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Tokenized ETFs: Robbing Peter to Pay Paul?

 By Joshua Barone | Oct 1, 2025

In an age when nearly every corner of finance is being “disrupted,” the tokenization of assets has emerged as one of the most discussed developments on Wall Street and in Silicon Valley. The concept—transforming real-world assets like ETFs into blockchain-based digital tokens—is being pitched as the next great leap in market efficiency.

Proponents claim that tokenization will unlock 24/7 trading, slash settlement times, broaden global access, and reduce costs. In other words, it promises to modernize the financial system’s infrastructure in the same way ETFs revolutionized fund investing two decades ago.

And the institutions pushing this vision are hardly fringe. **BlackRock**, the world’s largest asset manager, is not only endorsing the tokenization trend—it’s helping lead it. In his March 2025 annual letter, CEO Larry Fink declared: *“Every stock, every bond, every fund—every asset—can be tokenized. If they are, it will revolutionize investing.”* [BlackRock](#)

Shortly thereafter, BlackRock announced it was exploring tokenized versions of its equity ETFs—following the success of its blockchain-based Treasury product, **BUIDL**, which already manages over \$2.2 billion. [CoinDesk](#)

Tokenization is no longer just an idea on a whiteboard. It’s in motion. But as with any major innovation, it’s important to separate **investor benefit** from **issuer strategy**—and to ask whether the revolution being promised is as broadly beneficial as it appears.

Promise vs. Practice

The promise of tokenized ETFs is sweeping. By issuing fund shares as blockchain tokens, trades could, in theory, settle in minutes rather than the current T+2 system. Investors might access markets around the clock instead of being confined to exchange hours, and fractional ownership could make even high-value funds available in tiny increments. A September 2025 CoinDesk report highlighted these themes, noting that BlackRock sees tokenization as a way to offer “faster settlement, 24/7 trading, and broadened access for global investors.” [CoinDesk](#)

In practice, however, these advantages are less transformative than they appear. ETFs already deliver many of these features in a mature form. They trade intraday with tight spreads, offer transparency, and provide tax efficiency unmatched by mutual funds. For many in developed markets, tokenization does not fundamentally improve this experience.

Settlement speed, for example, sounds attractive, but instantaneous settlement could actually create liquidity strains. Today’s T+2 system allows market makers and brokers to net trades and manage collateral. If tokenized ETFs required real-time settlement, liquidity providers would need cash on hand for every trade, potentially increasing costs and volatility rather than reducing them.

Liquidity itself may also be diluted rather than deepened. Instead of centralizing trading activity, tokenized ETFs risk splitting it between traditional exchanges and blockchain platforms, undermining price discovery. The BUIDL fund illustrates this paradox: while it has gathered billions in assets, its on-chain trading volumes remain thin compared with traditional Treasury markets.

And then there are regulatory and legal uncertainties. Will token holders enjoy the same shareholder rights as traditional ETF investors? How will NAV pricing and redemptions be enforced if tokens trade at a discount or premium? Until regulators address these issues, tokenized ETFs remain more experimental than revolutionary.

Finally, the promise of global access collides with the reality of compliance. Digital assets may be transferable across borders in seconds, but regulated securities cannot. As BlackRock itself acknowledged in its 2025 letter, the success of tokenization ultimately depends on solving digital identity and embedding compliance rules directly into smart contracts. In other words, “democratization” will still involve gatekeepers—only the names may change.

A Strategic Play, Not a Product Revolution

So why the enthusiasm from incumbents like BlackRock? The answer lies less in product innovation than in **strategic positioning**. Tokenization is not primarily about making ETFs more efficient—it’s about **controlling the rails of the next financial system**.

By moving early, BlackRock secures three key advantages:

- 1. First-mover influence.** With BUIDL already live and equity ETFs under consideration, BlackRock has positioned itself to set early norms. Once tokenization frameworks solidify, those who shaped them first will enjoy lasting influence over market standards.
- 2. Vertical integration.** Tokenized funds embed compliance, custody, and distribution into programmable smart contracts. This allows issuers to define redemption mechanics, enforce KYC rules, and even control secondary-market flows—all within their own ecosystem. It’s not just a fund—it’s a distribution platform.
- 3. Regulatory arbitrage.** While regulators are still grappling with how tokenized securities should be treated, firms like BlackRock can experiment within gray areas. If rules tighten later, they will already have the infrastructure and market share to adapt quickly—leaving smaller competitors struggling to catch up.

This isn’t sinister so much as it is deliberate. BlackRock’s move into tokenization is less about investor empowerment and more about **preemptive empire-building**—ensuring that even as the financial system digitizes, the largest incumbent remains firmly in control.

Redistributing Control, Not Disrupting It

The rhetoric around tokenization often invokes words like “democratization” and “access.” In practice, however, it simply reshuffles intermediaries. Broker-dealers may give way to wallet providers, clearinghouses to smart contracts, and custodians to key-management firms. The functions remain, even if the technology changes.

History offers a useful parallel. When ETFs first gained traction in the 1990s and 2000s, they were marketed as tools to empower everyday investors with low-cost, transparent access to markets. That promise was real—but the longer-term effect was to concentrate trillions of dollars of assets in the hands of a small number of issuers. Today, three firms—BlackRock, Vanguard, and State Street—control the vast majority of global ETF flows.

Tokenization appears to be following a similar script. What begins as a story of access and empowerment may well end with deeper concentration of power in the hands of those who define the infrastructure. Investors may gain incremental convenience, but issuers will gain structural control. It is less about dismantling the hierarchy of finance than about rebuilding it on digital rails—with the same incumbents at the top.

This is why the metaphor resonates: **robbing Peter to pay Paul**. The distribution of control changes, but the balance of power remains firmly in favor of the largest players.

Final Thoughts

Tokenized ETFs are unlikely to revolutionize investing in the short term. They may streamline operations, reduce some back-office frictions, and broaden global access over time. But the immediate investor benefit is limited, while the long-term strategic upside for issuers like BlackRock is enormous.

This is the deeper concern. BlackRock built its dominance by capturing the ETF revolution, turning low-cost passive products into a platform for massive influence over capital markets and corporate governance. Tokenization offers the firm an opportunity to extend that reach further—this time into the very mechanics of market infrastructure. If ETFs gave BlackRock scale, tokenization may give it control over the pipes.

Supporting this, Bloomberg reported on September 11, 2025, that “tokenizing ETFs would represent a deeper step...” for BlackRock—expanding beyond its U.S. Treasury fund to include equity-linked funds. [CoinDesk](#)

For investors, that means tokenization should be viewed with caution. The technology itself holds promise, but its rollout is being orchestrated by those who stand to consolidate power. The rhetoric of “democratization” masks the reality that tokenization, as it is currently unfolding, is less about empowering investors and more about fortifying the dominance of a single institution.

The rails may change—from exchanges and clearinghouses to blockchains and smart contracts—but the concentration of power remains. If history is any guide, tokenization will be remembered less as a financial revolution than as **the next chapter in BlackRock’s empire-building**.

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