

An introduction to tokens and tokenization

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Overview

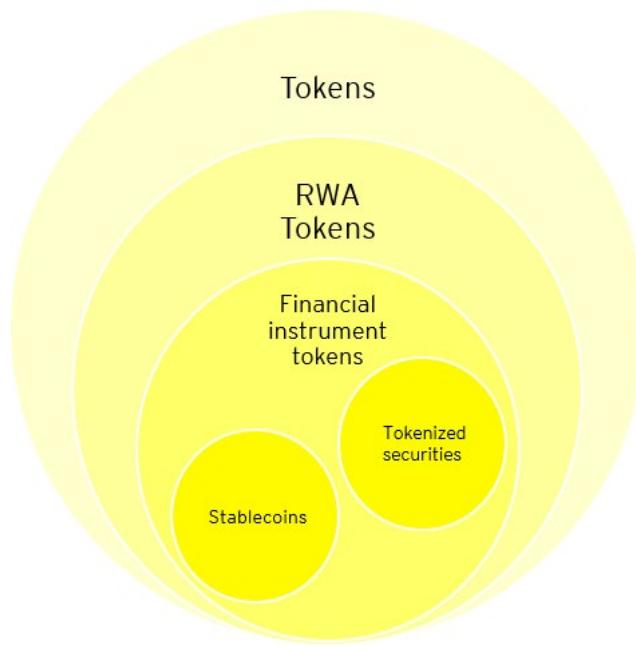
Tokenization is gaining prominence due to its broad applications and a renewed focus by the Trump administration and US regulators on the expanded use of blockchain technology, including stablecoins and tokenized financial instruments.

A token is a digital item that represents ownership or value and exists on a shared online system, such as a blockchain. Tokens may be used to represent various assets or rights, including currencies and voting power. A token's value can be monetary, social, cultural or value derived from utility.

Tokenization is the process of creating a digital representation of assets or rights that can be transacted, stored or transferred securely on a blockchain or similar infrastructure. It can enhance liquidity, transparency and security by allowing assets to be easily divided, tracked and traded on public blockchains.

There are several prominent types of tokenization, each designed for different sectors and applications. One type is real world asset tokenization, also referred to as RWAs, which involves generating blockchain-based tokens that represent assets such as real estate artwork, or even intellectual property rights. This approach allows fractional ownership, increases accessibility and simplifies the transfer of traditionally illiquid assets.

Financial instruments tokenization is a subset of RWA tokenization that focuses on digitizing financial assets such as stocks, bonds, loans and money market funds (MMFs). Tokenizing these instruments can benefit markets by increasing efficiency, reducing settlement times and broadening access for global participants. Examples include tokenized securities and stablecoins, where fiat currency or other forms of value are represented as tokens to facilitate secure, instantaneous and borderless payments. These innovations can improve transactional security and streamline retail and institutional payment systems, transforming how assets and values are created, managed and exchanged in the digital age.



Tokenization has broader applications beyond being used just as a form of currency. Tokenization in the form of stablecoins may be the next step in the evolution of currency transactions. Beginning in ancient times with the trading of shells or rocks, currency transactions eventually were conducted with gold and paper, then with credit/debit cards and phone apps in our current digital age.

Potential goals and obstacles of tokenization

Tokenization changes the way companies think about assets, transactions and data security. With the digital representation of real-world assets or financial instruments as digital tokens, companies can unlock new efficiencies, enhance transaction security and create new business models in the future. Key benefits may include:

- *Cross-border transactions and 24/7 accessibility* – Transactions operate on blockchain networks, which are borderless and always online. Investors from different jurisdictions can buy, sell or transfer assets globally without relying on traditional market hours or other intermediaries. Tokenization also allows a non-US individual to save US dollars through buying US dollar-backed tokens, such as USDC and USDT stablecoins.
- *Fractional ownership of high-value assets such as real estate, art or infrastructure* – Such assets are split into smaller, more easily tradable units of tokens on blockchain. This increases liquidity, allows multiple investors to share ownership and broadens the potential investor base, which could lead to more competitive bidding and a more efficient market with accurate pricing.
- *Liquidity benefits* – Cross-border trading and fractional ownership through tokenization increases liquidity for traditionally less liquid assets.
- *Value stability for stablecoins* – Stablecoins maintain a stable value by pegging to a reserve asset, such as a fiat currency (e.g., US dollar, Euro). This provides a stable alternative to volatile local fiat currencies.
- *Fraud reduction and data privacy enhancements* – Tokenization replaces card numbers with unique tokens that cannot be reused outside the authorized device or merchant. A token that is exposed in a breach is useless outside of its authorized environment.



The implementation of tokenization presents numerous complexities. Companies considering tokenization must address several key challenges:

- *Infrastructure and technology requirements* – Tokenization relies on robust blockchain infrastructure and secure wallets. This involves investing in new technology stacks and making sure they are compatible with current operations. Vendor onboarding may prove challenging for companies that may not have the existing infrastructure needed, requiring the implementation of strong third-party risk management (TPRM) programs.
- *Significant upfront investments* – The initial setup of tokenization requires substantial investments in blockchain development and integration, investor onboarding processes and legal and compliance frameworks, which could pose significant barriers for smaller companies or entities with limited digital transformation budgets.
- *Security and operational risks over wallets and private keys* – Wallets allow users to send and receive tokens on blockchain. Wallets connected to the internet are susceptible to cyberattacks, and offline wallets could be lost, stolen or physically damaged. Token transactions are signed with private keys, which act as digital signatures that prove ownership of the tokenized asset. Private keys are generally not recoverable. If a private key is lost or compromised and no backup exists, the tokens become permanently inaccessible.
- *Smart contract risk* – A smart contract is a self-executing program that runs on a blockchain and automatically enforces the terms and conditions of an agreement without intermediaries. If a company has not previously worked with digital assets, creating and managing smart contracts specific to its business would be a new risk. There are also risks when a company or its customers interact with smart contracts that are not authored by the company.
- *Regulatory scrutiny and uncertainty* – Tokenization currently operates in an evolving regulatory landscape where digital asset rules vary across jurisdictions, compliance obligations under “know your customer” and anti-money laundering requirements need to be integrated into the tokenization system and the accounting of tokens is unclear.
- *Market penetration and adoption risks* – Challenges in convincing institutions and consumers to trust and use public blockchains and tokenized assets still remain. Large financial institutions often wait for regulatory clarity and proven use cases before committing resources, and retail consumers may have concerns regarding security and ownership rights. Additionally, broader adoption and increased regulation could further increase costs for companies.

The potential progression of tokenization will be directly impacted by the evolving regulatory environment, along with the regulatory challenges as discussed above. Some versions of tokenization may not fall neatly in any current or expected regulatory jurisdiction.

The Trump administration is supportive of the digital asset industry with the stated goal to position the US as a leader in the digital asset markets. Oversight is currently divided among multiple agencies, including the Securities and Exchange Commission, federal banking regulators such as the Office of the Comptroller of the Currency, the Commodity Futures Trading Commission and state regulators.

Key regulatory and standard-setting developments related to digital assets in the US include the following:

- The GENIUS Act, signed into law on 18 July 2025,¹ established the first federal regulatory framework for payment stablecoins in the US that aims to provide legal clarity, protect consumers and strengthen the US dollar's global reserve currency status in digital finance.
- In August 2025, the Financial Accounting Standards Board (FASB) added a research project to explore whether certain payment digital assets, including stablecoins, should be treated as cash equivalents under US GAAP and how to account for certain digital asset transfers such as crypto lending.²
- In September 2023, Texas classified stablecoins as “money or monetary value” under its money transmission laws and required issuers and custodians to obtain a money transmission license if they handle fiat-backed stablecoins.³
- In 2022, the New York Department of Financial Services issued guidance requiring (1) stablecoins to be fully backed by reserves assets and (2) issuers to obtain a monthly attestation on reserves and an annual attestation on internal controls from a certified public accountant.⁴

¹ Fact Sheet: President Donald J. Trump Signs GENIUS Act into Law – The White House

² <https://fasb.org/projects/current-projects/objective-research#Digital-Assets>

³ <https://statutes.capitol.texas.gov/Docs/FL/htm/FL.152.htm>

⁴ https://www.dfs.ny.gov/industry_guidance/industry_letters/IL20220608_issuance_stablecoins

While these developments represent progress toward potential laws and regulations, further regulation and implementation guidance is expected in the future, including the following:

- The GENIUS Act will go into effect within 18 months of its enactment (which would be January 18, 2027), or 120 days after a primary federal regulator issues final regulations to implement the measure, whichever is earlier.
- The Digital Asset Market Clarity Act of 2025, which is a US federal bill designed to create a comprehensive regulatory framework for digital assets and crypto markets, passed the House of Representatives in July 2025 and is now being reviewed by the Senate as part of broader market structure legislation.
- The SEC launched its Crypto Task Force in January 2025 and Project Crypto in July 2025, both of which aim to further modernize regulations for digital assets.

Financial reporting implications of tokenization

Due to the complexity of the accounting for tokenized assets, companies need to carefully review contract terms to identify any legal ramifications. Understanding the legal interests of a token is crucial in determining the appropriate accounting model, such as whether the token qualifies as a derivative, financial asset, intangible asset or inventory under US GAAP. Companies need to consider whether holding a token results in ownership of the underlying asset or a contractual right.

From the perspective of internal control over financial reporting, the implementation of new systems and technology requires a company to have robust processes and controls, similar to the adoption of a new accounting standard. Verifying the integrity of data and the effectiveness of processes is essential for accurate and reliable financial reporting.

EY is available to assist companies as they begin working through these accounting and financial reporting complexities.

Conclusion

The advancements in tokenization technology can change how assets are bought and sold, providing benefits to companies and consumers. As the market evolves, it is crucial for potential users and token issuers to consider the associated risks and challenges.



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