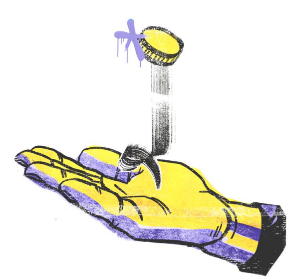
WHY TOKENIZATION IS KEY TO THE SAVINGS AND INVESTMENTS UNION

Tokenization of financial instruments is the key that can unlock the European Savings and Investments Union. As part of a comprehensive EU strategy to increase the competitiveness of its economy, tokenization will give EU citizens more options to invest their savings and EU companies more options to secure funding.

The advantages of tokenization are closely aligned with EU priorities:

- **Broaden the investor base** through increased access to assets and investments not typically available at the retail level, like gold, through asset fractionalization.
- **Remove barriers for companies to access capital** by reducing the costs of issuing securities in small denominations and deepening liquidity with, e.g., 24/7 trading.
- **Reduce financial market fragmentation** by automating and streamlining trade and post-trade processes since, e.g., clearing and settlement can happen atomically and instantly.
- **Increase market transparency and security** as transactions on blockchains are traceable and auditable, helping reduce fraud and errors and improving market integrity.



These benefits can be maximized with **open, public blockchains**, which support competition, interoperability, and resiliency. Some public blockchains, like Stellar, have been designed to allow asset issuers to comply with regulatory requirements while benefiting from the decentralized nature of the underlying infrastructure.

The tokenization of financial instruments in the EU is, however, being held back by legislative and regulatory uncertainty, doubts surrounding tokenized money instruments, and difficulties related to the technological transition.

To overcome these obstacles, we make four **recommendations**:

1. **Promote the dialogue on security and interoperability standards.** Instead of regulating infrastructure like blockchains, the upcoming MiCA review should foster discussions between EU regulators and the industry about related standards.

2. **Intensify collaboration at the global level.** Public blockchains can address many of the problems with the provision of cross-border financial services, but inconsistent and incompatible regulations can undermine this objective.

3. **Enable and recognize tokenized payment instruments.** E-money tokens should be explicitly allowed to be used in securities settlement, and EU regulators should clarify the rules and expectations on tokenized deposits.

4. **Incentivize the adoption of public blockchains.** To facilitate the uptake of blockchain technology in financial markets, the EU should support and foster coordination among market participants through not only rules but enhanced experimental programs.