BETTER FINANCE
The European Federation of Investors and Financial Services Users
Fédération Européenne des Épargnants et Usagers des Services Financiers

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Tokenisation could open up EU capital markets – but will investors reap the benefits?

BETTER FINANCE and CFA Institute explore how tokenisation could make investing cheaper and more accessible, while stressing the need for lower costs, clear ownership rights and strong investor protection.

Could the technology behind cryptocurrencies help Europeans invest more easily and at lower cost? This question was explored during a joint BETTER FINANCE and CFA Institute webinar on 3 November, supported by the World Gold Council. Bringing together policymakers, supervisors and market practitioners, the discussion examined how tokenisation could widen investment opportunities, help smaller businesses raise capital and reduce fragmentation in Europe's capital markets.

For the EU's Savings and Investments Union (SIU), the challenge is to harness innovation to deliver tangible benefits for investors without creating new risks or barriers.

Tokenisation involves issuing securities or representing existing assets as digital tokens using distributed ledger technology (DLT), such as blockchain. Building on the opportunities offered by conventional digital investment platforms, tokenisation could go a step further by transforming how securities are issued, traded and held, enabling faster transactions, lower costs and fewer intermediaries. As Peter Kerstens, Adviser on Digital Finance at the European Commission's DG FISMA, stressed: *"Retail investors should be among the principal beneficiaries of tokenisation."*

Opening doors for savers and smaller businesses

For individual investors, tokenisation could reduce transaction costs and enable smaller investments, including through fractional ownership, making previously inaccessible assets available to more people. Basu Choudhury of the World Gold Council illustrated how tokens backed by physical gold could offer new investment opportunities, while emphasising the importance of trust and transparency.

Smaller businesses could also benefit from cheaper, simpler fundraising. Inés Beneyto, Head of Strategy at LISE, the Lightning Stock Exchange, highlighted DLT's

Contact
Arnaud Houdmont | Director of Communications
houdmont@betterfinance.eu
Rue d'Arenberg 44, 1000
+32 2 514 37 77
betterfinance.eu

potential to facilitate financing for smaller businesses and projects, including individual energy initiatives.

Beyond improving access, tokenisation could reduce unnecessary intermediation, making Europe's capital markets more efficient and competitive.

Innovation must not create new barriers

These benefits are not guaranteed. Without sufficient interoperability, separate digital networks could reproduce the fragmentation they promise to overcome. Regulation must also adapt to the technology's specific characteristics without unnecessarily restricting innovation.

Kerstens highlighted the need for interconnected infrastructure, proportionate rules and robust cybersecurity. Sven Hildebrandt, Founder of Crypto Risk Metrics, similarly stressed that different risks may require different regulatory approaches, supported by credible use cases, appropriate disclosures and effective supervision.

Alexander Lehmann, Director of Capital Markets Policy EU at CFA Institute, echoed these concerns, stressing that "*Tokenisation will only scale if investors trust the rights behind digital assets and markets can operate to common, interoperable standards.*"

Easier investing does not necessarily mean better investing

Greater accessibility alone does not guarantee better outcomes. Digital platforms can expose investors to complex products at the touch of a button, while round-the-clock trading may encourage excessive activity without guaranteeing liquidity.

ESMA's Joeri Buiten warned of digital platforms drawing investors towards riskier derivatives, while BETTER FINANCE's Martin Molko cautioned against tokenisation becoming a marketing gimmick rather than supporting productive and suitable investments.

What investors actually own matters just as much. Some tokens merely track an asset's price without conferring direct ownership or shareholder rights. As Beneyto asked: *"Am I getting an exposure to an existing security or am I trading the real security on a regulated trading venue?"*

Conversely, DLT could strengthen links between companies and shareholders by simplifying corporate actions and cross-border voting, potentially informing the forthcoming review of the Shareholder Rights Directive (SRD II).

For BETTER FINANCE, tokenisation's success should be measured by whether it delivers more accessible, transparent and efficient capital markets. Disintermediation must translate into genuine savings without compromising ownership rights, accountability or investor protection.

As Arnaud Houdmont, Director of Communication at BETTER FINANCE, concluded: *"Lower costs in the financial infrastructure should also translate into lower costs for the people using it."*