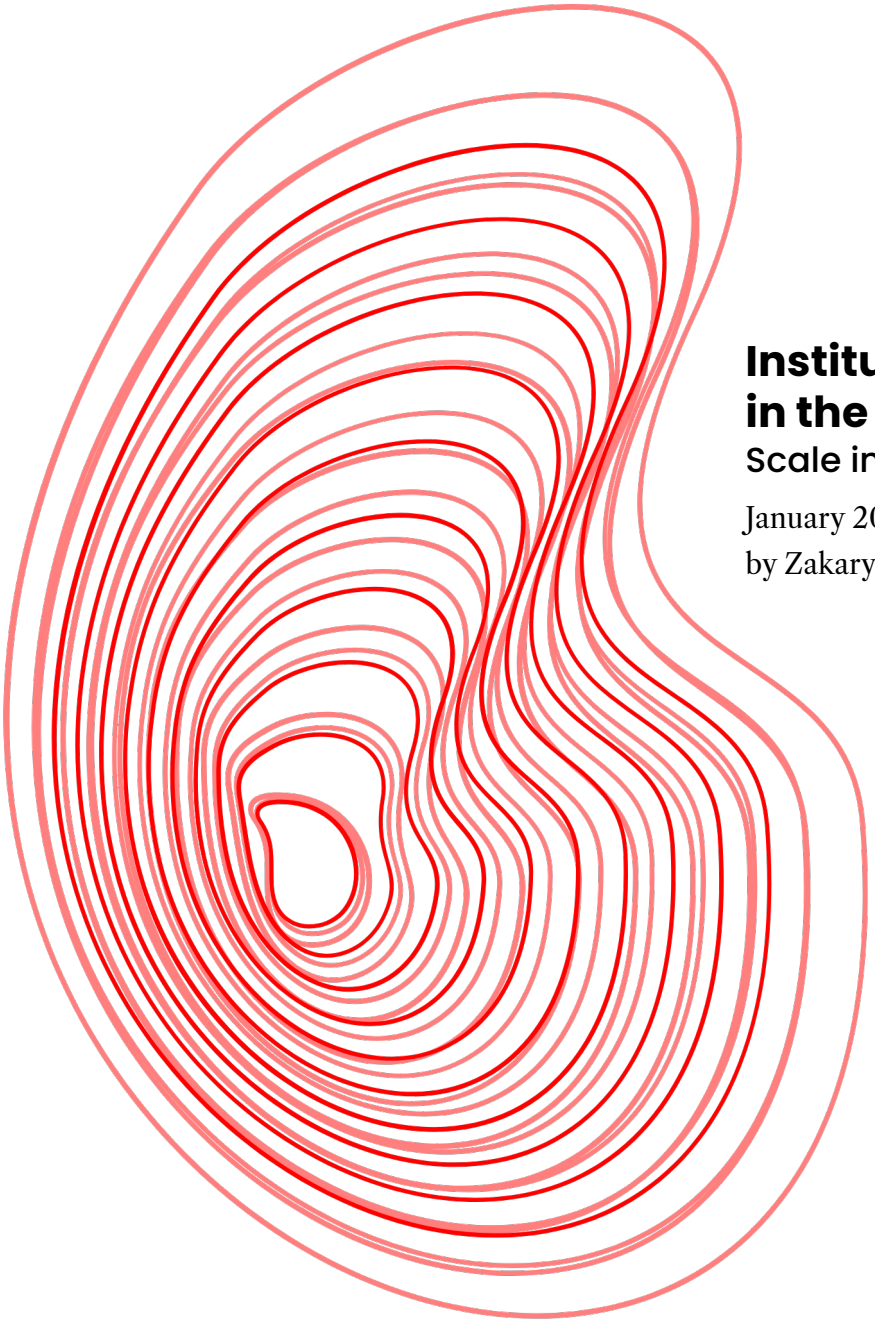
TOKENIZED ECONOMIES



Institutional Tokenization in the Year Ahead:

Scale in 2026 with 2025 Lessons

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As we return from the holidays, it helps to set the course for the year ahead with clear perspectives, before duties, routines, and deadlines gradually take over our attention. As we put an eventful year behind us, it helps to review its key milestones and notable trends and identify the lasting pain points and the paths forward. By learning from 2025, we can scale institutional tokenization more productively in 2026.

1. Key Institutional Milestones and Their Follow-Ups

Tokenization has hit a series of crucial milestones in 2025 that have boosted confidence in the technology, proven the feasibility as well as benefits at institutional scale, and laid the groundwork for accelerated adoption in the coming year. These milestones fall into five categories.

First, major regulators have moved to clarify and harmonize rules pertaining to digital assets, and some of the more restrictive regulatory positions have been abandoned in favor of innovation. For example, the new, comprehensive MiCA crypto law positions the EU as a large block well-positioned to lead in institutional tokenization. The US regulators adopted a much friendlier stance towards digital assets, too. These major economies are motivated by the desire to lead in the burgeoning industry and thereby secure their standing in global finance in the decades to come.

Second, traditional finance (TradFi) players have re-engaged in digital assets *en masse* in this new regulatory environment, particularly pursuant to the rollbacks of crypto restrictions by US regulators. Many banks are launching tokenized deposits, and investment managers are growing their on-chain exposures via funds and ETFs. They are motivated by the efficiency gains that are already palpable today and will grow further at scale.

Third, tokenized bonds are already scaling fast in 2025. In terms of volume, ever larger sums are being raised by various entities. Beyond volume, digital assets features are being integrated into tokenized bonds, for example with settlement in tokenized CBDC to achieve instant DvP and reduced risk. As it is with the point above, tokenized bonds are gaining momentum thanks to the efficiency edge, especially in view of the additional features that will come later.

Fourth, tokenized funds are moving from the pilot phase into production. Tokenized funds provide an end-to-end on-chain experience that affords investors all the advantages, current as well as forthcoming, in an algorithmically secure environment. While some investors may not be wholly comfortable with the idea, this is quickly becoming an interesting option with remarkable potentials.

Fifth, major market infrastructures have publicly initiated their digital assets integration efforts. Chiefly, Swift is working with 30+ global banks to move regulated tokenized value at scale; it has also unveiled an end-to-end tokenization platform that partners can use to ensure interoperability. This will lead to more, faster, and deeper integration of digital assets and existing market infrastructure, blending the line with traditional finance and making tokenization an unalienable component of the global financial system in the years to come.

In 2026, we can look forward to the corresponding follow-ups to these institutional milestones. How far, how quickly, and how broadly these follow-ups take place will provide valuable insights into scaling institutional tokenization.

One, how will Western regulators continue to resolve the lingering issues surrounding finality, enforceability, and compliance? We have seen some small Asian regulators lead the way in tokenization, chiefly MAS from Singapore and HKMA from Hong Kong. Will larger Asian regulators from China and Japan follow the lead of their Western counterparts and soften their stance on digital assets?

Two, Asian banks, particularly Singaporean and Hong Kongese, have led so far in their engagement in digital assets. Will major European, British, and American banks follow suit or perhaps surpass them? On the other hand, many American investment managers have long

been the most active in the space. How will they follow up in 2026 and beyond?

Three, tokenized bonds seem to have established their presence in global finance. What value-added features unique to digital assets will they integrate first?

Four, the first tokenized funds are money market funds. It will be interesting to see how their adoption and scaling processes look like. More important, when and how will tokenized funds move into other areas? How about an end-to-end tokenized fund with a diverse portfolio, including tokenized bonds as part of its allocation?

Fifth, how fast can market infrastructure initiatives like that led by Swift take hold? How will such large, complex organizations overcome institutional inertia? Will their products hold back key features that the market demands?

Key Events in 2025

- In January, EU's comprehensive MiCA crypto law took effect, harmonizing rules across 27 member countries.
- In H1 2025, the Federal Reserve, FDIC, and OCC significantly rolled back prior restrictions for member banks' crypto, digital assets, and dollar token activities. The SEC also cleared the way for banks to offer crypto custody services.
- In July, the GENIUS Act created the first federal framework for regulating stablecoins in the US.
- In September, Swift announced at Sibos plans to integrate a blockchain-based ledger into its infrastructure that will enable real-time, 24/7 cross-border payments. This initiative has 30+ global banks as partners aiming to move *regulated tokenized value* at scale. Swift also showcased their Digital Assets Standards Platform, an end-to-end tokenization platform, in a live demo of Eurobond issuance and settlement.
- In October, Layer-2 Ethereum networks collectively reached $49 billion in total value locked (TVL), up from $4 B in 2023. Daily transactions on L2s peaked in 2025 to 1.9 million per day, surpassing the Ethereum mainnet.
- In November, UBS completed the world's first *in-production*, end-to-end tokenized fund workflow. The USB Money Market Investment Fund Token (uMINT), built on Ethereum, proves that fund operations can be automated on-chain with efficiency and utility gains.
- Also in November, the Hong Kong government issued a HK$ 10 billion (~$1.3 B) digital green bond—the world's largest to date—with the option to *settle using tokenized central bank money* (e-HKD, e-CNY) to achieve instant DvP and reduced risk.
- Again in November, Franklin Templeton collaborated with DBS Bank to launch Asia's first tokenized money market fund, with retail investor access expected in early 2026.
- In December, DTCC (Depository Trust & Clearing Corp) received an SEC no-action letter that allows it to support *tokenized securities* in its settlement system, linking on-chain assets with mainstream market plumbing.
- Also in December, assets in tokenized US Treasury funds jumped above $8 billion, while tokenized commodities, chiefly gold, are inching towards $4 billion in market cap.
- Again in December, the *Property (Digital Assets etc) Act 2025* confirms the common law position that digital assets fall into a third category of personal property, distinct from tangible goods and legal rights.

2. Notable Trends and Their Paths Forward

Besides distinct milestones, some clear performance and ecosystem trends are gaining momentum in 2025. They can serve as part of the foundation of our perspectives for 2026. Among these, we identify five main strands.

First, on-chain settlement dramatically cuts time and risk and improves efficiency. For example, HSBC and HKMA demonstrated instant atomic DvP for digital bonds using e-HKD versus T+2 traditionally. OCBC Bank reported settling a tokenized bond within the same day (from debit to token delivery), compared to 5 days traditionally. As on-chain settlement of tokenized assets gains foothold, we can expect efficiency gains in global finance broadly.

Second, the efficiency gains of tokenization are being translated into the democratization of investment in the form of fractional market access. For example, OCBC's tokenized bonds were issued in S$1,000 pieces (compared to S$250 k conventional lot) to diversity corporate treasuries. Franklin Templeton's tokenized fund will allow minimum investment starting from just $20.

Third, the focus of market infrastructure and major regulators have shifted to improving the "plumbing" that connects blockchain to existing banking systems. For example, Swift's Digital Assets Standards Platform and ICMA's Project Guardian Fixed Income workstream with MAS reduce operational frictions by platforming banks in digital assets without the need for each to develop their own end-to-end infrastructure.

Fourth, regulators are moving decisively from observing to *shaping* tokenization. For example, MAS published an *Operational Guide for Tokenized Funds* in 2025, giving industry a playbook for governance, NAV calculations, and compliance in on-chain funds. Similarly, Hong Kong's HKMA convened industry to set common token standards for digital money by year-end, paving the way for interoperable programmable money.

Fifth, institutional blockchain implementations benefited from stronger risk controls such as formal verification and real-time monitoring for smart contracts. For instance, leading DeFi protocols (Aave, Compound, etc.) increasingly use formal methods to mathematically prove contract safety. Enterprise wallet tech advanced with multi-party computation and account abstraction, greatly reducing single-point failure in private keys (a top concern in 2022–23). These improvements, though gradual, have led to fewer high-profile hacks and higher trust in blockchain systems this year.

In 2026, we are interested in seeing how these trends will develop and perhaps joined by emerging trends, which we will discuss below. Some of the key corresponding questions on our minds are:

One, how quickly will the efficiency advantages of on-chain settlement translate into broader adoption? At what point will the programmable features become common in these settlements? The answers to these questions will shine lights on the speed and quality of scaling in institutional tokenization.

Two, how well will heavily fractionalized digital assets be received? What level of sacrifice in efficiency, in any, is involved? The answers to these questions will guide future efforts that optimize the balance between market access and market efficiency.

Three, how fast and at what scale will the adoption of these new "plumbing" be? The answer to this question will unmask how well banks around the world are prepared to embark on digital assets. It will feed back to further efforts by market infrastructures and regulators.

Four, similarly how close and active will the industry be in following the lead of regulators that are shaping tokenization? The answer to this question will unveil whether, or to what extent, this top-down approach is preferable to a more organic, bottom-up approach.

Five, as the stakes continue to increase with more volume and more diverse implementations, the temptation to attackers increase. Thus, how will the industry continue to lead in this

cat-and-mouse game of security and resilience? The more definitive an answer to this question will be, the faster and healthier institutional tokenization will scale.

3. Lingering Pain Points and Their Possible Resolutions

Several unresolved issues still pose challenges to scale in institutional tokenization in 2025. From them, we identify five main pain points to focus on in 2026. Effectively addressing them will clear the way for faster, broader, and deeper adoption.

First, a universal legal definition of when a token transfer is *final* remains missing. While common law jurisdictions like the UK recognize digital assets as property, questions remain around conflict of laws, insolvency treatment, and resource if on-chain settlement fails. In cross-border trades, the enforceability of on-chain contracts is tested only on a case-by-case basis. Put simply, the legal system has not fully caught up to blockchain's real-time, global nature.

Second, maintaining *privacy* on public ledgers without sacrificing regulatory transparency remains an open challenge. Zero-knowledge proof solutions and permissioned blockchain zones are emerging, but no standard "privacy layer" has been or can be universally adopted by institutions. Banks often default to permissioned networks to keep data confidential, but this fragments liquidity and complicates interoperability. Meanwhile, regulators are wary of fully private transactions. The industry is still searching for a compliant privacy-preserving architecture.

Third, the ecosystem is still *siloed* despite continued progress. Different blockchains and token standards cannot seamlessly talk to each other yet, requiring clunky bridges or custodial solutions, not to mention financial instrument-level standards. This fragmentation traps liquidity in isolated pools and forces duplicative efforts. IOSCO noted, "*the lack of cross-chain interoperability and credible settlement assets is limiting scalability of tokenization*". In 2025 we connected some networks, but we still do not have the "internet of value" where any asset moves freely across platforms.

Fourth, the promise of wider access has yet to yield deep *liquidity*. Many tokenized securities trade sparsely or not at all once issued—investors often hold them due to limited secondary markets. Market makers are cautious, and fragmented pools mean thinner order books. As a result, network effects have yet to kick in fully, and some tokenized assets remain less liquid than their traditional counterparts.

Fifth, integrating blockchain solutions into legacy tech stacks and workflows is arduous. Core banking, ERP, and post-trade systems require significant refactoring or middleware to interface with DLT. Skilled talent is a bottleneck—there is a shortage of engineers and project managers who understand both blockchain and institutional IT/compliance needs. Consequently, many 2025 pilots succeeded technically but struggled to operationalize at scale within incumbent organizations' processes.

In 2026, we look forward to seeing how efforts will be committed to, and perhaps how they will succeed in, resolving these pain points by pertinent stakeholders and possibly by new innovators who have been flying under the radar. Some of the key clues that we look for that correspond with each of the five pain points are:

One, which country will first set the tune on the issue of finality? Intuition tells us that it could be one of the smaller common law jurisdictions. Yet, how will (other) major economies recognize this definition? Will legislators move only after a major lawsuit sets the precedent? What roles will advocacy groups play? These questions will likely not be wholly answered in 2026. Beyond these immediate questions, major economies need a platform to come together

to harmonize this as well as other regulatory questions crucial for cross-border transactions. Which existing platform can serve this function? Who will lead the way?

Two, on the issue of privacy and transparency, we see two parallel streams of efforts, one providing immediate functions and the other seeking long-term solutions. How will the various permissioned networks that banks use perform compared to public ledgers? In particular, how do clients rate their experiences? Will we see a (or more) startups come up with new solutions that change how institutions approach this issue fundamentally? Will some major banks propose a universal architecture?

Three, on the issue of interoperability, we see technical solutions to be the likely way out, though we cannot rule out market maturity as an eventual force that drives out fragmentation. Thus, the race is on between a potential technical provider, whose solution will vastly accelerate market maturation, and time, over which the natural process of competition leads to maturity and interoperability. In 2026, we are particularly curious to see if any startup or financial institution can come up with a promising, if not comprehensive, technical architecture.

Four, for how much longer can institutions and other key players in tokenization ignore the liquidity issue? Will more tokens and more participation increase or decrease liquidity? What efforts can players envision or commit to in order to address the liquidity challenge? A fundamental aspect of the solution must be linked to the point above, but interoperability and reduced fragmentation cannot solve the liquidity issue alone. Before a final solution is found, we can expect tokenization to struggle with traditionally volatile assets.

Five, to address the talent bottleneck, technical solutions that greatly boost productivity must be the answer. What will these technical solutions look like? How much technical details can they abstract away? How can they give confidence to institutions who must maintain "perfectly" secure and robust systems? Can they facilitate the collaboration between engineers and others in the back and front offices? Will these solutions trade flexibility and future scalability for productivity? The answers to these questions will help us assess whether an emerging technical solution is viable for universal adoption.

4. Tying Everything Together with New Initiatives

With 2025 in the rear view and lots of answers, clues, and insights to ascertain in 2026, we want to conclude this article with some more practical initiatives that institutions can already act on.

One, establish a *tokenized cash strategy*. Institutions can already embrace on-chain money as a settlement medium. Whether via a regulated stablecoin or tokenized deposits, ensure the institution can move cash on-chain for instant settlement. This reduces counterparty risk and readies the institution for 24/7 markets. Begin with low-risk use cases (e.g. on-chain intercompany liquidity or collateral transfers) to build comfort.

Two, *integrate blockchain* into core systems. Invest in middleware and APIs to connect DLT platforms with existing infrastructure (treasury systems, custody, and ERP, etc.). Bridging this gap will be crucial for operational efficiency. Interoperability inside the enterprise will differentiate those who can scale pilots into production.

Three, launch *real-world pilots with clear ROI*. Identify one business where tokenization can solve a pain point, and profitably so in today's context. Execute a live pilot that directly involves clients and market transactions, i.e. not just lab environment. Ensure it is measured against well-defined KPIs. This "learning by doing" builds internal capability and proofs-of-value that can demonstrate the solution's viability and the institution's readiness to regulators and other stakeholders.

Four, *harden risk and compliance frameworks*. As the institution ventures beyond pilots, risk and compliance models must be updated to reflect the demands and realities of pro-

duction. This involves crypto-specific AML analytics (on-chain transaction monitoring tools), smart contract audit processes, key management policies (multi-sig, MPC custody), and contingency plans for protocol incidents, etc. Regulators will expect banks and market infrastructures to meet the same rigor for tokenized assets as for traditional ones, if not more: successful institutions should act pre-emptively and stay ahead of the curve.

Five, *influence standards and policy*. Institutions need not be passive. Get involved in industry consortia, standards bodies, or regulatory sandboxes. Shape emerging standards, engage with regulators, and where appropriate holds dialogues with legislators. Being at the table will ensure that the institutions' realities are reflected in new standards and regulations; it also helps them avoid being caught flat-footed.

Six, develop a *modular, upgradeable tech stack*. Given the fast pace of innovation, institutions should design their tokenization architectures to be modular. Use smart contract solutions that allow safe upgradability and versioning, so they can respond to new requirements or security improvements without starting from scratch. Invest in internal training on smart contract development and leverage AI and audit-reviewed modules to speed up go-live. Modularity and reuse will cut time-to-market and let institutions adapt as standards evolve.

Tokenization is no longer a wait-and-see proposition; it is a strategic necessity. The paradigm shifted in 2025: real value is being unlocked, and key barriers are coming down. Not to be left behind, leaders should mobilize to formulate their digital assets gameplans beginning 2026.

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