
AIMA
Tokenizing Alternatives
An AIMA Report
Sponsored by
KPMG

CONTENTS

CONTRIBUTORS

Tony Tuths Digital Asset Practice Leader KPMG U.S.	Steven D'Mello Partner, Operational Due Diligence Albourne Partners
Pauline Roemer Beernaerts Director, Tax KPMG U.S.	Holly Bosmans Due Diligence Analyst Albourne Partners
Jamison Sites Principal, Business Tax Services KPMG U.S.	Lewis Rinaudo Cohen Partner Cahill Gordon & Reindel LLP
Said Fihri Head of Digital Assets Services KPMG Luxembourg	Jasmine Jia Digital Asset Strategist Fidelity Investments
James Suglia Global Head of Asset Management KPMG International	James Delaney Managing Director, Asset Management Regulation AIMA
Mesut Yimaz Lead Specialist, Digital Assets and Tokenization KPMG Luxembourg	

Chapter 1: Introduction

The tokenization of alternative assets and investment funds represents a significant innovation in modern finance. By utilizing blockchain technology, tokenization allows for the digital representation of ownership in traditionally illiquid or complex asset classes, such as private assets and hedge funds.

This evolution brings with it a host of potential benefits. Tokenization can dramatically increase operational efficiency by automating processes related to settlement, custody and compliance. It also offers enhanced transparency, reduced administrative costs and the potential for near-instant settlement. Tokenization is also seen as a way to "democratize" access to alternative investments by enabling fractional ownership, thereby broadening the pool of investors able to hold a diversified portfolio of hedge fund and private market assets.

The adoption of tokenization is not without its challenges. Legal and regulatory frameworks are still evolving and issues such as investor protection, governance, interoperability and cybersecurity must be addressed. Moreover, market participants must navigate the complexities of integrating blockchain infrastructure with legacy financial systems.

This report aims to explore the current state and future potential of tokenizing alternatives, particularly the application of blockchain technology through investment fund tokenization. It examines the key drivers of adoption, the technological and regulatory landscape and the forward-looking implications for market participants. As the financial ecosystem continues to digitize, tokenization looks to stand at the forefront of redefining how capital is accessed, invested and managed.

Consensus mechanisms *are a method used by blockchain networks to agree on a single version of the ledger.*

Two common examples are Proof of Work and Proof of Stake.

Chapter 2: Tokenization: Key Fundamentals & Benefits

Blockchains are immutable, distributed ledgers that enable secure transactions across peer-to-peer networks, recording every value exchange between users. Because blockchain transaction data is verified, recorded and stored using decentralized *consensus mechanisms*, it can eliminate the need for traditional intermediaries such as banks or brokers.

In contrast, today's financial system is built on fragmented networks operated by financial institutions. These systems exchange data between centralized enterprise applications and rely on message-based integration to reconcile transactions and ownership. Blockchain-based applications, especially those leveraging programmable ledgers, have the potential to fundamentally transform how value moves across the global financial system.

Fundamentals of Tokenization

In recent years, the finance sector has seen significant adoption of blockchain technologies. Common use-cases include cryptocurrency trading on decentralized networks and blockchain-based cross-border payments, which offer faster and more cost-effective money transfers. A rising theme in this evolution is tokenization, which is the process of

converting traditional financial assets into digital tokens that represent ownership of the underlying assets, enabling them to be traded on blockchain networks.

Alternative investment managers can pursue tokenization through two primary models:

1. **Fund Tokens:** Tokenizing fund shares into tokens that represent digital on-chain share certificates. Tokens can represent interests in hedge funds or private market funds. These tokens can incorporate smart contract logic to automate asset servicing (e.g., capital calls, redemptions). They are generally traded and recorded on-chain rather than a traditional system of records.

2. **Alternative Asset Tokens:** Tokenizing the underlying assets themselves for individual deal distribution, co-investments and portfolio customization. Tokens represent direct ownership interests in traditionally illiquid assets, along with rights to future economic benefits.

Potential Benefits of Tokenizing Alternative Investments

Compared to traditional ownership certificates, tokens offer features such as fractionalization, programmability, composability and immutability, and can provide certain benefits to investment managers, investors and fund service providers.

Key Concepts

Fractionalization	the process of dividing ownership of a high-value asset (e.g., real estate) into smaller, tradable digital units
Programmability	the ability to create automated logic or smart contracts on a blockchain that execute based on predefined rules
Composability	the ability of digital assets, smart contracts, and decentralized applications to seamlessly interact and build on each other like modular building blocks
Immutability	the characteristic of blockchain data being unchangeable once recorded, ensuring data integrity and trust

1. Improved accessibility and expanded investor base

Alternative investments have traditionally been limited to institutional or ultra-high-net-worth investors due to high minimum investment thresholds, among other regulatory and market-based barriers. Tokenization enables fractional ownership, significantly lowering the entry barrier and potentially expanding access to high-net-worth individuals and possibly retail investors in certain cases.

Historically, alternative investments involved large ticket sizes and infrequent transactions, limiting the incentive for automation or global distribution. Many investment managers have relied on manual processes and local investor bases, reinforcing fragmented and domestically focused markets. Tokenized interests, by contrast, enable automation, fractional ownership and global reach, which could make fundraising and deal distribution more scalable and potentially lower entry barriers for a wider pool of investors. However, regulatory constraints, such as cross-border offering rules, investor qualification standards and jurisdiction-specific compliance requirements, still present material hurdles to realizing these efficiencies at scale.

2. Transparency and immutability

Traditionally, alternative funds share information, including portfolio holdings and NAVs, only privately with existing investors and qualified prospects. Reporting is also only available after quarterly or annual financial statements close.

For underlying alternative assets, there are no mainstream standards for disclosure of quotes and prices or for the frequency of such disclosure. This lack of data access might limit the scale of participation and the level of activity in alternative asset markets.

Blockchain technology provides a shared, tamper-proof ledger of real-time asset ownership and transaction history without the reliance on reporting by intermediaries or issuers. The availability of on-chain data helps with price discovery for market activities and reduces information asymmetry for market participants.

Tokenization of alternative assets can also adopt a hybrid architecture in which sensitive asset-level data is kept off-chain in a secure, permissioned environment, while public blockchains store only non-sensitive information and cryptographic proofs. This approach preserves privacy, enables regulatory compliance, and maintains investor trust by making asset authenticity and performance verifiable without exposing confidential details.

In addition, due to the immutability of on-chain data and the timeliness of settlement, which are independent of business hours or siloed systems, the transparency and auditability of tokenized assets can enhance trust among investors, investment managers and regulators.

Implementation Considerations

Successfully tokenizing a fund requires careful consideration of:

1. The appropriate blockchain (see below);
2. Smart contract design;
3. Integration with traditional banking and systems;
4. Investor onboarding and identity verification processes; and
5. Custody solutions.

Types of Blockchain

Private network	A blockchain with restricted access (by invite only), typically controlled by a single organization or consortium.
Permissioned network	A blockchain network where access is restricted to certain participants (by invite only), typically used in enterprise settings with multiple organizations as a central authority.
Public network	An open blockchain network where anyone can participate in transactions and network maintenance. Ethereum is an example of a public network.

3. Secondary market access and potential enhanced liquidity

Liquidity has long been a challenge for both investment managers seeking exits and investors looking to sell assets or fund interests. This is especially true for portfolios containing illiquid assets. Certain characteristics of a token can be helpful to enhance liquidity for the asset class in the future, including:

- Fractionalized ownership to increase affordability;
- 24/7 global investor access;
- Readily available on-chain data for price discovery;
- Real-time settlement, with immutable records to reduce counterparty risk; and
- Lower transaction costs, due to less reliance on intermediaries and legal processing.

Once an asset exists in a standardized, transparent and liquid token form, it can slot into collateral frameworks. This allows investors to unlock

capital without selling, rebalance portfolios without cash drag, and put more of their capital to work at any given time.

While secondary market activity for tokenized assets remains nascent, and trading remains fragmented across isolated platforms, these features point toward the possibility of more liquid futures for alternative investments. If successful, the widespread adoption of tokenized assets with on-chain trading and settlement is expected to be a gradual, long-term process.

*A **smart contract** is self-executing code stored on a blockchain that automatically enforces the terms and conditions of an agreement.*

4. Operational efficiency

Unlike traditional book-entry shares, tokens can embed both data and logic via *smart contracts*. These programmable rules can automate financial, operational and legal processes.

For example, fund tokens can:

- Enable seamless capital calls and distributions with instant settlement;
- Restrict subscriptions to pre-approved (whitelisted) wallet addresses; and
- Automate part of the capital allocation calculation and NAV reporting.

This automation benefits investment managers, fund administrators and transfer agents by reducing manual workloads and operational costs.

It is possible to have a public-permissioned blockchain, which combines the accessibility of a public network with the controlled participation of a permissioned system. It allows anyone to view the blockchain's data but requires specific permissions for certain actions or participation.

5. Portfolio customization and composability

Tokenization could enable highly customizable portfolios. Investors can hold fractional interests in multiple alternative funds, aligning with specific risk preferences.

Similarly, portfolio managers can optimize fund composition by acquiring fractional interests across asset classes, unconstrained by traditional minimums or *block sizes*.

***Block size** means the amount of data (in bytes) that can be included in a single block on a blockchain, which affects transaction throughput and network scalability.*

Chapter 3: Key Use Cases & Insights: Tokenizing Funds

Tokenizing Funds

One of the most compelling advantages of tokenization is the ability to provide the division of fund interests into smaller units, effectively lowering minimum investment thresholds. This fractional ownership model can open fund investing to a broader audience of qualified investors who previously might have been excluded by minimum investment amounts.

Tokenizing funds also has the potential for improved liquidity. Traditional private funds typically lock up capital for extended periods, with limited secondary market options. Tokenization creates the infrastructure for trading of fund interests, potentially allowing investors to enter and exit positions without waiting for conventional distribution events or navigating

cumbersome transfer processes. Also, instead of selling illiquid assets to free up capital for reallocation, investors can borrow against them meaning capital can be deployed into new opportunities without sitting idle in cash during long settlement cycles.

Smart contracts can help automate some of the fund administration processes, including:

- Distribution of proceeds;
- Capital calls;
- Investor communications;
- Transfer of ownership; and
- Compliance verification.

This automation can significantly reduce administrative overhead and minimize the risk of human error in fund operations. Due to these automations, the administrative cost of permitting a greater number of investors is greatly reduced.

Private, permissioned blockchains, where access and participation are restricted to a pre-approved group of participants, are often favored for tokenized funds due to their ability to control who can participate and access the fund's information, which aligns with regulatory requirements and provides greater control over the fund's operations. This contrasts with public blockchains like Ethereum or Solana, where anyone can join and participate.

Potential Barriers

Perhaps the most significant challenge facing tokenized funds is navigating an ever-evolving regulatory landscape (see Chapter 5, Regulatory Landscape and Legal Considerations). Fund tokens typically qualify as securities in most jurisdictions, requiring compliance with, among other things:

- Securities registration requirements or applicable exemptions;
- AML regulations;
- KYC procedures; and
- Verification of applicable investor qualifications (status as an accredited investor, qualified purchaser, professional investor, etc.).

However, the regulatory framework varies widely across jurisdictions and continues to evolve, creating compliance challenges for globally accessible tokenized funds.

Blockchain infrastructure also introduces technical risks that are not present in traditional fund structures. including:

- Smart contract vulnerabilities;
- Private key management and potential theft;
- Network security concerns; and
- Oracle reliability for off-chain data integration.

The first wave of tokenized funds is already proving its value by serving the captive on-chain capital base such as DAOs, stablecoin treasuries and crypto-native investors. That's a tangible, growing market. But the real inflection point will come when off-chain, high-value assets migrate on-chain, unlocking capabilities that analog fund structures cannot match: instant settlement, collateral utility, fractional participation and integration into a global, 24/7 liquidity network. This shift turns alternative assets from static, locked investments into dynamic, interoperable components of the digital economy.

Chapter 4: Challenges & Risks

As previously mentioned, there are considerable benefits to the tokenization of alternative fund offerings, such as facilitating greater access to liquidity through collateralized lending of alternative assets, while forming a more efficient secondaries market. Furthermore, by leveraging smart contract technology, tokenized assets can streamline operational processes and lower issuance costs by facilitating subscriptions and redemptions, while automating the calculation, accrual and settlement of fees and expenses. This automation can help minimize the propensity for NAV errors, reduce related administrative costs, while saving time on reconciliations. Smart contract technology can be leveraged to automate capital calls and distributions and/or to embed compliance rules directly into the token. This may have the benefit of reducing *cash drag* by allowing investors to remain fully invested until a capital call is due and/or reducing the settlement time for distributions. Tokenization also enhances transparency enabling more comprehensive risk reporting capabilities.

Cash drag is the opportunity cost or reduced return caused by holding uninvested cash in a portfolio rather than investing it.

Key Challenges

1. Increased adoption of stablecoins

The benefits discussed above are contingent on the entire distribution cycle being on-chain, which would require the usage of cryptocurrencies or stablecoins. For investment managers to confidently offer products on-chain, they will need to be comfortable achieving fundraising targets from investors that are willing to invest under this model. A regulated stablecoin that investors would be amenable using in order to subscribe, redeem and pay management/performance fees would likely enhance adoption.

2. Unfamiliar infrastructure

Relatedly, investment managers and investors will need to become familiar with infrastructure utilized to support digital assets such as a digital wallet, while engagement of a *digital asset custodian* would likely be required to custody tokenized share interests in a private fund. Consistent usage and understanding of "generally accepted" terminology and protocols will enable easier adoption by investors. Alternatively, a model in which investment managers and investors continue to subscribe and redeem in *fiat currency* with a transfer agent converting fiat deposits to stablecoin and managing the on-chain infrastructure may narrow requirements for institutional participation.

Digital asset custodian	A digital asset custodian is a third-party entity that holds and manages digital assets (e.g., cryptocurrencies, tokens) on behalf of clients.

Fiat currency	A fiat currency is government-issued money that is not backed by a physical commodity but derives its value from the trust and authority of the issuing government, e.g., the U.S. dollar (USD).

3. Barriers to efficient secondaries

Private placements typically afford investment managers consent rights for any transfer of an investor interest which may impede an efficient secondaries market. Investment managers will need to be incentivized to waive or weaken such rights to permit more efficient secondaries trading of investor interests. This becomes particularly problematic for investment managers that prefer to have control over the composition of their capital base to restrict investors in certain domiciles, for example, avoid the complexities of benefit plan assets status under the U.S. Employee Retirement Income Security Act of 1974 or simplify reporting requirements. Furthermore, assuming secondary interests trade at a discount for a lack of marketability, investment managers may be reluctant to see their fund interests traded at a material discount to NAV. An efficient secondaries market will likely be contingent upon common standards that facilitate seamless transferability of assets across multiple chains.

*A **zero-knowledge proof** is a cryptographic method that allows one party to prove they know certain information without revealing the information itself.*

4. AML/CFT/KYC rules

Investment managers and investors are required to adhere to institutional expectations aimed at preventing money-laundering and the financing of terrorism. To do so, adoption of technologies such as *zero-knowledge proofs* and *digital identity* that provide assurance of compliance with relevant AML/CFT/KYC requirements, while providing privacy, when transacting, will likely, be necessary.

*A **digital identity** is a digital representation of an individual's or entity's identity, often used to verify authenticity in online or blockchain environments.*

5. Privacy matters

Tokenization can increase data used for risk reporting due to the potential to view all on-chain transaction activity in real time. To the extent that assets invested in by a fund become tokenized, investors may be able to access on-chain data in real time across all holdings within their portfolios for risk aggregation purposes. Note that this transparency would be contingent upon investment managers' willingness to operate within the real-time, public nature of most blockchain environments, without seeking enhanced privacy or obfuscation measures. Similarly, given the transparent nature of blockchain technology, investors may sacrifice privacy over their holdings to the extent that a privacy solution that obfuscates holdings is not readily adopted.

6. Integration

For tokenized alternatives to have maximum utility, such assets will need to integrate seamlessly in a multi-chain environment, where multiple different blockchain networks are in use. This will depend on how the investment manager, or investor, wishes to leverage the token, which applications they prefer to engage with and where liquidity masses.

Key Risks

Key risks involved in adopting a tokenized fund distribution model emerge to the extent that ownership and the shares themselves exist only on-chain, without an off-chain recordkeeping system in parallel, as is currently the case in most tokenization distribution models. Key risks to consider include:

1. Custody

Due to the immutable nature of the blockchain, custody risk will remain a key consideration as investment managers and investors adapt to a different custody model that may entail the usage of different service providers, technologies and safeguarding techniques than have historically been the case.

2. Security risk

To the extent that markets develop to enable usage of tokenized alternatives as collateral for on-chain financing, investors need to be cognizant of the security risk associated with smart contract technology to avoid asset misappropriation.

3. Valuation

For private placements that are comprised of illiquid assets, investors may not be satisfied with the quarterly valuation of the underlying assets common in private markets, nor of the investment manager-marked fair valuation methodology common amongst such funds. More frequent and/or independent valuation may have the effect of importing additional volatility into private markets.

4. Decentralized Finance (DeFi)

To the extent that usage of tokenized alternative assets evolves to be utilized within DeFi, for instance as collateral for lending or borrowing activity, additional challenges and risks will emerge. For instance, investment managers will need to be accustomed to assessing the security of protocols including smart contract vulnerabilities, governance and oracle vulnerability. Security risk will be paramount, though unclear legal rights and the applicability of insurance coverage may present additional risks.

Chapter 5: Regulatory Landscape & Legal Considerations

Regulators around the world have been closely following the impact of distributed ledger technology on financial markets and are starting to pay close attention to tokenization. In particular, the European Commission last year held a workshop on asset tokenization,[1] and the UK Financial Conduct Authority (FCA) has joined Monetary Authority of Singapore (MAS), the Financial Services Agency of Japan (JFSA) and the Swiss Financial Market Supervisory Authority (FINMA) as part of the Project Guardian, a collaborative initiative with the financial industry that explores fund and asset tokenization use cases, and decentralized finance.[2] Moreover, the SEC has begun articulating its approach to tokenized financial assets.[3] The tone from regulators around the world is rapidly changing: acknowledging tokenization's potential benefits, while still emphasizing that innovation must operate within a sound legal and compliance framework.

The Evolving U.S. Regulatory Landscape

In recent years, the SEC's approach to activity involving digital assets, including tokenized securities, has evolved markedly. Under prior leadership, the agency often relied on enforcement actions based on contested interpretations of decades-old regulations while being reluctant to engage in notice-and-comment rulemaking, creating uncertainty for market participants. Many digital asset sector leaders, and even some SEC insiders, critiqued this regulation-by-enforcement approach as leaving "square peg" projects trying to fit into round holes of existing rules. By 2023, SEC Commissioner Hester Peirce and others were openly calling for clearer guidance instead of just lawsuits. All the uncertainty in terms of the regulatory treatment of digital asset activity inevitably spilled over into the tokenization market, with a general perception that anything connected with public and permissionless blockchain networks was off-limits for banks, broker-dealers and other traditional finance businesses.

A significant turning point came in early 2025 with new SEC leadership. In May 2025, freshly appointed SEC Chairman Paul Atkins signaled a new direction. In a keynote address,[4] Chairman Atkins declared that a top priority will be developing a rational regulatory framework for digital asset markets which has one with clear "rules of the road" for issuance, custody

1 European Commission, DG FISMA Workshop on Tokenisation (June 11, 2024), available at https://finance.ec.europa.eu/events/workshop-asset-tokenisation-2024-06-11_en.

2 MAS Press Release, "MAS Partners Policymakers in Japan, Switzerland and the UK to Foster Responsible Digital Asset Innovation" (October 30, 2023), available at https://www.mas.gov.sg/news/media-releases/2023/mas-partners-policymakers-to-foster-responsible-digital-asset-innovation.

3 Statement by SEC Commissioner Hester M. Peirce, "Enchanting, but Not Magical: A Statement on the Tokenization of Securities" (July 9, 2025), available at https://www.sec.gov/newsroom/speeches-statements/peirce-statement-tokenized-securities-070925 ("July Tokenization Statement").

4 Speech by SEC Chairman Paul S. Atkins, "Keynote Address at the Crypto Task Force Roundtable on Tokenization" (May 12, 2025), available at https://www.sec.gov/newsroom/speeches-statements/atkins-remarks-crypto-roundtable-tokenization-051225-keynote-address-crypto-task-force-roundtable-tokenization.

and trading of digital assets. He emphasized that the SEC must keep pace with innovation so that legitimate projects were not forced offshore due to unclear or outdated regulations. Notably, Chairman Atkins announced it was "a new day at the SEC," vowing to end *ad hoc* policymaking via enforcement. Instead, the SEC would use proper rulemaking and exemptions to set fit-for-purpose standards, while reserving enforcement mainly for fraud and misconduct. This proactive, policy-oriented approach was a welcome change for market participants seeking certainty and signaled a fresh start for those interested in tokenization.

At the SEC's Tokenization Roundtable in 2025, SEC Commissioner Hester Peirce spoke forcefully on the topic, highlighting the tremendous potential of moving traditional assets "on-chain", from faster settlement to new capabilities via smart contracts, but reiterated that "tokenization cannot reach its full potential without legal clarity." In Commissioner Peirce's view, tokenized securities should generally be treated the same as traditional securities absent a compelling reason to differentiate. In practice, that means the use of a blockchain network as a record-keeping method does not change the fundamental nature of the asset. The "bundle of rights" comprising a share of stock is still considered a share of stock, whether ownership of those rights is recorded in a traditional database or on a distributed ledger maintained by a decentralized blockchain network. Peirce argued that the mere use of a blockchain network does not "give rise to a new or different type of security". This suggests that existing securities laws can accommodate tokenization, so long as firms follow the spirit of those laws.[5]

At the same time, Commissioner Peirce acknowledged open questions (for example, how transfer agent rules apply when tokens maintained on a blockchain network are considered the official record of ownership of a security?, or how to handle on-chain trading across multiple decentralized venues within national market rules?).[6] The SEC is working through these issues, and the roundtable itself – featuring multiple SEC Commissioners – signals an institutional commitment to crafting guidance.

The SEC's Division of Trading and Markets, for example, withdrew a prior restrictive staff position on digital asset custody to pave the way for broader solutions.[7] In spring 2025, the SEC staff issued guidance clarifying how existing disclosure and registration rules apply to crypto asset offerings, even affirming that certain token distributions fall outside federal securities laws.[8] These steps, while technical, show regulators addressing barriers that have previously frustrated tokenization projects.

In July 2025, the President's Working Group on Digital Asset Markets put forward policy recommendations calling on U.S. agencies to support the

5 Speech by SEC Commissioner Hester M. Peirce, "Getting Smart – Tokenization and the Creation of Networks for Smart Assets: Opening Remarks for Tokenization Roundtable" (May 12, 2025), available at https://www.sec.gov/newsroom/speeches-statements/peirce-remarks-crypto-roundtable-tokenization-051225.

6 *Id.*

7 SEC Staff Guidance, Staff Accounting Bulletin (SAB) No. 121, Rescinded by SAB No. 122 (January 23, 2025), available at https://www.sec.gov/rules-regulations/staff-guidance/staff-accounting-bulletins/staff-accounting-bulletin-121.

8 Statement of the SEC Division of Corporation Finance, "Offerings and Registrations of Securities in the Crypto Asset Markets" (April 10, 2025), available at https://www.sec.gov/newsroom/speeches-statements/cf-crypto-securities-041025.

advancement of tokenization by providing clear, risk-based guidelines and amending regulations where necessary.[9] Following which, Chairman Atkins declared in a speech, titled "American Leadership in the Digital Finance Revolution", that he had asked the Commission staff to work with firms seeking to distribute tokenized securities within the U.S and to provide relief where appropriate to assure that Americans are not left behind.[10]

Beyond the SEC, U.S. bank regulators are also refining their stance. The OCC has at times been forward-leaning – for example, earlier interpretive letters allowed banks to custody crypto assets and hold stablecoin reserves (both activities critical to being involved in tokenization). In 2023, there was a cautious pause as regulators assessed risks but, by 2025 the OCC had clarified its position under new leadership. In March 2025, OCC Interpretive Letter 1183[11] reaffirmed that national banks may engage in crypto-asset custody and certain tokenization activities (such as using distributed ledgers for payments and issuing stablecoins), provided they do so safely and soundly. This position reaffirms to bank compliance teams that tokenization initiatives are permissible in principle – but they must be accompanied by robust risk management and supervisory dialogue due to the prudential regulatory framework applicable to banking institutions (including strict rules around managing capital, liquidity and operational risks).

Key Legal and Compliance Considerations

For legal and compliance professionals getting to know the space, engaging in tokenization does not require waiting for the passage of new laws although new ways of applying existing laws and regulations may need to be considered. As an example, assuming that the underlying tokenized asset is a security (e.g., an equity interest, bond or fund share), the token used to transfer the associated "bundle of rights" remains subject to the full scope of U.S. securities law.[12]

Compliance teams should ensure disclosure requirements are met, even if certain traditional formats are not perfectly tailored to securities represented by blockchain-based tokens. We may even see new registration forms specifically designed for tokenized offerings in the future. Until then, legal and compliance professionals should work within existing frameworks to legally offer tokenized instruments to investors.

1. Custody and asset servicing

How tokenized assets are held and transferred is another core compliance area. While tokenization offers potential benefits like,

9 President's Working Group on Digital Asset Markets, "Strengthening American Leadership in Digital Financial Technology" (July 30, 2025), available at https://www.whitehouse.gov/crypto/.

10 Speech by SEC Chairman Paul S. Atkins, "American Leadership in the Digital Finance Revolution" (July 31, 2025), available at https://www.sec.gov/newsroom/speeches-statements/atkins-digital-finance-revolution-073125.

11 OCC Interpretive Letter 1183, "OCC Letter Addressing Certain Crypto-Asset Activities" (March 7, 2025), available at https://www.occ.gov/topics/charters-and-licensing/interpretations-and-actions/2025/int1183.pdf.

12 July Tokenization Statement, *supra* note 3.

increased liquidity and accessibility, it also raises complex questions about how to securely safeguard and manage these digital representations of assets.

For example, under current rules in the U.S., "qualified custodians" (such as broker-dealers or banks) generally must hold institutional clients' securities. Recent SEC actions support more flexibility here: the agency's leadership has even suggested updating their custody rules to allow, in some cases, self-custody or direct blockchain custody for tokenized assets where technology can enhance asset safety. Until formal rule changes occur, firms should tread carefully and should ensure that any tokenized securities are held in a manner that satisfies existing client asset safeguarding rules (for broker-dealers) or fiduciary custody obligations (for investment advisers and banks). This may involve engaging third-party custodians who specialize in taking custody over the "private keys" that allow instructions for transfers of blockchain tokens to be given, or otherwise obtaining explicit regulatory guidance for novel arrangements. Compliance officers should also follow the SEC's overhaul of rules applicable to how tokenized securities can be custodied and dealt in by broker-dealers.

Many jurisdictions are still developing clear legal frameworks for tokenized assets, which can create uncertainty for both custodians and investors. Meanwhile, traditional financial institutions and specialized digital asset custodians are developing solutions for tokenized asset custody, meaning the landscape is still evolving.

2. Trading and market integrity

Tokenization also blurs the line between traditional securities platforms and new digital marketplaces that may also allow the trading of crypto assets that are "native" to blockchain networks (i.e., assets that have no "real world" counterpart). A tokenized share or bond might technically be able to be traded peer-to-peer on a blockchain network, but laws around exchanges, broker-dealer/intermediary registration and trade reporting will still apply. Legal teams must consider where, and how, tokens will trade. Will trading occur on a regulated "alternative trading system" operated by an appropriately regulated entity or will token holders have to handle purchases and sales on a strictly peer-to-peer basis? In the U.S., for example, firms engaging in secondary trading of tokenized securities should use existing licensed entities (broker-dealers/alternative trading systems) or carefully structured frameworks (e.g., private network trading under the so-called Section 4(a)(1½) principles) to stay compliant.

Market integrity rules such as anti-fraud, anti-manipulation and insider trading prohibitions are also technology-agnostic and they apply equally to tokenized securities markets as they do to traditional markets. Compliance monitoring should be put in place for on-chain transactions just as it would for trades on a securities exchange today.

In addition, AML/CFT/KYC requirements remain paramount. Even if ownership of an asset is recorded using a distributed ledger maintained by a blockchain network, any investment manager facilitating transactions must follow applicable AML/CFT/KYC obligations to verify

customers and report suspicious activity, especially as regulators are wary of digital assets being used to sidestep financial controls.

Encouraging Innovation While Managing Risk

Overall, regulators seem to be cautiously optimistic about the prospects for tokenization. They see the opportunity for a more efficient financial system through tokenization, but appropriately insist on maintaining relevant safeguards. They want to foster a climate where tokenization projects can thrive yet remain under the all-important umbrella of investor protection.

International standard-setters such as the FSB and the OECD have weighed in on tokenization. The FSB noted in late 2024 that tokenization's current scale is small, posing little systemic risk for now, but if tokenization scales up significantly, regulators must address vulnerabilities (like liquidity mismatches or technology failures or vulnerabilities) through proper oversight, regulation and enforcement.

In other words, the excitement around tokenization should not blind firms to the traditional risks of finance, nor to new risks introduced by complex smart contracts or operational dependencies. Compliance teams should approach tokenized asset initiatives with the same rigor as any new product, conducting risk assessments and scenario analyses (for example, what happens if a blockchain network halts or a smart contract is subject to an "exploit"?).

Some "real-world" asset tokenization use cases may lie outside the core focus of financial regulators. Tokenizing small-ticket collectibles on a non-fractionalized basis, for instance, might not invoke securities laws if structured correctly. Those projects face legal questions around property rights and consumer protection but may not need to address the full weight of securities regulation. However, the financial industry's interest is largely in revenue-generating assets such as, debt, equity, investment funds, even tokenized bank deposits, most or all of which squarely implicate financial regulations. For these, the presence of regulatory interest is actually positive: it means regulatory authorities are working to clarify the rules of the road, which ultimately can help mainstream tokenization.

Outlook for Legal and Compliance Teams

The regulatory landscape for tokenization is actively being shaped. Legal and compliance professionals should stay tuned to public statements, new guidance and any rule proposals. For example, there is growing consensus within the SEC that U.S. capital markets can accommodate tokenization, provided firms follow principles of investor protection, fair markets and risk disclosure that underpin existing law.

For now, compliance teams should interpret regulatory silence cautiously: just because something is not explicitly addressed in old rules does not mean that it is unregulated. Engage early with counsel and, if possible, with regulators through sandboxes or informal consultations. Many firms are also learning from global examples such as pilot programs run through Project Guardian to explore tokenized bonds and funds within a

controlled environment, yielding best practices that firms can study. Such experiments show that it is possible to blend innovation with compliance.

The regulatory environment for asset tokenization is increasingly taking shape, led by recent regulatory outreach and policy shifts. Regulators are encouraging innovation in blockchain finance, and much more so than a few years ago. They, however, remain clear-eyed about legal and regulatory compliance. The regulatory message to sophisticated financial professionals is: do not be afraid to explore tokenization but do so in partnership with your legal and compliance teams. Ensure that every tokenized offering or platform is structured to comply with existing rules (or validly rely on exemptions) and be prepared to adapt as new regulations emerge. With regulators actively listening and providing guidance, there is a pathway forward where tokenization can flourish under the rule of law, unlocking new efficiencies in finance while safeguarding investors and markets.

Chapter 6: The Future of Asset Management

The asset management industry is undergoing a fundamental evolution. Following the widespread adoption of mutual funds in the 20th century and the acceleration of exchange-traded funds in the 1990s, a third structural shift is taking place and this time driven by tokenized investment funds. These vehicles, built on blockchain infrastructure, do not merely digitalize fund units; they reshape how assets are issued, held and exchanged. As the supporting ecosystem comprising tokenized real-world assets, digital settlement currencies and compliant wallet layers reaches critical mass, the model is gaining traction across both retail and institutional segments.

Operationally, the current landscape still reflects significant inefficiencies. Traditional mutual funds continue to rely on legacy infrastructure. Settlement delays of two or more days, combined with limited secondary market access, restrict capital mobility and reduce reinvestment potential. Estimates suggest that optimizing settlement and reducing friction could unlock potentially tens of billions of dollars annually in additional investor value, factoring in earlier capital reinvestment, reduced transaction fees and the ability to use fund units as collateral or to exploit intraday price variations.

What is notable today is that demand for such enhancements is no longer hypothetical. The market for tokenized real-world assets, including tokenized credit, treasuries and funds, has grown substantially. Meanwhile, the stablecoin market capitalization, essential to on-chain settlement, now exceeds $275 billion.[13] This reflects a growing segment of investors, particularly stablecoin holders, DeFi participants and crypto-native allocators, who are increasingly looking for access to yield-bearing, regulated financial instruments without leaving the blockchain environment.

Tokenized funds meet that demand. They offer exposure to real-world assets such as equities, fixed income and short-term government securities, with settlement, custody and compliance managed entirely on-chain. Several early initiatives confirm the viability of the model, whereby funds have been able to demonstrate how programmable compliance,

13 See https://coinmarketcap.com/view/stablecoin/.

transparent audit trails and instant settlement can coexist within a regulated investment structure.

Regulation as a Competitive Advantage

For fund sponsors and distributors, tokenized funds open new commercial opportunities. In traditional finance, ETFs have enabled significantly more active secondary market behavior. If tokenized funds replicate that liquidity profile, they could support multi-trillion-dollar annual trading volumes across fund units, creating revenue opportunities around brokerage, custody, data and real-time execution services. Smart contract-based automation also allows scalable portfolio personalization. Investors can configure risk preferences or exposure constraints directly into their holdings. This type of customization, historically limited to high-net-worth clients, becomes accessible to broader audiences through wallet-based configuration tools and embedded advisory logic.

While adoption is growing, particularly in institutional cash management, broad deployment remains contingent on interoperability, custody standards and, critically, regulatory alignment. Public-permissioned blockchains are emerging as a credible infrastructure layer, combining the transparency of public networks with the control and compliance features required by financial institutions.

Ultimately, regulatory adaptation may ultimately be the determining factor. Jurisdictions that modernize their legal frameworks to accommodate natively digital fund structures will be best placed to host the next generation of fund issuance. Luxembourg offers a clear example of this approach. Already the second-largest fund domicile globally, the country has actively updated its legal architecture to accommodate blockchain innovation.[14] These measures strengthen Luxembourg's ambition to serve as a global hub for tokenized asset management, particularly as European financial regulation continues to converge with digital asset frameworks.

In that context, tokenized funds are not just an emerging product category rather, they represent a new operating model for the industry. One that is programmable, interoperable and natively digital.

Chapter 7: Conclusion

Tokenizing alternative assets and funds represents a promising frontier in financial innovation, with the potential to significantly enhance liquidity, broaden accessibility and streamline operational processes. By digitizing ownership interests and enabling fractionalized, blockchain-based trading, tokenization offers a transformative path forward for alternative assets, bringing new efficiency to capital markets that have historically been seen as inaccessible and illiquid.

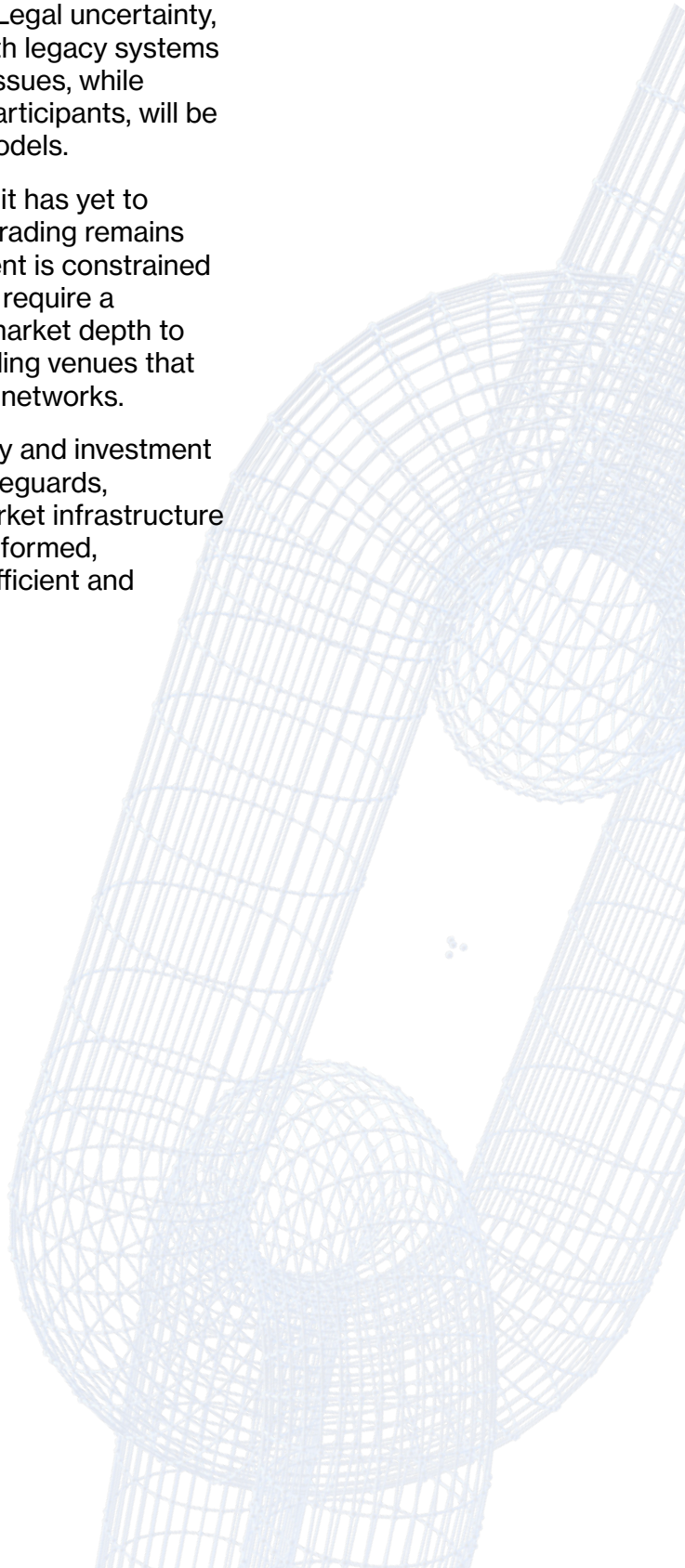
14 Blockchain Law IV; published in the Mémorial A n°597 on 27 December 2024 and available at https://legilux.public.lu. This legislation facilitates the issuance of digital securities and promotes tokenization by integrating DLT into payment, reconciliation and smart contract processes. *See* https://kpmg.com/lu/en/blogs/home/posts/2024/12/exclusive-accessible-how-blockchain-drive-retail-transformation.html.

As interest grows, so too does the pace of adoption. The regulatory landscape is evolving in response, with policymakers increasingly open to innovation while emphasizing the need for legal compliance and investor protection. Recent regulatory outreach and policy developments signal a shift: regulators are no longer just observers but active participants in shaping a future where tokenized assets can thrive. Financial professionals are encouraged to explore tokenization, but with clear guidance, working closely with legal and compliance teams, ensuring offerings comply with current rules or valid exemptions and to be ready to adapt as regulations continue to develop.

Nonetheless, tokenization is not without its challenges. Legal uncertainty, cybersecurity risks and the integration of blockchain with legacy systems remain significant hurdles. Effectively navigating these issues, while building trust among investors, regulators and market participants, will be critical to realizing the full potential of tokenized fund models.

While tokenization has advanced in technical capability, it has yet to deliver meaningful improvements in market liquidity, as trading remains fragmented, depth is limited, and institutional engagement is constrained by regulatory uncertainty. Unlocking its full potential will require a combination of clear regulatory frameworks, sufficient market depth to support active secondary trading and interoperable trading venues that enable seamless movement of tokenized assets across networks.

In conclusion, the convergence of blockchain technology and investment management holds immense promise. With the right safeguards, regulatory frameworks, as well as technological and market infrastructure advancements, tokenization can redefine how capital is formed, accessed, and managed, ushering in a more inclusive, efficient and dynamic era of financial innovation.



GLOSSARY

AML	anti-money laundering
blockchain networks	a system of interconnected nodes that use blockchain technology to share and validate data in a secure and decentralized manner
blockchain technology	a distributed ledger system that records transactions in a chain of blocks, providing transparency, security and immutability
capital call	a request made by an investment fund to its investors to provide a portion of the committed capital for investments
CFT	countering the financing of terrorism
cryptocurrency	a digital or virtual currency that uses cryptography for security and operates independently of a central authority
DAO	decentralized autonomous organization. A type of organization that operates without a central authority, instead using rules encoded in blockchain technology to govern itself. DAOs are internet-native entities owned and managed by their members, with decision-making often achieved through token-based voting systems
decentralized networks	networks in which control is distributed across many participants rather than being centralized in a single entity
distributed (or decentralized) ledger	a ledger that is replicated and synchronized across multiple nodes or participants, reducing reliance on a central authority
FSB	the Financial Stability Board, which is an international body that monitors and makes recommendations about the global financial system to promote stability
KYC	know-your-customer
NAV	net asset value, which is the total value of a fund's assets minus its liabilities, often expressed on a per-share basis

OCC	the U.S. Office of the Comptroller of the Currency, which is the federal agency overseeing national banks in the United States
OECD	the Organisation for Economic Co-operation and Development, which is an international organization that promotes economic growth, stability and improved standards of living through policy coordination
on-chain	this refers to transactions or data recorded directly on the blockchain, visible and verifiable by all network participants
oracle	a service that provides external (off-chain) data to smart contracts, enabling them to interact with real-world events
SEC	the U.S. Securities and Exchange Commission, which is the U.S. federal agency responsible for enforcing securities laws and regulating securities markets
secondaries market	a marketplace for buying and selling pre-existing investor commitments or ownership interests in funds or private companies
settlement	the process of transferring assets and updating records to complete a trade or financial transaction
stablecoin	a type of crypto asset designed to maintain a stable value by being pegged to a reserve asset such as a fiat currency like the US dollar
(digital) wallet	a software or hardware tool that allows users to store, send and receive digital assets securely

About AIMA

AIMA is the world's largest membership association for alternative investment managers. Its membership has more firms, managing more assets than any other industry body and, through our 10 offices located around the world, we serve over 2,000 members in 60 different countries.

AIMA's mission, which includes that of its private credit affiliate, the Alternative Credit Council (ACC), is to ensure that our industry of hedge funds, private market funds and digital asset funds is always best positioned for success. Success in our industry is defined by its contribution to capital formation, economic growth, and positive outcomes for investors while being able to operate efficiently within appropriate and proportionate regulatory frameworks.

AIMA's many peer groups, events, educational sessions, publications and practical tools like its Due Diligence Questionnaires and industry sound practice guidance, available exclusively to members, enable firms to actively refine their business practices, policies, and processes to secure their place in that success.

More information is available at www.aima.org.

About KPMG

KPMG firms offer a wealth of experience in the digital asset space, having collaborated with numerous industry clients and governments, including Central Banks, Exchanges, and leading Financial Institutions. The global network present across 143 countries and territories, can provide advice and support across a broad range of cryptoasset and blockchain services spanning Advisory, Audit, and Tax. With a track record of delivering effective services and technology solutions in the digital asset-related projects space, KPMG firms have a deep understanding of the complexities and nuances involved.

KPMG professionals in Audit, Tax and Advisory are specialist in their fields and have deep experience of the issues and needs of the investment management businesses. KPMG firms' clients include investment managers, wealth managers, family offices, fund administrators and service providers who focus on mutual funds, hedge funds, private equity funds, infrastructure funds and real estate funds, and institutional investors for pension funds and sovereign wealth funds.

KPMG firms aim to provide tailored services of the highest standard. KPMG professionals are focused on building trusted relationships and delivering quality output through project teams that can support you, whatever your investment activity.

The world's largest membership association for alternative investment managers