

Financial Conduct Authority
12 Endeavour Square
London E20 1JN

By email: tokenisedsecurities@fca.org.uk

23 October 2026

Re: Call for Input, Tokenised gold: Opportunities and risks for UK wholesale markets (September 2026)

Dear Sir or Madam,

Aave Labs welcomes the opportunity to respond to the Financial Conduct Authority's Call for Input on tokenised gold. Aave Labs is a London-based software development company and a core contributor to the Aave Protocol, the largest decentralised lending protocol by total value locked.

We confine this response to one subject on which we can offer direct operating evidence: how tokenised gold behaves when used as collateral in practice. The Aave Protocol is one of the largest venues in which tokenised gold is pledged as collateral on a continuous basis.

Independent analysis has reached a similar view: Citi Research has recently described the Aave Protocol as infrastructure for collateral mobility in tokenised capital markets. Our observations relate primarily to Question 2, with recommendations relevant to Questions 3 and 4.

Tokenised gold is already used as collateral

Two gold tokens are currently available as collateral on the Aave Protocol: PAX Gold (PAXG), issued by Paxos Trust Company and backed by allocated London Good Delivery bars held in London, and Tether Gold (XAUt), issued by TG Commodities, S.A. Users supply these tokens as collateral and borrow stablecoins against them. Positions are valued, monitored and, where necessary, liquidated automatically under parameters published in advance, 24 hours a day, every day of the year.

Each listing followed independent risk and technical assessments published before onboarding, and collateral parameters are set and adjusted through the Aave DAO's public governance process. As at 22 October 2026, approximately £52 million of tokenised gold had been supplied to the Aave Protocol, including the majority of all XAUt supplied to decentralised lending markets. On 23 March 2026, during a sharp fall in the gold price, the protocol processed its largest cluster of XAUt liquidations without disruption. Institutional firms have also begun building gold-collateral products on the protocol. This experience offers a working example, on public infrastructure today, of the use case described in paragraphs 3.2 to 3.5 of the Call for Input.

What this experience shows about collateral mobility

***Question 2:** Where is interoperability most important for tokenised gold in wholesale markets, and why? What specific technological, operational and regulatory considerations need to be addressed for tokenised gold to be a trusted form of collateral among institutional market participants?*

Tokenisation removes the trade-off between allocated and unallocated gold

Paragraph 2.9 describes the trade-off in today's market: allocated gold offers certainty of ownership but is slow and costly to mobilise, while unallocated gold is easier to move but introduces counterparty exposure. On the Aave Protocol, a holder of a token representing allocated gold can pledge it as collateral at any hour and obtain stablecoin liquidity within minutes, without selling the gold or giving up the ownership interest the token represents. Where a position is liquidated, repayment in stablecoins and transfer of the gold token settle in a single atomic transaction, achieving in practice the delivery versus payment described in paragraph 3.3. The recipient can then use the same token with other counterparties and venues without reconciliation between separate ledgers. This is the collateral mobility the Call for Input anticipates, operating today without counterparty exposure to an intermediary for the transfer itself.

Legal certainty, not operational design, is the binding constraint

When a token is supplied as collateral on the Aave Protocol, it is held by smart contracts under rules known to all parties in advance. If the position falls below its liquidation threshold, third parties can repay the debt and receive the collateral in a single atomic transaction. In operational terms, this answers two of the questions raised in paragraph 3.4: a secured party's ability to exercise control over the collateral and to realise it.

What the protocol cannot supply is certainty about the legal nature of what the collateral taker receives. The Property (Digital Assets etc) Act 2025, which came into force on 2 December 2025, was an important step: it confirms that a thing is not prevented from being the object of personal property rights merely because it is neither a thing in possession nor a thing in action. By design, however, the Act leaves it to the courts to define the boundaries of this third category and the rights attaching to things within it. That case law will develop incrementally, through disputes, over a period of years.

In the meantime, collateral takers must price uncertainty on two separate questions: whether a gold token is itself a third-category thing, and how the holder's rights in the token relate to the holder's rights in the underlying bullion, including against the issuer and custodian in an insolvency. This uncertainty arises from the current state of the law rather than from the arrangements of any particular issuer, and it applies equally to tokens recorded on permissioned and public, permissionless networks. In our experience, the second question is the main determinant of a gold token's quality as collateral, and it is where regulatory, legislative and judicial clarity would add the most value.

Continuous trading requires an explicit valuation methodology

Gold tokens trade continuously, but the reference market for physical gold does not. A lending protocol must therefore choose between valuing collateral at the token's own trading price, which may be thin outside market hours, and the reference price for physical gold, which does not move while that market is closed. Neither is complete on its own. As paragraph 2.7 notes, gold tokens have driven weekend price discovery, and any standard for valuation methodology (paragraph 5.15, item 7) should address how collateral is valued outside market hours.

Redemption thresholds mean realisation depends on secondary liquidity

Direct redemption is subject to high minimums: physical delivery of either token requires a full Good Delivery bar, approximately 430 tokens. In practice, therefore, most collateral takers realise gold collateral in the secondary market rather than through redemption. The discount a collateral taker applies to a gold token depends as much on how readily the token can be sold, in size and under stress, as on the holder's formal right to redeem it for physical gold. Standards and disclosures on dealing arrangements (paragraph 5.15, item 8) should reflect this.

Issuer-side technical controls form part of collateral quality

Any venue that accepts a gold token as collateral inherits the risks of the issuer's technical controls: authority to mint, freeze or upgrade the token contract, whether those changes are subject to a timelock, and how supply is managed across multiple blockchains. Independent risk providers assess these controls before any asset is listed on the Aave Protocol, and the results are published. We encourage the FCA to include issuer-side technical controls, and their disclosure, among the market standards contemplated in paragraph 3.6, alongside custody, attestation and operational resilience.

Interoperability follows from a single fungible token on shared infrastructure

Paragraph 3.5 rightly identifies interoperability as key to scaling gold as collateral, and fragmented liquidity as the outcome where separate token models cannot move across platforms and counterparties. Because PAXG and XAUt are standard tokens on public, permissionless networks, the same token can be accepted across many venues and counterparties without bespoke integration. Tokens confined to a single platform or permissioned ledger are harder to move between counterparties and divide liquidity in the way the Call for Input seeks to avoid.

Recommendations

***Question 3:** Should an appropriately defined set of gold token arrangements be regulated outside of the CIS or AIF regime, and, if so, what specific conditions should determine the scope of that exclusion/exemption? What protections would be needed to ensure these tokens continue to operate in a safe way?*

1. **A targeted exclusion is warranted.** As paragraph 5.9 recognises, whether a gold token is treated as gold or as a fund unit affects whether it can be accepted as collateral and how it

is treated prudentially. Uncertainty on that point is itself a barrier to collateral mobility: a collateral taker cannot apply a consistent eligibility rule or haircut to an asset whose regulatory status may later be contested. We therefore support a targeted exclusion from the collective investment scheme (CIS) and alternative investment fund (AIF) perimeter (paragraph 5.14), or an “eligible gold token” classification (paragraph 4.4, option 3), for tokens that confer a direct proprietary interest in allocated physical gold, including undivided co-ownership interests in identified bars of the kind described in paragraph 5.13, where the gold is not managed as a pool.

2. **Scope conditions should be objective and ledger-neutral.** We support the conditions set out in paragraph 5.15. In our experience of gold tokens as collateral, those that matter most are: the holder’s proprietary rights and their treatment in the insolvency of the issuer or custodian; allocation of identified bars to holders, reconciled frequently and transparently against on-chain supply; issuer-side technical controls and their disclosure; a valuation methodology that addresses continuous trading; and transparency about dealing and secondary-market liquidity arrangements. None of these depends on whether the token is recorded on a permissioned or a public, permissionless network, and eligibility should not turn on that choice. Public, permissionless networks are where collateral mobility is already being demonstrated.
3. **Protections should attach to the issuer and custodian.** The protections that would keep these tokens operating safely follow from the same conditions: independent attestation of reserves and reconciliation at a frequency suited to continuous trading; governance and advance notice of changes to token terms or contract permissions; and orderly wind-down arrangements that return gold, or its proceeds, to holders. These obligations can sit with the issuer and custodian without requiring venues that accept the tokens as collateral to be treated as operators of the arrangement.

Question 4: *In what other specific area(s) is greater regulatory clarity needed for retail and wholesale-focused use cases respectively? Where possible, please provide specific suggestions on how this clarity could be achieved in each area.*

We address wholesale use cases only, consistent with the scope of this response.

4. **Collateral eligibility and legal certainty.** Tokens meeting the eligible gold token conditions should be capable of use as collateral on the same footing as the gold they represent. We encourage HM Treasury to amend the Financial Collateral Arrangements (No. 2) Regulations 2003 so that eligible gold tokens fall within the definition of financial collateral, and the FCA and the Bank of England to confirm that they are treated as gold for prudential collateral purposes, consistent with the Basel Committee’s treatment of tokenised traditional assets. We also encourage HM Treasury to take forward the recommendation in the Law Commission’s June 2023 final report on digital assets (Law Com No 412) that, as a matter of priority, the Government set up a multi-disciplinary project to put in place a bespoke statutory legal framework for crypto-token and cryptoasset collateral arrangements, and to include gold tokens within its scope. Together, these steps would give wholesale participants certainty on enforcement and realisation now, rather than waiting for the boundaries of the third category of personal property to be settled through litigation.

5. **Perimeter coherence.** As paragraph 5.17 notes, a gold token outside the CIS and AIF perimeter may still be a qualifying cryptoasset. We ask the FCA to confirm, in its amendments to PERG 18, that a token meeting the eligible gold token conditions is a qualifying cryptoasset rather than a specified investment cryptoasset. We welcome the exclusion in the Financial Services and Markets Act 2000 (Cryptoassets) (Miscellaneous Amendments) Regulations 2026 for technical services that merely allow access to a decentralised protocol, and the FCA's proposed guidance on it in CP26/36. We also ask the FCA to confirm that pledging an eligible gold token as collateral through a decentralised protocol does not, of itself, bring the protocol, its software developers and providers, providers of access to it, independent risk managers that recommend or set collateral parameters through its public governance process, or other providers of technical services to it within the regulated cryptoasset activities. This would keep the treatment of gold tokens under any CIS and AIF exclusion consistent with the cryptoasset perimeter.

Thank you for the opportunity to provide our insights. We would welcome the chance to discuss tokenisation further with the FCA's tokenisation team.

Sincerely,

Linda Jeng
Chief Legal & Policy Officer
Aave Labs