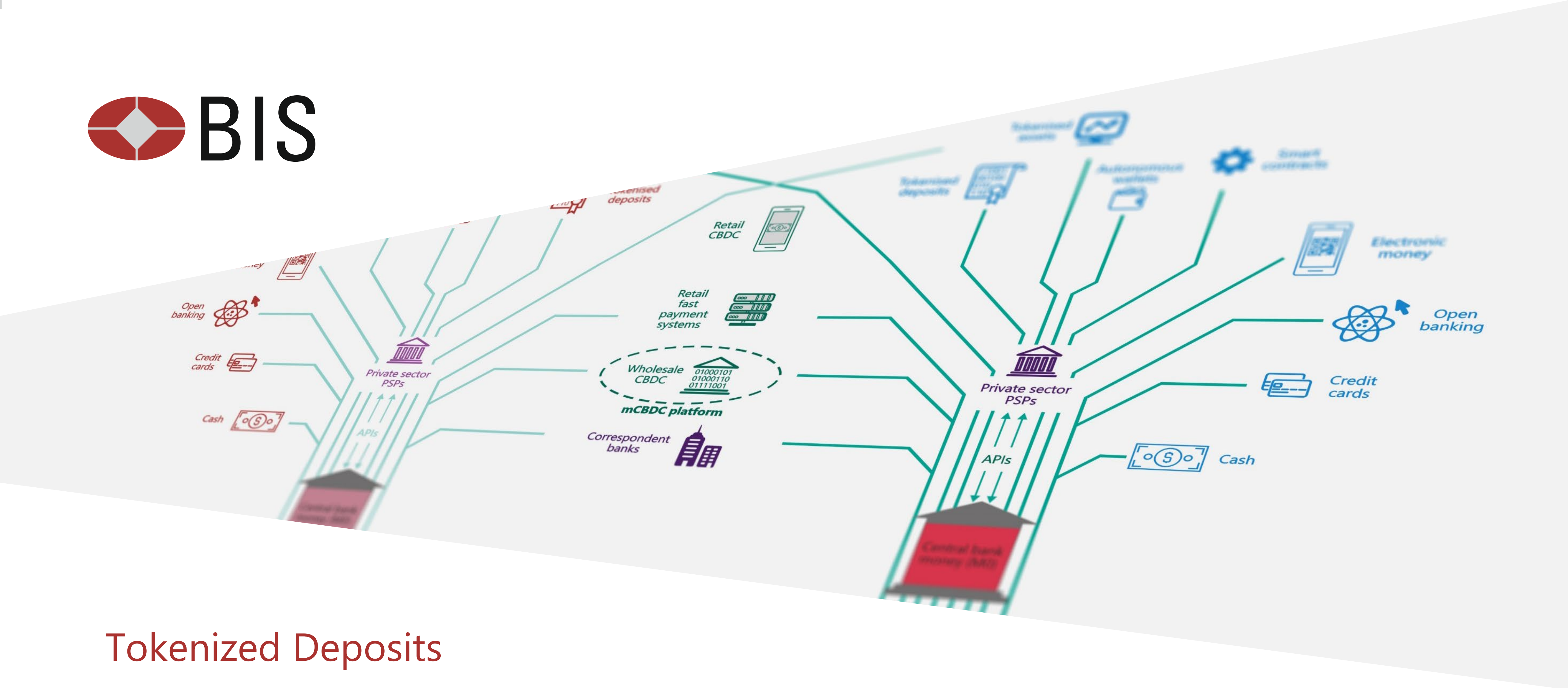
BIS



Tokenized Deposits

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DeFi & Digital Currencies: The Challenges & Opportunities for Policy Makers

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*The views expressed here are those of the authors and not necessarily those of the Bank for International Settlements.

Overview

- There is interest in using distributed ledger technology (DLT) to improve record keeping and the transfer of funds in the banking system
  - BIS (AER, Chapter 3, 2022), Garratt et al. (2022)
  - Regulated Liability Network (RLN) and the USDF Consortium

- Initiatives seek to capture advantages of DLT while preserving settlement in central bank money

- Policy makers are concerned about risks

What and why?

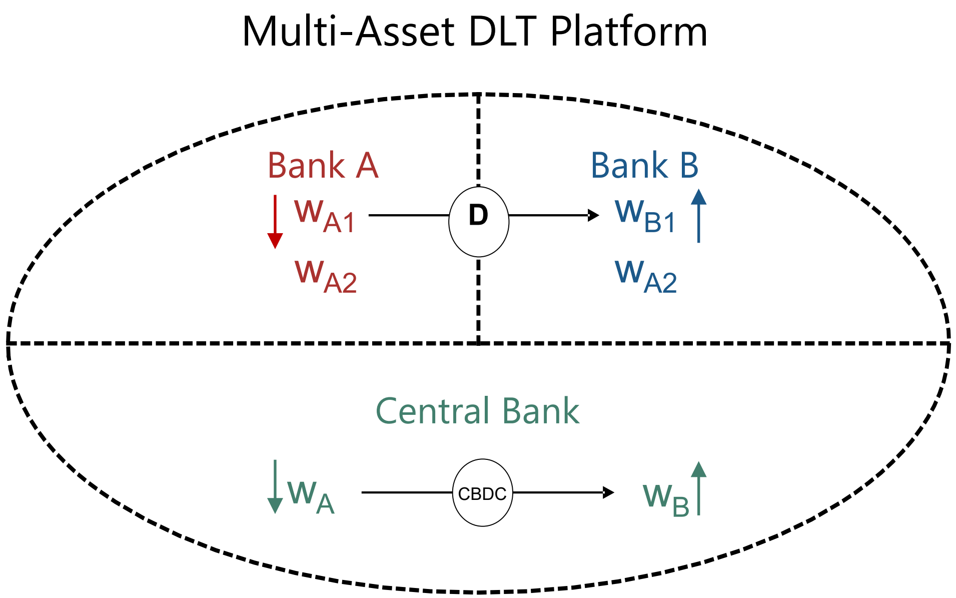
- Tokenisation means putting institutional money (and other assets) on DLT platform
- Existing systems of record keeping and money transfer work well, and are getting better
- "Tokenisation thesis" – Tony McLaughlin, Citi

Two possible models for tokenized deposits

1. Bearer instrument
   - Movement of token transfers the issuer’s liability to the recipient

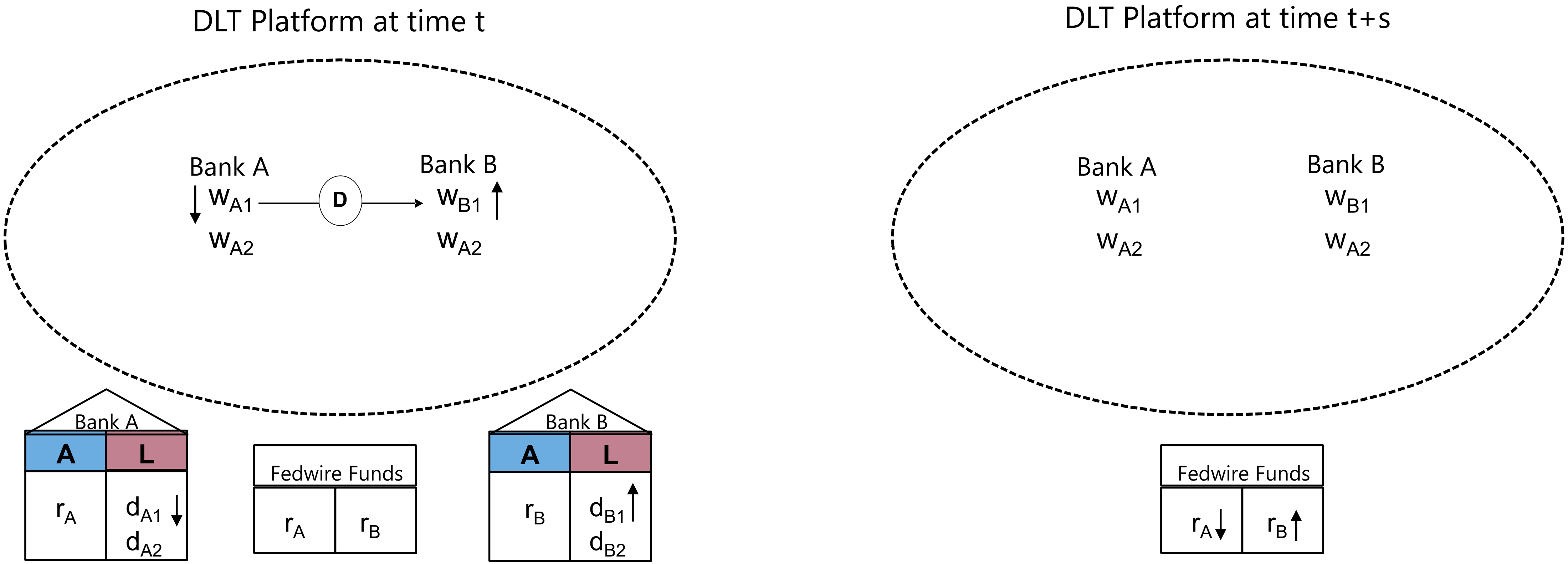
2. Non bearer instrument (burn/issue)
   - The movement of a token does two things
     - updating of institutional (bank) ledgers
     - movement of a settlement asset (on/off platform, real time/deferred)

Example 1



Example 1:
Real time settlement using CBDCs.
www.citibank.com/tts/insights/articles/article191.html

Example 2



Example 2:
Deferred settlement taking place periodically via Fedwire
https://www.usdfconsortium.com/_files/ugd/0a0cc5_4c71b4ac01974b8b8d2af1d6a970b83c.pdf

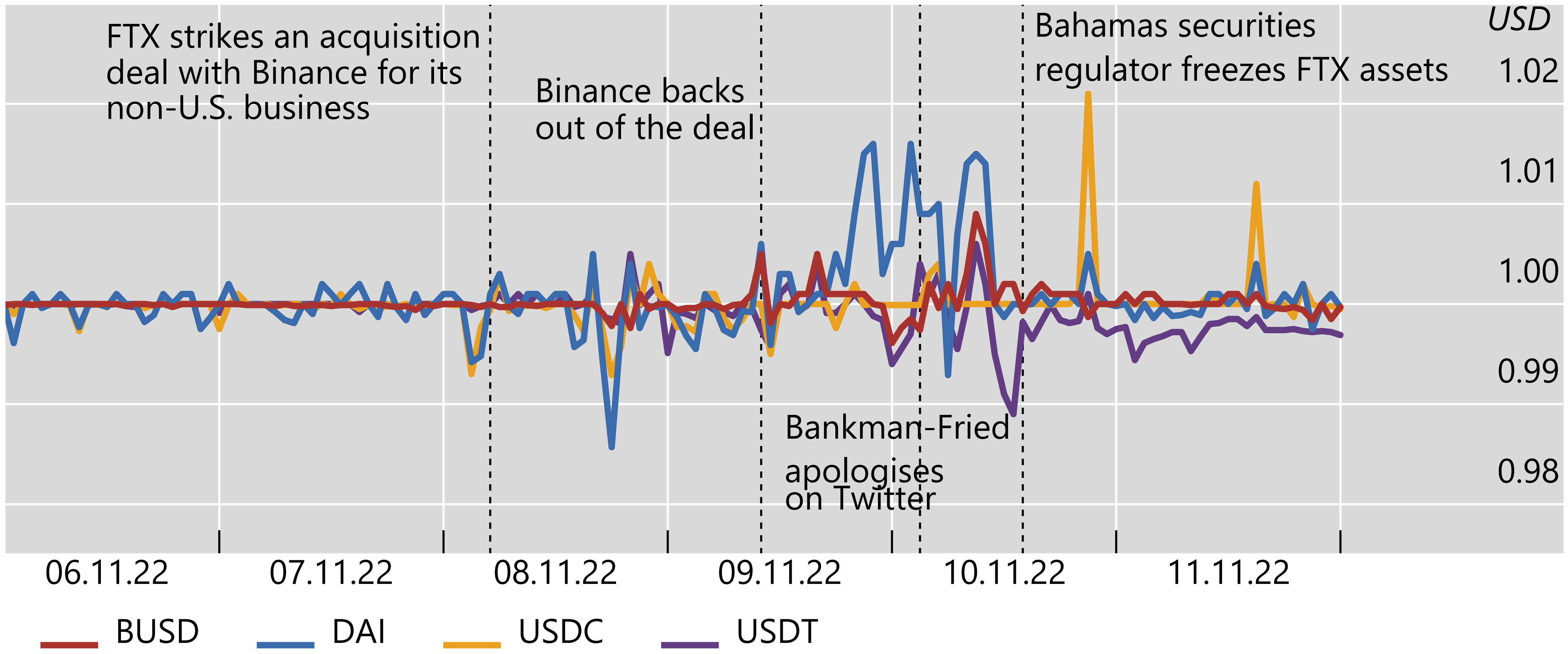
Tokenized deposits are not stablecoins

- Stablecoins such as Tether, Circle, and Binance USD are backed by assets that include reserves, treasuries and commercial paper
  - no perfected security interest in underlying assets
  - represent a claim on issuer similar to bank deposits

- Their transfer **does not** lead to
  - the reassignment of a liability from one institution to another, or
  - the transfer of a settlement asset

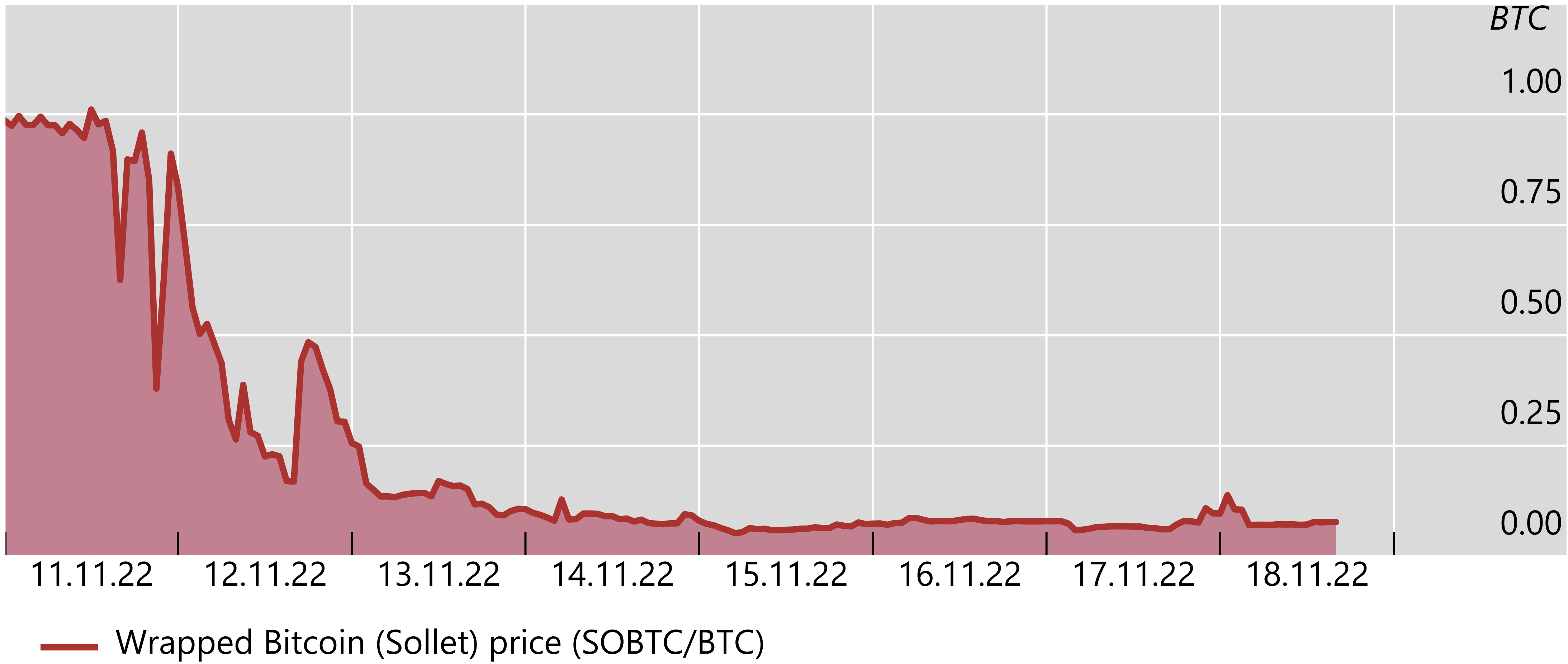
- Stablecoins fit into the bearer instrument model of tokenised deposits that **the industry rejected**

Stablecoins are risky



Sources: CryptoCompare; The Block ; BIS.

Exchanges are risky



Source: CoinGecko.

Bank deposits are not risky

- Regulated and supervised
- Trusted and insured
- Part of well-functioning two-tier monetary system
- Fungible

- Difficult to turn stablecoin issuers into banks

Thank You!