Why Tokenized Funds Will Scale Before Tokenized Projects

Institutional Adoption, Fiduciary Risk, and Market Design

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Abstract

Tokenization of real-world assets (RWAs) is frequently presented as a uniform technological shift across asset classes. In practice, adoption has followed a distinct and asymmetric pattern. Tokenized investment funds—particularly money market funds and similar pooled vehicles—have attracted early institutional participation, while tokenized infrastructure and project-level assets remain largely experimental. This paper argues that this sequencing is not accidental. It reflects differences in fiduciary risk, governance complexity, and market design requirements. Tokenized funds scale first because they inherit established legal structures, standardized governance, and familiar risk allocation frameworks, whereas tokenized projects introduce bespoke legal, operational, and governance challenges that institutional investors are structurally constrained to avoid.

1. Introduction

Distributed ledger technology has made it technically feasible to represent ownership interests in financial and real-world assets through digital tokens. Proponents of tokenization often emphasize efficiency gains, programmability, and broader market access. Yet institutional adoption has been selective rather than comprehensive.

Empirically, early institutional traction has emerged in tokenized funds, particularly conservative, highly regulated vehicles. By contrast, project-level tokenization—including infrastructure assets, renewable energy projects, and bespoke real estate developments—has struggled to move beyond pilots. This paper contends that the observed adoption pattern is driven less by technological readiness than by institutional constraints embedded in fiduciary duty, governance, and market structure.

2. Tokenized Funds as an Institutional Entry Point

Tokenized funds are investment vehicles whose shares are issued or recorded on a distributed ledger while remaining embedded within existing fund law, custody arrangements, and regulatory oversight. In these structures, tokenization alters the *form* of record-keeping and settlement, not the underlying allocation of rights and responsibilities.

2.1 Institutional Case Examples

Several high-profile cases illustrate why funds have emerged as the first scalable use case.

BlackRock – USD Institutional Digital Liquidity Fund (BUIDL)
BlackRock's launch of BUIDL demonstrates a governance-first approach to tokenization. The fund invests in traditional money market instruments and is structured to comply with existing regulatory and fiduciary requirements. Tokenization is used to enhance settlement efficiency and operational transparency rather than to redefine ownership or governance.

Franklin Templeton – On-Chain U.S. Government Money Fund (BENJI)
Franklin Templeton's on-chain money market fund represents one of the earliest sustained implementations of tokenized fund shares. Importantly, the fund operates within conventional securities law frameworks, with tokenization serving as an alternative transfer and record mechanism.

JPMorgan – Onyx Digital Assets and Tokenized Deposit / Fund Initiatives
JPMorgan's Onyx platform illustrates a bank-led, compliance-first approach. Tokenization initiatives are embedded within regulated financial institutions and rely on established

governance, risk management, and supervisory engagement.

Across these cases, tokenization is additive rather than substitutive. Governance, fiduciary responsibility, and legal enforceability remain anchored in familiar institutional forms.

3. Why Project-Level Tokenization Lags

In contrast, tokenized projects involve the direct representation of claims on individual assets or ventures. These assets typically require bespoke legal structures, involve operational risk, and generate cash flows contingent on physical performance.

Across multiple pilot initiatives—particularly in infrastructure and real estate—common characteristics emerge:

- Fragmented legal structures across jurisdictions
- Project-specific governance arrangements
- Unclear authority for intervention and dispute resolution
- Limited secondary market liquidity

Even when technically functional, these structures impose fiduciary and operational risks that institutional investors are not positioned to absorb at scale.

4. Comparative Institutional Analysis

4.1 Funds vs Projects: Structural Differences

Dimension	Tokenized Funds	Tokenized Projects
Legal structure	Established fund law	Bespoke contracts
Governance	Standardized (boards, custodians)	Project-specific
Fiduciary risk	Familiar	Elevated
Liquidity expectations	Defined	Uncertain
Regulatory fit	High	Fragmented

This comparison highlights why funds provide a lower-friction entry point for institutional capital.

5. Regulatory Posture and Geographic Patterns

Regulatory approaches further reinforce the sequencing of adoption. Across major financial hubs, tokenized funds are generally treated as extensions of existing financial instruments, while project tokenization receives greater scrutiny.

5.1 Comparative Regulatory Perspective

Jurisdiction	Tokenized Funds	Tokenized Projects
United States (SEC)	Permissible within securities law	High scrutiny
European Union (MiCA / ESMA)	Structured framework	Evolving
Hong Kong (SFC / HKMA)	Sandbox and fund pilots	Limited
Singapore (MAS)	Institution-led experimentation	Selective
Middle East (ADGM / VARA)	Hub-oriented, fund-first	Pilot stage

Despite differences in regulatory philosophy, a common pattern emerges: fund-level tokenization is prioritized because it aligns with existing supervisory and fiduciary frameworks.

6. Implications for Market Design

The sequencing of adoption suggests several implications for market participants:

1. **Governance precedes technology.**
   Tokenization succeeds where governance and legal clarity already exist.
2. **Standardization matters more than novelty.**
   Pooled vehicles scale faster than bespoke assets.
3. **Institutions adopt incrementally.**
   Tokenization is integrated into existing systems rather than replacing them wholesale.

These dynamics explain why tokenized funds act as a proving ground for broader tokenization ambitions.

7. Conclusion

Tokenized funds scale before tokenized projects not because they are more technologically sophisticated, but because they align with institutional reality. Funds inherit established legal, governance, and fiduciary structures that reduce adoption risk, while project-level tokenization introduces complexity that institutions are structurally constrained to avoid. Understanding this sequencing is essential for policymakers, market designers, and asset owners seeking to assess the long-term trajectory of real-world asset tokenization.

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