



Insight

Primer: The Tokenization of Securities

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Executive Summary

- Tokenization refers to the representation of real-world securities - including equities, bonds, or fund shares - as digital tokens on a distributed ledger or blockchain.
- A number of traditional financial institutions have begun issuing tokenized versions of existing securities, citing gains in settlement efficiency, transparency, and automation.
- While tokenized securities are subject to existing securities regulations, the market infrastructure supporting them remains in early stages of development; there is a growing need for policymakers and regulators to clarify the legal and operational frameworks for tokenized markets - without stifling innovation or introducing systemic risk.

Introduction

Over the past five years, financial markets have witnessed a growing interest in the tokenization of real-world assets, particularly securities. At its core, tokenization is the process of issuing a blockchain-based token that digitally represents a claim on a traditional security. These tokens can be traded, settled, and potentially governed through smart contracts on a distributed ledger. In practical terms, a tokenized share of a mutual fund is still a share - it confers the same legal rights and value - but is recorded and potentially transferred via blockchain-based systems, rather than legacy databases or registries.

The emergence of tokenization is not limited to crypto-native platforms; major institutions including JPMorgan, Franklin Templeton, and BlackRock have piloted or launched tokenized

products. In parallel, U.S. and international regulators have opened consultations and proposed frameworks to adapt existing regulatory regimes to blockchain-based infrastructure.

The Use Case

The case for tokenization rests on a few core benefits. First, efficiency: Blockchain-based settlement can dramatically reduce the time it takes to finalize transactions - moving from the current T+2 (trade date plus two days) settlement standard to potentially real-time clearing. That change could lower counterparty risk, free up capital, and reduce costs for market participants. Additionally, tokenization opens up the opportunity for trading to be 24/7. No longer would markets need to be open for consumers to make trades.

Second, tokenized assets are programmable. This means compliance rules, investor restrictions, or corporate actions can be encoded directly into the digital asset itself, reducing the need for intermediaries and manual processes. For instance, dividends could be automatically distributed, or ownership transfers could be pre-screened for eligibility based on geography or accreditation status.

Finally, tokenization introduces new possibilities for fractionalization. Investors could buy smaller slices of high-value assets - such as commercial real estate or private equity stakes - broadening access to markets that have historically been illiquid and exclusive. While fractional ownership is not new, the ability to do so digitally, with greater liquidity and transparency, is a step forward.

Regulatory Concerns

For now, tokenized securities are generally treated as securities under U.S. law and thus fall under existing frameworks administered by the Securities and Exchange Commission (SEC), the Financial Industry Regulatory Authority (FINRA), and other regulators. This continuity simplifies some aspects of compliance, but not all.

Several regulatory questions remain unresolved:

- **Custody:** If private keys or smart contracts control access to tokenized securities, how does this satisfy the SEC's custody rule requirements? What defines "possession or control" in a blockchain context?
- **Trading Venues:** Can tokenized securities be traded on existing alternative trading systems and exchanges? Do these platforms have the technological and legal infrastructure to support blockchain-based instruments? More philosophically, the

“value” of an individual share is currently derived from an exchange such as the New York Stock Exchange. How will value be determined when the exchange is closed?

- **Transfer Agents and Recordkeeping:** Blockchain ledgers could theoretically replace traditional registries and transfer agents, but current laws still assume centralized recordkeepers in many contexts. Will settlement require the use of a cryptocurrency or stablecoin, and what does this mean for the nascent set of regulations governing, for example, crypto wallets?
- **Interoperability and Risk:** As tokenized assets proliferate across multiple chains and protocols, systemic risks may emerge from fragmented standards and inconsistent governance structures. In addition, technology allows for the development of intensely complex financial instruments. Some tokenized securities may in fact not be claims on securities at all but instead derivatives. How will regulators and supervisors keep on top of these instruments and prevent fraud?

Despite these challenges, the SEC has permitted some tokenized products to operate - such as Franklin Templeton’s fund - while taking enforcement action against unregistered or noncompliant token offerings that fail to meet securities law standards.

Conclusions

Tokenization is simultaneously both unlikely to revolutionize capital markets overnight and yet seemingly necessarily the future. But in the short term, securitization does represent a meaningful step toward modernizing financial infrastructure—bringing more speed, transparency, and flexibility to a system that still depends on legacy technologies and siloed intermediaries.

For policymakers, the challenge will be to facilitate this transition without compromising core regulatory principles. That includes ensuring fair and orderly markets, protecting investors, and maintaining financial stability. Getting the balance right will require regulatory agility, close coordination with industry, and a willingness to adapt existing rules to new technologies.

Ultimately, tokenized securities may become a bridge between traditional finance and the digital future. But for that bridge to hold, it will need strong regulatory foundations, clear legal standards, and resilient infrastructure. The groundwork for that future is being laid now, and the policy choices made in Congress and the federal agencies over the next few years will determine how quickly and safely tokenization moves from pilot projects to the mainstream.