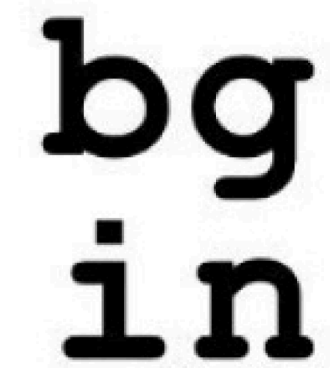

BGIN Block#12 Meeting Report

- BGIN is a multi-stakeholder discussion body / distributed think tank.

Tokenization Initiatives



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The Global Network for Blockchain Stakeholders™

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BGIN Block#12

Tokenization Initiatives

Date: Monday, March 3, 2025

Location: Tokyo, Japan

Duration: Approx. 90 minutes

Summary

Project Agora

1. Initial Discussion and Workstreams of Project Agora

- The session began with a discussion about the structure of Project Agora, emphasizing that different workstreams are handling distinct aspects of the initiative.
- It was explained that:
 - The Technical Workstream focuses on exploring the feasibility of tokenized wholesale central bank money and cross-border payments.
 - The Legal Workstream is responsible for investigating regulatory and legal implications related to tokenized assets and settlements across different jurisdictions.
 - The Communication Workstream manages public-facing information and messaging, ensuring that external communications align with project goals and regulatory sensitivities.

2. Strong Restrictions on Information Dissemination

- The Communication Workstream has prepared an official FAQ document that serves as a reference for any external communications about the project.
- It was emphasized that there are strong restrictions on information dissemination to external members, meaning that discussions and updates must align with the official FAQ.
- The speaker requested understanding from participants that they must be cautious when sharing project details outside of the designated workstreams.

3. Main Objectives of Project Agora

The speaker then introduced the core objectives of Project Agora, explaining that the project was designed to:

- Improve Efficiency in Business and Regulatory Processes in Correspondent Banking
 - Agora aims to enhance cross-border banking operations by reducing transaction times and cutting down transaction costs.
 - The initiative seeks to increase transparency in cross-border transactions, which is particularly relevant for regulatory compliance.

- Address Challenges in Cross-Border Payments
 - The project focuses on making cross-border payments more efficient and transparent by:
 - Streamlining compliance and regulatory reporting for banks.
 - Reducing operational inefficiencies caused by the current fragmented system of correspondent banking.
 - Ensuring compliance with anti-money laundering (AML) and countering the financing of terrorism (CFT) regulations without increasing the burden on financial institutions.
- Enhancing Financial Infrastructure Through Tokenization
 - Project Agora is investigating how tokenization of central bank and commercial bank money can improve settlement processes.
 - The use of a unified regulatory and technical framework is expected to simplify interactions between financial institutions, regulators, and market participants.

4. Future Expansion of the Project

- The project currently involves seven jurisdictions, but there is an expectation that more countries will participate in the future.
- The project is designed to be scalable, meaning that as more financial institutions and regulators join, it should be able to accommodate new jurisdictions and evolving regulatory frameworks.
- It was stressed that early participation and collaboration among banks and regulators are essential for Project Agora's success.

5. Transition to the Next Slide

- After presenting the main objectives, the speaker transitioned to the next part of the presentation, which delves into the technical prototype being developed for wholesale cross-border payments.

6. Introduction to the Technical Prototype

- The session transitioned to discussing how Project Agora is building a technical prototype to test wholesale cross-border payments.
- The primary goal of the prototype is to demonstrate the feasibility of tokenized central bank and commercial bank money in cross-border transactions.
- The speaker outlined that the prototype is designed to address inefficiencies in existing financial systems by using tokenized assets while ensuring regulatory compliance.

7. Key Features and Functionalities of the Prototype

The prototype aims to test and validate four key capabilities:

- Representation of Tokenized Central Bank & Commercial Bank Money
 - The prototype explores how commercial bank deposits and central bank money can be tokenized within a unified regulatory framework.

- This allows financial institutions to experiment with digital asset settlement without disrupting existing banking relationships.
- The project investigates the technical and business requirements needed for tokenized payments to function effectively.
- Atomic Cross-Border Transactions
 - One of the core challenges in correspondent banking is the delays in settlement due to multiple intermediaries.
 - The prototype is designed to facilitate atomic settlement, meaning that transactions will either complete in full or not happen at all.
 - The system is structured to preserve the current deposit-bank relationships, ensuring that cross-border payments function similarly to the existing financial ecosystem.
 - The prototype is testing whether transactions can be settled instantly using tokenized assets without increasing financial risks for banks.
- Streamlined Pre-Validation for Payments
 - The prototype incorporates pre-validation mechanisms to reduce the duplication of compliance checks in the payment chain.
 - Today, banks conduct multiple redundant checks at various stages of a transaction to comply with AML/CFT regulations.
 - Project Agora aims to standardize and automate pre-validation to reduce processing times and operational costs.
 - The objective is to improve the efficiency of regulatory compliance without changing existing legal standards.
- Compliance with AML, CFT, and Sanctions Screening
 - The current cross-border payment system has compliance bottlenecks, particularly in sanctions screening and anti-money laundering (AML) rules.
 - The prototype explores whether a unified system can improve compliance efficiency without compromising security.
 - One challenge is ensuring that the tokenized payment system adheres to existing international standards for AML, KYC (Know Your Customer), and counter-terrorism financing rules.
 - The project also evaluates how real-time compliance checks can be built into the settlement system.

8. Legal and Regulatory Issues Identified

- The discussion then shifted to the legal and regulatory challenges that arise from tokenized cross-border transactions.
- The project is analyzing potential legal gaps across multiple jurisdictions and how they may impact settlement finality.
- One major challenge is that different countries have different definitions of “tokenized central bank money” and “commercial bank deposits.”
- The team is working on solutions to ensure legal consistency across borders while allowing each jurisdiction to maintain its monetary sovereignty.

9. Importance of Interoperability in Cross-Border Payments

- The speaker emphasized that for tokenized payments to be widely adopted, they must be interoperable across different financial systems.
- The goal is to ensure that tokenized central bank money and commercial bank deposits can function seamlessly across various jurisdictions.
- The project is exploring how to integrate existing financial infrastructures (such as SWIFT and domestic RTGS systems) with a new tokenized settlement network.

10. Three Key Principles for a Common International Payment Platform

The speaker elaborated on three fundamental principles that any common international cross-border payment platform should adhere to:

(i) Open, Transparent, and Secure System with Monetary Sovereignty Considerations

- A cross-border payments platform must be open and transparent to gain broad adoption by central banks and commercial financial institutions.
- Security must be prioritized to ensure trust and resilience in the financial system.
- Monetary sovereignty must be preserved, meaning that:
 - Each participating country should have control over its own currency within the system.
 - Central banks should be able to manage and regulate transactions involving their national currencies.
- The project must accommodate diverse monetary policies while maintaining a common technical framework.

(ii) Avoidance of Fragmentation in Financial Markets

- A major concern raised in the BOJ report was that introducing a new international platform could fragment financial markets if not designed properly.
- Price formation and market liquidity in foreign exchange (FX) and interbank markets must remain intact.
- Post-trade processing on the new platform should not disrupt existing FX market structures.
- It was stressed that if the new system unintentionally increases liquidity needs or settlement delays, it could discourage financial institutions from participating.
- The platform must seamlessly integrate with trading platforms and existing settlement systems to avoid harming market liquidity.

(iii) Standardized Data Formats and Messaging Protocols

- Data standardization is essential to ensure smooth integration with existing trading, settlement, and compliance systems.
- The new system must align with current global standards, such as ISO 20022, to ensure compatibility with banks' existing infrastructures.
- A major issue in today's correspondent banking system is inconsistent messaging protocols, which cause delays and inefficiencies.
- Harmonization of messaging protocols would allow for:

- Faster pre-validation and reconciliation of transactions.
- Easier adoption by financial institutions without costly infrastructure overhauls.
- Improved compliance screening through automated data-sharing mechanisms.

12. Addressing Settlement & Liquidity Challenges

- The speaker then introduced another critical issue in cross-border payments:
 - The increased liquidity demands that may arise from a tokenized settlement system.
 - If the system substantially increases the need for intraday liquidity, it could be counterproductive and deter adoption.
- Many FX transactions today are settled with minimal liquidity requirements, thanks to netting effects from clearing houses like CLS Bank.
- If a new tokenized system significantly increases liquidity requirements, banks may be reluctant to use it.
- To address this concern, Project Agora is exploring functionalities to optimize liquidity management, including:
 - Netting mechanisms to reduce the volume of real-time transactions requiring settlement.
 - Intraday liquidity funding facilities to ensure banks can meet liquidity demands efficiently.

13. Designing for Scalability and Future Adoption

- The speaker reiterated that the platform is being designed to scale, allowing more central banks and financial institutions to participate over time.
- The system should be flexible enough to integrate new innovations while maintaining compatibility with existing financial infrastructure.
- It was noted that Project Agora expects more jurisdictions to join beyond the initial seven currently involved.

Global Layer 1

14. Transition to GL1 Discussion

- Following the roundtable introductions, the discussion moved to Global Layer 1 (GL1), an initiative focused on building a digital infrastructure to support tokenized financial instruments.
- The speaker introduced GL1 as a multi-purpose shared ledger infrastructure that aims to be:
 - Regulatory-compliant and developed with input from regulated financial institutions.
 - Interoperable across various digital asset networks to ensure seamless integration with existing financial markets.
 - Scalable to support high transaction volumes and evolving financial instruments.

15. Overview of the Challenges GL1 Seeks to Solve

- The speaker highlighted that existing digital asset ecosystems suffer from several critical issues, including:

(i) Lack of Interoperability

- Digital assets today exist on multiple, fragmented networks, leading to inefficiencies.

- Banks and financial institutions struggle to interact with decentralized finance (DeFi) systems because of differing standards and technological frameworks.
- GL1 aims to bridge the gap between traditional finance (TradFi) and decentralized finance (DeFi) by establishing a common infrastructure.

(ii) Fragmented Asset Pools

- Financial institutions currently operate within walled gardens, meaning that tokenized assets are restricted within specific networks.
- This results in lower liquidity and inefficiencies when settling transactions across different financial ecosystems.
- GL1 proposes a unified platform where tokenized assets can interact across multiple institutions and regulatory environments.

(iii) Differing Regulatory & Compliance Standards

- Financial institutions must navigate complex compliance requirements across jurisdictions.
- A lack of common standards for tokenized assets makes cross-border settlement more complicated.
- GL1 intends to align with global financial policies to ensure smoother regulatory adoption.

(iv) Privacy & Security Concerns

- Digital asset networks vary in their levels of privacy protections.
- Institutional players require strong identity verification and transaction traceability for AML/CFT compliance.
- GL1 will integrate privacy-preserving technologies while ensuring compliance with financial regulations.

(v) Scalability Issues in Digital Asset Networks

- Existing public blockchains struggle with transaction speeds and costs.
- Many institutional players hesitate to adopt blockchain-based settlements due to concerns about network congestion and high fees.
- GL1 is designed to be highly scalable, ensuring that large-scale financial transactions can be processed efficiently.

16. The Three Proposed Models for GL1

The speaker outlined three possible models for how GL1 could function in practice:

Model 1: Public Permissionless

- This model is similar to Ethereum or other public blockchains, where anyone can participate.
- Advantages:
 - Open access to a wide range of participants.
 - High level of decentralization.
- Disadvantages:

- Regulatory concerns over AML/CFT compliance.
- Risk of illicit activity, making it unattractive for institutional adoption.

Model 2: Private Permissioned

- A closed network operated by a consortium of financial institutions.
- Advantages:
 - Stronger control over regulatory compliance.
 - More predictable governance and security.
- Disadvantages:
 - Limited interoperability with external financial networks.
 - Potential centralization risks, reducing its attractiveness to decentralized finance (DeFi) participants.

Model 3: Public Permissioned (Hybrid Model)

- A hybrid model combining openness with controlled access.
- Features:
 - Open to participation, but permissions are granted based on regulatory compliance.
 - Different levels of access for different participants (e.g., banks, regulators, fintech firms).
 - Validators ensure compliance while maintaining decentralization principles.
- This model is considered the most promising approach, as it balances regulatory requirements with innovation.

17. How GL1 Fits into the Broader Financial Landscape

- The speaker emphasized that GL1 is positioned as a foundational infrastructure layer, rather than a competing financial product.
- Unlike standalone tokenized assets (e.g., stablecoins or tokenized securities), GL1 aims to be an underlying settlement layer that supports various financial activities, including:
 - Central bank digital currencies (CBDCs).
 - Tokenized commercial bank deposits.
 - Stablecoins issued by regulated financial institutions.
 - Programmable financial instruments such as automated market makers (AMMs).
- The project is being developed with the vision that institutions will build applications on top of GL1, rather than replacing existing financial structures.

18. Challenges in Tokenization, Interoperability, and Institutional Adoption of Digital Asset Infrastructure

- The discussion shifted from explaining Global Layer 1 (GL1) to analyzing the key challenges faced by tokenization initiatives and financial institutions considering adoption.
- The speaker emphasized that technology alone is not enough—there are significant regulatory, operational, and market-related challenges that must be addressed.

- The conversation focused on the real-world obstacles to implementing tokenized financial infrastructure, particularly in the context of cross-border payments and institutional adoption.

19. Key Challenges in Institutional Adoption of Tokenized Systems

The discussion outlined several challenges that financial institutions, regulators, and technologists face when transitioning to tokenized assets.

(i) Lack of Standardization Across Tokenized Financial Networks

- The financial sector is highly fragmented, with various banks, central banks, and fintech companies developing different tokenization solutions.
- There is no universal standard for:
 - Tokenized financial instruments (e.g., tokenized deposits, stablecoins, wholesale CBDCs).
 - Interoperability protocols between private blockchains and traditional financial networks.
 - Compliance frameworks for cross-border tokenized settlements.
- Without standardization, institutions hesitate to adopt tokenization due to the risk of incompatibility with existing systems.

(ii) Challenges in Interoperability Between Traditional Finance (TradFi) and Tokenized Finance

- One major issue is the difficulty of integrating tokenized assets into legacy banking infrastructure.
- Existing payment networks (SWIFT, RTGS systems, interbank settlement platforms) were not built to handle blockchain-based digital assets.
- Regulators and financial institutions worry about how to facilitate smooth transitions from traditional finance to tokenized systems without disrupting financial stability.
- Financial institutions are concerned that operating on fragmented tokenized networks could increase complexity rather than simplify payments.

(iii) Privacy & Compliance Risks in Tokenized Financial Transactions

- Tokenization raises significant compliance challenges, particularly in:
 - AML/CFT (Anti-Money Laundering & Counter-Terrorism Financing) regulations.
 - Sanctions screening (ensuring restricted entities do not participate).
 - KYC (Know Your Customer) standards across jurisdictions.
- A key question is how compliance will be enforced in tokenized environments:
 - Will real-time compliance checks be possible?
 - Will banks need to update their AML screening tools to accommodate tokenized transactions?
 - How will financial crime monitoring adapt to new payment models enabled by tokenization?

(iv) Balancing Institutional Control vs. Decentralization

- Traditional financial institutions prefer controlled environments, where:
 - Transaction monitoring and compliance enforcement are centralized.
 - Liquidity risks are mitigated through existing oversight mechanisms.
- In contrast, crypto-native ecosystems favor decentralized approaches, where:
 - Transactions occur peer-to-peer with minimal institutional oversight.
 - Regulatory enforcement happens at the smart contract level, not through centralized intermediaries.
- Bridging these two approaches is a major challenge, as financial institutions seek regulated tokenization frameworks while maintaining control over risk management.

(v) Market Incentives for Financial Institutions to Participate

- Many banks are hesitant to engage with tokenized systems unless there are clear commercial benefits.
- Financial institutions require strong incentives to invest in:
 - New compliance infrastructure for tokenized finance.
 - Liquidity provisioning for digital asset settlement.
 - Operational restructuring to integrate tokenized deposits or CBDCs.
- Without a clear business case, banks and financial institutions may resist adoption despite the potential technological benefits.

20. Discussion on Institutional Hesitation Toward Tokenization

- A financial institution representative expressed concerns about the current fragmentation in tokenization efforts.
- They noted that many financial institutions are waiting for regulatory clarity before making major investments in digital assets.
- The lack of consistent definitions for tokenized deposits and stablecoins across jurisdictions is creating uncertainty.
- Another participant from a regulatory body stated that regulators are moving cautiously:
 - They recognize the potential of tokenization to improve efficiency, but they also see risks that need to be mitigated first.
 - Regulators are particularly concerned about shadow banking risks, where non-bank entities issue tokenized financial instruments without proper oversight.
 - The lack of transparency in some DeFi-based tokenization initiatives is a red flag for regulators.

21. The Role of Private Sector Tokenization Efforts

- The conversation shifted to discussing how private sector initiatives, such as stablecoins and tokenized deposits, are competing with institutional tokenization projects like Project Agora and GL1.
- A speaker highlighted that several large financial institutions are already issuing tokenized assets outside of regulated frameworks.
- Examples discussed:
 - JPMorgan's Onyx and tokenized deposits.
 - BlackRock and other asset managers launching tokenized real-world assets.
 - DeFi platforms experimenting with tokenized US Treasuries and other financial instruments.
- Key question raised:
 - Will institutions prefer private-sector-led tokenization solutions over public-sector-driven projects like Project Agora?
 - Will large banks create their own tokenization networks instead of adopting industry-wide infrastructures like GL1?

22. Transition to the Debate: Public vs. Private Tokenization Initiatives

- After discussing the challenges and potential solutions for institutional adoption of tokenized finance, the conversation shifted toward the competition between public and private tokenization initiatives.
- Participants explored whether financial institutions will adopt government-backed tokenization frameworks (like Project Agora and GL1) or prefer private sector-led models (such as JPMorgan Onyx, BlackRock, and Citibank's tokenization efforts).
- The key questions driving this discussion:
 - Will private banks and asset managers dominate tokenized finance, leaving government-led initiatives behind?
 - Can public and private initiatives collaborate, or will their competing interests lead to further market fragmentation?
 - How will regulatory oversight evolve in a landscape where private institutions tokenize assets independently?

23. Understanding the Private Sector's Tokenization Efforts

A speaker outlined the major private-sector players currently leading tokenization efforts:

- JPMorgan Onyx:
 - JPMorgan has developed a private permissioned blockchain (Onyx) for institutional-grade tokenized deposits and payments.
 - Onyx is heavily integrated into JPMorgan's own banking system, making it a walled garden rather than an open financial network.

- The JPM Coin, a tokenized deposit, is already being used for internal settlement between JPMorgan's clients.
- BlackRock's Tokenization Strategy:
 - BlackRock has begun issuing tokenized money market funds and real-world assets (RWAs).
 - Their approach focuses on tokenized treasuries and private credit markets, giving institutional investors more efficient ways to trade fixed-income securities.
 - BlackRock's strategy is heavily reliant on institutional investment demand rather than broader financial system transformation.
- Citi's Tokenized Deposits:
 - Citi is working on a hybrid model that combines tokenized deposits with regulated financial infrastructure.
 - Their goal is to facilitate programmable payments while ensuring compliance with global banking regulations.
- Private Stablecoin Issuers (USDC, USDT, etc.):
 - USDC (issued by Circle) and USDT (Tether) dominate the tokenized dollar space.
 - These privately issued digital dollars are already used in cross-border trade, DeFi, and remittances, competing with potential public-sector tokenized settlement solutions.

Key takeaway from this segment:

- Private sector firms are moving fast to tokenize financial assets.
- Their goal is to create institutionally focused solutions that align with their existing business models and customer base.
- Unlike public-sector projects (GL1, Agora), private firms do not have a mandate to create an inclusive financial system—their priority is profit and efficiency.

24. Arguments in Favor of Public-Sector Tokenization Initiatives

Several participants defended the role of public-sector tokenization efforts, arguing that government-backed initiatives offer unique benefits:

(i) Ensuring Market Stability & Financial Integrity

- Central banks and regulators play a key role in maintaining financial stability.
- If tokenization becomes too privatized, there is a risk of shadow banking and regulatory arbitrage.
- Public initiatives like GL1 and Agora ensure that tokenized assets operate within existing financial stability frameworks.

(ii) Avoiding Market Fragmentation

- If every bank or institution builds its own proprietary tokenized system, the result will be financial silos that do not interact.

- This would replicate the inefficiencies of today's correspondent banking system rather than solving them.
- Publicly managed, open-access tokenization infrastructures (like GL1) can serve as a unifying layer, ensuring interoperability across different tokenized ecosystems.

(iii) Supporting Financial Inclusion

- Many private tokenization efforts focus only on high-net-worth investors and institutional clients.
- Public-sector initiatives have a broader mandate to ensure that tokenized finance benefits all segments of the economy, not just the wealthiest players.

(iv) Aligning Tokenization with Monetary Policy Goals

- If large-scale tokenized deposits and stablecoins become dominant, they could erode the role of central bank money.
- A government-backed tokenized payment system would ensure that monetary policy transmission remains effective.
- Without central bank oversight, tokenized finance could undermine traditional banking stability.

25. Counterarguments in Favor of Private-Sector-Led Tokenization

Others in the discussion argued that private-sector initiatives are moving faster and are more capable of driving innovation.

(i) Public-Sector Innovation is Slow & Bureaucratic

- Government-led financial innovation is often slow-moving, with multiple layers of approvals and risk aversion.
- Private banks and fintech firms have more agility, allowing them to experiment, iterate, and improve tokenized finance solutions at a faster pace.

(ii) Private Companies Have Stronger Commercial Incentives

- Financial institutions will not adopt a system just because it is government-backed—they need clear revenue opportunities.
- Private tokenization efforts are built with profitability in mind, making them more appealing to banks.
- JPM Coin and tokenized BlackRock funds already have real-world adoption, whereas GL1 and Agora are still in exploratory stages.

(iii) Private Initiatives Offer Better User Experience

- Private firms prioritize efficient user interfaces, low transaction costs, and institutional-grade security.
- Government-backed infrastructures often lag in usability and technological sophistication.
- If public-sector initiatives fail to offer a superior experience, banks and investors will naturally gravitate toward private solutions.

26. Potential Collaboration Between Public and Private Tokenization Efforts

- Rather than choosing between public vs. private tokenization models, some participants suggested that the best path forward is collaboration.
- Possible models for public-private collaboration:
 - Regulated financial institutions could use GL1 or Agora as a base layer, while developing their own tokenized products on top.
 - Central banks could set tokenization standards while allowing private firms to build competitive solutions within those frameworks.
 - Private tokenized financial instruments (like JPM Coin or tokenized US Treasuries) could be made interoperable with central bank-regulated tokenized deposits.
- A participant from a regulatory body noted that while public tokenization projects offer stability, they need the private sector's expertise in innovation and market deployment.
- A financial institution representative stated that a hybrid approach, where public and private models coexist under a shared compliance framework, could be the most practical solution.

27. Transition to Stablecoin Discussion

- After debating the public vs. private tokenization models, the conversation shifted to the role of stablecoins in the evolving tokenized financial system.
- Participants explored key questions:
 - Are stablecoins complementary to tokenized bank deposits, or do they pose a competitive threat?
 - Can stablecoins improve cross-border payments more efficiently than government-backed tokenized systems like Project Agora?
 - How should stablecoins be regulated, and what risks do they introduce to the broader financial system?

28. Overview of Stablecoin Adoption and Market Trends

A participant provided a market overview of stablecoins, highlighting their growth, use cases, and evolving regulatory landscape.

- Current stablecoin market size:
 - As of early 2025, the total stablecoin market capitalization is approximately \$220 billion, with USDT (Tether) and USDC (Circle) dominating the sector.
 - Significant growth in tokenized real-world assets (RWAs) has driven demand for stablecoins as a settlement layer.
- Primary use cases of stablecoins:
 - Cross-border remittances:
 - Stablecoins offer faster and cheaper international payments compared to traditional correspondent banking systems.
 - DeFi and financial markets:
 - Many crypto-native applications use stablecoins as the primary form of collateral and trading pair.

- Institutional adoption:
 - Companies like Visa and PayPal have begun integrating stablecoins into payment systems.
- Tokenized asset settlement:
 - New initiatives, such as tokenized US Treasuries and securities, use stablecoins for instant settlement.
- Growing institutional interest:
 - Major financial institutions, including JPMorgan and BlackRock, are exploring stablecoins for internal settlements.
 - Regulated financial institutions are starting to issue their own stablecoins, challenging the dominance of crypto-native stablecoin issuers.

29. Are Stablecoins a Complement or a Competitor to Tokenized Bank Deposits?

The debate then shifted to whether stablecoins should be viewed as a complement to traditional finance or as a disruptive competitor.

(i) Argument: Stablecoins are a Complement to Tokenized Bank Deposits

- Stablecoins can enhance cross-border transactions and settlement speed for institutions that still rely on slow, costly banking systems.
- They offer liquidity and accessibility that traditional finance lacks, particularly for individuals and businesses in emerging markets.
- Financial institutions could leverage stablecoins within tokenized financial ecosystems rather than seeing them as competition.
- If properly regulated, stablecoins could serve as an on-ramp to tokenized finance, helping financial institutions transition toward digital asset adoption.

(ii) Argument: Stablecoins Compete with Tokenized Bank Deposits & Pose Risks

- Stablecoins challenge traditional bank deposits by offering a more efficient, borderless alternative.
- Privately issued stablecoins could reduce reliance on central bank money, potentially impacting monetary policy.
- Many stablecoins operate outside regulatory frameworks, leading to concerns about financial stability, illicit activity, and counterparty risk.
- If stablecoins become dominant in cross-border transactions, banks could lose control over international settlement networks.

Key question raised:

- Will banks integrate stablecoins into regulated tokenized financial networks, or will they push for stricter regulations to limit their influence?

30. Regulatory Challenges and Risks of Stablecoin Adoption

A regulatory expert outlined the major concerns financial authorities have regarding stablecoins:

(i) Lack of Clear Regulatory Oversight

- Stablecoin issuers operate under different regulatory frameworks depending on jurisdiction.
 - Some jurisdictions treat stablecoins as payment instruments, while others classify them as securities.
- Financial regulators are struggling to create a uniform framework for stablecoin governance.

(ii) Reserve Backing and Redemption Risks

- Not all stablecoins are fully backed by safe assets.
 - USDC and USDT claim to be fully backed by cash and short-term US Treasuries, but concerns about audit transparency remain.
 - Algorithmic stablecoins (such as Terra/Luna, which collapsed in 2022) have historically posed systemic risks.
- Questions raised:
 - How can regulators ensure stablecoin reserves are properly backed and audited?
 - Should stablecoin issuers be subject to banking regulations similar to traditional financial institutions?

(iii) Systemic Risks and Financial Stability Concerns

- Widespread adoption of stablecoins could introduce new risks to the global financial system.
 - If a major stablecoin issuer collapses, it could trigger liquidity crises across financial markets.
 - Stablecoins compete with commercial bank deposits, potentially reducing the effectiveness of monetary policy.
 - Unregulated stablecoin adoption in emerging markets could weaken local financial institutions.
- Regulators are discussing whether to enforce:
 - Capital requirements for stablecoin issuers to ensure financial stability.
 - Restrictions on stablecoin reserves, requiring them to hold only cash and government securities.
 - Stricter AML/CFT compliance to prevent illicit transactions.

31. Stablecoins vs. Central Bank Digital Currencies (CBDCs)

The conversation then turned to whether CBDCs could replace stablecoins or if the two would coexist.

- A central bank representative argued:
 - CBDCs could eliminate the need for privately issued stablecoins by providing a government-backed digital currency with the same benefits.
 - A well-designed CBDC would offer financial stability without the risks associated with private stablecoin issuers.
 - Central banks should not allow stablecoins to become systemically important before regulatory frameworks are in place.

- A counterargument from a fintech expert:
 - Stablecoins already serve market demand for digital dollars—governments may be too slow to launch CBDCs before stablecoins become dominant.
 - CBDCs are unlikely to completely replace stablecoins, especially in DeFi and crypto-native markets where private stablecoins have already established liquidity.
 - Regulated financial institutions may integrate stablecoins alongside CBDCs, rather than viewing them as direct competitors.

32. Future of Stablecoin Regulation: What Comes Next?

- The conversation closed with predictions on how stablecoin regulation will evolve.
- A regulatory expert predicted:
 - Tighter stablecoin regulation is inevitable, particularly for issuers handling large transaction volumes.
 - Expect global coordination efforts, possibly through G20, BIS, or IMF frameworks.
 - Banks and financial institutions may start issuing their own stablecoins, leading to a shift toward fully regulated tokenized deposits.
- A financial institution representative speculated:
 - Stablecoins will continue to grow, but regulators will push issuers toward stricter compliance.
 - Financial institutions will likely integrate stablecoins into regulated banking systems rather than banning them outright.
 - Projects like Agora and GL1 could provide a compliant alternative, attracting financial institutions away from unregulated stablecoins.

33. Transition to the Final Discussion: The Future of Tokenized Finance

- The moderator summarized the key takeaways:
 - Stablecoins are playing an increasingly significant role in tokenized finance.
 - There is an ongoing debate on whether stablecoins complement or compete with tokenized bank deposits.
 - Stablecoins pose regulatory challenges, including reserve backing, financial stability risks, and AML/CFT compliance.
 - CBDCs may serve as an alternative, but stablecoins already dominate key financial use cases.
- The final segment of the discussion would explore the future of tokenized finance, including:
 - How will financial markets evolve in response to tokenization?
 - What role will central banks, regulators, and private institutions play?
 - What are the key next steps for projects like Agora and GL1?