Submission

to the

Financial Markets Authority

on the

Discussion paper: *Tokenisation in financial markets*

12 November 2025

NEW ZEALAND BANKING ASSOCIATION – TE RANGAPŪ PĒKE
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About NZBA

1. The New Zealand Banking Association – Te Rangapū Pēke (**NZBA**) is the voice of the banking industry. We work with our member banks on non-competitive issues to tell the industry's story and develop and promote policy outcomes that deliver for New Zealanders.

2. The following seventeen registered banks in New Zealand are members of NZBA:

- ANZ Bank New Zealand Limited
- ASB Bank Limited
- Bank of China (NZ) Limited
- Bank of New Zealand
- China Construction Bank (New Zealand) Limited
- Citibank N.A.
- The Co-operative Bank Limited
- Heartland Bank Limited
- The Hongkong and Shanghai Banking Corporation Limited
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- JPMorgan Chase Bank N.A.
- KB Kookmin Bank Auckland Branch
- Kiwibank Limited
- Rabobank New Zealand Limited
- SBS Bank
- TSB Bank Limited
- Westpac New Zealand Limited

Contact details

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Introduction

4. NZBA welcomes the opportunity to provide feedback to the Financial Markets Authority (**FMA**) on the Discussion Paper: *Tokenisation in financial markets* (**Consultation**). NZBA commends the FMA for its proactive, open and technology-neutral approach to engaging with industry stakeholders on this important topic. The willingness to foster dialogue and seek feedback is vital for supporting responsible innovation and maintaining the integrity of New Zealand's financial markets.

5. We endorse the FMA's goal to foster fair, efficient and transparent markets, and emphasise the need for a regulatory environment that appropriately enables experimentation while protecting consumers.

6. Our submission focuses on four key areas: consistent regulation across all entities engaged in digital asset activities; strengthening investor protection; calibrating capital requirements for tokenised traditional assets; and expressing our overall support for the FMA's consultative approach.

Consistent, technology neutral regulation

7. We strongly support the principle of consistent regulatory requirements for all market participants engaged in digital asset activities (in particular, the provision of custodial services to customers), for the reasons set out at paragraphs 12-16. The current global regulatory landscape risks entrenching a bifurcated market structure, where some categories of entities may operate under less stringent requirements than others. This risks undermining market integrity and financial stability.

8. In our view, regulation of digital assets should be technology neutral and flexible, with targeted provisions for tokenisation. To this end, we note that current laws are technology neutral but lack clarity for novel tokenised products. We recommend a review of applicable laws, and the provision of clear guidance through regulatory sandboxes and FAQs.

9. Any regulation should apply equally to all digital asset service providers; where two entities are offering the same product, which carries the same inherent risk, they should be subject to the same regulatory requirements.

10. Banks are already subject to comprehensive prudential and financial markets regulation, robust risk management, and ongoing supervisory oversight. The introduction of equivalent standards for digital assets should apply equally to all digital asset service providers, including custodians and exchanges, to avoid regulatory arbitrage and, importantly, to ensure consistent consumer protection.

11. We urge the FMA to advocate for technology-neutral regulation that applies the same standards to all entities performing similar activities, e.g. selling products in line with the principle of "same activity, same risk, same regulatory outcome."

Investor protection

12. Investor protection is a foundational mandate for financial market regulators. Banks, as qualified custodians, have a proven track record of helping safeguard client assets through:

    12.1. segregation of client assets from proprietary assets;

    12.2. separation of custody from other financial activities;

    12.3. proper control and exclusive authority over client assets; and

    12.4. comprehensive legal frameworks ensuring bankruptcy remoteness.

13. We submit that any expansion of custody services to new types of entities must require those entities to meet these same standards – again, on the basis that provision of the same service should be held to an equivalent standard.

14. For instance, "self-custody" client assets without equivalent regulatory guardrails exposes investors to heightened risks of loss and conflicts of interest. We consider the FMA should ensure that all custodians, regardless of their institutional form, are subject to robust requirements for asset segregation, operational transparency, and prudential and regulatory oversight.

15. Risks such as product complexity, lack of transparency, cyber threats, and market abuse should require enhanced disclosure, education, and clear governance frameworks. We consider that the FMA has a key role to play in educating both the financial industry and customers, to scale the development of a secure network.

16. Other important aspects to help ensure the effective and secure operation of tokenised asset providers will include integration with legacy systems, scalability, and interoperability across different blockchain platforms, to prevent fragmentation and ensure asset recourse.

Capital requirements for tokenised traditional assets

17. NZBA supports a risk-sensitive approach to capital requirements for tokenised traditional assets. International experience (as reflected in the recent joint trades letter to the Basel Committee on Banking Supervision) shows that overly punitive capital treatment for tokenised assets on permissionless blockchains – especially those representing high-quality traditional instruments (e.g., government bonds, money market funds) – can discourage bank participation and stifle innovation.

18. We recommend that capital requirements for tokenised traditional assets be aligned with the actual risk profile of the underlying asset, rather than the technology used for tokenisation. For example, a tokenised government bond should not attract a higher capital charge than its conventional counterpart if the credit and market risks are

identical. We support a principles-based, technology-neutral approach to prudential and financial markets regulation, ensuring that banks can compete fairly and support the development of secure, efficient tokenised markets.

Support for FMA's open dialogue and coordination with local and international regulators

19. We appreciate the FMA's commitment to open consultation and its willingness to engage with industry on emerging technologies. NZBA looks forward to collaborating with the FMA to develop clear, consistent, and effective regulatory frameworks that balance innovation with investor protection and financial stability.

20. Workshops and proof of concepts, led by regulators, have been proactively used in other jurisdictions, such as Singapore and Hong Kong. There is an opportunity to leverage global learnings in implementing an interoperable regime in New Zealand.

21. We encourage the FMA to continue and expand its coordination with both international and domestic regulators, central banks and policymakers. As global standards and national approaches to digital assets and tokenisation continue to evolve, close collaboration is essential to leverage the learnings of other jurisdictions, and mitigate the risk of regulatory fragmentation, cross-border inconsistencies, and market arbitrage.

22. We also encourage the FMA to continue its leadership in fostering responsible innovation and to advocate for harmonised standards that support both domestic and cross-border market integrity. Harmonised standards and clear communication among jurisdictions will help ensure a stable, competitive and resilient financial system for New Zealand and its participants.

23. As part of this, we consider it would be valuable for the FMA to provide ongoing guidance, industry engagement, and pilot support. For example, there are promising applications in New Zealand including tokenised bonds, real estate, managed funds and payment solutions, with pilots providing insights into regulatory and compliance challenges.

Conclusion

24. NZBA welcomes further engagement with the FMA and other stakeholders to ensure that New Zealand's financial markets remain fair, efficient and resilient as tokenisation and distributed ledger technologies evolve. We look forward to contributing to the development of regulatory settings that promote innovation, help protect investors, and maintain a level playing field for all market participants.