in financial markets

FMA
FINANCIAL MARKETS AUTHORITY
TE MANA TĀTAI HOKOHOKO

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Introduction

Between September and November 2025, the Financial Markets Authority – Te Mana Tātai Hokohoko (**FMA**) invited feedback on the current use and future potential of tokenisation in New Zealand's financial markets. Understanding the emerging risks and opportunities presented by virtual assets (including tokenisation) is one of our cross-sector regulatory priorities for 2025/26, as set out in our Financial Conduct Report 2025.

We sought views on three main areas relating to financial markets:

- How is the current market and regulatory environment helping or hindering domestic tokenisation activity in financial markets?
- What benefits or risks do you see for tokenisation for New Zealand financial markets?
- What should or could the future market and regulatory environment look like?

This document contains a summary of the key themes raised in those submissions, and we have included comments in response to some points raised. We have also published a collation of the written submissions, with some information withheld in accordance with the Official Information Act 1982 and the Privacy Act 2020.

We would like to thank all submitters for their feedback on our consultation. We received 22 written submissions from a wide range of market participants and other interested parties, including businesses, exchanges, fund managers, banks, law firms and industry groups. We appreciate the points raised and the effort put into each submission.

Main observations

Submitters emphasised that regulatory fragmentation and uncertainty are constraining adoption, increasing risk, and increasing the likelihood that New Zealand will fall behind international developments in tokenisation and virtual asset markets. In particular:

- **Fragmented regulatory approach:** Our domestic regime is fragmented across multiple legal domains, including financial markets, payments, property and contract law, tax, and anti-money laundering/countering the financing of terrorism (AML/CFT). New Zealand has no purpose-built regulatory regime for virtual assets. Because there is no coherent approach, regulators, businesses, and advisers must assess tokens on a case-by-case basis, which increases uncertainty and compliance costs and discourages institutional adoption and innovation.
- **International alignment**: Regulatory activity in major jurisdictions is progressing rapidly, broadly following international standard setting by bodies such as the International Organization of Securities Commissions and the Financial Stability Board. Submitters warned that falling behind leading markets could erode competitiveness and confidence and having domestic standards that diverge from major and regional jurisdictions is commercially undesirable.
- **Limits of financial markets regime**: While financial markets legislation is intended to be technology neutral, it was designed for traditional financial products and services and off chain intermediary

processes. As a result, tokenised or natively on-chain products and services do not fit neatly within existing legal definitions of financial products or financial services (such as interests in managed investment schemes), which were developed for a different market context. For example, one submitter observed that there is no clear pathway for exchanges using distributed ledger technology to operate within existing trading, clearing, settlement and custody requirements. Submitters highlighted the need for a coordinated, cross-regime regulatory response, rather than one based solely on existing financial markets law.

- **Payments, stablecoins, and tokenised deposits**: Submitters highlighted rapid overseas developments in stablecoins, supported by dedicated regulatory regimes and increasing integration into payment services – particularly in the European Union, United States, and Singapore. In major markets, payment providers are already enabling stablecoin acceptance and settlement, while New Zealand lacks comparable regulatory clarity around domestic stablecoin issuance and use. Submitters also identified a need to clarify the legal and prudential status of tokenised deposits to support the development of safe and trusted digital representations of private money.
- **Consumer protection gaps:** Where tokenised products fall outside existing financial product definitions, virtual asset platforms may not be subject to client asset custody and segregation, operational resilience, or cyber security requirements. Submitters cautioned that these gaps may disproportionately affect retail consumers and undermine trust, particularly when those platforms may appear to operate like a share trading platform.
- **Market infrastructure constraints:** To realise the benefits of tokenisation, submitters noted the need for interoperable retail and institutional infrastructure that supports issuers, liquidity, and integration with traditional financial systems. They highlighted the challenges of developing such infrastructure domestically given New Zealand's small market size, and the value in facilitating appropriate licensing and entry requirements to support offshore players to offer these services into New Zealand.

Next steps

In the FMA response to submissions section below, we set out how we will continue to support the sector, consumers, and the Government.

Our market engagement and this consultation point to a strong economic and regulatory case for primary legislation reform, consistent with our signal to Government that primary legislation is necessary to establish a purpose-built and enduring legal framework for virtual assets.

Reform would help ensure New Zealand remains internationally competitive and aligned with emerging standards in the Asia-Pacific region and major markets, particularly Singapore, the United States and Europe. Clearer regulatory pathways for tokenisation and virtual asset products – across investment, payments, and other services – would better support innovation and deliver benefits for businesses, markets, and consumers.

We will continue to:

- advise Government on how existing legislation affects tokenised products and services, and where changes could improve certainty or address clear gaps
- work closely with industry, and intend to collaboratively develop guidance to support businesses and their advisers to consider how financial markets law may apply to tokenised products and services

- use our regulatory tools, such as exemptions or designations, where appropriate, to support innovation and reduce regulatory uncertainty
- monitor domestic and international developments to help keep New Zealand aligned with emerging global practice.

Summary of themes

Overarching themes relating to benefits, risks, and barriers

Overall, submitters were optimistic about how distributed ledger technology (including blockchain and the use of smart contracts) has potential to transform New Zealand financial markets, but were also forthcoming about risks and barriers to adopting this new technology.

Many submissions agreed with the sentiments in our September 2025 Tokenisation in Financial Markets public discussion paper around benefits, risks, and barriers.

Benefits

The potential benefits for New Zealand financial markets from tokenisation identified by submitters included:

Broadening capital raising opportunities

- For example, by lowering the costs of issuing capital and associated administrative overheads for small and medium-sized enterprises, and sustainability projects.

Facilitating greater investor access to New Zealand financial markets, including access by overseas investors

- Tokens could, for instance, facilitate easier access to fractional ownership of high-value and previously illiquid assets like commercial real estate, which could expand access for retail investors especially.

Efficiency gains that could lead to cost reductions

- Automation and real-time trading offered by tokenisation could, for instance, result in cheaper and faster payment settlement over time.

Increased liquidity and market resilience

- Tokens can be settled in near real time around the clock, thereby eliminating the constraints of traditional trading hours. Settlement capability functions (such as atomic delivery-versus-payment[1] and advanced automation) provided by tokens could also mean reduced reliance on intermediaries, with the potential to improve liquidity and reduce systemic risk.
- Real-time settlement allows greater ability to respond quickly to market conditions, thereby improving liquidity management and supporting flexible asset structures.

Automation of specific corporate rights and actions

- Self-executing smart contract code could streamline dividend payouts and the assignment of voting rights associated with financial products.

[1] When asset transfer and payment occur simultaneously during a transaction

Allowing New Zealand to maintain competitiveness globally

- As tokenisation is adopted across the world, uptake in New Zealand will be key to ensuring that we can remain competitive when compared to overseas markets.

Increased transparency and auditability of underlying blockchain technology compared to traditional payments systems

- This potential benefit should, however, be considered alongside a potential paradox whereby the underlying code complexity and governance structures of tokenised platforms may in fact reduce meaningful transparency for average retail investors, compared to traditional offerings.

Encouraging wider flow-on benefits for innovation in financial products and services

- Tokenisation could enable new liquidity tools, such as on-chain collateral, token-native repurchase agreements, and instant-settlement derivatives, which could reduce inefficiencies in fixed-income and real-asset markets.

Risks

At the same time, tokenisation carries risks for New Zealand firms and investors. Some of the more substantive risks observed by submitters included:

Custody risks

- Control of virtual assets (including tokens) depends on private keys or custodial wallets. Loss, theft or mismanagement of keys may result in permanent loss of funds for investors.

Cybersecurity threats

- Tokenisation platforms can be high-value targets for cyberattacks.

Disclosure shortcomings for complex token features

- Highly technical offerings may not be sufficiently explained to allow investors to fully understand their rights associated with the token or the underlying risks. Some submitters observed that existing tokenised offerings are accompanied by varying degrees of explanation for investors.

Fraud and scams

- With lower barriers to entry for tokens issuers and unregulated intermediaries, it can be easier for token value, utility or backing to be misrepresented. Investment scams involving fake tokenised assets are already proliferating, including sophisticated ‘pig-butchering’ schemes[2] involving fraudulent token investments.

Unclear governance accountabilities

- With tokens operating in a decentralised environment, governance responsibility may be shared between protocol developers, platform operators, and the smart contracts underpinning tokens themselves. In Decentralised Autonomous Organisations (DAOs), for instance, the absence of a single, central entity makes it difficult to pinpoint responsibility in the event of failure.

[2] Individualised scams designed to win a person’s trust through fake romantic or social relationships, before convincing them to invest money in fraudulent projects or fictitious assets

Inadequate risk/conflict management

- Some submitters observed that many token projects lack robust internal auditing procedures, effective internal controls (such as proper segregation of duties), or operational monitoring.

Price volatility

- Virtual asset prices can fluctuate due to market conditions (like a sudden spike in demand) or, in the case of stablecoins, 'depeg'.[3]
- Liquidity and maturity mismatches between tokens and their underlying assets (where tokens appear more liquid than their underlying assets), may lead to redemption pressures and a risk of 'token runs' (similar to 'bank runs') during stress periods.

Smart contract vulnerabilities

- Errors in the underlying coding of tokens could result in automatic execution of unwanted transactions that may not be reversible. Unlike with traditional payments systems, blockchain technology's immutability could mean that smart contract errors may lead to significant financial loses for investors and businesses.
- More broadly, there may be mismatches between coded smart contract terms and the actual terms contractual parties have agreed to. Investors without the technical expertise to audit smart contract coding might rely on third parties without formal auditing standards.

Barriers

Submitters also identified potential barriers to adopting tokenisation in New Zealand financial markets. Some of these barriers included:

Implementation costs and challenges

- There will be substantial costs for firms to initially invest in key infrastructure and system upgrades to implement tokenised offerings. These will include non-trivial engineering, testing and operational overheads to integrate token ledgers with back-office, accounting, reporting and risk systems.
- The market will also need to overcome complexity in integrating legacy banking and payment systems with new tokenised platforms.

Education and skills shortages in relation to tokenisation technologies

- There is a shortage of engineers, product managers and market operators experienced in tokenised workflows (e.g. token modelling, custody, oracle design, reconciliations), which raises vendor costs and slows adoption.
- Many New Zealand investors are still unfamiliar with tokenisation, which limits market exposure and growth.

[3] Lose their intended fixed value and trade at a different price

Conservative commercial risk appetites

- As noted by some submitters, banks may be reluctant to provide necessary services to businesses operating in the crypto asset and service sectors, citing operational, reputational or commercial reasons, thereby constraining payment settlement options.

Potential lack of incentives for adoption for some incumbent firms

- There may be a lack of incentives for incumbent marketplace operators to upgrade technology where they are monopolies or already have significant market share.

Lack of secondary market infrastructure

- Secondary markets for tokenised assets currently have limited liquidity, especially in smaller domestic markets. Investors may potentially be unable to trade their investments during times of market stress.

Negative flow-on reputational impacts for businesses choosing tokenised offerings

- Public association of tokenised offerings with 'crypto' can deter traditional investors or consumers from businesses adopting tokens. This impact can be especially acute when there are token platform failures or cyberattacks.

Legal and regulatory uncertainty – explored in more detail below.

Legal and regulatory uncertainty

A key theme across many submissions was uncertainty about how New Zealand's laws and regulations might apply to tokenised offerings. Some examples of how these uncertainties manifest, as noted by submitters, include the following:

- There is ambiguity in the Financial Markets Conduct Act 2013 (FMC Act) about how tokens fit within existing definitions – 'financial product', 'security', 'derivative', and so on. On the other hand, if a tokenised offering looks likely to be a 'financial product' under the FMC Act, the existing compliance regime of product disclosure and governance can be disproportionately heavy for early-stage innovative projects. Some submitters noted that this legal uncertainty (and the costs associated with launching tokenised projects) appears to be deterring new market entrants and slowing innovation.
- The current financial markets legal framework also does not explicitly recognise entities like 'virtual asset service providers' (VASPs) or provide them with a clear licensing path. Such entities may instead fall under generic categories, e.g. in some circumstances a crypto exchange could be a 'financial product market' requiring a market operator licence under Part 5 of the FMC Act, or a derivatives issuer (if dealing in derivatives tokens) requiring a derivatives issuer licence under Part 6 of the FMC Act.
- Some submitters noted that overseas jurisdictions such as Australia are moving toward a licensing framework for crypto service providers. They also highlighted that Hong Kong's new regime requires and grants licences to crypto trading platforms, which boosts consumer protection and market development through regulation.
- In the absence of a targeted regulatory regime for tokens, 'bare trusts' seem to be the structure of choice for issuers. Being simple arrangements in which trustees hold legal title to an asset solely on behalf of beneficiaries and must act only on beneficiaries' instructions, bare trusts lack the governance, discretion and operational infrastructure needed for effective tokenisation custody. Bare trusts separate legal and beneficial ownership while giving the trustee no discretion, creating risk of uncertainty over

who is responsible for key token-related functions such as executing smart contracts and responding to technical failures.

- Submitters noted that relying on bare trusts can leave certain asset classes under-supervised and fails to create consistent incentives for firms to manage risks to customers. Such an approach is, at best, a workaround that creates uncertainty in the legal and supervisory treatment of tokenised products and services.
- There is uncertainty associated with anti-money laundering and tax compliance for tokenised offerings. Recent amendments to the Anti-Money Laundering and Countering Financing of Terrorism Act 2009 mean that virtual asset service providers are now regulated under AML/CFT law in New Zealand, which submitters noted is positive for consistency. However, submitters also told us that the operational implementation can be difficult. Travel Rule Requirements (that mean customer data is collected for transactions over a threshold) and a lack of local blockchain analytics capacity, among other things, can make compliance onerous for startups.
- For tax, uncertainty on how different token transactions are taxed (e.g. security tokens vs utility tokens, trading vs holding) can hinder activity due to fear of adverse tax treatment.
- More fundamentally on the technology side, ensuring legal finality of transactions on distributed ledger technology can pose challenges. Traditional systems often have clear legal finality, e.g. through statutes legislating payment systems or central depositories. With blockchain technologies, especially permissionless ones, there can be probabilistic settlement (e.g. finality after a certain number of blocks) and risk of 'chain reorganisations', which can complicate defining final settlement in the context of tokenised products.

Submitters' recommendations for the FMA

Most submitters helpfully provided feedback on the role we should take in relation to tokenisation in New Zealand financial markets. While recommendations varied, they can be broadly summarised as:

- Issuing shared taxonomy, standards, and clearer regulatory guidance/definitions
- Ensuring alignment with overseas jurisdictions
- Reviewing frameworks, regulations, and statutes
- Educating investors/participants, e.g. through published guidance on token classifications and obligations
- Running regulatory sandboxes and pilots
- Using exemptions and designations as appropriate
- Leading/working with other regulators and agencies both within New Zealand and overseas

Overall, submitters emphasised the importance of ensuring the New Zealand regulatory system as it relates to tokens remains aligned with the approaches taken in overseas jurisdictions.

FMA response to submissions

Our observations

The FMA's main statutory objective is to promote and facilitate the development of fair, efficient, and transparent financial markets. We also have a function to keep under review the law and practices relating to financial markets, financial markets participants, and other persons engaged in conduct relating to those markets.

Tokenisation and distributed ledger technology have the potential to support more efficient, innovative, and accessible financial markets in New Zealand. But they require a regulatory environment that provides certainty for firms, appropriately protects investors and consumers, and supports fair, efficient, and transparent markets.

Under existing law, market participants offering tokenised financial products or financial services must comply with financial markets legislation. The FMC Act includes, among other matters, 'fair dealing' requirements under Part 2, which prohibit misleading or deceptive conduct, false or misleading representations, and unsubstantiated representations. Several market services also have requirements to act with care, diligence, and skill (such as professional managers of registered schemes offering tokenised managed investment products).

As submitters highlight, effective governance, operational resilience, and risk-management frameworks are essential for any tokenised products or services operating in New Zealand's financial system. Key areas such as custody, cybersecurity, fraud and scam prevention, smart-contract governance, and clear roles and accountabilities will become increasingly important as tokenisation expands.

However, there are clear challenges affecting the pace, scale, and viability of tokenisation adoption in New Zealand. Market-side factors such as size and scalability, liquidity and the frequency of transactions, and both public and private issuer demand influence firms' decisions to enter the market, scale, invest in infrastructure, or pursue specific use cases across investment and payments markets. We note submitters' view that some of these legislative barriers may need consideration by Government, as they fall within Government's policy remit rather than the FMA's regulatory role.

Taken together, we share submitters' sentiment that the domestic conditions are not at this time conducive for tokenisation initiatives to flourish. There are compelling reasons for the Government to consider what a purpose-built regulatory regime could look like in New Zealand. The current settings are not fit for the paradigm shift that distributed ledger technology is supporting globally in financial services.

While some regulatory mechanisms exist to tailor or exclude certain activities from aspects of financial markets legislation, these mechanisms provide only temporary or incomplete solutions, rather than an enduring, flexible, and internationally aligned framework. Reliance on individual regulatory interventions also imposes costs on industry, and does not provide the certainty that comes with a fit-for-purpose legislative framework.

Clearer regulatory pathways for tokenisation and virtual asset products – across investment, payments, and other services – would better support innovation and help deliver benefits for New Zealand businesses, markets, and consumers. The size of New Zealand's markets means that some challenges to adoption will remain even if such pathways are put in place. Despite this, the growing pace of international adoption of

regulatory frameworks for virtual assets and tokens means that our current position is increasingly out of date and uncompetitive, and the risk is growing that New Zealand businesses and consumers will miss out on the opportunities offered by these technologies.

What we will do next

We are grateful for the ongoing engagement from the sector, and we encourage businesses to continue sharing insights as tokenisation-related activity evolves. Our immediate focus is to support clarity, consistency, and informed participation within the current environment.

Our principal next steps are to:

- **Continue to advise Government** on how existing legislation affects tokenised products and services, including where changes could improve certainty or address clear regulatory gaps. Any decisions about law reform or enduring regulatory changes remain a matter for Government and are subject to the usual policy and parliamentary processes.
- **Reduce regulatory ambiguity** by developing guidance in collaboration with the sector to assist businesses and their advisers to consider how financial markets law may apply to tokenised products and services.
- **Use individual exemptions and designations as appropriate** to provide relief for certain tokenised activities to improve regulatory outcomes, maintain investor protection, and support innovation.
- **Coordinate closely with other agencies** – including MBIE, the Department of Internal Affairs, Inland Revenue, and the Reserve Bank of New Zealand – to support a coherent and streamlined regulatory environment for virtual assets and related services.
- **Monitor domestic and international developments** in tokenisation and maintain dialogue with overseas regulators to support supervisory cooperation and access to emerging insights.

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