FMA
FINANCIAL MARKETS AUTHORITY
TE MANA TĀTAI HOKOHOKO

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Discussion paper: Tokenisation in financial markets

About this consultation

The Financial Markets Authority – Te Mana Tātai Hokohoko (**FMA**) is seeking to open a dialogue about the current use and future potential of tokenisation in New Zealand's financial markets.

To help us consider what the FMA could do to support innovation, improve regulatory certainty, and enhance consumer protection, we are seeking 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 paper provides an overview of the current environment relating to tokenisation, and discussion topics and questions about areas we are interested in.

Next steps

We welcome your views and feedback. Please use the feedback form provided on the web page for this consultation at www.fma.govt.nz/business/focus-areas/consultation. Note that all feedback received is subject to the Official Information Act 1982, and may be made available on our website or other external channels. See the feedback form for more information about your privacy and confidentiality options.

Submissions close on Friday 31 October 2025. We will publish submitter feedback together with any initial response.

This consultation is for businesses, consumers, investors, and professional services firms with an interest in tokenisation.	It asks for market feedback on opportunities for, and barriers to the use of, tokenisation in our domestic financial markets.

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Introduction

The FMA's objective is to promote and facilitate the development of fair, efficient, and transparent financial markets. Our functions include promoting the confident and informed participation of businesses, investors, and consumers in those markets and keeping the law and practices relating to those markets under review. Our regulatory approach is pro-innovation, flexible, and technology neutral.

Tokens and tokenisation in financial markets

New Zealand is in the early stages of exploring distributed ledger technology (**DLT**) in many industries and sectors, including financial markets. DLT is an internet-based system that facilitates secure, transparent, and automated exchanges of information and transactions, and is used in the virtual asset ecosystem.

Virtual assets (also known as crypto or digital assets) are intangible assets created, traded and stored often on a programmable, distributed or centralised ledger (or register). Virtual assets are used for many different purposes, including exchanging value or making payments (e.g. with exchange tokens, like cryptocurrencies), investing (e.g. tokenised securities), and facilitating access to an application or system.

This discussion paper focuses on the use of DLT to offer products that are, or services that relate to, tokens that have the economic substance of an investment.

Fundamentally, this is about new technology. DLT could have potential to overcome inefficiencies in the functioning of markets, intermediaries, and infrastructure, improve capital raising, simplify compliance, and broaden investor access to asset classes.

Through widespread adoption, DLT may have the potential to transform at least in part traditional market infrastructure and how market services are provided to businesses and investors. This includes exchanges and trading platforms, clearing and settlement, custody, and offerings of financial products and other securities.

This outcome is not a certainty. The technology is still evolving, bringing with it challenges of scalability, stability and resilience. Its adoption remains limited, and there may be market barriers to its uptake. It may also bring new risks and heighten existing risks in traditional financial markets, such as market abuse, misleading disclosures, inadequate custody arrangements, cyber threats, use for money laundering and financing of terrorism, and fraud and scams.

One trend we are interested in is tokenisation. Tokenisation typically refers to issuing a digital token using DLT to separately represent ownership of real-world assets. However, digital tokens themselves may be the sole asset (such as a digital bond, issued on a blockchain), i.e. there is no link to a real-world asset.

As a product, tokens can be programmed to represent rights or interests in real-world assets, such as securities (e.g. shares, bonds, managed fund units) or other property (e.g. fiat currency, real estate, virtual assets, intellectual property). Some tokens may be programmed to have features and characteristics of investments (e.g. yield-bearing) while others are purely speculative (e.g. meme coins). Like traditional finance, not all of these products are appropriate for securities regulation.

But the term “tokenisation” is imprecise. As code, a token and the smart contracts that govern it may represent a range of different interests or rights in an asset (e.g. rights to dividends but not ownership, or a full beneficial interest in an underlying asset, or may provide contractual rights that simulate rights associated with ownership). Equally, it may simply be performing record-keeping and registry functions relating to an underlying security (or financial product). It is therefore important to be clear about the nature of the rights or interests that the token provides, i.e. what has been tokenised.

Tokenisation can be used to seek to facilitate fractional ownership (e.g. partial ownership of real estate) but the technology is not necessary to achieve this – for example, unit trusts or fractional ownership of listed shares is already commonplace.

Internationally, tokenisation is increasingly being used in financial markets in offerings of financial products and instruments to retail and wholesale investors. Key drivers are the potential of tokenisation to reduce friction in markets and transactions, and support real-time trading, payment and settlement, in a secure and scalable way. For example, the Monetary Authority of Singapore is playing a leading role in developing new financial infrastructure through Project Guardian.[1] But with the digitisation of traditional finance, there remain questions (at least for the time being) about whether financial innovation is being driven by desired use of the technology or a fundamental market need.

For consumers and investors, reducing transaction costs may be beneficial, and can reduce fees and costs for certain services – particularly where the corresponding costs for firms decrease. The interoperability and transparency of the services may also support better visibility of products and services, and increase opportunities. Tokenisation may also create more complexity, risk, and vulnerability – especially where decentralisation can reduce accountability.

New Zealand’s financial markets

New Zealand’s financial markets conduct regime is technology-neutral and flexible. However, it can be unclear about how regulation applies to emerging technologies, which may not always fit well against existing frameworks. This may create uncertainty and unnecessary regulatory burden for both established and start-up firms seeking to innovate or use DLT in traditional finance.

We recognise that industry participants often have deeper insights into emerging trends and barriers to adoption. We want to work collaboratively with industry to identify challenges and opportunities in this space and explore these topics to better support growth and innovation in our domestic markets.

It is important that domestic regulatory systems and regulators keep pace with the risks and opportunities, to support responsible innovation. Therefore, in this discussion paper, we aim to:

- Understand how the current regulatory environment supports or hinders tokenisation in New Zealand’s financial markets;
- Explore what role tokenisation could play in New Zealand’s financial markets and what risks need to be managed;
- Gather feedback on how the FMA can better support responsible innovation, including considering making recommendations to the Government for law reform.

[1] See GUARDIAN | www.mas.govt.sg

While this discussion paper focuses on tokenisation, these questions and challenges are also applicable to virtual assets (or cryptoassets).

International developments

It is important that New Zealand keeps pace with international regulatory and market developments to support uptake of and access to emerging technologies, while applying a consumer protection lens.

To support this discussion, the **Appendix** of this paper outlines global trends illustrating how some governments and private firms are investing heavily in DLT infrastructure and regulatory frameworks.

International bodies, such as the International Organization of Securities Commissions (**IOSCO**) and Financial Stability Board (**FSB**), recommend regulating virtual assets in line with traditional financial products when risks are comparable, and support harmonised global standards.

Many countries are implementing or developing comprehensive regulations to support tokenisation, and seeking to integrate domestic frameworks across anti-money laundering and countering the financing of terrorism, payments, and securities and markets, balancing innovation with investor protection and financial stability.

Our role

The FMA does not have primary policy responsibility for financial markets legislation. Where we identify issues with policy settings, we can raise this with the appropriate agency (e.g. the Ministry of Business, Innovation & Employment (**MBIE**)) to consider whether law reform may be appropriate.

You can read more about the financial markets regulatory system on MBIE's website here: Financial markets conduct regulatory system (mbie.govt.nz) and the FMA's role on our website here: About the FMA (fma.govt.nz), and specifically in supporting the financial technology sector on our website here: Innovation (fma.govt.nz).

Background

This section briefly outlines certain key concepts to support this discussion.

What are virtual assets and tokens?

Virtual assets[2] are intangible assets that are created, traded and stored often on a programmable, distributed or centralised ledger. They are also commonly called crypto assets and digital assets by international standard setters and across jurisdictions. **Tokens** are a subset of virtual assets.

Below, we have outlined types of virtual assets that are most directly relevant to financial services and financial markets. There are no universal frameworks or definitions of virtual assets, and we are not seeking to formally define categories of virtual assets.

Type	Description	Example
Security token	Represent rights or interests in real-world assets, like shares or bonds. Similar in economic substance to traditional securities.	Tokenised shares in a company
Exchange token	Used as transfer of value (e.g. payment). Privately issued (i.e. not issued or backed by a central government). Often called cryptocurrencies or e-money tokens.	Bitcoin, Ether, etc
Stablecoins	Intended to maintain a stable value by reference to a specified asset or group of assets (e.g. fiat currency, commodities, or virtual assets).	Tether (USDT), Ripple
Central bank digital currency (CBDC)	Digital form of a country's fiat currency issued by the central bank.	China's e-CNY

There are other types of tokens, such as **non-fungible tokens** (e.g. artwork issued on the blockchain), **utility tokens** (granting access to a product or service, e.g. a platform or ecosystem), **governance tokens** (e.g. conferring voting rights about a blockchain) or **verification tokens** (e.g. used for identification).

[2] In this paper, we use the term 'virtual assets' to align with New Zealand's anti-money laundering and countering financing of terrorism regime.

What drives the potential of tokens?

DLT provides the infrastructure for creating and managing tokens.[3] In the context of financial markets, the technology aims to improve the security, transparency, and automation of transactions.

DLT is an internet-based system where participants in a network use cryptography to verify and agree on records of transactions. These records, stored on a ledger (such as a database or platform), are immutable, meaning they cannot be altered once confirmed.

Unlike traditional centralised systems (managed by a single entity), distributed ledgers are decentralised, maintained by a network of participants.

Blockchains are a specific type of distributed ledger, which store data in a linear sequence of blocks. They are commonly used for recording token transactions.

A key feature of DLT is **programmability**. Tokens and ledgers can incorporate **smart contracts**, which are self-executing programmes that automatically perform actions when predefined conditions are met. These contracts define the token's characteristics, such as ownership, valuation, trading restrictions, and custodian rules. They also enable platform-level rules for custody and settlement, supporting interoperability between systems.

Ledgers can be **permissioned** (restricted access) or **permissionless** (open to the public), depending on whether the platform is private or public.

Cryptocurrencies, or exchange tokens, typically operate on their own blockchains and are considered the native assets of those chains. Other tokens can be issued on blockchain platforms like Ethereum, which provide technical standards to ensure consistency and interoperability.

What is tokenisation?

Tokenisation is the process of digitally representing an asset (or rights or interests in an asset) as a virtual asset on a distributed ledger governed by smart contracts.

Tokenising real-world assets such as gold or real estate (where the token is 'on chain' and the underlying asset is 'off chain') is intended to allow the digital version to be transacted in more frictionless ways than possible for the underlying asset. However, it requires additional steps to maintain appropriate linkages with the asset, such as valuation and custody.

Tokens can also be solely issued on chain (i.e. where the token *is* the asset). The token's programmable characteristics govern its features, trading, ownership, compliance, custody and so on, e.g. a digital Government bond where the token has programmed yield and other characteristics.

However, as signalled in the introduction, it is important to be clear on what is being "tokenised". Often, tokens and their governing smart contracts are not equivalent to direct ownership of the asset. A token may offer some of the benefits of owning the underlying assets (e.g. a right to be paid dividends without voting rights) but not provide legal ownership of the underlying share.

[3] DLT was developed primarily to provide a decentralised, secure, and transparent system for recording transactions and data.

Asset types

Any type of asset can theoretically be tokenised, including:

- **traditional investments:** public equities, bonds (government, corporate, local government), derivatives, interests in managed investment schemes
- **alternative investments:** private equity, private debt, venture capital, commodities, real estate, infrastructure, art, collectibles
- **cash / cash equivalents:** fiat currency, stablecoins, bank deposits
- **money markets:** money market funds, repurchase agreements
- **intangible assets:** intellectual property.

This flexibility may be used to enhance access to and transactability of a wide range of asset classes, and is one of the potentially transformational features of DLT.

Market trends are explored below in more depth. Some use cases include:

- **Debt securities (e.g. bonds)**: Tokenising bonds has potential to improve transparency of transactions, reduce settlement times, and open access to a broader investor pool.
- **Commodities and precious metals**: Tokenising commodities like gold and oil might provide secure, tradeable crypto assets, lowering barriers to entry for retail investors.
- **Real estate**: Tokenisation is intended to allow investors to buy small portions of properties, making investments in real estate more accessible.

However, the tokenised version of the asset may provide a different set of rights or interests than directly owning the underlying asset – for example, it may be (or be similar to) a beneficial interest or a derivative.

This means how a tokenised asset is represented and described is important to ensure investors are fairly informed about the nature of the product they are investing in.

Process

The steps involved in tokenising an asset are broadly similar to the lifecycle of ordinary securities, although the technology is intended to facilitate high levels of automation and programmable process steps:

- **Asset sourcing**: Determining the asset to be tokenised and the applicable regulatory settings governing the underlying asset. For example, compliance may be different for tokenisation of shares in an unlisted company compared to tokenisation of a carbon credit or gold.
- **Issue and distribution; custody, and trading**: Appropriate custody arrangements are put in place for both the virtual assets and any real-world assets. Tokens are issued to investors via digital wallets (custody). There may be a platform allowing secondary market trading.
- **Asset servicing and data reconciliation**: Once issued, the asset may have ongoing administrative and operational support (e.g. for corporate actions, tax, accounting, and reporting).

Relationship with financial markets

As discussed below, jurisdictions are taking different approaches to how tokens are regulated. While the use case for tokens gives rise to potentially more-complex questions and issues, there are generally parallels with certain aspects of securities and payments regulation.

For example, digital money is often not regulated as an investment or under financial markets law. For the purposes of regulation, tokens that are intended as a means of payment or as a settlement asset for transactions are most aligned with payments or e-money.

By contrast, certain features of other tokens may give rise to questions about how the tokenised product can be classified under existing financial markets law, given how bespoke tokens can be in their design. For example, a stablecoin might have features common to both debt securities and managed investment schemes (MIS), depending on the rights of the holder and how the underlying assets are held.

Some of these questions are not new – collective investing via fractional ownership, for example, has existed in various forms for a long time. However, given the different risks and features of DLT, the default rules for disclosure, governance, conduct, custody and so on will not necessarily be fit for purpose.

What are some of the opportunities and risks?

The main thematic **opportunities and risks** associated with tokenisation are briefly outlined below. We seek to be technology-neutral in highlighting these aspects.

There are views that tokenisation has the potential to be transformative for financial markets, particularly if adopted at scale. Beyond enhancing existing processes, tokens could enable new financial services and products through the use of automated, self-executing code embedded in smart contracts. Equally, there is sentiment that this, or some form of it, is very far away from the current state.

The key features that distinguish tokenisation from traditional finance are:

- **Programmability**: Potential to enable automation and operational efficiencies throughout the asset's lifecycle, which should reduce manual intervention and associated costs. Can introduce challenges where there are errors or loopholes in the code.
- **Distributed system of record**: Can improve transparency and permanence (immutable) of the records of asset ownership, transaction history, and associated rights. Depends on system design and remains vulnerable to cyberattacks.
- **Custodial flexibility**: May support users to retain direct control over their assets and data (e.g. through directly accessible wallets). This can reduce reliance on intermediaries, although systems are often still operated by third parties and users may have less autonomy over the assets than is represented.
- **Fractionalisation**: Intended to increase accessibility by enabling ownership of smaller portions of assets. While not a new concept, tokenisation might make it more scalable and efficient. Access to broader asset classes does not necessarily improve the quality of investments available to investors and fractional ownership brings additional complications and risks.
- **Composability**: Potential to support integration and interoperability across platforms and use cases. Tokens can be repackaged, reused, or combined to create new financial instruments or services. This can equally greatly increase complexity of a product or service.

These features also heighten existing risks in traditional financial markets and bring new, potentially more-complex and sophisticated risks, especially for retail investors.

Opportunities

The following opportunities outline the intended or theoretical benefits of tokenisation, which in many cases are still a work in progress:

Market access and asset mobility

- Intended to enable investors to access a broader range of asset classes, including those limited to institutional or high-net-worth individuals, such as private equity, through DLT-based fractionalisation.
- May empower businesses with more flexible, responsive capital-raising methods and foster ongoing digital engagement with investors throughout the investment lifecycle.
- Has potential to facilitate cross-platform and cross-jurisdictional use of tokenised assets, supporting diverse use cases such as asset repackaging, flexible payments, and streamlined settlement.

Market and operational efficiencies

- Could modernise traditional financial infrastructure by automating and decentralising some or all key services such as trading, clearing, settlement, registry, and custody to varying degrees.
- May enhance market efficiency, depth, and liquidity through near-instant clearing and settlement, 24/7 trading, and the creation of new secondary markets, lowering some counterparty risks and costs of trading.
- Could reduce compliance and regulatory costs via smart systems that automate verification, reporting, and record-keeping.

Security and transparency

- DLT is intended to provide a secure, immutable record of transactions, which may be capable of enhancing transparency and trust. Programmable features can enable detailed tracking of asset activity, which has potential to improve auditability and reporting.
- Captures additional metadata, which can help improve compliance and oversight.

Risks

Major potential risks to the uptake and use of tokenisation include:

Investor and market risk

- Investors not fully understanding the features and characteristics of the token being promoted, such as where the smart contracts governing the token provide fundamentally different interests than ownership of the asset the token is, or claims to be, associated with. This may leave investors vulnerable to poor outcomes.
- Decentralisation of services increases uncertainty about accountability and responsibility. This is particularly problematic in cross-border contexts, where jurisdictional ambiguities can complicate enforcement and investor protection.

- Tokenisation of real-world assets presents unique risks. For example, if the digital token and the physical asset are "linked", this may increase custody risks – such as where both assets may have custody arrangements with different third parties.
- There may be heightened conduct risks in areas such as conflicts of interests, insider trading, collusion, market manipulation and potential for criminal offending including scams, fraud, and money laundering – made possible in more-complex and novel ways.

Financial stability risks

- Tokenisation may increase the speed and transmissibility of financial shocks, depending on how it affects leverage, funding liquidity and interconnectedness of institutions.[4] The Reserve Bank of New Zealand (**RBNZ**) previously commented on these risks in a 2023 Issues Paper on *The Future of Money – Private Innovation*.[5]

Regulatory uncertainty

- Globally and domestically, regulation of virtual assets (including tokens and related services) is rapidly changing. This can create cross-jurisdictional uncertainty about which law applies, and how. Domestic law may have unclear or inappropriate application to new technology like DLT, e.g. automated anonymous transactions, and where decentralisation can make roles/functions of parties more difficult to identify (e.g. in decentralised autonomous organisations[6] operated entirely or in part using DLT).

Technology-related and operational risk

These risks include issues with:

- how the technology scales
- ensuring settlement finality on some blockchains
- compatibility of standards and features of different tokens and ledgers
- cyber risks (including cybercrime), and network and ledger stability/disruption – including new vulnerabilities from smart contracts (e.g. compromises of private keys, which are used for authorisation purposes on DLT)
- how the technology integrates with existing traditional financial systems and databases.

Governance risk

- These risks include challenges with accountability, control and oversight in a decentralised service environment, risks of identification and anonymity for anti-money laundering and countering financing of terrorism (**AML/CFT**) purposes, and visibility of conflicts of interest and conduct.

[4] See further Tokenization and Financial Market Inefficiencies | www.imf.org
[5] See The Future of Money – Private Innovation | www.rbnz.govt.nz
[6] A Decentralised Autonomous Organisation (or DAO) uses smart contracts to automate decisions by the organisation's members, intended to be a bottom-up structure to avoid central authority. However, in practice, there is often an entity or group of individuals that operate the DAO.

Tokenisation in New Zealand

Current state

Tokenisation for investments

While the FMA has limited visibility of domestic tokens and tokenised activity in New Zealand's financial markets, there is increased interest from firms outside our regulatory perimeter looking to issue tokens. Several businesses with tokenisation projects have approached the FMA this year.

These discussions have developed through engagement across several channels including direct contact with the FMA (including through our regulatory sandbox pilot, which allows selected firms to test innovative products, services or business models before taking them to market), the Council of Financial Regulators (**CoFR**), which offers the Fintech Forum (a single point of contact for regulatory enquiries directed at member agencies), BlockChainNZ, Creative HQ and FintechNZ. The FMA and other agencies as part of CoFR have met with firms exploring how to use tokens in existing industries like mining, forestry, racehorses, precious metals, real estate, insurance and carbon credits. We therefore believe it is worthwhile considering how we can support innovation and improve regulatory certainty related to tokenisation.

In practice, we have found that the specific legal definitions under the Financial Markets Conduct Act 2013 (**FMC Act**) can allow for offerings to be designed in ways that do not fall within the scope of "financial products", such as the use of bare trusts. This can arise in ordinary commercial structuring as well as tokenisation. This flexibility can be beneficial for innovation but may bring with it unanticipated risks, especially where consumers may not appreciate the lack of protections. There does appear to be a cautious approach toward extending tokenised offerings to retail investors.

Overall New Zealand appears to be in the early stages of embracing tokenisation development. This may reflect a combination of factors, including the relatively small size of the domestic market, affecting the cost-benefit analysis of using blockchain technology, as well as uncertainties about whether the current regulatory framework appropriately and adequately applies to these emerging models. As offshore markets and regulatory regimes mature, it is possible domestic activity may lift through new offerings like tokenisation-as-a-service and professional advisers supporting tokenised offers to clients.

Distributed ledger technology, cryptocurrencies and virtual asset service providers

We are aware of general activity in New Zealand relating to blockchain-based enterprises in diverse applications, which MBIE has provided commentary and examples on (spanning supply chain and logistics, energy, health and voting, as well as banking and virtual assets).[7]

[7] See more generally MBIE's commentary on the use of blockchain technology: Trend two: use of blockchain technology | www.mbie.govt.nz

There are many examples of virtual asset service providers operating domestically, such as cryptocurrency exchange platforms. There are examples of success stories, such as Swyftx's recent acquisition of Easy Crypto, a New Zealand-based cryptocurrency trading platform.[8]

There are also examples of harm in this area. For example, Cryptopia's liquidation in May 2019 following a hack that resulted in a 9% loss of the assets held through the platform, and Digital Asset Exchange Ltd (Dasset), placed into liquidation in August 2023 and under investigation by the Serious Fraud Office.[9]

We have also seen a sharp rise in the amount of virtual asset-related scams: in the first calendar quarter of 2025, approximately 30% of misconduct allegations reported to the FMA involved virtual assets. These are not all tokenised asset-based scams but indicative of the risks in this area.

Domestic regulatory system

Our role

The FMA's main objective under the Financial Markets Authority Act 2011 (**FMA Act**) is to promote and facilitate the development of fair, efficient, and transparent financial markets. We are also responsible for regulating conduct in New Zealand financial markets under the FMC Act. Our role, as set out in the additional purposes of that Act, includes promoting innovation and flexibility in financial markets, and avoiding unnecessary compliance costs.

We fulfil these functions through activities like:

- issuing policy and guidelines to assist firms and professionals to understand our expectations and comply with the law
- licensing, monitoring and supervising certain market services
- market and stakeholder engagement on a regular basis, including through events and roundtables
- providing information and resources to consumers so that they may make better investment and financial decisions
- taking enforcement-related measures for misconduct or alleged breaches of the law.

Subject to certain procedural safeguards, we have wide powers to consider:

- granting exemptions to persons or transactions from compliance with some of the FMC Act obligations on a class or individual basis.
- making designations that change, for example, the regulatory treatment of tokens and how they are categorised.

Through exemptions, the FMA may tailor compliance obligations, such as product disclosure statements or governance requirements (including client money reporting and assurance), to better suit investor needs and protections.

[8] NZ's biggest crypto exchange to merge with Australian firm | rnz.govt.nz
[9] SFO opens investigation into cryptocurrency trading platform Digital Asset Exchange Ltd | www.sfo.govt.nz

An exemption may be granted in relation to a sufficiently identifiable class (such as a category of shares or a type of firm (like a co-operative company) with a revenue threshold). It may also be done on an individual basis for specific financial product offers or individual businesses.

Any exemption must support the purposes of the FMC Act, and must be no broader than reasonably necessary to address the relevant issues.

We may also use our designation power to change how securities are regulated and categorised. For instance, a security may be designated as a financial product if it is one in economic substance, even if it does not meet all the technical legislative criteria. These designations are subject to legislative safeguards similar to those for exemptions.

Agency functions

There are several government departments and regulators with policy and operational responsibilities that relate to or have some connection to the virtual assets ecosystem, including the Department of Internal Affairs (**DIA**), Inland Revenue, MBIE, the Treasury, RBNZ, and the Commerce Commission.

Related work by these agencies includes:

- the RBNZ's work looking into digital cash and the role of a central bank digital currency
- Inland Revenue's focus on virtual assets in the tax system
- the FMA and RBNZ's joint operational responsibilities for financial market infrastructure
- the Commerce Commission's role in promoting competition and efficiency under the retail payment system (e.g. including digital wallet networks)
- the DIA's functions as the AML/CFT supervisor for most virtual asset service providers and the Trust Framework Authority, which regulates digital identity services.[10]

General legislative framework

Generally speaking, there is no bespoke regulatory framework for virtual assets (whether for payment, investments, or other purposes) in New Zealand. General law, such as companies, consumer, and credit legislation[11] as well as contract, tort and equity law, can provide rights, obligations, and responsibilities that apply between parties providing and using virtual assets and related services.[12]

However, domestic law does have some specific legislative inclusions for virtual assets and virtual asset service providers, in particular AML/CFT and tax legislation.

Under AML/CFT laws, financial services provided by virtual asset service providers fall within the definition of "financial institution" under the AML/CFT Act 2009. This includes services like virtual asset exchanges,

[10] Note – the DIA is proposed to become the single supervisor for the AML/CFT regulatory system under the *Anti-Money Laundering and Countering Financing of Terrorism (Supervisor, Levy, and Other Matters) Amendment Bill*, introduced into the House of Representatives on 16 July 2025.
[11] Such as the Companies Act 1993, Income Tax Act 2007, the Fair Trading Act 1986, Credit Contracts and Consumer Finance Act 2003.
[12] See, for example, *Ruscoe v Cryptopia Ltd (In Liq)* [2020] NZHC 728, setting precedent that virtual assets are "property" at common law.

virtual wallet providers, and virtual asset broking.[13] The DIA will usually be the relevant AML/CFT supervisor for entities providing these services. However, financial products are excluded from being "virtual assets" under that Act, which is likely to mean that FMA is the AML/CFT supervisor for issuers of tokenised financial products under current law.

Tax legislation treats virtual assets as a form of property for tax purposes. Their treatment depends on their characteristics and use, rather than what they are called.[14]

Financial markets law

Financial markets legislation is largely underpinned by the FMC Act and the Financial Service Providers (Registration and Dispute Resolution) Act 2008 (**FSP Act**), which regulate providers of financial services and offers of financial products.

Currently, New Zealand financial markets regulation does not have a specific legislative regime for tokens. The law is intended to be technology-neutral, so it can be flexible and respond to innovation like tokens and other DLT-enabled products and services. Some of the main ways the law currently applies are outlined below.

However, tokens and tokenisation business models will often not easily align with existing financial markets legislation. Their less-conventional nature can create uncertainty about their legal treatment and associated obligations, which may deter entry to market.

Financial services

If token-related services meet the definition of "financial services", the service provider needs to comply with the fair dealing requirements under Part 2 of the FMC Act, register on the Financial Service Providers Register, comply with AML/CFT obligations (see below) and, if providing services to retail customers, belong to a Dispute Resolution Scheme. For example:

- A wallet provider storing tokens on behalf of others and facilitating exchanges (e.g. token-to-token or fiat-to-token) would be providing the financial service of 'operating a value transfer service'.
- An entity issuing tokens to facilitate trading may be providing the financial service of 'issuing and managing means of payment'.
- If a token is a financial product, the provider may have obligations if they are a custodian or a client money or property service, such as exercising care, diligence, and skill, and obligations to hold client money in a separate trust account and on trust for the investor.

Financial products

FMC Act

Under New Zealand's financial markets regime, if a financial product (equity, debt, managed investment product or derivative) is offered to retail investors, disclosure, governance, and financial reporting requirements typically apply and, in turn, market services licensing obligations apply for MIS managers and

[13] See further: Virtual Asset Service Providers | www.dia.govt.nz. Virtual assets are defined here to include digital representation of value that can be used for payment or investment purposes.
[14] See further: Cryptoassets | www.ird.govt.nz

retail derivatives issuers. Offers of financial products to wholesale investors and overseas investors are only subject to Part 2 fair dealing requirements and obligations around financial service registration.

Tokens and the FMC Act

How and whether particular tokens are regulated under the FMC Act depends on the specific features, terms and conditions that apply to the token (often by smart contract), and the rights the token holder has.

We are currently seeing two main categories of tokens:

1. Tokens representing financial products or real-world assets

   For example, tokenised shares in a company that owns valuable artworks, or a tokenised fractional interests in a gold bar.

   In these cases, the token acts as a 'register entry' or record of the holder's interest in that underlying asset or financial product rather than being a separate financial product in itself. The token may also assist with other operational functionalities such as AML/CFT requirements.

   The key question is whether the underlying assets or rights that the holder has an ownership interest in are financial products. Where this is so, the regulation that applies is that which applies to the offer of the underlying financial product, because that is what is being offered to the investor.

   For example:

   - **Equity tokens**: Tokens representing shares offered to retail investors are subject to the same disclosure and fair dealing obligations as traditional shares.
   - **Scheme tokens**: Tokens representing interests in a managed investment scheme (e.g. pooled property investments) offered to retail investors require a licensed MIS manager and statutory supervisor.
2. Tokens that create separate ownership interests and rights

   Some tokens may provide legal or equitable rights or interests for investors that are distinct from underlying financial products or real-world assets (if any). These tokens may themselves meet the definition of "financial product".

   For example, where tokens are issued on a DAO, and the tokens give holders rights to be repaid the original token price by the issuer – this token will be a debt security.

Financial products that offer exposure to tokens, such as a managed investment scheme portfolio that includes tokens or a derivative linked to a token's value, are also regulated by the FMC Act.

Dealing in markets and market services

Certain service providers may also require a licence to operate, including:

- **Debt**: Offers of debt tokens to retail investors may require a licensed supervisor and a trust deed, and could fall under deposit-taker licensing and financial institution conduct licensing.
- **Schemes**: Offers of scheme tokens to retail investors can require a MIS manager licence, a licensed supervisor, independent custodian and compliance with disclosure and reporting obligations.
- **Market operators**: Platforms (for retail or wholesale investors) where offers to buy or sell tokens that are financial products are made or accepted may require a financial product market licence unless exempt – for example because they are acting on their own behalf or only 1 party to the transaction,

there are fewer than 100 transactions, or the aggregate value of financial products acquired on the market is less than $2 million. The obligations associated with a financial product market are extensive and a licence requires Ministerial approval.

Trading platforms and custody

Share trading platforms that hold client money and property (e.g. equity securities) on behalf of their clients have to comply with certain obligations.[15] These include exercising care, diligence, and skill and, for retail clients, paying client money into a separate trust account and holding client property on trust. These custody rules provide important safeguards for clients' money and property.

By contrast, virtual asset trading platforms that provide an equivalent service are not subject to the FMC Act's client money or property obligations where the service does not relate to a "financial advice product".[16] That defined term includes financial products as well as consumer credit contracts and contracts of insurance. It does not include the vast majority of virtual assets.

Overseas, trading platforms can offer a range of different products and services – such as the trading of instruments like equity securities, derivatives, cryptocurrencies and tokenised securities.

[15] See section 431Z of the FMC Act, which maps these duties.
[16] See subpart 5B of Part 6 of the FMC Act and the definition of "financial advice product" in section 6(1).

Discussion topics

Market opportunities and risks

We want to better understand the state of play of domestic tokenisation projects and gather market views on the potential use case(s) in the New Zealand financial market environment.

While we are seeing increasing enquiries about tokenisation, this does not regularly seem to translate to firms making offers or providing services relating to tokens for investment purposes.

Based on overseas experiences, this could be for a range of reasons relating to the stage of the technology, differences in the market opportunities and scale in our domestic market, need for market infrastructure, relationship with payment systems, regulatory uncertainties etc.

Please focus your feedback on non-regulatory barriers. Regulatory settings are covered in the next section.

Q1 In your view, what are the main market barriers and opportunities for domestic tokenisation activity in financial markets?

Q2 What do you see as the operational and technology challenges for adoption of tokenisation by your business or the market?

Q3 What role (if any) do you see for the FMA relating to these barriers and challenges, and any opportunities?

We also recognise that businesses are closer to the market and have better visibility of trends, risks and opportunities, and welcome observations about the role that tokenisation might play in New Zealand markets in the future.

Q4 Thinking about issues like market conduct, investor protection, governance and custody, what are the main consumer and investor risks you see in the market relating to tokenisation compared to traditional offerings?

Q5 What role do you see for tokenisation in the future of New Zealand's financial markets? What current or emerging use cases for tokenisation are most relevant or promising in the New Zealand market?

Regulatory settings and approach

We want to better understand the specific challenges and opportunities that current financial markets legislation presents for tokenisation.

While our focus is on financial markets law, we acknowledge that broader legislative frameworks influence regulatory outcomes. Therefore, we are also interested in feedback on the coherency of domestic regulatory settings to the extent this affects financial markets activity, such as the relationship with payments regulation.

When appropriately designed, regulation can provide certainty and legitimacy for innovative products and services, support more effective competition, and protect consumers and businesses. However, regulation can also hinder innovation and impose unnecessary costs if overly prescriptive or not suitably adapted.

While financial markets legislation is designed to be technology-neutral, it may not be fully equipped to accommodate or facilitate developments such as tokenisation, particularly while the technology is in the early stages of development.

Regulatory settings may better position existing firms who already comply with the full FMC Act regime to innovate, compared to start-ups or fintech firms seeking to enter the market without a prior background in financial markets.

They may also incentivise choosing business models and structures that are structured outside of the FMC Act regime, which may avoid regulatory burden but offer lower standards of consumer protection – or structuring outside the FMC Act may be necessary because existing regulations are not practicable to comply with.

Current settings

Q6 Do you consider that the current law helps or hinders domestic tokenisation activity, and why?

Q7 Does financial markets legislation exclude or appropriately capture products and services relating to tokenisation, and why?

Q8 Do have any views on whether specific tokens (or tokens with certain characteristics) or specific services associated with tokens or tokenisation are appropriately included or excluded from financial markets legislation?

Future state

Q9 Do you consider that a bespoke regulatory framework for tokenisation is desirable? Or would refinements to the existing principles-based framework be sufficient, or a combination of both?

Q10 Do you have any observations about the overall coherence of how virtual assets are treated across regulatory systems, such as payments, financial markets, tax, AML/CFT?

Q11 What changes (if any) do you consider may be necessary or desirable to explore for existing financial markets legislation to improve business confidence, and promote and facilitate innovation, market access and function, and investor protection?

Q12 What approaches do you consider may be necessary or desirable from the FMA as the regulator to improve market confidence and investor protections for tokenisation initiatives, and why?

Q13 Given international regulatory and market activity (see Appendix), do you have views on how the regulatory system should manage cross-border and jurisdictional issues?

Q14 Do you have any other observations or comments about tokenisation in financial markets?

Next steps

We intend to publish a summary of the feedback received during this consultation to enhance market transparency and highlight issues and emerging trends, along with any preliminary comments or observations we have, where appropriate.

These insights will inform our regulatory approach and may also support further work, depending on the nature of submitter feedback. There are a range of follow-up actions we could consider, including:

- industry engagement – such as via the Fintech Forum and forms of targeted engagement
- guidance to clarify the regulatory treatment of different types of tokens and services
- clarifying licensing pathways for tokenised offerings
- exploring the use of exemptions and designations
- making law reform recommendations to the Government
- considering more consumer education and engagement.

This work forms part of the FMA's regulatory priority to explore how we can take a more active role relating to companies that provide virtual asset services in New Zealand.

Appendix: Global market and regulatory developments

Global market developments

Market activity and regulatory initiatives continue to develop rapidly. In early 2025, the OECD observed several possible obstacles affecting tokenised market activity:

Early-stage challenges

- There has been absence of both a market for tokens and empirical evidence of benefits delivered by tokens for markets or participants, and some markets lack liquidity.
- There are complex cross-jurisdictional and domestic legal issues about ownership, legal status of tokens and any underlying assets, and validity of settlement records for some DLTs.

Market infrastructure and standards

- There has been absence of an ecosystem of tokens, and custodians to onboard investors and assets (which requires trust in guarantees with off-chain asset custody). This includes the absence of tokenised money for on-chain payments (e.g. use of CBDCs, tokenised deposits, or sanctioned stablecoins).
- Interoperability of DLT networks and ledgers brings complexities, given pockets of scattered global activity and a lack of industry-standard practices around tokenisation.

Building market infrastructure and standards

Major financial institutions and governments are building market infrastructure, have long-running pilot projects, and have moved to live implementations of tokenised assets.

Government support has often been a key driver, particularly through public/private collaboration and the issuance of sovereign debt on DLT.

One prominent example is the Monetary Authority of Singapore's Project Guardian[17]. The project seeks to establish industry frameworks, guidelines and standards on the end-to-end lifecycles of financial asset tokenisation, and to foster interoperable and at-scale commercial deployments across different asset classes.

Project Guardian brings together regulators from diverse jurisdictions (such as Germany, the UK, Japan and Switzerland) and financial institutions (including asset managers, market operators, custodians, credit rating agencies, commercial banks, and industry associations).

Examples of Project Guardian pilots include:

- **Discretionary managed funds:** J.P. Morgan and Apollo (global asset manager) are exploring how tokenisation and smart contracts streamline discretionary portfolio management. This includes

[17] Project Guardian | www.mas.gov.sg

standardising investment processes, automating rebalancing, and enabling scalable customisation for alternative assets.

- **Asset management servicing:** Deutsche Bank, in partnership with Memento Blockchain and Interop Labs, is developing a full-service fund servicing solution on a public-permissioned blockchain. It supports digital fund distribution and interoperability, featuring digital fund creation, identity verification, custody, accounting, and cross-chain record management.
- **Digital exchange:** SGX Group has launched Digital Bond Listing framework and Digital Assets Register pilot to enhance transparency and trust in digital assets. The initiative integrates tokenised financial instruments into SGX's existing debt securities platform.

Institutional banks, including Goldman Sachs, HSBC and others, have developed platforms and infrastructure that now support the full digital lifecycle of securities, funds and bonds, demonstrating a level of operational readiness and indicating a degree of permanence for virtual asset servicing.

ANZ is one of the financial institution participants.[18] ANZ has also been a leader in the region, minting a pilot stablecoin in 2022 representing 30 million Australian dollars used to buy tokenised Australian carbon credits.[19]

Moving from pilots to deployment

Major financial institutions and governments are moving from pilot projects to live implementations of tokenised assets. There have been many successful launches of DLT-based offerings, including:[20]

- **International organisations:** The World Bank issuing digital bonds in October 2023 via Euroclear's Digital Financial Market Infrastructure for digitally native notes, raising EUR 110 million.
- **Government debt:** Governments are issuing tokenised debt. For example, Hong Kong has committed to regularise issuing tokenised bonds (i.e. natively issued on the blockchain), has issued two previous tranches, and is exploring tokenising previously issued bonds.
- **Managed funds:** Blackrock has launched blockchain-based money market funds. For example, BUIDL (Blackrock USD Institutional Digital Liquidity Fund) launched in 2024 with USD 2.9 billion asset value (April 2025), offering 24/7 trading. Investment banking firm Aurum Equity Partners launched a combined private equity and debt tokenised fund (approx. USD 1 billion) focused on worldwide data centre investment.
- **Repurchase agreements:** Technology company Broadridge offers a platform that processes USD 1 trillion in monthly transaction value for US Treasury securities and repurchase agreements that settle in real time and offer 50-60% reduced transaction costs.
- **Commercial developments:** Real Estate Exponential Company's RealX raised USD 60 million for tokenised real estate, offering 24/7 trading.

These developments increase the likelihood of tokenisation continuing to scale globally with the support of governments and institutions.

[18] ANZ becomes first Australian bank to join Project Guardian | www.anz.com.au
[19] ANZ becomes first Australian bank to mint stablecoin | www.reuters.com
[20] These examples are largely based on The World Economic Forum's March 2025 paper *Asset Tokenization in Financial Markets* | www.weforum.org

Regulatory approaches

International standards setters

International standards setters, such as the Financial Stability Board, have made high-level recommendations for the regulation, supervision and oversight of virtual asset activities and markets.[21] This has been endorsed by others including IOSCO, which has made recommendations for regulatory frameworks for virtual asset markets.[22]

In brief, the overarching approach adopts the principle of 'same activities, same risks, same regulation/regulatory outcomes', calls for harmonising global standards for regulation and oversight, and supports clearly integrated domestic regulatory frameworks (spanning AML/CFT, financial stability, and investor protection) to balance innovation with responsible virtual asset adoption.

Fragmented regulatory landscape

Government and regulatory responses to tokenisation and the broader virtual asset ecosystem continue to evolve rapidly. Many major jurisdictions have either implemented or are planning comprehensive regulatory frameworks for tokenised financial products and services. However, approaches vary significantly.

Some early adopters, such as Luxembourg, Switzerland and France, introduced bespoke domestic legislation tailored to the unique characteristics of tokenisation and DLT. These frameworks aim to accommodate the novel business models and operational processes associated with digital assets.

Other jurisdictions initially pursued a technology-neutral approach, seeking to apply existing securities regulations to tokenised offerings. For example, the United States Securities and Exchange Commission favoured a litigation-led strategy, using enforcement actions to clarify when tokens qualify as securities and must comply with existing laws.[23]

Generally, it appears without sufficiently principles-based legislation, most domestic frameworks have not been adequately technology-neutral to support the uptake of tokenisation. From the early 2020s onwards, global regulatory momentum has accelerated, with many jurisdictions developing or refining comprehensive regimes to govern tokenised assets. These efforts aim to balance innovation with investor protection, market integrity, and financial stability.

Leading jurisdictions

Jurisdictions like Hong Kong, Switzerland, Singapore and Abu Dhabi have implemented legislative and regulatory changes. For example:

[21] High-level Recommendations for the Regulation, Supervision and Oversight of Crypto-asset Activities and Markets | www.fsb.org
[22] OR02/2023 IOSCO Policy Recommendations for Crypto and Digital Asset Markets (including DeFi) | www.iosco.org
[23] US securities law lists specific instruments as securities but also uses broad categories like "investment contracts" which have been supplemented by extensive case law.

- Dubai established virtual asset laws in 2022. The Virtual Assets Regulatory Authority[24] has issued comprehensive rulebooks on virtual assets service providers covering advisory services, broker-dealers, custody services, exchange services, lending and borrowing, virtual assets in management and investment services – amongst other matters. The law is not specific to tokenised securities.
- Hong Kong has a comprehensive licensing regime for virtual asset trading platforms, fund managers and intermediaries dealing in, advising on, or distributing virtual asset-related products. The Securities and Futures Commission's guidelines explain how existing legal and regulatory requirements apply to securities in a "tokenised wrapper" and outline additional risk management, due diligence, and disclosure requirements.[25] The regulator notes that other digital securities (e.g. fractional ownership of artwork) may be captured by other requirements, such as collective investment schemes.
- Singapore has combined legislative changes with regulatory guidance to facilitate a tech-neutral approach. "Digital token service providers" are required to be licensed for a wide range of services (including dealing in digital tokens, exchanging tokens, and providing custody).[26] This applies to payment tokens as well as tokens representing a financial product (e.g. a share in a company). The Monetary Authority of Singapore had previously released A Guide to Digital Token Offerings (www.mas.gov.sg), which explains how to apply securities laws to offers or issues of tokens in Singapore.

Move to comprehensive regimes

At the time of writing, several jurisdictions are consulting on or making progress towards comprehensive regimes, recognising that current domestic regulatory systems are not sufficiently flexible. This includes:

- The United Kingdom, which consulted in April 2025 on establishing a financial services regulatory regime for crypto assets including dealing, custody arrangements, operating a platform and arranging transactions in qualifying crypto assets, and rules for stablecoin issuers. The Financial Conduct Authority will conclude consultation and discussion papers for a 2026 regime 'go-live'.
- Australia, which consulted in May 2025 on the Government's digital asset reforms for a digital asset platforms regime and payment stablecoins – amongst other things. The focus on platforms includes trading platforms, custody products and some brokerage arrangements, and seeks to apply existing financial services laws where appropriate – but excludes non-financial product digital assets.
- The United States, via the Securities and Exchange Commission's Crypto Task Force, has undertaken a series of industry roundtables to provide clarity on the application of federal securities laws to the virtual asset market and to recommend practical policy measures that aim to foster innovation and protect investors.

[24] Virtual Assets Regulatory Authority (VARA) | www.vara.ae
[25] Virtual Assets Overview | www.sfc.hk
[26] In force as at 30 June 2025. See Financial Services and Markets Act 2022 (Singapore), Part 9 and First Schedule.