David Burrows and Joshua Castle
Funds and Asset Management Policy
Wholesale Buy Side
Financial Conduct Authority
12 Endeavour Square
London E20 1JN

By email: CP25-28@fca.org.uk

12 December 2025

Dear David and Joshua

RE: CP25/28 Progressing Fund Tokenisation

The British Private Equity and Venture Capital Association (BVCA) is the industry body and public policy advocate for the private capital industry in the UK. With a membership of around 600 firms, we represent UK-based venture capital, private equity and private credit firms, as well as their professional advisers and investors. There are almost 13,000 UK companies backed by private capital which currently employ over 2.5 million people in the UK. In 2024, £29.4bn was invested by private capital into UK businesses in sectors across the UK economy, ranging from consumer products to emerging technology. This increased investment has fuelled the growth of businesses across the UK, with six in ten (58%) of the businesses backed in 2024 located outside of the capital.

We welcome the opportunity to respond to the FCA's consultation paper on progressing fund tokenisation. The BVCA welcomes the FCA's leadership in progressing this and its forward-looking approach to the future use of DLT across investment management. Although our members do not typically manage authorised funds, the consultation's broader roadmap could have important implications for the UK's private capital industry.

We have responded only to the points in CP25/28 on which our members have expressed views. These include the importance of preserving the existing portfolio management rules and the need for flexibility in any future regulatory framework to enable innovation and growth.

Portfolio management rules

We note the FCA's discussion that the existing portfolio management rules may not be adequate for large scale distributed ledger retail applications or for highly personalised, tokenised investment solutions. We recognise the FCA's reasoning and agree that a shift toward retail-level, client-by-client portfolio management could give rise to new considerations that may justify targeted regulatory developments.

The FCA's retail proposals are unlikely to be relevant to private capital managers. The existing needs of UK private capital is likely to differ from the needs of future retail distribution models.

For private capital firms, the current portfolio management rules are used extensively (e.g., when acting as a delegated portfolio manager of an overseas alternative investment fund manager) and operate effectively. They provide a stable, outcomes-focused framework for the management of portfolios of investments held in collective investment undertakings, and they underpin the operational confidence that allows UK private capital firms to raise, manage, and deploy long-term capital at scale. These rules support a predictable and well understood framework for professional investor business models, enabling private capital managers to operate with clarity on governance, delegation, oversight and investor protections.

If the portfolio management rules were to undergo wholesale redesign, there is a risk of unintended disruption to well-functioning markets that could undermine the opportunities private capital presents to promote growth and innovation in the UK. Any substantial change to the rules should therefore be carefully calibrated so that the regime continues to work for private capital business models, where current rules already achieve their objectives and the clients of the portfolio manager are invariably professionals (e.g., the alternative investment fund manager which has delegated the management of the portfolio to the UK firm). The BVCA encourages the FCA to preserve the effectiveness of the existing framework for private capital activity, even if new or adapted requirements are introduced for emerging, retail-oriented tokenised models.

The need for flexibility

We welcome the FCA's clear articulation of the three-phase model for the evolution of tokenisation: tokenised funds, tokenised assets, and tokenised cash flows. We agree that these developments have the potential to improve efficiency, transparency, resilience, and the UK's international competitiveness.

At the same time, we encourage the FCA to recognise that innovation in private capital (and other alternative asset classes) may follow a different path from the retail-focused trajectory set out in the consultation. Private capital structures often involve bespoke arrangements, complex multi-party relationships, and long-term operational mechanics that may lend themselves to DLT-based innovation in ways not yet captured by the three-phase model.

For these reasons, we encourage the FCA to consider clarifying that any short term changes to the rules in respect of portfolio management will only apply when dealing with retail clients, given that the changes are being designed for this purpose. This will ensure the regulatory framework remains dynamic and flexible, so that technological developments arising from private capital can be accommodated in future phases. To maximise the economic benefits the FCA identifies, including greater operational efficiency, reduced friction, broader access to investment opportunities, and stronger market infrastructure, the rules should be adaptable to a diverse range of business models and asset classes.

Avoiding unintended consequences and enabling innovation

We support the FCA's ambition to create an environment that fosters safe, responsible innovation. In doing so, it will be important to maintain proportionality between retail and professional markets. The portfolio management rules already provide an effective regime for private capital firms; any reforms should ensure that this well-functioning landscape is preserved.

We therefore encourage the FCA to:

- distinguish clearly between retail tokenised portfolio management models and professional client models;
- consider incremental or modular approaches to rule changes, rather than wholesale redesign; and
- ensure that any new obligations relating to tokenised structures apply only where relevant to the underlying markets and client base.

This approach will support innovation while avoiding unnecessary disruption to existing activity that is already delivering investment in the UK economy.

If you have any questions or there are points it would be helpful to discuss further, please contact Nick Chipperfield (nchipperfield@bvca.co.uk) and Tom Taylor (ttaylor@bvca.co.uk).

Yours sincerely,

Tim Lewis
Chair, BVCA Regulatory Committee