THE MARGIN CALL

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Tokenised Money Market Funds as Margin Collateral

CCP eligibility and the transatlantic divide

The first edition made the case for tokenised MMFs as the credible upgrade to non-cash collateral. This edition tests that case against the harder questions: which clearing houses can actually take them, how US and EU fund regulation diverges, what that means in the bilateral market, and what it would take to close the gap.

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01 The thesis, one year on

The first edition of this paper argued that tokenised money market funds (TMMFs) are the first credible upgrade to non-cash collateral in a decade: a yield-bearing, high-quality asset that can move at the speed of a margin call rather than the speed of a fund order cut-off. Twelve months on, the direction of travel has been confirmed by regulators on both sides of the Atlantic — but the route has forked. The United States has moved first and fastest on eligibility; the EU has produced the most rigorous analysis of the risks while leaving its rulebook largely untouched; the UK sits between the two, with new FCA guidance that permits the instrument in principle while acknowledging that its own collateral rules exclude the funds most participants actually use.

This edition focuses on the questions that now decide whether TMMFs become core margin collateral or remain a treasury curiosity: central counterparty (CCP) eligibility, the structural differences between US and EU money market funds, their respective standing in the bilateral (uncleared) market, and the specific regulatory divergences that need to be addressed. The conclusions, in brief:

- **CCP eligibility is the decisive unlock, and it is asymmetric.** US clearing houses already accept government money market fund shares as performance bond collateral through established programmes; extending that to tokenised share classes is an operational and legal exercise, not a rulebook rewrite. In the EU, money market fund units are not eligible margin collateral at CCPs under EMIR's technical standards at all — tokenised or otherwise. The EU question is therefore prior to the tokenisation question.
- **The bilateral market has a mutual non-recognition problem.** US uncleared margin rules admit only a narrow class of government-style funds that do not lend or repo their assets; EU rules admit UCITS units under conditions. A typical US 2a-7 fund fails the EU test on wrapper grounds; a typical EU LVNAV fund fails the US test on portfolio-activity grounds. Cross-border counterparties are left with an eligible-collateral schedule that excludes the natural instrument on both sides.
- **Tokenisation itself is increasingly the settled part.** US banking agencies have confirmed that a tokenised security meeting the definition of financial collateral receives the same capital treatment and haircuts as its traditional form; the CFTC has issued guidance on tokenised collateral; the FCA permits tokenised MMF units as collateral where UK EMIR requirements are met. The binding constraints are now fund-regulatory and CCP-rulebook constraints, not distributed-ledger constraints.
- **The remedies are identifiable and mostly narrow.** A targeted amendment to EMIR's eligible-collateral annex for public-debt CNAV funds; technology-neutral read-across confirmed by each rulebook rather than assumed; deference or substituted-compliance arrangements for fund wrappers in bilateral margin; and CCP operational standards for 24/7 NAV, redemption-at-default and atomic delivery. None requires new primary legislation in the US or UK; the EU path runs through a technical standards review that is already live.

02 The state of play, mid-2026

The TMMF market remains small in absolute terms but is no longer experimental. ECB analysis published in April 2026 puts tokenised financial and physical assets on public blockchains at roughly €41 billion, with TMMFs accounting for around one-sixth of that — set against a traditional EU MMF market of about €1.7 trillion. The gap is the opportunity: every basis point of that traditional pool that migrates to a transferable, near-24/7 token is a basis point that can be pledged, substituted or recalled intraday.

On the product side, the established managers have shipped: BlackRock's BUIDL, Franklin Templeton's on-chain government fund on the Benji platform, Fidelity's on-chain share class, and J.P. Morgan Asset Management's tokenised money market fund launched on public Ethereum in late 2025. Franklin Templeton's tokenised funds are already being used as collateral through arrangements with Standard Chartered and digital-asset venues — a live demonstration of the collateral use case, albeit outside the cleared perimeter. Industry work has scaled to match: the GDF–ISDA working group on US tokenised MMFs drew on over 300 participants across more than 120 firms and a multi-firm sandbox, and set adoption of TMMFs as collateral by end-2027 as a realistic objective, with associated estimates that intraday collateral mobility could reduce HQLA needs materially.

The regulatory scaffolding moved decisively in the past nine months. Three developments matter most:

- **CFTC tokenised collateral guidance (December 2025).** Staff guidance confirmed the treatment of tokenised assets within existing collateral frameworks, following the Global Markets Advisory Committee's 2024 recommendation that tokenised money market funds be usable as eligible collateral, and a dedicated commission initiative to advance tokenised collateral adoption.
- **US banking agencies' capital FAQ (March 2026).** The Federal Reserve, OCC and FDIC confirmed that a tokenised security satisfying the capital rule's definition of financial collateral is recognised as such, subject to the same haircuts as its non-tokenised form, with no distinction drawn between permissioned and permissionless ledgers. This is the cleanest statement yet of technology neutrality from prudential regulators.
- **FCA policy statement PS26/7 (April 2026).** Final UK rules on fund tokenisation confirm that firms may use tokenised MMF units as collateral provided current UK EMIR requirements are met — while candidly acknowledging that existing collateral rules exclude the most widely-used MMFs, and committing to explore technical fixes with the Bank of England and HM Treasury.

Set against this, the ECB's macroprudential analysis is the necessary cold shower: tokenisation can amplify liquidity-mismatch and operational risks as well as mobility benefits, and reliable usage data remain thin. The sober reading is that the technology question is closing while the risk-framework question stays open — which is precisely where eligibility rules come in.

03 CCP eligibility: where each clearing house stands

For a CCP, margin collateral must satisfy one test above all others: it must be liquidatable at speed, in stress, in a member default. Everything in a CCP rulebook's collateral annex — haircuts, concentration limits, wrong-way-risk exclusions — is downstream of that test. TMMFs enter this conversation with a genuine advantage (near-instant transferability and potentially atomic settlement) and a genuine complication (the collateral is a fund share, so its liquidation runs through redemption or transfer mechanics rather than a bond sale).

United States: an extension exercise

The US starts from the most permissive base. CME Clearing has for years accepted government money market mutual fund shares as performance bond collateral through its IEF2 programme, alongside cash, Treasuries, agencies and other assets, within programme limits and haircuts. CFTC regulations on permitted investments and clearing organisation risk management provide the perimeter. The consequence: admitting a *tokenised* share class of an already-eligible government MMF is primarily a question of custody arrangements, legal certainty of the token as the record of ownership, and default-management mechanics — not of persuading the regulator that a new asset class is safe. With the December 2025 CFTC guidance in hand, the plausible path is CCP rulebook amendments and FCM operational onboarding through 2026–27, consistent with clearing executives' publicly stated expectation that clearing house acceptance begins in 2026 provided ownership rights of the token are legally confirmed in all relevant jurisdictions.

The open questions are practical: whether the CCP takes the token itself or a receipt against an immobilised position; how a defaulting member's TMMF collateral is redeemed or transferred inside the default-management timeline, including outside fund dealing hours; and how the CCP's own treasury treats tokens it may need to hold for hours or days.

European Union: a prior question

The EU position is structurally different. EMIR's regulatory technical standards on CCP requirements prescribe the eligible margin collateral universe — cash, certain sovereign and high-quality debt, gold, and tightly conditioned equities and covered bonds. Money market fund units are not on the list. An EU CCP therefore cannot accept an MMF unit as margin, tokenised or not, without a change in the technical standards. ESMA's related work on CCP investment policies has debated MMFs — including whether public-debt CNAV funds, whose portfolios are effectively short-dated government paper and which did not impose gates or fees in the March 2020 stress, merit different treatment — and the consistent supervisory concern is that any fund-level mechanism that could constrain redemption (gates, fees, suspensions) is incompatible with a CCP's need for same-day liquidity in a default.

That concern is coherent, but it also identifies its own remedy: define an eligibility class of MMFs whose regulatory design excludes such mechanisms and whose assets are confined to public debt. The EU debate is therefore best understood not as tokenisation-scepticism but as unfinished business in the MMFR–EMIR interface — business that the tokenisation agenda now gives a hard commercial reason to finish.

United Kingdom: permissive in principle, constrained in practice

The UK inherited the EMIR framework and its collateral annex at Brexit, so the same structural exclusion applies at UK CCPs. What differs is regulatory posture. PS26/7 explicitly contemplates tokenised MMF units as collateral where UK EMIR requirements are met, and the FCA has taken up industry's request to examine technical fixes with the Bank of England and HM Treasury — with the stated caveat that any extension must keep collateral safe, liquid and accessible in stressed markets. Combined with the Digital Securities Sandbox, the UK has the most complete pipeline from experiment to rulebook of the three jurisdictions, even if the destination rules are not yet written.

Jurisdiction	MMF units eligible as CCP margin today?	Tokenisation posture	Binding constraint
US	Yes — government MMF shares accepted at CME via IEF2, within limits	CFTC guidance (Dec 2025); banking agencies confirm capital neutrality (Mar 2026)	Legal certainty of token ownership; CCP default-management mechanics
EU	No — MMF units outside the EMIR RTS eligible-collateral list	ECB analysis notes benefits and risks; no eligibility change proposed	EMIR technical standards; MMFR gates/fees architecture
UK	No — inherited EMIR exclusion applies	FCA PS26/7 permits tMMF collateral where UK EMIR is met; technical fixes under review	Onshored EMIR collateral annex; BoE risk tolerance

Table 1 — CCP eligibility of MMF units and tokenised share classes, July 2026.

04 US and EU money market funds: two different animals

Much of the transatlantic eligibility problem is not about tokens at all — it is about the fact that a "money market fund" is a different instrument in Washington than in Brussels. Any eligibility framework that treats them as interchangeable will fail in one direction or the other.

US funds are governed by SEC Rule 2a-7 under the Investment Company Act. The market splits into government funds (overwhelmingly Treasuries, agencies and government repo; stable $1.00 NAV; no liquidity fees) and prime funds (which may hold bank and corporate paper; institutional prime funds float their NAV and, following the SEC's 2023 reforms, are subject to mandatory liquidity fees in defined outflow conditions, with the previous link between liquidity thresholds and redemption gates removed). Nearly all US TMMF issuance to date wraps the government end of this spectrum — deliberately, because it is the end the collateral rules trust.

EU funds are governed by the Money Market Fund Regulation (MMFR), which defines three structures: public-debt constant NAV (PDCNAV), low-volatility NAV (LVNAV) — the dominant institutional format, priced at amortised cost within a collar — and variable NAV (VNAV). The MMFR embeds liquidity fees, gates and suspension powers into the fund architecture, and LVNAV funds routinely use repo and hold non-government assets. A review of the MMFR — including the treatment of LVNAV collars and liquidity tools — has been pending since the Commission's post-2020 assessment work, and its outcome will directly shape any collateral-eligibility conversation.

Bilateral (uncleared) margin: mutual non-recognition

The divergence bites hardest in the uncleared market, where BCBS–IOSCO's common framework was transposed into deliberately different local rules. Under the US margin rules (prudential regulators for bank swap dealers; CFTC for non-bank swap dealers), eligible initial margin includes shares of certain redeemable funds only where the fund's assets are confined to sovereign-quality instruments and the fund does not engage in securities lending or repo of its assets — a test written for a narrow class of government funds. Under EMIR's margin RTS, eligible collateral includes units in UCITS meeting specified conditions — a test written around the EU fund wrapper.

Put the two side by side and the problem is symmetrical: a US 2a-7 government fund is not a UCITS, so it fails the EU test on legal form regardless of how conservative its portfolio is; an EU LVNAV fund uses repo and carries MMFR liquidity tools, so it fails the US test on portfolio-activity and structural grounds regardless of its wrapper. A cross-border pair documenting a CSA therefore finds the natural collateral instrument of each side excluded by the other's rules — before tokenisation is even mentioned. Since the general rule is that the dealer's home rules drive the eligible-collateral schedule, buy-side firms trading across both blocs face fragmented collateral pools and duplicated buffers: exactly the trapped-liquidity problem TMMFs exist to solve.

Tokenisation adds one further bilateral wrinkle with real economics: regulatory IM must sit at an unaffiliated custodian, segregated, without re-hypothecation. A TMMF's promise of intraday substitution and 24/7 mobility is only realisable if the tri-party or third-party custody model can hold, value and release tokens on the same cadence — which is an infrastructure build, not a rule change.

05 What diverges, and how it can be addressed

The divergences reduce to five, each with an identifiable remedy:

1. Fund wrapper recognition (bilateral IM)

The EU test keys on UCITS form; the US test keys on portfolio behaviour. The cleanest fix is functional equivalence: amend each eligibility text to admit third-country funds that satisfy the substantive conditions (asset quality, daily redemption, no encumbering liquidity tools) regardless of wrapper, or achieve the same result through deference/substituted-compliance determinations of the kind both blocs already use elsewhere in their derivatives frameworks. ISDA documentation can then carry the fix into practice through updated eligible-collateral provisions in CSAs.

2. The EMIR CCP collateral annex

MMF units need adding to the eligible list before any EU CCP can move. The realistic candidate is a tightly drawn class — public-debt CNAV funds with no gates or discretionary fees, daily (moving to intraday) dealing, and concentration limits — mirroring the logic ESMA's own consultation respondents advanced when noting that PDCNAV funds did not gate in the 2020 stress. Tokenised share classes should enter as a settlement variant of that class, not a separate asset type.

3. Liquidity-tool architecture (MMFR vs 2a-7)

Gates and fees are the single largest conceptual blocker on the EU side, since any mechanism that can delay redemption is fatal to default-management use. The MMFR review is the vehicle: either carve the collateral-eligible class out of discretionary liquidity tools entirely, or restructure the tools so they cannot bind on a CCP or secured party exercising rights in a default. The US 2023 reforms, which decoupled gates from liquidity thresholds, offer a workable template.

4. Legal certainty of the token

Clearing members and CCPs need confidence that courts in every relevant jurisdiction will treat the ledger entry as definitive evidence of ownership, and that security interests over tokens perfect and enforce predictably — including on public chains. The US banking agencies' position that the technology conferring rights does not change the collateral analysis is the right model; the EU and UK equivalents should be stated with the same clarity, and private-law gaps (situs, perfection, custody standards) addressed through the UNIDROIT/ELI-informed reforms already in train in several jurisdictions.

5. Operational standards at the CCP

Eligibility on paper fails at the first default without: guaranteed redemption or transfer mechanics executable inside the default timeline, including outside traditional dealing windows; NAV availability matching a near-24/7 asset; atomic or near-atomic delivery-versus-delivery for substitutions; and clarity on whether the CCP holds tokens directly or via receipts. These belong in CCP rulebooks and operational frameworks, developed with fund sponsors and tokenising agents — the layer where sandbox results translate into binding procedure.

Sequencing. The US path is shortest: guidance exists, an accepting CCP programme exists, and the work is legal-operational. The UK can move on a similar timescale if the FCA–BoE–HMT technical-fix workstream lands. The EU path runs through two regulatory reviews (EMIR technical standards and the MMFR) and is therefore measured in years — but it is also the jurisdiction where the prize is largest, given the size of the LVNAV market currently locked out. A pragmatic industry posture is to build to the US government-fund standard now, design tokenised share classes so they could satisfy a future EU public-debt-CNAV eligibility class, and document bilateral CSAs with substitution-ready eligible collateral language.

FORWARD CALENDAR

06 What to watch through 2027

- **First CCP rulebook amendment admitting a tokenised government MMF share class** — the single event most likely to reprice the whole conversation. Watch US clearing houses first.
- **The FCA–BoE–HMT technical fix on UK MMF collateral eligibility** — whether the eligible class extends beyond the current narrow reading, and on what liquidity conditions.
- **The MMFR review's treatment of LVNAV liquidity tools** — the gating (literally) item for any EU eligibility class.
- **Bilateral market adoption metrics** — TMMF balances pledged under CSAs, tri-party support for token custody and substitution, and the first cross-border CSA schedules naming tokenised fund classes.
- **Default-management rehearsals** — the first CCP fire-drill that includes redeeming or transferring tokenised fund collateral will tell the market more than any consultation response.
- **The GDF–ISDA end-2027 objective** — whether US adoption of TMMFs as collateral lands on schedule, and the estimated HQLA savings begin to show up in treasury behaviour.

SOURCES AND FURTHER READING

This paper draws on public materials including: CFTC staff guidance on tokenised collateral (December 2025) and Global Markets Advisory Committee recommendations; the Federal Reserve, OCC and FDIC FAQ on capital treatment of tokenised securities (March 2026); FCA policy statement PS26/7 on fund tokenisation (April 2026); ECB Macroprudential Bulletin 33 on tokenised money market funds (April 2026); ESMA's report on CCP investment policies including MMFs; the GDF–ISDA report on unlocking capital with US tokenised money market funds (July 2026); CME Clearing acceptable collateral schedules; EMIR and its regulatory technical standards on CCP requirements and on risk-mitigation for uncleared OTC derivatives; SEC Rule 2a-7 and the 2023 money market fund reforms; and the EU Money Market Fund Regulation.

ABOUT

The Margin Call is an independent publication on post-trade market infrastructure — clearing, repo, collateral and tokenisation — written by Omar Reyez, a practitioner with twenty years in institutional post-trade across LSEG, LCH, Deutsche Bank, RBS and Barclays. Advisory enquiries and responses to this paper: themargincall.ai. Essays and research: themargincallai.substack.com.