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Financial Markets Authority
Level 2, 1 Grey Street
Wellington, New Zealand

By email only: consultation@fma.govt.nz

NZX Submission: Tokenisation in financial markets

1. NZX Limited (**NZX**) submits this response to the Financial Markets Authority (**FMA**) discussion paper regarding the current use and future potential of tokenisation in New Zealand's financial markets (**Discussion Paper**). We would like to thank the FMA for the opportunity to provide this submission.
2. NZX is a licensed market operator and New Zealand's exchange, with 197 unique listed issuers and a total market cap of \$246bn across the markets it operates.¹ NZX supports innovation that creates opportunities to increase efficiency, access, and flexibility for market participants and investors.
3. We have been following the advancements in relation to the tokenisation of financial products internationally, and are supportive of the FMA engaging with industry in relation to this developing area.
4. NZX considers that the tokenised nature of an instrument should not be determinative of the financial product's legal status as an equity security, debt security, fund security or derivative. We would expect that at least the same disclosure, governance and financial advice obligations apply to a financial product in tokenised form, in addition to the FMC Act's prohibitions on market manipulation and insider trading.
5. It is also important to ensure the integrity of New Zealand's capital markets that market licensing considerations are applied equally to markets for tokenised and traditional financial products. As distributed ledger technology (**DLT**) platforms become more readily accessible, it is important that they are regulated to the same standard as existing markets to ensure the confident and informed participation of investors.
6. We consider that tokenised products should be regulated within the existing regulatory framework for financial products, rather than a bespoke regime. We would support the FMA issuing guidance in this area to promote market certainty.
7. In this submission we outline our view of the different regulatory risks and opportunities that apply to tokenised financial products in relation to New Zealand's public markets. While we understand the Financial Markets Conduct Act 2013 (**FMC Act**) is designed to be technology neutral, there may be areas that need to be considered in more depth as tokenisation develops further.
8. Nothing in this submission is confidential.

¹ [NZX Shareholder Metrics – September 2025](#)

Tokenisation in financial markets

9. As outlined in the FMA's Discussion Paper, tokenisation is not a well-defined concept within global financial markets. In essence, we understand tokenisation in financial markets to mean the digital representation of ownership and rights using DLT.
10. Tokens may be structured in many ways, including:
 - a. where the token itself is the asset and is issued "on-chain" by a listed issuer, and the DLT provides definitive ownership information;
 - b. to represent existing financial products, where those underlying products are held in custody by a third-party (unrelated to the issuer of the financial products), and tokens are issued either on a fully fungible and 1:1 basis, or on a differential basis; or
 - c. to provide access only to the economic substance of existing financial products where the rights attaching to the token are synthetic, issued by a third-party (unrelated to the issuer of the financial products), and there is no custody of the underlying financial product.

Tokens issued "on-chain" by a listed issuer

11. Where a listed company opts to issue tokens "on chain", the DLT essentially represents the issuer's share register, bondholder register, or unitholder register and is determinative of the ownership of the financial product.
12. It is possible that as tokenisation develops an issuer may choose to issue tokens with differing rights. This is possible regardless of the tokenised nature of the instrument. Issuers can already create financial products with different characteristics,² such as different classes of shares, preference shares, warrants and other instruments.
13. We consider that where tokenisation is used in this way that tokenisation simply provides a different technology through which an issuer can identify and track ownership in its equity, debt or fund securities. The tokenised nature of the instrument does not affect its legal status as an equity, debt or fund security.
14. It is most likely that traditional exchanges will be able to accommodate the quotation of these types of financial products in the medium term, rather than tokenised financial products issued by a third-party.³

Tokens issued by third-parties with custody

15. Tokenisation by third-parties who are unaffiliated with a listed issuer may occur where:
 - a. the underlying financial products are held in custody by the third-party (or a custodian acting for the third-party); or

² Including in relation to dividend rights, see section 53 of the Companies Act 1993.

³ The [Swiss Digital Exchange \(SDX\)](#) has enabled [tokenised trading](#) of listed issuer's securities by using the same ISIN for tokenised and non-tokenised products. The post-trade settlement infrastructure has been fully integrated to enable this to occur. SDX takes a technologically neutral to its regulation of tokenised and non-tokenised financial products.

- b. a third-party providing clearing and settlement services for trades in a listed issuer's securities tokenises those securities for the purposes of clearing and settlement.⁴
16. In this scenario the third-party is the issuer of the token, and may issue the token without the knowledge of the issuer of the financial product. The listed issuer of the financial product will recognise the third party (or its custodian) as the legal holder of the security.
17. Where the token is fully fungible with the financial product held in custody, we consider that the token should be treated on a comparable basis from a regulatory perspective with the underlying financial product, this is not dissimilar to the treatment that would apply to unsponsored depositary receipts. We note that section 8(5)(a)(ii) of the FMC Act defines a financial product to be defined to include an equitable interest in a financial product of that kind.

Tokens issued by third-parties without custody

18. Tokenisation by third-parties may also occur where the underlying financial products are not held in custody. In this instance the tokens are purely synthetic rights to the economic substance of the financial products.
19. There is no ability for the token to give rise to the token holder having a beneficial interest in the underlying financial product. The listed issuer does not recognise the ownership of the token holder for the purposes of its securities register, bond register, or unitholder register.
20. We consider that these types of tokens bear the characteristics of derivatives, as while the value of the token is determined by reference to the underlying financial product's price, the token holder does not have any beneficial rights in the underlying financial product. In essence these tokens are similar to security-based swap contracts.

Regulatory requirements for tokens

Financial product status of tokens

21. While the particular token structures described above raise different considerations from a regulatory perspective, it is important to ensure that tokens representing in essence the same attributes and risks as financial products are subject to the same level of regulation as traditional financial products.
22. This is supported by international practice, including:
 - Monetary Authority of Singapore (**MAS**) guidance: [A Guide to Digital Token Offerings](#) – which notes that MAS will examine the structure and characteristics of a

⁴ In its [SEC application](#), Nasdaq notes that its proposal to offer trading in tokenised securities will only become effective once post-trade settlement services have been established by DTC. Nasdaq's expects the DTC's services to involve: (1) transferring the Participant's designated book-entry position from the Participant's DTC account to a "DTC control account" and (2) converting this to a corresponding position in token form that DTC would "mint and deliver" to the Participant's DTC-registered digital wallet on a blockchain, which DTC would track and reconcile against the control account. DTC's approach is subject to change.

token to determine if it is a “capital markets product” and therefore subject to equivalent regulatory requirements.

- [SEC Commissioner statement](#): SEC Commissioner Hester M. Pierce released a statement on 9 July 2025 noting that tokenisation, and the use of blockchain technology, does not transform the nature of the underlying asset and that tokenised securities are still subject to the relevant laws.

Disclosure considerations

23. Offer disclosure considerations will differ depending on the structure of the token and the nature of the rights and benefits being conferred, however considerations should include:
- whether there are unique features of tokenised financial products that require specific disclosure in a product disclosure statement (**PDS**), for example that specific liquidity risks may arise in relation to tokens for listed financial products where the tokens are not tradable on NZX's markets and can only be transferred to another party using DLT;
 - for “on-chain” issuances by an issuer, whether the tokenised nature of the financial product constitutes a ‘limitation’ such that it is a term and condition of the instrument. This will affect the ability for issuers to issue tokenised products using the ‘same class’ offer exclusion contained in clause 19 of Schedule 1 of the FMC Act;
 - where tokens are issued by third-parties over fully fungible assets in custody, the issuer of the underlying financial product may be unaware that its previously allotted securities have been sold on-market to a custodian who issues tokens as a result of the acquisition. We expect that the disclosure obligations relating to offers for sale of financial products may not neatly accommodate this scenario, and that there may be additional risks for investors when the issuer of the underlying financial product is not the issuer of the token to whom the disclosure obligation applies. It would be appropriate for investors to understand the nature of the custody that applies to the underlying financial product, and any rights to redeem the token for that product; and
 - where token rights are synthetic and not tied to custody of the underlying financial product, it may be appropriate for the FMA to consider whether there are specific health warnings disclosures that are required to be made to investors. These could include that the product is sophisticated and that the commercial risk the investor holds relates not only to the performance of the underlying financial product but also to the ability of the issuer of the token to make payment in accordance with the terms of the token.⁵

⁵ We note existing examples of platforms trading include Ondo Finance (where there is no underlying custody, and rights being traded are synthetic) and Dinari (where the tokenized public market securities are 1:1 backed with underlying securities in custody).

24. There are also considerations in relation to continuous disclosure, in relation to tokens that are issued by third parties. Where the issuer of the underlying financial product is listed on a NZX market it will be subject to continuous disclosure obligations which will support price discovery for the underlying financial product, and to some extent the token. Consideration needs to be given to the types of continuous disclosure information that is required to be provided by a third-party token issuer where the token is traded via DLT rather than on NZX's markets, including:
- a. where tokens are issued over fully fungible financial products held in custody, the tokens are equity, debt or fund securities. However the token issuer who enables listing of the token on the DLT is not the issuer of the underlying financial product; and
 - b. where tokens rights are synthetic the issuer of the tokens is a derivatives issuer. There will be material information available in the broader eco-system derived from the issuer of the underlying financial product, however it is important that investors understand that they are exposed commercially to the issuer of the token rather than the issuer of the underlying financial product. As the issuer of the underlying financial product has no relationship with the DLT market, consideration should be given as to whether the token issuer is obligated to ensure the issuer's material information about the underlying financial product is made available to token holders.

Platform requirements

25. NZX considers that the obligations relating to operating a market in New Zealand set out in the FMC Act should apply equally to platforms facilitating trading in tokenised financial products. This should include that the operator be required to be licensed by the FMA and comply with the general obligations contained in section 314 of the FMC Act. This would require the DLT operator to be able to monitor and enforce market rules, and have appropriate arrangements to notify disclosures made to the DLT operator under a disclosure obligation.
26. In the event international DLT platforms emerge that enable trading in tokenised financial products by New Zealand investors, we expect that the FMA would apply section 313 of the FMC Act in a technology neutral manner when assessing whether the platform is a financial product market that is being promoted to investors in New Zealand.
27. NZX considers that there are risks to market integrity if unlicensed third-party providers are able to operate market platforms without the rigour of the obligations imposed by the FMC Act. As noted in the risks section of this submission, to the extent DLT platforms arise there are also risks associated with fragmented liquidity, and difficulty for investors in undertaking price discovery.

Clearing and settlement

28. Where DLT is used to clear, settle, or record transactions within the financial system, the FMA (in tandem with RBNZ as joint regulator) should consider the application of the obligations in the Financial Market Infrastructures Act 2021 (**FMI Act**) and related FMI Standards. We understand that the intention of the FMI Act and FMI Standards is to be technology neutral, the nature of technology used for clearing and settlement of financial products shouldn't impact the obligations in relation to the operators of that technology.

Risks

29. As mentioned above, where DLT platforms arise and trade tokens representing existing quoted securities there may be challenges for investors that arise from fragmented trading and liquidity, which could affect price discovery.
30. In particular, where an issuer's traditional financial products are trading on NZX's markets, while fungible tokenised instruments are being traded on alternative DLT platforms, pricing may differ between the alternative venues due to the depth of the liquidity pool.
31. This could cause complexity for the FMA in monitoring for market manipulation and insider trading, and hamper price formation if dark pools of liquidity form. If tokenisation leads to the decentralisation of trading, the FMA may want to consider how it will fulfil its function to promote confident and informed participation in New Zealand's financial markets.
32. As discussed in the 'Disclosure considerations' section of this submission we also consider that there is a risk that investors do not sufficiently understand the nature of the tokenised instrument that they are acquiring in some cases (in particular where the token is issued by a third-party), including their ability to trade that token or realise their investment. We would support the FMA specifically considering whether additional disclosure is required in relation to tokenised instruments.

Opportunities

33. We agree with the FMA that tokenisation presents a number of opportunities for New Zealand's financial markets.
34. Tokenisation could provide increased flexibility for issuers who may be able to issue tokens fragmenting specific rights associated with financial products (such as voting or economic rights) more easily than undertaking a dual-class shares offer. This would also provide flexibility for investors to participate in the capital markets in alignment with their investment objectives, for example where the investor wishes to obtain economic benefits in a company without triggering ownership restrictions in terms of control.
35. DLT provides opportunities for increased efficiency in trading and settlement, offering the possibility of 24 hour trading and T+0 settlement (which effectively removes counterparty risk).

36. We note that these efficiencies are largely created due to DLT's ability to remove intermediaries in financial transactions. As such, thought must be given to the broader impacts of this and whether regulatory changes would be needed to ensure investors are appropriately protected, noting that such protections may reduce the benefit of such efficiencies.
37. As data captured by DLT is intended to be "immutable", there may be benefits in relation to data certainty and a reduced risk of corruption. This must be balanced against the nature of the DLT, including whether it is centralised, permissioned, and where it is hosted, which may present additional risks in terms of certainty and security.
38. We note that we consider these opportunities may not be properly realised without ubiquitous uptake in DLT across the sector to ensure systems are fully interoperable and integrated. This will require adoption and interaction between issuers, brokers, registries, exchange and settlement system operators.
39. The OECD's business and finance policy paper on tokenisation and DLT in financial markets, noted that the full benefits of DLT infrastructure in financial markets will be impossible to realise without a fully developed ecosystem facilitating broad participation.⁶ This will require significant industry investment, which will be dependent on confidence in both the regulatory landscape and commercial demand for tokenised financial products.

Conclusion

40. We appreciate the opportunity to submit on the FMA's Discussion Paper. NZX is committed to supporting innovation and safeguarding market integrity, and is currently developing its own strategy in relation to tokenised assets.
41. We would be pleased to collaborate with the FMA further on this topic.

Yours sincerely,



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⁶ *Tokenisation of Assets and Distributed Ledger Technologies in Financial Markets, OECD Business and Finance Policy Paper No.75*