

DLT Pilot Regime Reform: A new dawn for tokenisation of financial assets in the EU?



In March 2023, the EU became the first major jurisdiction with a dedicated regulatory framework aimed at enabling secondary trading in tokenised financial instruments. The DLT Pilot Regulation introduced an EU-wide regulatory sandbox within which entities willing to operate securities trading and/or settlement systems based on the distributed ledger technology (DLT) got a chance to get exempted from certain requirements applicable under the existing EU regulatory framework, that are incompatible with the deployment of DLT.

However, more than three years later, the number of authorised participants in the DLT Pilot Regime as well as the scale of the overall trading activity remain very modest. There is hardly one single reason for this: low instrument and aggregate trading caps, lack of interoperability between different DLT systems, legal ambiguity around the issuing and admission of tokenised instruments in the primary market in different EU Member States, were just some of many potential reasons that the industry and legal professionals have been discussing in recent years. Hence, despite a growing interest in tokenisation of the financial industry, the uptake of the DLT pilot regime still remains a far-fetched goal for many.

1. DLT Pilot Regime 2.0.

With the aim of addressing this situation, on 4 December 2025, as part of its Market Integration and Supervision Package ("MISP") the EU Commission has published a proposal for a Regulation which shall (amongst other) reform the existing DLT Pilot Regulation in a number of different ways. For more on MISP see our [previous article](#).

By seeing high compliance burden on small businesses and startups, scope and volume restrictions and lack of interoperability as some of the main impediments to a broader adoption of DLT in securities markets in the EU, the Commission is proposing a reform that broadly comprises two sets of amendments: those aimed at extending its scale and scope and those aimed at increasing its flexibility and proportionality.

2. Eligible instruments and caps

The existing DLT Pilot Regime, effectively enables trading and settlement of financial instruments within the meaning of the MIFID II framework, that are issued, recorded, transferred and stored using DLT ("DLT financial instruments").

The DLT Pilot Regime applies solely to the following types of DLT financial instruments:

- a) shares, the issuer of which has a market capitalisation, or a tentative market capitalisation, of less than EUR 500 million;
- b) debt securities (bonds, money market instruments, securitized debt excluding instruments that embed derivative or have complex structure) with an issue size of less than EUR 1 billion;

- c) units in collective investment undertakings the market value of the assets under management of which is less than EUR 500 million.

The hard truth, however, is that the vast majority of issuances of tokenised financial instruments in the primary market, are composed of structured financial instruments in different forms (tokenised notes, certificates and other types of derivative instruments giving their holder exposure to an underlying asset).

Conscious of this market reality, the Commission is proposing expansion of the scope of the DLT Pilot Regime to cover all financial instruments within the meaning of Annex I Section C MiFID II including structured financial instruments. When it comes to heavily criticized instrument caps, the Commission is proposing a total removal of all instrument-specific caps, and an increase of the aggregate cap on the volume of all DLT financial instruments traded on a single DLT market infrastructure to EUR 100 billion.

Rule	Current regime	Proposed amendments
In-scope instruments	■ Shares ■ Debt securities ■ Units in investment funds	■ Expansion of the scope to all financial instruments within the meaning of Annex I Section C MiFID II
Instrument caps	■ Shares – EUR 500 million ■ Debt securities – EUR 1 billion ■ Units in investment funds – EUR 500 million	■ Removal of all instrument caps
Aggregate trading cap	■ EUR 6 billion	■ Increase to EUR 100 billion

3. Eligible participants

Under the existing DLT Pilot Regime, only investment firms authorised as market operators and central securities depositories (CSDs) can apply for a special authorisation with their national competent authorities (NCAs) to operate a DLT market infrastructure.

DLT market infrastructure is an umbrella term that covers the following three different categories of DLT systems enabling trading and/or settlement of DLT financial instruments:

- DLT multilateral trading facility ("DLT MTF") which is a multilateral trading facility, operated by an investment firm or a market operator, that only admits to trading DLT financial instruments;

- DLT securities settlement system ("DLT SS") which is a securities settlement system, operated by a central securities depository (CSD), that settles transactions in DLT financial instruments;
- DLT trading and settlement system ("DLT TSS") which refers to a DLT MTF or DLT SS that combines services performed by a DLT MTF and a DLT SS operated by an investment firm, market operator or alternatively a CSD.

By looking to extend the group of eligible participants, the Commission has proposed two important amendments that shall enable two additional categories of regulated entities to participate in the DLT Pilot Regime:

DLT OTFs

The Commission has proposed renaming the DLT MTF category into DLT trading venue (TV) with the primary aim of opening the possibility for investment firms authorised to operate an organized trading facility (rather than an MTF) to participate in the DLT Pilot Regime.

These entities, despite being regulated in a similar way as MTF operators, were unjustly left out from the framework, thereby creating a regulatory gap that was difficult to justify on either functional or prudential grounds. Since OTF operators are subject to an equivalent authorisation regime and organisational, conduct and transparency requirements under the MiFID II/MiFIR framework as their MTF counterparts, there appears to be no meaningful justification for their exclusion from a technology-focused sandbox whose stated purpose is to facilitate experimentation with DLT-based trading of financial instruments.

Crypto-Asset Service Providers (CASPs)

Many CASPs currently authorised under the MiCA-framework, are entities that probably have the longest experience of and interest in dealing with DLT and digital assets. Therefore, the Commission does not see the current restriction which prevents them from participating in the DLT Pilot Regime as proportionate.

Under the proposal, CASPs shall be added to the list of eligible entities that can apply for a specific permission to operate a DLT TV or DLT TSS, provided that they ensure compliance with some key regulatory requirements applicable under the MiFID II/MiFIR and (where relevant) the CSDR framework.

This proposed expansion of the DLT Pilot Regime, opens an entirely new service avenue for CASPs that are arguably better positioned to deal with DLT specific issues than some incumbent financial institutions. Nonetheless, diving into an entirely new area, that securities trading will inevitably be for many CASPs, will not be without its challenges, and it will be interesting to follow which CASPs will be the early movers that will decide to move into the DLT securities trading space first.

Current scope	Proposed scope
■ MiFID II investment firms, with a license to operate an MTF ■ Central Securities Depositories	■ MiFID II investment firms with a license to operate an MTF or an OTF ■ Central Securities Depositories ■ Crypto-Asset Service Providers

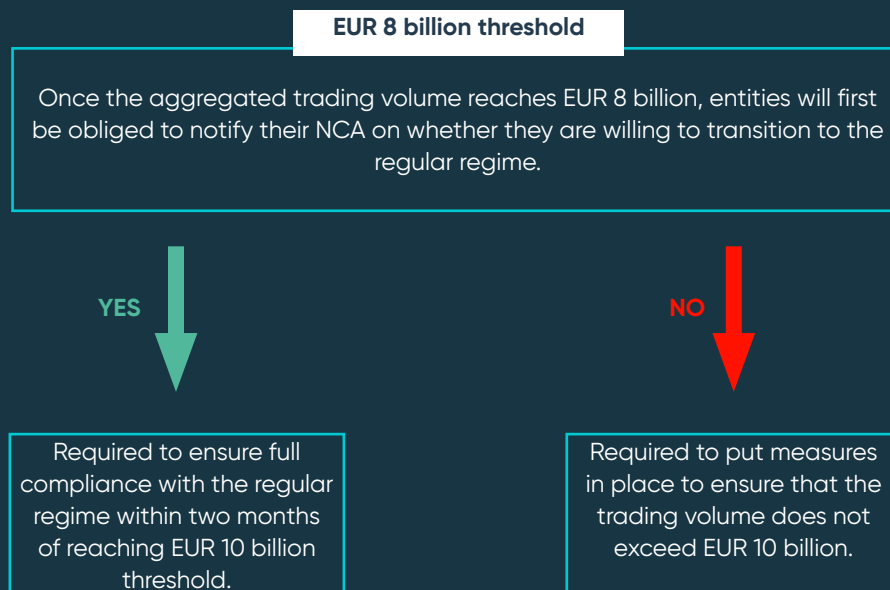
4. Simplified regime

High compliance burden on small and medium businesses willing to participate in the DLT Pilot Regime was identified by the Commission as one of the main impediments to a wider adoption of the regime as well. This is especially the case when it comes to requirements under the CSDR that can be particularly complex and hard to comply with for smaller entities.

With this in mind, the Commission has proposed introducing a simplified authorisation regime for small operators of DLT TSS and DLT SS. Firms operating DLT TSS and DLT SS with the aggregate market value of DLT financial instruments of less than EUR 10 billion shall become able to operate within a simplified authorisation framework, which would exempt them from compliance with some more onerous regulatory requirements. Whilst the participants would still be required to hold an underlying authorisation to be eligible to participate in the DLT Pilot Regime (e.g. by being a CASP or a MiFID II firm) they will be subject to a specified subset of provisions of the CSDR that shall achieve more proportionate and principles-based approach to the regulation of small-scale provision of securities settlement services via DLT.

ESMA shall also get a mandate to amend delegated regulations to CSDR with the aim of making level 2 rules, more proportionate to their risk profile and size of smaller firms looking to operate under the simplified regime.

Entities operating under the simplified regime will have the ability to gradually transition to the regular regime under the DLT Pilot Regulation:



Entities already authorised under the current DLT Pilot Regulation before the reformed DLT Pilot Regulation starts to apply, will be deemed to operate under the simplified regime as long as they remain below the EUR 10 billion threshold.

5. Discretionary exemptions

Under the current DLT Pilot Regulation, DLT market infrastructure operators are able request exemptions from specific, pre-listed provisions of MiFID II, MiFIR and CSDR. However, industry experience has shown that DLT-based business models can generate incompatibility with provisions of sectoral legislation that might not have been anticipated by the EU lawmakers and which might be identified much easier by the operators of DLT market infrastructures in practice.

Therefore, the Commission has proposed introducing a possibility for NCAs to grant targeted exemptions from some existing requirements that go beyond already covered provisions of the MiFID II/MiFIR and the CSDR framework.

To that end, the proposal aims to allow operators to apply with their NCAs for an exemption from provisions of the MiFID II/MiFIR and the CSDR framework, going beyond the list of already covered provisions provided that they can demonstrate that: (i) compliance with that provision is incompatible or highly disproportionate with the use of DLT; (ii) the exemption is limited to the DLT infrastructure and does not extend to other trading venues operated by the same entity; (iii) the exemption, assessed together with proposed compensatory measures, does not undermine the objectives of the relevant provision; and (iv) the exemption does not undermine financial stability, market integrity or investor protection. Before any exemption is granted, NCAs will be required to submit draft assessment to ESMA, which shall have two months to issue a non-binding opinion based on which the NCAs will make the final decision.

This new mechanism meaningfully increases the flexibility of the DLT Pilot Regime by replacing the exhaustive list of provisions eligible for a waiver with a principles-based test, allowing the regime to keep pace with technology development. It appears that the Commission is, in this respect, partially drawing inspiration from the [UK Digital Securities Sandbox \(DSS\) regime](#), operated by the Financial Conduct Authority and the Bank of England, which has provided from the outset for considerably greater flexibility in terms of possible exemptions.

6. The cash leg dilemma

One of the most heavily discussed topics when it comes to tokenisation, is the cash-leg of the DLT securities settlement process. In the absence of a wholesale digital euro, that one could use as a commercial bank digital currency (CBDC) for settlement purposes, stablecoins in form of E-money tokens (EMTs) which are regulated under the MiCA-Regulation, have emerged in recent years as the primary settlement asset used for DLT based cash settlement.

With the aim of fostering use of tokenised commercial bank money for settlement purposes, operators of DLT TSS and DLT SS should be able to designate credit institutions whose banking activities are not limited to CSDs but otherwise comply with Title IV of the CSDR framework. Further, settlement in tokenised commercial bank money executed by an investment firm operating a DLT TSS should be explicitly recognised, provided it sufficiently monitors the risks arising from its settlement model.

The Commission has also provided some clarifications on the provision of EMT related services under the DLT Pilot Regime: Whilst, EMT cash accounts can be provided by DLT SS operators, credit institutions, CASPs authorised to provide EMT custody under MiCA Article 60, or any other financial entity permitted to provide EMT custody, other banking-type ancillary services going beyond this (listed in Section C of the CSDR Annex) can only be provided by authorised credit institutions.

Conscious of the poor adoption of euro-denominated stablecoins globally, which was one point flagged in its recent consultation on the MiCA-Regulation, in one of the recitals the Commission has also used the opportunity to encourage DLT market infrastructure operators to offer settlement in euro-denominated EMTs even for transactions involving financial instruments denominated in a non-EU currency.

7. DLT notaries, DLT account keepers and settlement schemes

The use of DLT enables financial intermediaries to work on a shared platform infrastructure, thereby allowing them to provide their services in a synchronised and modular manner, which is materially different from the traditional siloed, vertically integrated post-trade infrastructure in which a single entity, such as a CSD, performs all core functions. Against this backdrop, the Commission is proposing introduction of two new specific authorisations which shall allow investment firms, credit institutions, CSDs and CASPs to provide selected CSD services without the need for full CSD authorisation.

These include:

- a) DLT notary service, which covers initial recording of DLT financial instruments in a book-entry system (provided by a DLT notary);
- b) DLT central maintenance service, which covers provision and maintenance of accounts for DLT financial instruments at the top tier level (provided by a DLT account keeper).

For the purposes of authorisation under the new framework, prospective DLT notaries and DLT account keepers will be required to demonstrate compliance with a selected subset of the CSDR requirements applicable to CSDs in relation to the notary and central maintenance services respectively.

Further, conscious of the advantages that a decentralized ledger can offer, the Commission is looking to allow market participants to experiment with a new business model that does not require involvement of a single operator of a settlement system – settlement schemes. This new concept of a settlement scheme would allow two or more DLT account keepers to settle transactions on a jointly operated ledger entirely outside traditional CSD infrastructure. With the aim of reducing risks of this experimental model, the Commission is proposing that settlement within a scheme can only be conducted in central bank money on a delivery-versus-payment basis.

Another important aspect of this new concept is the fact that ESMA will be responsible for the authorisation of all settlement schemes, rather than national competent authorities at EU Member State level. However, this comes as little surprise given the wider proposed reform of the EU financial supervisory architecture under the MISF, which will transfer direct supervisory responsibility over a number of other regulated entities to ESMA.

8. Removing time limits but keeping the “pilot”

Under the current DLT Pilot Regime, eligible participants can get a special authorisation to operate a DLT MTF, DLT TSS or DLT SS for up to maximum 6 years. This has kept away some market participants from even considering participating in the DLT Pilot Regime, due to the lack of clarity about the long-term prospects for the regime itself. Aiming to remove uncertainty that has kept some market participants away, the Commission is proposing to remove all time limits on authorisations under the DLT Pilot Regime.

However, despite [ESMA's advice from June 2025](#), recommending to the Commission to make the Pilot Regime permanent by embedding DLT-specific provisions into existing sector-specific pieces of EU legislation, the Commission's proposals fall short of doing so. The framework will continue to coexist alongside sector-specific pieces of the EU financial regulation, and ESMA is mandated to provide a further report by 24 March 2030 on the functioning of the regime. On the basis of that report, the Commission will be expected to assess (once more) whether the regime should be integrated into sectoral legislation as ESMA originally suggested. The 2030 review therefore represents the earliest realistic moment at which the Commission could begin the process of formally absorbing the DLT Pilot Regime into the wider EU financial services regulatory framework and finally bringing the “pilot” phase to a close.

9. The Elephant in the room – interoperability

Interoperability between different DLT systems is by far one of the most important preconditions for a proper adoption of DLT financial instruments in the financial services industry. However, the lack of it in recent years, was by far one of the most significant structural obstacles to the development of a functioning DLT-based securities market in the EU. In a traditional capital market infrastructure, interoperability between trading venues, and settlement systems is achieved through a combination of standardised messaging protocols, established links between CSDs under CSDR and a well-developed network of bilateral and multilateral arrangements. On the other hand, DLT-based market infrastructures frequently operate on heterogeneous technology infrastructure which is based on different consensus mechanisms, smart contract standards, tokenisation protocols and data formats. Consequently, a DLT financial instrument issued and recorded on one platform might not necessarily, at least not without significant technical and legal friction, be transferred or settled on another.

Looking to address this very significant issue that the industry is facing, the Commission is looking to mandate all operators of DLT market infrastructures and other interested parties, to form an industry group for the purpose of establishing industry standards that can facilitate easier settlement of transactions and establishing of links between different DLT market infrastructures. When developing industry standards, the industry group will be required to periodically consult ESMA and the European System of Central Banks (ESCB). In the second step, ESMA will be mandated to provide technical advice to the Commission on the state of interoperability between DLT market infrastructures.

This appears to be a very familiar approach that the EU lawmakers have a tendency to favour, and which we had a chance to see first under PSD2 and most recently under PSD3/PSR and FIDA proposals. However, whether mandating the industry to agree on technical standards amongst itself, without a harder regulatory backstop, will be a sufficient step to resolve the interoperability issue, remains to be seen.

10. Will all this be enough?

The proposal represents a big and long-awaited step that the Commission has taken to reform the DLT Pilot Regime with the aim of making it fitter for purpose, more scalable and in the end easier to navigate, especially for smaller entities. Removal of instrument caps, increase of the aggregate trading cap to EUR 100 billion and the expansion of the scope of the regime which shall now cover also some so far excluded instruments that the industry had most interest in (like structured financial products) are very welcome proposals that indeed have a chance to incentivize entities to participate in the regime.

However, whether this will be enough to move the needle and really make a substantial difference is a hard question to answer, primarily because there are many remaining obstacles that the Commission alone can hardly resolve. Just to name three: First, for the adoption of CBDCs as a settlement instrument the ECB needs to finish its work on the wholesale digital euro. Second, the primary issuance of DLT financial instruments (with the sole exception of the Prospectus and PRIIPs regime) remains largely governed by the national laws of individual EU Member States: some of which do not recognize the concept of DLT financial instruments and some of which albeit having bespoke national DLT regimes for DLT financial instruments, easily get into conflict with bespoke regimes of other EU Member States when the cross border element is involved. Third, a lack of a sufficient level of interoperability between different DLT systems remains the elephant in the room, which is a structurally complex technical and commercial problem that an industry group mandate, however well-intentioned, may simply not be sufficient to solve.

11. Conclusion

Whilst many structural challenges remain beyond the reach of the DLT Pilot Regime reform alone, the proposal read together with the broader MISP package and the ECB's advancing wholesale settlement work sends a positive signal to the industry that the EU is taking tokenisation seriously and is looking to build suitable regulatory foundation needed for tokenised securities markets to scale.

In terms of the timeline, the proposal represents the very first step on a long EU legislative journey: the EU Parliament and the Council are expected to enter dialogues that will continue throughout the second half of 2026 and the first half of 2027, with the expectation of a final political agreement by the end of 2027. One factor that may slow or complicate that process is the fact that the DLT Pilot Regime reform is not a standalone legislative proposal: it forms part of the broader MISP package, which contains proposals that are likely to spark heated political debate most notably those seeking to expand ESMA's direct supervisory powers, a measure that has already met with resistance from several EU Member States protective of their national supervisory prerogatives.

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Taylor Wessing 2026

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