Tokenization Takes on Financial Services and Capital Markets

by Antonio Lanotte

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In this article, Lanotte explains how tokenization can reshape the structure of financial services and capital markets by leveraging the benefits of blockchain technology.

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Introduction

Tokenization is the process of creating a digital representation of a real thing. The tokenization process, in the context of data security, refers to the process of replacing sensitive data with unique identifiers called tokens. This helps protect the original data from unauthorized access or theft. For example, in payment processing, credit card numbers are often tokenized to prevent fraud.[1]

Although tokenization does involve creating a digital representation, its primary function is to safeguard sensitive information or enhance data processing efficiency. Deep learning models, particularly large language models, are trained on extensive amounts of unstructured, unlabeled data. These models are often referred to as foundation models because they form the basis for various natural language processing tasks. Large language models are specifically trained on text data. Through a process called fine-tuning, these models can be further trained on specific tasks or domains, enhancing their ability to understand and generate text in context. This fine-tuning process adapts the general knowledge learned by the model during pretraining to the specifics of the task at hand.

In general, tokenization is the process of issuing a digital, unique, and anonymous

[1] Bank for International Settlements, "Leveraging Tokenisation for Payments and Financial Transactions" (Apr. 2025).

representation of a real thing.[2] In artificial intelligence applications, particularly in natural language processing, tokenization involves breaking down text into smaller units such as subwords and characters.[3] These tokens serve as the basic building blocks for processing and analyzing text by machine learning models.

By converting text into tokens, AI models can better understand and manipulate language, enabling tasks like sentiment analysis, text generation, or machine translation. Instead of transmitting the actual payment details, a temporary token is generated and used in place of the original data. This token is meaningless to potential attackers, making it much more secure to transmit over networks. Once the transaction is completed, the token is typically discarded, adding an extra layer of protection against fraud. Tokenization manifests in various forms across different industries and applications. Stablecoins, for instance, are digital tokens pegged to real-world assets, typically fiat currencies like the U.S. dollar or the euro. They are designed to maintain a stable value and are widely used for transactions and as a store of value within cryptocurrency ecosystems. Non-fungible tokens (NFTs), however, are unique digital assets that represent ownership of specific items or pieces of content. Unlike cryptocurrencies or stablecoins, each NFT is distinct and cannot be replicated, making it valuable for digital ownership of digital art, collectibles, virtual real estate, and more.

Tokenization Breakthroughs

In the context of Web3 and blockchain technology, tokenization refers to the process of creating digital representations of real-world assets or concepts on a blockchain. These tokens are unique, digitally verifiable, and often decentralized. They can represent a wide range of assets, from physical items like real estate or art to financial instruments like equities or bonds, as well as intangible assets such as intellectual property. Moreover, tokens can also represent identities or data, enabling new models of digital ownership and exchange. This approach brings a host of benefits, including increased liquidity, fractional ownership, and enhanced transparency and security in transactions.[4] These breakthroughs demonstrate the transformative potential of Web3 technologies and tokenization, offering new avenues for value creation, innovation, and decentralization across diverse domains such as:

1. Asset Tokenization. One of Web3 technology's most significant breakthroughs is the ability to tokenize real-world assets. Through blockchain-based platforms and smart contracts, physical assets such as real estate, art, or even commodities can be represented digitally as tokens. This allows fractional ownership, increased liquidity, and easier transferability of assets that were traditionally illiquid or difficult to divide.

2. Decentralized Finance (DeFi). Web3 technology has revolutionized the financial landscape through the advent of DeFi platforms. These platforms leverage blockchain and smart contracts to offer financial services, such as lending, borrowing, trading, and asset management, without the need for intermediaries like banks or brokers. Tokens play a crucial role in DeFi protocols, serving as collateral, governance tokens, or liquidity providers.

3. Tokenized Securities. Traditional securities, such as stocks, bonds, or derivatives, can be tokenized on blockchain networks. By representing

[2] In general technology and finance, tokenization refers to the process of converting something of value — like a credit card number or a physical asset — into a digital token that can be used securely in a digital system. These tokens are unique, secure, and often anonymized, protecting sensitive data.

[3] In AI, especially natural language processing, tokenization is a foundational step that breaks down raw text into manageable pieces (tokens), which might be: (1) words (e.g., "hello" and "world"); (2) subwords (e.g., "un-," "break," and "-able"); or (3) characters (e.g., "u", "n", or "b"). These tokens are then mapped to numerical values and fed into machine learning models to enable language understanding and generation.

[4] "Tokenization is a technological development that could substantially change many aspects of our financial markets," said SEC Commissioner Hester M. Peirce, leader of the Crypto Task Force, announcing a May 12 roundtable, "Tokenization — Moving Assets Onchain: Where TradFi and DeFi Meet." Press release, "SEC Announces Agenda, Panelists for Roundtable on Tokenization Plus Date Change for Roundtable on DeFi," SEC (May 5, 2025). "I look forward to hearing ideas from our panelists on how the SEC should approach this area." *Id.*

securities as digital tokens, issuers can streamline issuance and transfer processes, reduce administrative costs, and enhance market accessibility. Tokenized securities also enable fractional ownership, allowing investors to own slices of high-value assets.

4. NFTs. NFTs have gained immense popularity as unique digital assets that represent ownership or proof of authenticity for digital or physical items. These can include digital art, collectibles, virtual real estate, or even concert tickets. NFTs are indivisible and cannot be replicated, making them ideal for representing rare or unique assets on blockchain networks.

5. Identity and Digital Identity. Web3 technologies offer new possibilities for managing and verifying digital identities. Through the use of blockchain-based identity systems, individuals can maintain control over their personal data and selectively share information with trusted parties. Digital identity tokens can serve as portable, verifiable credentials, revolutionizing identity verification processes across various sectors.

Tokenization and Financial Services

Tokenization has the potential to reshape the structure of financial services and capital markets by leveraging the benefits of blockchain technology. Tokenization streamlines the process of digitally issuing, managing, and transferring assets. It reduces the need for intermediaries, paperwork, and manual processing, thus improving operational efficiency and reducing costs. By digitizing assets into tokens, financial services providers can unlock liquidity in traditionally illiquid assets, such as real estate, art, or private equity. This liquidity can attract new investors and enhance market participation. Furthermore, tokenization can democratize access to investment opportunities by fractionalizing assets. This means that investors can own a fraction of high-value assets, making them accessible to a broader range of investors. In this light, blockchain technology, which underpins tokenization, offers transparency and immutability.

Every transaction is recorded on a distributed ledger, providing an auditable trail of ownership and ensuring the integrity of asset information. Blockchain-based tokenization enhances security by using cryptographic techniques to secure transactions and ownership records. This reduces the risk of fraud, identity theft, and data manipulation. Blockchain provides a transparent and immutable ledger on which transaction data is stored. This data availability enhances transparency and trust among market participants because anyone can verify transaction history and asset ownership.

Blockchain-based tokenization allows for around-the-clock trading and asset management. Unlike traditional financial markets that operate during specific hours, blockchain-based platforms are accessible anytime, anywhere, enabling global participation without time zone constraints.

Blockchain enables near-instantaneous settlement of transactions, not the days it may take in traditional financial systems. This speed of settlement reduces counterparty risk and improves liquidity, making capital more efficiently deployed. In addition, smart contracts, which are self-executing contracts with the terms of the agreement directly written into code, automate various processes in financial transactions. These contracts can facilitate automated compliance, enforce contractual obligations, and enable complex financial arrangements without the need for intermediaries.

Blockchain technology operates on a decentralized network of nodes, eliminating the need for a central authority to validate transactions. This decentralization reduces the risk of single points of failure and enhances resilience and security within the financial system. By reducing the need for intermediaries and automating processes, blockchain-based tokenization can significantly lower transaction costs, making financial services more affordable and accessible. The programmable nature of blockchain enables the creation of new financial products and services. Developers can build decentralized applications and financial

instruments that were previously impossible or impractical, fostering innovation and creativity within the industry.

Mandatory Steps

Tokenizing different types of assets involves unique considerations and challenges. The first step is to identify the asset to be tokenized and classify it according to its nature. Assets can range from traditional financial instruments, like stocks, bonds, and real estate, to more novel assets, like carbon credits, IP rights, or even artworks. Each asset class may have different regulatory requirements and considerations.

Understanding the regulatory landscape is crucial. Depending on the jurisdiction and the nature of the asset, tokenization may fall under securities regulations, commodities regulations, or other regulatory frameworks. Compliance with these regulations is essential to ensure legal validity and investor protection. Once regulatory considerations are understood, legal structuring is necessary. This involves determining the legal entity responsible for issuing and managing the tokens; drafting legal agreements, such as token purchase agreements, terms of service, and compliance documentation; and ensuring compliance with relevant laws and regulations.

The next step is to design the token itself. This includes deciding on the type of token (for example, utility token, security token, or commodity token), determining its features (for example, fungibility, divisibility, and transferability), and establishing any rights or privileges associated with ownership of the token (for example, voting rights and revenue sharing). Choosing the right blockchain platform is critical. Factors to consider include scalability, security, interoperability, and regulatory compliance. Ethereum, for example, is a popular choice for tokenization because of its support for smart contracts, while other platforms may offer specific features tailored to certain asset classes. The actual tokenization process involves representing the underlying asset as digital tokens on the chosen blockchain platform. This may involve creating smart contracts to govern token issuance, transfer, and ownership rights, as well as integrating with existing systems and databases to ensure accurate asset representation.

After tokenization, the tokens need to be made available to investors. This may involve listing the tokens on digital asset exchanges, creating liquidity pools, or engaging in direct sales and marketing efforts to attract investors.

Finally, ongoing compliance and governance are necessary to ensure continued regulatory compliance and investor protection. This may involve periodic audits, reporting requirements, and updates to legal and regulatory documentation as the regulatory landscape evolves.

The process of tokenizing a physical asset involves a combination of physical and digital measures to ensure the security, integrity, and compliance of the asset's representation on the blockchain. By securely storing the physical asset, selecting appropriate tokenization infrastructure, and implementing compliance functions, stakeholders can create a digital representation of the asset that is transparent, secure, and accessible to investors. If the digital asset has a physical counterpart, such as real estate, precious metals, or art, it's crucial to securely store the physical asset in a neutral facility. This facility should be trusted by both parties involved in the tokenization process to prevent disputes over ownership or condition of the asset. Once the physical asset is secured, the next step is to select the appropriate token standard, blockchain network, and compliance functions.

With the token standard, blockchain network, and compliance functions selected, the digital representation of the physical asset is created on the blockchain. This involves issuing digital tokens that are backed by the physical asset, typically through the use of smart contracts that enforce ownership rights and transferability. Access to the digital asset, represented by the digital tokens on the blockchain, is securely stored pending distribution to investors or token holders. This may involve using cryptographic keys or other secure methods to protect access to the digital asset and prevent unauthorized transfers or tampering.

Setting up a digital wallet is a crucial step for investors participating in tokenized assets. Investors need to choose a digital wallet compatible with the blockchain network hosting the tokenized asset. Digital wallets come in

various forms, including web wallets, mobile wallets, desktop wallets, and hardware wallets. Each type offers different levels of security and convenience. Investors should select a wallet that meets their security preferences and usability requirements. Once the digital wallet is set up, investors can acquire digital assets by purchasing tokens representing the tokenized asset. This may involve participating in token sales, purchasing tokens on digital asset exchanges, or receiving tokens through airdrops or other distribution mechanisms.

After acquiring digital assets, investors must securely store them in their digital wallets. This involves safeguarding private keys and mnemonic phrases, which are used to access and control the digital assets. Investors should follow best practices for wallet security, such as using hardware wallets, enabling two-factor authentication, and avoiding sharing sensitive information. Depending on the nature of the tokenized asset, a secondary trading venue may be created for trading and exchanging the asset. This venue could be an alternative trading platform, a decentralized exchange, or a specialized marketplace catering to specific asset classes. These venues provide liquidity and market access for investors looking to buy, sell, or trade tokenized assets.

It is important to note that regulatory considerations may vary depending on the jurisdiction and the type of tokenized asset. Investors should be aware of regulatory requirements related to digital asset ownership, trading, and taxation in their respective jurisdictions. Compliance with applicable laws and regulations is essential to avoid legal risks and ensure investor protection. Finally, ongoing maintenance of tokenized assets is essential to ensure compliance, transparency, and investor confidence. Tokenized assets must comply with relevant regulations, including securities laws, anti-money-laundering (AML) regulations, and know-your-customer requirements. Ongoing compliance involves monitoring regulatory developments, updating legal documentation, and implementing necessary changes to ensure continued adherence to regulatory standards.

Investors holding tokenized assets may be subject to tax obligations, including capital gains tax, income tax, and reporting requirements for foreign assets. Financial services providers must provide investors with accurate tax reporting information, including transaction history, income distributions, and tax forms. Proper accounting treatment of tokenized assets is essential for financial reporting and auditing purposes. This may involve valuing the assets at fair market value, recognizing income or losses from asset appreciation or depreciation, and disclosing relevant information in financial statements.[5]

Investors holding tokenized securities may be entitled to participate in corporate actions, such as dividends, stock splits, mergers, and acquisitions. Financial services providers must notify investors of any corporate actions affecting their holdings and facilitate their participation in those events. Ongoing asset management involves monitoring the performance and condition of tokenized assets, conducting due diligence on underlying assets, and implementing strategies to optimize returns and mitigate risks. This may include rebalancing portfolios, conducting asset inspections, and addressing any issues that may arise during the life cycle of the assets. Effective communication with investors is essential for maintaining trust and transparency. Financial services providers should keep investors informed about the status of their holdings, regulatory updates, market developments, and any other relevant information through regular reports, newsletters, and investor portals.

Last but not least, continuously assessing and mitigating risks associated with tokenized assets is crucial to safeguarding investor interests and protecting against potential threats, such as cyberattacks, fraud, and operational disruptions. Implementing robust security measures, conducting regular risk assessments, and staying vigilant against emerging threats are essential components of ongoing risk management.[6]

[5] U.K. Chartered Institute of Taxation, "Blockchain & Cryptocurrency Implications," Diploma in Tax Technology podcast (Feb. 27, 2025).

[6] Antonio Lanotte, "Keys to Maintaining Trust and Credibility With Stakeholders," *Tax Notes Int'l*, Feb. 5, 2024, p. 689.

The Evolving Regulatory Landscape

The regulatory landscape for tokenization in Europe is rapidly evolving, as authorities seek to provide legal clarity and foster innovation while protecting market integrity and investors.[7]

EU Cryptoasset Regulation

The EU market in cryptoassets (MiCA) regulation is a game changer for the EU cryptoassets sector.[8] With the entry into force of MiCA, unregulated offshore companies will no longer be able to target EU consumers. MiCA-regulated cryptoasset firms have gained significant EU market share over their unregulated offshore competitors. Cryptoasset regulatory clarity during a time of global uncertainty could attract capital, talent, and companies wanting to launch the tokenization process. This emerging industry presents an opportunity for the economic and technological revival of the EU. MiCA is likely to become a model for jurisdictions — especially those without experience in financial regulation and supervision — for building a framework for cryptoasset governance. MiCA sets out:

- rules for cryptoasset issuers and service providers; and
- rules against market abuse and insider trading, the latter of which is illegal, as is disseminating false or misleading information about a cryptoasset.

With 450 million consumers, the EU has the largest domestic market in the world.[9] MiCA now plays an important role for companies outside the EU that are ready to comply with MiCA rules and gain access to the EU market.

To date, MiCA is arguably the most comprehensive cryptoasset regulatory framework in the world. If it proves to be enforceable for the cryptoasset industry, its effect will likely be felt around the world. The MiCA regulation replaces EU national regulatory frameworks for cryptoassets by introducing specific rules for stablecoins — digital currencies pegged to stable reserve assets like the U.S. dollar and the euro — to reduce volatility.

MiCA's main objectives are:

- to protect consumers that purchase cryptocurrencies or use cryptographic asset services;
- to create regulatory harmonization;
- to create legal certainty for companies and institutions wishing to enter the space, with clear regulations for different services (token issuance, exchange, custody, and so forth) to enable fair competition and innovation; and
- to take the lead on global cryptoasset regulation.

MiCA is the EU-level regulation for cryptoassets, including tokenized assets (though with some exceptions):

- it covers utility tokens, stablecoins, and other cryptoassets not classified as financial instruments; and
- it excludes security tokens (which are treated under existing financial instruments laws).

These are the key provisions of the rule:

- Issuers of cryptoassets must publish a white paper.
- Stablecoin issuers need authorization and must meet capital and governance requirements.
- Cryptoasset service providers must be licensed and comply with AML, custody, and operational rules.

The MiCA regulation does not apply to the European Central Bank, national central banks, the European Investment Bank, the European Financial Stability Facility, the European Stability Mechanism, or public international organizations. Further, it does not provide detailed AML rules

[7] This section is based on Lanotte, "MiCA Leads the EU Digital Market's Growing Presence," *Tax Notes Int'l*, June 19, 2023, p. 1597.

[8] Regulation (EU) 2023/1114 of the European Parliament and of the Council of 31 May 2023 on Markets in Crypto-Assets, and Amending Regulations (EU) No. 1093/2010 and (EU) No. 1095/2010 and Directives 2013/36/EU and (EU) 2019/1937.

[9] The EU, with about 450 million consumers, represents one of the largest single markets in terms of population and economic power. The EU's single market allows for the free movement of goods, services, capital, and people among its 27 member states, making it highly attractive for businesses and investors. The EU is also particularly notable for its regulatory harmonization. However, whether it is "the largest domestic market in the world" can depend on the criteria used: Population-wise, it's large, but India and China have larger populations. Economy-wise, the United States has a slightly larger unified domestic economy, but the EU collectively rivals it in total GDP. So it's accurate to say the EU has one of the largest integrated markets.

for so-called crypto firms because these entities fall under the AML regulation, in addition to the transfer of funds regulation.

Also, to avoid duplication of other regulatory frameworks, MiCA does not cover cryptoassets (or cryptoasset services) that are considered "securities." These tokenized securities services are covered by the markets in financial instruments directive (MiFID II). For those who want to experiment with trading and the settlement of securities on blockchain, the EU has introduced the distributed ledger technology (DLT) pilot regime, officially in force since March 2023. As of that date securities can be digitally represented by tokens on blockchain. The provisions under discussion introduce the necessary rules regarding the issuance of tokenized shares and bonds.

DLT Pilot Regime for DLT Market Infrastructures

Regulation (EU) 2022/858, published in the Official Journal of the EU on June 2, 2022, is a pilot scheme for market infrastructures based on DLT. Effective from March 2023 for up to six years, the DLT pilot regime is in line with the European Commission's digital strategy for the EU financial sector. The strategy aims to ensure that the EU embraces the digital revolution and takes a leadership role through innovative European companies that can make the benefits of digital finance available to all European consumers and businesses.

The DLT pilot regime is a trailblazing initiative by the European Union aimed at integrating DLT — such as blockchain — into traditional financial markets in a regulated and controlled way through a "sandbox."[10]

This sandbox-style regulation allows for testing tokenized securities in a controlled environment. The regulation:

- applies to tokenized financial instruments like shares, bonds, and undertakings for collective investment in transferable securities that are within the scope of MiFID II;
- enables creation of DLT-based trading venues, settlement systems, and combined infrastructures;
- provides temporary exemptions from certain EU financial rules to test innovations; and
- has a duration of six years, initially, with review mechanisms.

The aim of the regulation is also to facilitate the development of a secondary market for cryptoassets qualified as financial instruments (securities). Further, the DLT pilot regime will allow for the creation of real-life practice cases and help build experience to support the creation of a permanent EU regulatory regime. The new regulation covers registration and the admission to trading on a DLT market infrastructure of DLT financial instruments — financial instruments issued, registered, transferred, and stored using DLT such as blockchain.

The European Securities and Markets Authority is directed to prepare a detailed report on the functioning of the DLT pilot regime by 2026. The European Commission will determine the future of the regime based on this report. Possible outcomes for the regime are:

- extension;
- enlargement to other asset classes;
- the end of the regime; or
- the adoption of European legislation to generalize the use of DLT.

Blockchain Law IV: Luxembourg's New Hub for Digital Securities

On December 19, 2024, Luxembourg's parliament adopted Blockchain Law IV, marking a pivotal step in the country's continued effort to modernize its financial infrastructure. With a clear focus on DLT, the new law paves the way for more efficient, transparent, and secure handling of securities across the financial ecosystem.

Blockchain Law IV builds on Luxembourg's already progressive stance on fintech and digital assets. It explicitly recognizes and regulates the

[10]Despite its ambition to bring innovation to capital markets, the EU's DLT pilot regime has seen limited uptake since its launch in March 2023. In response, France's Autorité des Marchés Financiers (AMF) and Italy's Commissione Nazionale per la Società e la Borsa have proposed key reforms to the EU aimed at enhancing flexibility, expanding the scope, and boosting market confidence in the regime. Their proposals include a more adaptable regulatory framework, broader asset eligibility and capital limits, stronger support from European Securities and Markets Authority, and the development of common standards to ensure interoperability between traditional and DLT-based systems. AMF, "The French and Italian Authorities Make Proposals for a More Competitive 'Pilot Regime' in Europe" (Apr. 9, 2025).

use of DLT for issuing, registering, and transferring dematerialized securities — creating a legally secure environment for tokenized financial instruments. This positions Luxembourg alongside other innovation-driven jurisdictions, such as France, Germany, and Switzerland, reinforcing its role as a hub for capital markets and digital finance. A cornerstone of the new law is the introduction of a "control agent" (*agent de contrôle*) — a designated, independent party responsible for:

- monitoring and verifying transactions in real time;
- ensuring proper reconciliation of tokenized securities; and
- acting as a regulatory safeguard to maintain trust in DLT-based operations.

This layer of oversight is designed to enhance market integrity while maintaining the speed and efficiency benefits of blockchain infrastructure. The reform offers increased flexibility to issuers by:

- allowing securities to be issued natively on DLT platforms, rather than being merely recorded on them;
- supporting a broader range of custodial and registrar models; and
- making it easier to tokenize assets and access global investors.

For start-ups, investment funds, and corporations, the law creates a robust legal foundation to explore new financing mechanisms through digital securities. Luxembourg's move is not made in isolation. It aligns closely with broader EU initiatives such as the European blockchain services infrastructure and the pilot regime for market infrastructures. These efforts aim to future-proof the capital markets by enabling cross-border DLT usage within a harmonized framework.

While cryptocurrencies like bitcoin and ethereum continue to dominate public discourse, other forms of digital assets are quietly reshaping the financial landscape — with security tokens leading the charge.

Security tokens represent traditional financial instruments (such as equity, debt, or real estate shares) on a blockchain, combining the legal certainty of regulated securities with the technological advantages of distributed ledger systems. This new generation of digital assets offers issuers a powerful toolkit:

- efficient fundraising through programmable and automated issuance;
- access to a global investor base;
- lower operational costs because there are fewer intermediaries and
- increased transparency and traceability for both issuers and investors.

One of the most impactful use cases is the tokenization of real estate assets — a trend already taking root in Luxembourg. By fractionalizing high-value properties into blockchain-based tokens, real estate investments become accessible to retail investors, regardless of the size of their savings. This model unlocks liquidity in traditionally illiquid assets and opens up the real estate market to a broader demographic, all while maintaining full compliance with Luxembourg's evolving legal framework. Security tokens are not just a tech upgrade; they represent a structural shift in how capital markets function. With automation, compliance by design, and the possibility of 24/7 trading, tokenized securities are fast becoming a preferred instrument for both traditional institutions and fintech start-ups. Luxembourg, through regulatory advances like Blockchain Law IV, is well positioned to lead this evolution by combining innovation with legal certainty.

The Blockchain Act in Liechtenstein

The Blockchain Act — officially known as the Token and Trusted Technology Service Provider Act — is Liechtenstein's groundbreaking regulatory framework for tokenization and blockchain technology. It came into force on January 1, 2020, and is considered one of the most comprehensive legal frameworks globally for tokenized assets.

Key points about the law and the legal basis for tokenization:

A token acts as a digital container for rights, claims, or interests, such as ownership of real estate, shares in a company, intellectual property rights, or contractual claims. This representation must be linked to enforceable legal agreements or statutes that recognize such claims. The legal

enforceability of tokens is grounded in traditional legal concepts like property law, contract law, and securities regulation. For example: A token representing shares must comply with corporate and securities laws and a token representing a real estate interest must adhere to property registration rules.

Tokens can represent both physical and digital assets, giving them a legally recognized status. Tokens may represent either tangible assets (for example, gold or real estate) or intangible assets (for example, patents or royalties). Legal recognition depends on proper linkage (often through a smart contract or legal wrapper) between the token and the underlying asset.

In the trusted technology system, tokens are typically issued, stored, and transferred via DLT systems, such as blockchains, but the legal framework is technology-neutral. This means the law applies regardless of the specific type of DLT used, ensuring flexibility and innovation without sacrificing legal certainty.[11] This ensures that legal recognition does not depend on the underlying tech platform but on the function and enforceability of the token.

The token container model is a legal innovation that underpins the tokenization of rights and assets using DLT. It is based on the following principles:

1. Separation of Form and Substance. The model distinguishes between:

- the token itself (the technical container, a digital record on a DLT) and
- the underlying right or asset it represents (the legal substance, such as ownership of property, a debt claim, or a license).

This separation allows for a clear legal understanding of what is being transferred and ensures legal enforceability.

2. Transfer of Legal Ownership via Token Transfer:

Because the token is legally linked to the underlying right, transferring the token on a DLT platform can also effectuate the legal transfer of the associated right, provided the legal framework supports this linkage.

3. Role of Trusted Technology Service Providers:

To ensure trust and legal certainty in the tokenization process, Liechtenstein introduced the concept of trusted technology service providers. These are regulated entities that provide or maintain the technological infrastructure for token systems and can serve as:

- validators of token-right linkages;
- custodians or registrars; and
- oracles or trusted sources of off-chain legal information.

Their role is to bridge the gap between the legal world and the digital infrastructure, ensuring that the token container faithfully reflects legal reality.

The Blockchain Act establishes a regulatory framework by defining and overseeing several key roles involved in tokenization. These roles are critical in ensuring legal certainty and trust in digital asset systems:

- **Token issuers.** Entities that create and make tokens available to the public, linking them to specific rights or assets.
- **Token generators.** Technical actors responsible for generating or creating the token on a DLT system. This role may be distinct from the issuer, especially when the issuer outsources technical development.
- **Trusted technology verifiers.** Service providers who verify the authenticity and accuracy of information recorded on a DLT, helping ensure the link between token and legal right is valid and up to date.
- **Trusted technology key custodians (wallet providers).** Entities that manage and safeguard private keys for users, enabling secure access to tokens. These custodians are responsible for secure storage and transaction authorization.
- **Physical validators.** Experts or entities responsible for verifying the existence, condition, and ownership of physical assets

[11] Jurisdictions like Liechtenstein and Switzerland explicitly adopt a technology-neutral stance in their tokenization laws.

(for example, real estate, art, or gold) that are represented by tokens. They serve as the link between the digital token and the physical world, ensuring that a token claiming to represent a physical item actually does so.

All of these providers must register with the Financial Market Authority Liechtenstein and comply with AML/countering-the-financing-of-terrorism requirements.

Legal Certainty:

- Resolves legal uncertainties around digital assets by giving tokenized rights a clear legal foundation.
- Tokens are not automatically financial instruments, unless the token's underlying right qualifies as such.

New U.K. Crypto Rules Are Big Step Forward

The U.K. government recently rolled out new cryptoasset draft rules[12] aimed at driving growth and protecting consumers — a strong signal of the country's commitment to becoming a global hub for digital innovation. The U.K. government is taking a proactive and supportive approach to developing the digital asset ecosystem. It is committed to providing a clear and proportionate regulatory framework that encourages innovation while protecting consumers and ensuring market integrity. The government's strategy centers on fostering growth and establishing the United Kingdom as a global leader in the digital asset space.[13]

The United Kingdom's draft regulations formally propose the inclusion of several cryptoasset-related activities within the scope of the Financial Services and Markets Act 2000 regulatory perimeter such as the issuance of U.K. stablecoins (referred to as "qualifying stablecoins") and dealing in, arranging transactions in, providing custody for, or operating a platform involving "qualifying cryptoassets."

The table highlights key similarities and differences between the United Kingdom's draft statutory provisions (as of April 2025) and the EU's MiCA regulation.

[12]Draft Statutory Instrument, 2025 No. 000, Financial Services, The Financial Services and Markets Act 2000 (Regulated Activities and Miscellaneous Provisions) (Cryptoassets) Order 2025.

[13]HM Treasury and Chancellor of the Exchequer Rachel Reeves announced that the "clear new rules" for cryptoassets would "support innovation while cracking down on fraudsters," and "give investors confidence and protect consumers." Press release, HM Treasury, "New Cryptoasset Rules to Drive Growth and Protect Consumers" (Apr. 29, 2025). Under the new rules, "crypto exchanges, dealers and agents will be brought into the regulatory perimeter" and "crypto firms with UK customers will also have to meet clear standards on transparency, consumer protection, and operational resilience — just like firms in traditional finance." *Id.* Reeves "also revealed that the UK and US will use the upcoming UK-U.S. Financial Regulatory Working Group to continue engagement to support the use and responsible growth of digital assets" following recent discussions between the chancellor and U.S. Treasury Secretary John Bessent. *Id.* Reeves commented that "robust rules around crypto will boost investor confidence, support the growth of Fintech and protect people across the UK." *Id.* Reeves also "announced that the government will publish the first-ever Financial Services Growth and Competitiveness Strategy on 15 July" to "support the financial services sector's long term growth, with Fintech identified as a priority sector, and help it finance investment and growth across the UK." *Id.*

U.K. Draft Statutory Provisions and EU MiCA Regulation

Feature	United Kingdom: Draft Statutory Instrument	EU: MiCA Regulation
Rule-Based Approach	Proposed amendments to the Financial Services and Markets Act 2000	The MiCA regulation operates alongside the DLT pilot regime, MiFID II, and other relevant financial frameworks.
Stablecoin Regulatory Categories	A qualifying stablecoin is a specific type of qualifying cryptoasset that maintains its value by referencing a fiat currency and is backed by holdings of fiat or other assets. It is explicitly differentiated from electronic money, including both e-money and tokenized e-money.	An electronic money token (EMT) is a type of token that maintains a stable value by referencing a single official currency and is classified as electronic money. An asset-referenced token (ART), however, maintains a stable value by referencing a range of assets or rights, which may include official currencies, other values, or a combination thereof.
Regulatory Requirements for Stablecoin Issuers	Issuing qualifying stablecoins in the United Kingdom requires a new, dedicated authorization from the Financial Conduct Authority (FCA). Issuers are not required to hold existing electronic money institution (EMI) status.	For electronic money tokens (EMTs), the issuer must already be authorized as a credit institution or an EMI. For asset-referenced tokens (ARTs), a dedicated authorization under the MiCA regulation is required, unless the issuer is a credit institution, in which case a simplified procedure applies.
Stablecoin Backing Requirements	Backing assets — comprising fiat currency or a combination of fiat and other assets — are required to support the stable value of the stablecoin. The draft legislation does not establish a minimum coverage ratio or detailed requirements regarding asset composition or custody, but it does provide a framework for future rules to be developed by the FCA.	The MiCA regulation requires that all outstanding tokens be fully backed by reserve assets on a 1:1 basis. It also sets out detailed rules governing the composition, custody, liquidity, and management of these reserves.
Legal Framework for Utility Tokens	Fungible and transferable utility tokens are generally considered "qualifying cryptoassets" unless they meet specific exclusion criteria, such as being used within a limited network. Activities involving these tokens — such as dealing, arranging, or facilitating transactions — are subject to regulation. However, there is no dedicated regulatory framework specifically governing their issuance or offering.	It is explicitly categorized as a type of cryptoasset and regulated under MiCA Title II (covering cryptoassets other than ARTs/EMTs). This includes specific requirements for public offerings and admission to trading, such as the submission of a white paper and compliance with marketing rules. Exemptions may apply depending on the size and nature of the offer.
Key Regulated Activities	New Financial Services and Markets Act 2000-regulated activities: These regulatory developments reflect the United Kingdom's commitment to fostering innovation in the financial sector while ensuring robust consumer protection and market integrity. Firms operating in these areas should assess their activities against the updated regulatory framework and seek appropriate authorizations where necessary.	Cryptoasset services include custody and administration, operating a trading platform, exchanging fiat and cryptocurrency, executing orders, placing and receiving/transmitting orders, providing advice, portfolio management, and transfer services.

U.K. Draft Statutory Provisions and EU MiCA Regulation *(Continued)*

Feature	United Kingdom: Draft Statutory Instrument	EU: MiCA Regulation
Loan Issuance and Borrowing Activities (Lending and Borrowing)	Explicitly included: "Dealing as principal" encompasses lending and borrowing using the entity's own capital; "arranging deals" refers to the operation of cryptoasset lending platforms.	Currently not regulated under a specific service category, with future evaluation anticipated.
Staking	Regulated as qualifying cryptoasset staking, which is defined as its use in blockchain validation (at the point of service). This explicitly includes liquid staking. The issuance of liquid staking tokens is considered "dealing."	While not specifically regulated as a dedicated service related to validation, activities associated with it may fall under other cryptoasset services (such as custody or portfolio management) if offered as a service.
DeFi Regulatory Approach	The draft does not include any special provisions. The requirements do not apply when activities are carried out on a genuinely decentralized basis, when no individual or entity is considered to be conducting the activity "by way of business." The FCA will determine, on a case-by-case basis, the "sufficiently controlling party or parties."	Regulation does not apply if services are provided in a fully decentralized manner, with no intermediaries involved. However, in cases of partial decentralization in which identifiable intermediaries exist, regulation applies, focusing on the identifiable issuers and service providers.
Area of Coverage	1. For trading platform operation, dealing (principal/agent), and arranging deals: Authorization is required if the firm engages directly or indirectly with a U.K. consumer, regardless of its location. Exception: Authorization is not required for firms dealing with a U.K. consumer through an intermediary, provided the intermediary is authorized. Overseas firms conducting these activities, but serving only U.K. institutional clients, are not required to obtain authorization, as long as those institutional clients are not acting as intermediaries for U.K. consumers. 2. For safeguarding and staking: Authorization is required if the firm is conducting the activity within the United Kingdom or on behalf of a consumer in the United Kingdom. Exception for safeguarding: If the firm is conducting safeguarding at the direction of an entity already authorized for safeguarding, separate authorization is not necessary. 3. For issuing qualifying stablecoins: Authorization is required only if the firm is carrying out the activity from an establishment located within the United Kingdom.	This applies to individuals and entities offering, marketing, or advertising cryptoassets or cryptoasset services within the EU. 1. Authorization is valid across the EU (passporting). 2. Reverse solicitation: Services provided by third-country firms at the exclusive initiative of the client are excluded; however, active solicitation within the EU requires authorization.

U.K. Draft Statutory Provisions and EU MiCA Regulation *(Continued)*

Feature	United Kingdom: Draft Statutory Instrument	EU: MiCA Regulation
Regulatory Authority	The FCA serves as the regulatory authority for authorization and supervision.	The system is two-tiered: National competent authorities oversee most firms and tokens, while the European Banking Authority and the European Securities and Markets Authority are responsible for "significant" issuers of ARTs/EMTs and "significant" cryptoasset service providers, in addition to their roles in coordination and setting technical standards.
Specific Exemptions	Specified investment cryptoassets (which are already classified as financial instruments), e-money, fiat currency, and central bank digital currencies; cryptoassets that are usable only within the issuer's system or a limited network; temporary safeguarding for settlement purposes; simple introductions to an authorized person for a regulated activity.	Financial instruments/securities, deposits, insurance, pensions, and NFTs are not transferable.

Note: Based on Luigi Cantisani, "Comparative Table Regarding the Draft of the UK Statutory Provisions Concerning Crypto-Asset Regulated Activities and the EU Markets in Crypto-Assets Regulation," LinkedIn (Apr. 30, 2025).

M&A on the Rise

The rise in traditional and digital finance mergers and acquisitions is likely to continue, especially as companies seek to reinforce their positions ahead of anticipated regulatory frameworks and a more competitive market landscape. Digital and cryptocurrency firms with strong cash reserves or established revenue models will likely lead the consolidation, shaping the industry into a smaller group of diversified powerhouses with robust ecosystems.

The recent acquisition of Bridge by Stripe[14] marks a significant milestone in the cryptocurrency industry, highlighting the expanding intersection of traditional finance and digital assets. With Stripe's $1.1 billion purchase of Bridge, the payments giant is making a major commitment to the future of blockchain-based financial technology, focusing on stablecoin-enabled payment solutions. This acquisition is not only the largest crypto M&A deal to date, but it also signals a trend of deepening involvement by established financial companies in blockchain technology. Bridge's expertise lies in stablecoin payments — a core area for companies aiming to leverage the efficiency and low transaction costs that blockchain can offer for cross-border payments and digital transactions. Stablecoins provide the stability of fiat currencies but operate on blockchain rails, making them especially attractive for payment companies that want to offer quick and affordable global transactions.

The surge in cryptocurrency M&A deals is fueled by a mix of strategic imperatives and market-driven pressures, with major players racing to diversify their offerings, solidify market positions, and mitigate risk. Companies like Crypto.com are moving beyond cryptocurrency by acquiring firms such as Watchdog Capital,[15] enabling them to offer equities alongside digital assets. This diversification helps them appeal to a broader customer base and create more resilient revenue streams that are less dependent on volatile cryptocurrency prices.

[14] MacKenzie Sigalos, "Stripe Closes $1.1 Billion Bridge Deal, Prepares for Aggressive Stablecoin Push," CNBC, Feb. 4, 2025.

[15] "Crypto.com Announces Acquisition of SEC Registered Broker-Dealer Watchdog Capital, LLC," Crypto.com, Oct. 31, 2024.

For example, Robinhood's acquisition of Bitstamp[16] brings in one of the world's longest-running cryptocurrency exchanges, allowing Robinhood to expand its footprint globally. By acquiring Bitstamp, Robinhood gains immediate access to Bitstamp's established European user base and regulatory clearances, giving it a leg up in the European cryptocurrency market. Furthermore, acquisitions like Nomura-backed Komainu's purchase of Propine Holdings[17] highlight the importance of regulatory-compliant custody solutions, especially in jurisdictions like Singapore with stringent financial regulations. Those acquisitions provide companies with compliant frameworks, allowing them to operate in multiple markets with fewer legal and compliance hurdles.

The acquisition of cryptocurrency custodians and regulated entities is crucial for cryptocurrency firms aiming to expand globally. By acquiring local entities, companies inherit regulatory permissions and frameworks that help them avoid complex and costly compliance processes. Matrixport's acquisition of Crypto Finance AG[18] reflects the growing demand for institutional-grade cryptocurrency solutions, which require a high level of infrastructure and compliance. Institutional clients are increasingly looking for companies with secure custody, risk management, and reporting standards, making these acquisitions key to meeting investor expectations. And Bitwise's acquisition of ETC Group and its merger with Osprey Funds[19] illustrate the heightened interest in consolidating fund management and cryptocurrency custody. By acquiring established custodians and fund managers, cryptocurrency firms can strengthen their capabilities for institutional investors and offer more stable, reputable services.

Companies are seeking to build comprehensive platforms on which users can manage a wide range of financial activities, from cryptocurrency trading to investing in traditional assets like stocks or exchange-traded funds. This integrated approach, as seen in acquisitions by Robinhood and Crypto.com, caters to a demand for convenience, aiming to keep users within one ecosystem for all their financial needs. By acquiring companies in emerging sectors like custodial services or cryptocurrency-backed financial products, companies position themselves at the forefront of high-growth areas. This approach is attractive to both investors and clients, who want access to cutting-edge financial products that offer potential returns beyond traditional assets.

The downturn in cryptocurrency markets has led to reduced valuations for many start-ups, making this an opportune moment for acquisitions. Companies with ample capital are capitalizing on lower prices to acquire valuable assets, technology, and talent at a discount, allowing them to rapidly expand without incurring the usual costs. By consolidating during a bear market, firms like Bitwise, Robinhood, and Matrixport are better positioned for when the market eventually rebounds. Acquisitions provide these firms with the tools and market reach they need to fully benefit from an eventual resurgence in digital asset interest and investment. As this M&A wave builds, cryptocurrency companies are aiming to emerge as diversified financial platforms that span across cryptocurrency, traditional assets, and Web3 applications. For some firms, acquiring other companies is a way to consolidate power, gain more control over the value chain, and establish themselves as indispensable parts of the future of the financial industry. This convergence between traditional finance and cryptocurrency, accelerated through acquisitions, is defining the future of finance — one in which users will likely have easy, secure access to a range of blockchain and traditional financial services under one digital roof. The recent flurry of acquisitions marks a strategic reorganization of the industry, setting the stage for what could be a new era of mature, well-integrated financial ecosystems that bridge traditional and digital assets.

[16]Manya Saini, "Robinhood Bets Big on Crypto With $200 Million Deal for Bitstamp," Reuters, June 6, 2024.

[17]"Nomura Backed Digital Asset Custody Firm Komainu to Acquire Propine," Ledger Insights (Oct. 22, 2024).

[18]"Announcement: Crypto Finance Sharpens Strategic Focus on Its Core Business in Switzerland and Europe and Announces the Sale of its Asset Management Entity to Matrixport," Crypto Finance (Sept. 30, 2024).

[19]"Crypto Asset Manager Bitwise Acquires ETC Group," Ledger Insights (Aug. 19, 2024).

Reasons for the Rise of Alternative Finance

The recent M&A activity in cryptocurrency, and specifically the Stripe-Bridge acquisition, underscores a growing trend in fintech's embrace of blockchain technology — especially around stablecoins — as a key lever in the payments sector. The stablecoin adoption is a primary factor drawing fintechs deeper into the cryptocurrency space. As a stable alternative to volatile cryptocurrencies, stablecoins have become popular for cross-border transactions, offering faster, cheaper, and more reliable transfers than traditional fiat systems. Stripe's acquisition of Bridge, a stablecoin-focused payments platform, highlights how stablecoins are becoming increasingly integral to fintech companies looking to expand their payment solutions. In fact, some fintechs and cryptocurrency firms, backed by strong cash reserves, are using acquisitions as a way to consolidate the market, preemptively eliminating competition before it can grow too large. Large players acquiring smaller, innovative firms allow incumbents to control emerging technologies and avoid being disrupted themselves. The Stripe-Bridge deal is one of those "big deals" seen as potentially sparking further M&A in the space. The current cryptocurrency M&A wave is more than a series of tactical acquisitions: It reflects a strategic shift, as fintechs and financial institutions see crypto infrastructure as essential to remaining competitive.

If the Stripe-Bridge deal does indeed signal a kickoff of broader M&A, the cryptocurrency and fintech sectors could see even greater convergence, with established financial firms vying for dominance in a newly diversified digital finance ecosystem. As more firms look to replicate the profitable stablecoin model and integrate blockchain-based financial services, the cryptocurrency space may witness a reshaping of its landscape, with consolidation leading to a smaller number of large, diversified firms offering both traditional and blockchain-based financial products. This M&A trend could set the stage for the next evolution of fintech, in which stablecoin payments, blockchain-based custody, and cross-border financial services are seamlessly integrated into the mainstream financial infrastructure.

Tokenized Cash: Rise of Stablecoins

Tokenizing cash, or the creation of stablecoins, represents a significant development within the cryptocurrency and financial services industry.[20] The primary goal of stablecoins is to maintain a stable value relative to a specific asset, such as fiat currency (for example, U.S. dollars, euros, or Japanese yen).[21] This stability means stablecoins are less volatile than other cryptocurrencies, like bitcoin or ether, making them more suitable for everyday transactions and as a store of value. Stablecoins facilitate fast and low-cost cross-border payments compared with traditional payment methods, like bank transfers or remittance services**.** With stablecoins, users can transfer value globally in a matter of seconds without the need for intermediaries or high transaction fees.

Stablecoins can improve financial inclusion by providing access to digital financial services for people who are underserved or unbanked. Users need only a smartphone and internet connection to send, receive, and store stablecoins, bypassing the need for a traditional bank account. Stablecoins play a crucial role in DeFi ecosystems, in which they serve as a stable medium of exchange and unit of account for various financial applications, such as lending, borrowing, trading, and yield farming.

While tokenization in financial services may not have reached a tipping point yet, several factors, including economic incentives, technological advancements, and maturing digital asset teams, are laying the groundwork for

[20] Stablecoins are cryptocurrencies designed to maintain a stable value relative to a specific fiat currency or asset — most commonly the U.S. dollar or euro. Unlike traditional cryptocurrencies, which can be highly volatile, stablecoins aim to provide price stability, making them more practical for everyday transactions, remittances, and business operations. Now over a decade old, stablecoins have matured beyond experimental phases and are finding clear product-market fit. This has led to growing adoption across both the crypto-native ecosystem and traditional financial sectors. As a result, stablecoins are now increasingly subject to regulatory frameworks worldwide, with jurisdictions recognizing the need to balance innovation with consumer protection, financial stability, and AML compliance.

[21] Fiat-backed stablecoins are the most widely used type of stablecoin. They are designed to reflect the value of traditional (fiat) currencies, such as the U.S. dollar, and are typically issued by centralized entities that claim to hold reserves of liquid assets — like cash or cash equivalents — in amounts that match or exceed the total value of the stablecoins in circulation. These reserves serve as the collateral backing the stablecoins, which are issued and transacted on public blockchains. The goal is to ensure that each token maintains a 1:1 peg to its reference currency.

its increased adoption. As these trends continue to evolve, we can expect to see tokenization play a more significant role in reshaping the financial services landscape. For example, higher interest rates can indeed make tokenization more attractive for certain use cases, especially those involving short-term liquidity needs.

In environments in which interest rates are high, even small differences in transaction speed can translate into significant cost savings. Tokenization offers the potential for faster and more efficient transactions, which can be particularly beneficial in high-interest-rate environments. Over the past few years, many financial services companies have been investing in and expanding their digital asset teams and capabilities. These teams are responsible for exploring innovative technologies, including blockchain and tokenization, and identifying opportunities to leverage them in financial transactions:

> The digitization of assets seems even more inevitable now as the technology matures and demonstrates measurable economic benefits. Despite this visible momentum, broad adoption of tokenization is still far away. Modernizing existing infrastructure is challenging, especially in a regulation-heavy industry such as financial services. Overcoming inertia requires coordination across the value chain. Given this, we expect the adoption of tokenization to occur in multiple waves: the first will be driven by use cases with proven return on investment and existing scale. Next will be use cases of asset classes whose current markets are smaller, benefits less apparent, or require solutions to tougher technical challenges.[22]

As these teams mature and gain more experience, we can expect to see increased experimentation and adoption of tokenization in various financial services. The rapid advancement of blockchain technology and related infrastructure has made tokenization more accessible and efficient. Improved scalability, interoperability, and security features have lowered barriers to entry for financial services providers looking to implement tokenization solutions. As the demand for faster, more efficient, and transparent financial transactions grows, financial services providers face increasing pressure to innovate and differentiate themselves in the market. Tokenization offers a way for companies to meet these demands while potentially gaining a competitive edge by offering unique services and products.

Regulatory clarity and supportive frameworks can provide confidence and stability for financial services providers looking to engage in tokenization. As regulators develop clearer guidelines and regulations for digital assets and blockchain-based transactions, companies may feel more comfortable exploring tokenization as a viable option for their operations. In this light, collaboration between traditional financial institutions, technology companies, and blockchain start-ups can accelerate the adoption of tokenization. By leveraging each other's expertise and resources, partners can develop and scale tokenization solutions more effectively, driving broader adoption across the industry.

The U.S. Solution and the European Response

Stablecoins act as a kind of Trojan horse for U.S. dollar dominance in a world increasingly looking for alternatives. While countries like China and Russia push for de-dollarization, stablecoins keep the dollar relevant in global commerce — even outside U.S. banking rails. With stablecoins, the United States doesn't need to force other nations to use the Society for Worldwide Interbank Financial Telecommunications or traditional banking channels to maintain dollar hegemony. Instead, cryptocurrency-native financial systems end up reinforcing the dollar's reach organically. It's an elegant solution: Embrace stablecoins, regulate them to keep them within the U.S. framework, and let the free market do the rest. That's why the United States isn't outright banning stablecoins but rather working to bring them under its regulatory umbrella. The real game isn't about stopping crypto — it's about ensuring the dollar

[22] Anutosh Banerjee, Julian Sevillano, and Matt Higginson, "From Ripples to Waves: The Transformational Power of Tokenizing Assets," McKinsey & Co. (June 20, 2024).

remains the backbone of global finance, no matter what form it takes.

Stablecoins are just the latest chapter in the United States' playbook of maintaining global dollar dominance. It's less about cryptocurrency and more about leveraging blockchain as an extension of U.S. financial power. The fact that Tether (USDT) and U.S. digital coin (USDC) are primarily backed by U.S. Treasurys only strengthens the connection — every stablecoin in circulation indirectly fuels demand for U.S. debt. This is why the United States won't outright ban stablecoins but will work to shape and regulate them in a way that ensures they remain a net positive for dollar hegemony. Expect tighter regulations, but also incentives for stablecoin issuers to stay compliant under U.S. jurisdiction. For cryptocurrency this means the infrastructure that supports stablecoins — DeFi protocols, on- and off-ramps, cross-border payment systems, Layer 2 solutions, compliance tech, and settlement networks — becomes even more valuable. In other words, as stablecoins gain broader adoption, the infrastructure supporting their issuance, transfer, and integration becomes increasingly critical to the overall cryptocurrency ecosystem. The smart move is to focus on the infrastructure layer because it will see increasing adoption from both cryptocurrency-native users and traditional finance players integrating stablecoins into global trade, remittances, and payments.

Europe is playing a very different game. The MiCA regulation's strict requirements on euro stablecoins show that the EU isn't trying to compete with U.S. stablecoins — it's trying to limit their influence while preparing the ground for a digital euro (central bank digital currency, or CBDC). By forcing private euro stablecoins to hold 60 percent of their reserves in the fractional reserve banking system, the EU is essentially weakening them compared with U.S. stablecoins, which are often backed by higher-quality reserves like U.S. Treasurys. This makes euro stablecoins less attractive to global users, reinforcing the dollar's dominance in cryptocurrency-based finance.

In summary, the United States is leaning into stablecoins because they extend dollar dominance, while the EU is restricting private stablecoins because they want control over digital money through a CBDC.

This regulatory gap makes it more likely that USDT, USDC, and other dollar-backed stablecoins will continue to dominate international cryptocurrency transactions, even in Europe. In this light, while the EU is focused on financial stability and regulatory control, they may actually be ceding ground to the United States in the stablecoin space. In reality, this isn't just about stablecoins or CBDCs; it's about the deeper shift in how money functions. We are moving from a relatively neutral, bearer-asset-based monetary system to one that is programmable, supervised, and directly tied to identity. While the United States and Europe have different approaches (stablecoin-driven vs. CBDC-driven), the common goal is clear: Modern money will be deeply integrated into digital infrastructure, AI-powered oversight, and regulatory frameworks.

Outlook and Complexity

The future of traditional and digital finance M&A highlights a unique and evolving challenge in merging on-chain protocols and DEXs as they compete for market share in a rapidly maturing industry. DEXs are moving toward specialization as the market matures. As competition intensifies, DEXs are looking to carve out niches — whether by focusing on specific asset classes, advanced financial products, or unique liquidity structures. M&A becomes a natural path for DEXs seeking to combine strengths or leverage synergies, which can be crucial in building defensible positions in the face of market saturation. Consolidation allows protocols to pool resources, technology, and user bases, which can be a strategic advantage for DEXs aiming to establish robust, sustainable platforms. As seen in traditional finance, combining platforms with complementary capabilities can drive innovation and attract a broader range of users.

Venture investments in the cryptocurrency space are often token-based, which complicates traditional M&A. Tokens represent a blend of ownership, governance, and utility within the ecosystem, meaning that mergers involving token-based protocols require addressing how these tokens will be treated. Securities laws add another layer of complexity, especially in

jurisdictions where tokens may be classified as securities. When tokens are involved, merging decentralized protocols introduces significant regulatory challenges, particularly around securities laws. Tokens that grant holders certain governance rights or yield returns can attract regulatory scrutiny, complicating M&A efforts that involve cross-protocol token integration or governance realignment.

In decentralized, permissionless protocols, acquiring control isn't straightforward; it requires addressing decentralized governance and managing token holders who may resist consolidation. This dynamic complicates traditional M&A structures, which typically involve full ownership and centralized decision-making. The complexity of integrating token-based models in traditional equity deals poses a unique challenge in the cryptocurrency space, one that will likely require novel structures and creative approaches to governance and compliance.

As the industry matures, further consolidation could yield fewer but larger, better-regulated platforms that cater to both retail and institutional investors. In the long term, the ongoing shift toward regulatory clarity and adoption of hybrid M&A structures may encourage more equity-based consolidation in the industry. For now, though, M&A in cryptocurrency will continue to navigate uncharted waters, balancing between innovation in decentralized finance and the practical realities of regulation and governance. ■