Testimony

of

Robert Morgan
Chief Executive Officer
USDF Consortium

before the

Subcommittee on Digital Assets, Financial Technology and Inclusion

of the

United States House of Representatives

Committee on Financial Services

Next Generation Infrastructure: How Tokenization of Real-World Assets Will Facilitate Efficient Markets

June 5, 2024

Chairman Hill, Ranking Member Lynch, and members of the Subcommittee, my name is Robert Morgan. I am CEO of the USDF Consortium. The USDF Consortium appreciates the opportunity to testify at this hearing, entitled "Next Generation Infrastructure: How Tokenization of Real-World Assets Will Facilitate Efficient Markets."

For most Americans, money is already digital and exists largely in the form of bank deposits. These are delivered through a diverse and competitive two-tier banking system that ensures individual protections and systemic soundness, while supporting credit creation that is the bedrock of a healthy economy.

Yet, the advent of new technologies promises to reshape the nature of money and how it powers our economy and shapes our society. "Tokenization" refers to the use of novel shared ledgers to record, store, and facilitate the transfer of traditional banking assets and liabilities, including bank deposits.

Tokenization should not be confused with cryptocurrency despite similar technological underpinnings. Unlike cryptocurrencies, which are generally assets that exist in novel markets, tokenization refers to the use of Distributed Ledger Technology (DLT) to improve the delivery of "real-world assets" such as bank deposits, bonds, and other regulated financial instruments.

Over the years, various ledger technologies – both analog and digital – have played a central role in banking as a system of record. They have evolved from paper, to on-premises servers, to the cloud. We believe that DLT is the next evolution in ledger technology.

Financial infrastructure today consists of a series of siloed systems, separating banks and even products within an individual bank. DLT has the potential to break down these silos, facilitating efficiency within a financial institution as well as real-time collaboration among financial institutions. We believe that tokenization can provide efficiencies that lower the cost of offering financial services, allowing banks to reach more Americans with safe, affordable, and inclusive products.

In particular, we believe that DLT can facilitate the following:

- Faster, cheaper payments, ensuring that consumers and businesses can have real-time access to their funds.
- Programmable payments, allowing for the automation of complex transaction flows that can reduce fraud and improve transparency.
- Atomic settlement, leveraging DLT to record other traditional banking assets, can break down silos between systems making it easier to buy and sell these assets. This added liquidity allows for new funding options that can lower the cost of credit, expanding access to affordable financial products.

- Collaboration among community banks, allowing groups of community banks to work together in real time to punch above their weight and compete with larger institutions.

This technology is not just about back-end efficiencies that save banks money. It allows for the development of products and services that can benefit the consumers and small businesses that banks serve.

For example, USDF's members are exploring how tokenization can improve the construction lending process. By leveraging programmable payments, we can program loan disbursements to occur at the completion of certain milestones, like pouring the foundation of a new building or receiving permitting approvals. This can help contractors and their employees get paid more quickly and reduce settlement risk. Moreover, by reducing the costs to the banks to manage the relationship, the cost of credit should decrease.

We are also exploring how tokenization can help modernize loan participations, allowing groups of community banks to more easily participate in these arrangements when a borrower has needs that may exceed the lending capacity of the community bank. By making it easier for community banks to participate in loan participations, a community bank has a better chance to maintain a relationship with a customer that has grown and may otherwise need to find a relationship with a larger bank to meet its borrowing needs.

USDF is also proud to participate in industry-wide initiatives such as the Regulated Settlement Network (RSN) proof-of-concept. This project is a collaborative effort by large banks, payments networks, and other regulated financial institutions to explore how the creation of a shared ledger that includes commercial bank deposits, bank reserves, U.S. Treasury securities, and other tokenized assets might improve settlement infrastructure in the United States. USDF's participation ensures that banks of all sizes have a seat at the table as we explore these systems.

Despite the promise of this technology, at present there is significant regulatory uncertainty that limits banks' ability to adopt these innovations. As highly regulated institutions, any new offering by banks is subject to scrutiny, but tokenization initiatives are being held to an even higher standard. Although they have clear authority to do so, any bank wishing to undertake a blockchain project must receive formal regulatory approval.[1] This approval process does not exist and is not required when utilizing other technologies.

[1] The OCC's Interpretive Letter 1179 requires OCC-regulated banks to obtain supervisory non-objection prior to engaging in any permissible crypto-related activity. OCC Interpretive Letter 1179 (Nov. 18, 2021), https://www.occ.gov/topics/charters-and-licensing/interpretations-and-actions/2021/int1179.pdf. The FDIC's FIL-16-2022 requires banks to notify the FDIC for supervisory feedback prior to engaging in any crypto-related activities. FDIC FIL-16-2022 (Apr. 7, 2022), https://www.fdic.gov/news/financial-institution-letters/2022/fil22016.html. The Federal Reserve similarly requires all of its regulated banks to notify the

FDIC Vice Chair Travis Hill recently acknowledged the challenge that this uncertainty presents when he noted "there are significant downsides to the FDIC's current approach, which has contributed to a general public perception that the FDIC is closed for business if institutions are interested in anything related to blockchain or distributed ledger technology." He further warned that "the message being heard by the vast majority of the industry could be interpreted as don't bother trying."[2]

Bank deposits are a cornerstone of our monetary and financial systems and support the dominance of the U.S. Dollar around the world. Tokenization promises to upgrade bank deposits, delivering real innovation to the customers and communities that our banks serve while maintaining the critical protections that banking regulation ensures. We look forward to working with Congress to provide clarity that can help banks safely and responsibly deliver these innovations.

1. What is tokenization?

Tokenization is simply the use of a token or marker to represent another item. For example, instead of standing in a long line at the deli counter, someone might pull a ticket with a number on it. That ticket is a token that represents their place in line. When their number is called, they will show the ticket and claim their place at the front of the line.

Tokens are already widely used and exist in a variety of formats, both financial and non-financial. A few examples include:

- Tokens are used today in card networks to replace sensitive account information like card numbers.
- Tokens are also used in cybersecurity to replace access credentials and secure systems.
- Tokens exist in cryptocurrency markets as novel bearer instruments.
- Tokens are used in artificial intelligence and large language models to break down the fundamental units of text.

While all important, none of these applications are the focus of today's hearing. For the purposes of today's hearing, tokenization refers to the use of novel, shared ledger technologies often called DLTs, of which blockchains are a subset. Today, we are discussing the use of DLTs to record, store, and facilitate the transfer of traditional banking assets and liabilities. By recording banking assets and liabilities on the same shared system of record, we can break down silos and upgrade the core infrastructure of our banking system.

Federal Reserve for supervisory feedback prior to engaging in any crypto-related activities. Federal Reserve SR 22-6 (Aug. 16, 2022), https://www.federalreserve.gov/supervisionreg/srletters/SR2206.htm.

[2] https://www.fdic.gov/news/speeches/2024/spmar1124.html.

Tokenization is not crypto.

Tokenization should not be confused with cryptocurrencies like Bitcoin and Ether nor the novel markets for blockchain-native bearer assets that have grown up outside of the regulated financial system. Cryptocurrency markets leverage blockchain technology to implement a system of incentives designed to decentralize processing of transactions, replacing a trusted central operator with a "trustless" network maintained by the participants. These trustless networks seek to replace a trusted central counterparty with a shared and agreed-upon version of the truth maintained by this system of incentives.

Cryptocurrency markets have drawn interest from the general public and policymakers alike. Despite the growing popularity of these networks, there is still no clear regulatory framework or set of protections as exist in the broader financial services market.

Instead, tokenization is focused on using DLT to represent "real-world assets" recorded and managed by regulated financial institutions. These traditional banking assets include commercial bank deposits, bonds, shares in money market funds, and other banking assets and liabilities.

In this instance, there will remain regulated, trusted entities charged with the upkeep of the system, application of the rules, and ensuring compliance with relevant regulations. These networks may be considered Financial Market Infrastructure (FMIs) which may be governed by the Basel Principles for Financial Market Infrastructure.[3] Participants in these networks will consist of regulated financial services organizations like banks, credit unions, and central securities depositories.

Tokenization can help break down silos that exist in financial services today.

The regulated banking sector today is made up of a series of individual, walled-off technology systems that create silos between financial institutions and even the various products offered at a single bank. While technologies like APIs can be useful in bridging these systems, they are often complicated, fragile systems that introduce costs, risks, and lags.

At its core, DLT is a shared database infrastructure that can be constantly updated by the permissioned participants in a network. This allows parties to collaborate in real time, operating from the same shared view of the world. This creates several benefits over traditional database technologies.

Faster, cheaper, and safer payments. As a shared system of record, DLT can facilitate the near real-time transfer of value. This allows for rapid transactions at minimal cost. Today, many frictions in payments are not due to technological limitations, but the need to coordinate between separate systems. DLT can break down the silos between these

[3] https://www.bis.org/cpmi/info_pfmi.htm

systems by allowing both the asset and the payment to be recorded in the same system of record.

Programmable payments. DLT can integrate smart contracts, enabling banks to automate the execution of complex payments based on real-world conditions. For example, smart contracts could be used to automate the payments process associated with buying a home. Today, a buyer sends money to escrow, and an escrow agent calls individual banks and confirms wires to all of the various parties that participated in the transaction. With a smart contract, each payment can be delivered to the right party the minute a contract is signed.

Atomic settlement. DLT adds additional value when used as a system of record for other traditional banking assets (like loans). Today, silos between asset classes create friction when a transaction requires moving assets in multiple systems at the same time. A buyer will not release funds until they are sure the asset has moved in a separate system of record.

DLT allows for both payments and assets to be recorded on the same system of record. This allows a buyer to trade their dollars for an asset in real time without settlement risk because the transfer of money and the purchased asset move in an aligned, simultaneous process.

Incorporating atomic settlement into traditional banking assets makes it easier to buy and sell those assets. By making these assets more liquid, we add new funding options that lower the cost of credit, expanding access to affordable financial products.

Competition by and among community banks. DLT also has potential to ensure the continued competitiveness of community banks. A key force driving industry consolidation is the large, fixed cost of technology investments. Large institutions have better ability to spread these investments over a large customer base. As shared infrastructure, DLT changes this equation, allowing community banks to focus on customer service and the value of individual customer relationships. This is similar to another recent technological advancement, cloud technology, which helped level the playing field for small businesses by offering flexible and scalable infrastructure.

2. Tokenized deposits are the future of money.

To leverage DLT for real-world transactions, you first need a trusted form of digital money. The core value proposition of DLT is the ability to break down silos and bring multiple assets onto the same system of record. Without money that exists natively on the same platform, you cannot buy or sell these assets. Sure, you could record a transaction “on-chain” and wait for a check to arrive by mail, but there are few efficiencies to be gained.

Bank deposits are already the primary form of money in our economy, making up 86%[4] of money in the U.S. economy today. They are the keystone of our banking system that is the envy of the world and whose strength ensures the dominance of the U.S. dollar around the globe.

By recording an existing bank deposit on DLT, we can add new functionality to our money, improving our payments system while maintaining the numerous benefits and protections that bank deposits provide today. This facilitates the creation of a real-time 24/7/365 payments network that brings programmability and atomic settlement to traditional financial transactions.

In a recent speech, Sir Jon Cunliffe, former Deputy Director for Financial Stability at the Bank of England, noted that tokenized bank deposits "might offer some or all of the functionality and efficiency claimed for stablecoins, allowing bank deposits to compete better with non-bank payment coins."[5]

As we explore tokenization and the adoption of this new technology, it is important to support the critical role that bank deposits play in our economy today.

Tokenizing bank deposits provides benefits that can upgrade our nation's payments infrastructure.

The application of DLT provides numerous benefits that can meaningfully improve the functionality of our payments system.

Numerous upgrades have been made to our payments system in recent years to facilitate real-time payments in an always-on system. We believe tokenized deposits build upon developments like FedNow and real-time payments by extending their capabilities to DLT platforms.

Today payments are tracked and managed primarily through messaging systems. These messages contain instructions that set off a series of actions that facilitate the transfer of a liability (bank deposit) from one institution to another. These messages operate much like email. A sending institution issues a set of instructions with confidence that the message will reach its participant.

These messages are efficient but provide little visibility into the actions of other parties to a transaction. A message may have been sent, but it is impossible to tell whether the recipient has acted on the message. This uncertainty is particularly acute in complex multi-

[4] Money as measured by M1 (Federal Reserve H.6).

[5] Bank of England, "The Shape of Things to Come: Innovation in Payments and Money – Speech by Sir John Cunliffe," April 18, 2023, https://www.bankofengland.co.uk/speech/2023/april/jon-cunliffe-keynote-speech-at-the-innovate-finance-global-summit.

party transactions. This is why many financial transactions today require a lengthy and expensive escrow and reconciliation processes.

The adoption of DLT changes this dynamic by combining the messaging and settlement into the same platform. This transforms the dynamic into something more akin to "group text" like WhatsApp. In this case, a group of network participants all see the same message status and responses in real time. Instead of sending an email and waiting for individual responses, all participants can now see a real-time update of ownership status.

Banks are well-regulated and have established controls to manage the risks associated with new technologies.

Bank deposits are backed by robust capital and are subject to a regulatory regime that ensures liquidity and solvency. For banks, the implementation of blockchain technology does not fundamentally change the nature of banking. Banks are heavily regulated and supervised to ensure they deliver the numerous consumer protections associated with digital payments. Further, banking regulations already include strong and tested requirements to manage the adoption of novel technologies like DLT.

Moreover, the bank regulatory structure is designed to maintain important broader public policy objectives. For example, under the Community Reinvestment Act and other laws, banks have long demonstrated their unique ability to support underserved communities. These laws are often directly tied to bank deposits.

Banks maintain privacy.

There exists an inherent tension between the need to protect the privacy of those conducting transactions and the need for the transparency necessary to combat illicit finance. Policymakers have the difficult task of determining the appropriate balance of these competing concerns.

Today, this careful balance is maintained through the two-tier banking system. Banks are trusted custodians of their customers' most sensitive data and are subject to enhanced legal requirements designed to protect the privacy of financial data, such as the Gramm-Leach-Bliley Act.

Banks also have an affirmative responsibility to combat illicit finance. The Bank Secrecy Act requires banks to implement risk-based programs to prevent money laundering and the financing of terrorism.

In certain instances, banks are required to share data with the government through the filing of Suspicious Activity Reports, Currency Transaction Reports, or similar programs. The instances where banks are required to share this data with the government is subject

to important legal guardrails designed to protect privacy. All of these privacy and illicit finance requirements will apply the same in a tokenized environment as they do today.

3. Tokenization has a real impact on the customers and communities that banks serve.

Financial innovation adds value when it helps facilitate real-world economic activity like buying capital goods, hiring employees, or purchasing a home. In recent years, banks have ramped up investment in DLT projects. Many tokenization projects are still in the pilot stage, but increasingly we are seeing production by banks to implement DLT in ways that provide real value to their customers.

Community bank applications

USDF is working closely with its network of midsize, regional, and community banks to apply blockchain to the challenges that are unique to smaller institutions. We have developed a broad set of promising applications across payments, lending, and funding. Below are some of the applications we are exploring in the near-term.

a. Construction Lending

By tokenizing the tracking and payments associated with construction loans, we can speed up delivery of payments associated with a draw on a construction loan and better track lien waivers. This helps contractors get paid more quickly for their work and reduces risks in the lending process. I'll discuss each of these features.

Automate draw distributions. Programmable payments can be leveraged to automate the delivery of draw distributions. This shortens the time from approval when a loan is funded to the payments made to subcontractors and employees.

- Faster and cheaper: Real-time availability of funds for subcontractors, employees, and suppliers.
- Fully transparent: All parties have real-time insight into the same record of payments, approval, etc.
- Automated: Payments execute automatically once all conditions have been met.
- Reduce risk: Payments are tied to underlying record and validation of work performed.
- Eliminate reconciliation: Payments, draw requests, and documentation are all tied to the same digital record.

Streamline lien waivers. By leveraging atomic settlement, we can trade a lien-waiver for a payment in real time.

- Trusted record: When a contractor is paid for completion of a project they sign a document certifying that they are paid and waiving their right to place a lien on the completed building.
- Atomic settlement: A lien waiver can be exchanged for a digital check (tokenized deposit), in real time. Blockchain ensures that the lien waiver cannot be transferred without an irrevocable payment being delivered at the same time.
- Eliminate reconciliation: When a payment is made, it is recorded in the same system of record as the lien waiver and documentation of underlying work.

b. Loan Participations

Programmable payments can be leveraged to automate the payments flows associated when multiple banks participate in a single loan. This allows banks to continue to meet their customers' needs and maintain a relationship as a customer's borrowing needs grow. Today, most banks rely on informal methods of tracking loan participations and distributing payments to banks that participate.

- Programmable payments: Through smart contracts, banks can automatically calculate and disburse funds in accordance with the terms of a loan contract. This reduces the cost associated with these loans and reduces the risk that payments are not applied appropriately.
- Consistent record: All banks participating in a loan have real-time insight into the performance of the underlying asset and a clear record of payments associated with the loan.
- Lower cost of funding: By lowering the barrier for banks to participate a loan, it is easier for banks to access a diverse set of funding sources that can help lower the cost of credit, allowing a bank to offer more competitive pricing.

Regulated Settlement Network

In May, USDF joined a group of large banks and payments networks to announce the launch of an industry proof-of-concept (PoC) designed to explore the potential of DLT to upgrade existing financial infrastructure.[6]

The Regulated Settlement Network (RSN) PoC is designed to explore the use of a shared ledger among permissioned parties to settle tokenized deposits and reserves, U.S. Treasury securities, and other assets.

[6] https://www.sifma.org/resources/news/members-of-the-u-s-financial-sector-to-explore-multi-asset-settlement-using-shared-ledger-technology/.

By bringing all of these assets and liabilities onto the same shared ledger, the PoC hopes to explore the feasibility of an interoperable network for multi-asset transactions that aims to operate on a 24/7, programmable shared ledger. This work builds on the results of a previous industry PoC (Regulated Liability Network).

Other industry projects

To date, most investment in DLT has been at the largest institutions. Many of these applications have a global focus and address market-facing opportunities. Use cases that are emerging as a focus from these initiatives include:

- Tokenized deposits to facilitate real-time 24/7 cross-border transactions,
- Repo transactions,
- Trade finance,
- Treasury management, and
- Securities settlement.

There is an ever-expanding list of applications being explored by the banking industry. For a deeper look at the emerging applications, see USDF's recent white paper on the topic.[7]

Global testing

Central banks around the world have been exploring tokenization and how DLT can be used to modernize existing payment and settlement systems.

Many of these jurisdictions began by exploring Central Bank Digital Currencies (CBDC). USDF has previously raised concerns about the impacts of a retail CBDC.[8] We believe that tokenized deposits offer many of the purported benefits of a CBDC while maintaining the many important benefits of our two-tier banking system.

We have been pleased to see policymakers in many of these jurisdictions, after stepping back from these retail CBDC initiatives, exploring how tokenized deposits, alongside other infrastructure modernization, can support tokenization while maintaining the same market structure that exists today. Notable initiatives in this space include the Bank for International Settlements' (BIS) recently announced Project Agora,[9] Brazil's Drex,[10] the

[7] https://usdfconsortium.com/wp-content/uploads/2024/05/USDF-Tokenization-White-Paper-1.pdf.

[8] https://docs.house.gov/meetings/BA/BA21/20230518/115973/HHRG-118-BA21-Wstate-MorganR-20230518.pdf.

[9] https://www.bis.org/press/p240403.htm.

[10] https://www.bcb.gov.br/en/financialstability/drex_en.

German Banking Industry Committee's exploration of tokenized commercial bank money,[11] and the Swiss National Bank's Project Helvetia 3.[12]

4. Regulatory clarity is needed to safely bring this innovation to market.

At its core, tokenization is simply the adoption of a new database technology. Because of this, existing laws and banking regulations are generally well-positioned to facilitate tokenization.

Banks are often slower to adopt new technologies than other industries. This is not for a lack of interest or skill but due largely to the fact that banks are so heavily regulated. Technology companies can bring nascent technologies directly to customers, iterating daily and fixing bugs after releases are made. Before releasing new products, banks must perform countless rounds of testing and ensure that their approach is aligned with regulatory rules and expectations.

Today, banks face regulatory uncertainty that limits their ability to test and adopt DLT. Before launching any tokenized product, banks must first obtain formal regulatory approvals despite no clear guidance. We urge Congress to work with the banking regulators to create a clear and credible path for banks to explore and adopt this new technology.

Banking agencies require formal approvals for DLT projects.

As highly regulated institutions, any new offering by banks is subject to scrutiny, but DLT initiatives are held to a higher standard. Despite having clear authority to do so, any bank wishing to undertake a tokenization project must generally receive formal regulatory approval before proceeding. This creates a double standard that does not exist when a bank wants to deploy any other technology.

When a bank wishes to deploy another technology (like a cloud database), they must conduct a rigorous risk assessment and work with their regulators on an ongoing basis to demonstrate that they have managed these risks in a way that is consistent with safe and sound banking practices. Regulators have the ability to raise concerns if they see risks that are not addressed but are not required to endorse or approve any such offering.

In comparison, DLT solutions require the banking regulators to issue a formal supervisory non-objection or similar approval.[13] This creates a higher standard and effectively forces a banks' supervisory team to endorse a product prior to launch.

---

[11] https://die-dk.de/en/topics/press-releases/digitization-bank-deposits-german-banking-industry-committee-publishes-new-version-working-paper-commercial-bank-money-token/.

[12] https://www.sdx.com/wholesale-cbdc/.

[13] See *supra* note 1.

Despite this elevated standard, few details have been given to help banks understand what criteria must be met to receive an approval. To date, it is unclear whether any such approvals have been granted. The only option for banks wishing to make progress today is to hire expensive consultants to help navigate these unwritten rules of the road.

The FDIC acknowledged this in a recent report from its Office of the Inspector General where it notes that "the FDIC's lack of clear procedures causes uncertainty for supervised institutions in determining the appropriate actions to take. If financial institutions do not receive timely feedback from the FDIC and do not understand what constitutes the end of the FDIC's review process, this uncertainty creates risk that the FDIC will be viewed as not being supportive of financial institutions engaging in crypto-related activities."[14]

We urge Congress to work with the banking agencies to rethink the technology-specific regulatory guidance for DLT and blockchain projects and create clear guidance that helps banks understand how to safely and responsibly deliver these innovations to their customers.

Banks are limited in their choice of infrastructure.

Regulatory uncertainty for banks extends to their choices for DLT infrastructure providers. Although no formal guidance has been issued, those closely monitoring agency speeches have determined that there are certain types of infrastructure that banks cannot engage with.

For example, regulatory guidance effectively prohibits banks from leveraging public blockchain networks that are visible to the wider world. Similarly, they cannot engage with permissionless networks where they cannot verify all actors on a network.

This has left banks to focus their efforts on private, permissioned networks that offer a more controlled environment. However, this uncertainty extends beyond these well-understood criteria. For example, it is unclear that banks can leverage a private network that relies on a coin to facilitate settlement. Similarly, banking regulators have raised concern about consensus mechanisms such as a "proof-of-stake" model.[15]

This approach makes it difficult for banks to assess a technology vendor's ability to meet regulatory expectations. It is like shopping for a car without knowing what safety features will be required by the NHTSA to drive the car off the lot. We urge Congress to work with the banking agencies to help provide clarity on the regulatory expectations for banks to engage with DLT infrastructure.

---

[14] https://www.fdicoig.gov/sites/default/files/reports/2023-10/EVAL-24-01-Redacted.pdf.

[15] https://www.occ.gov/news-issuances/speeches/2023/pub-speech-2023-64.pdf.

Interoperability will be critical to the success of this technology.

Given the restrictions noted above, market developments to date have occurred primarily in fragmented private, permissioned environments. There is irony in the fact that in building technology meant to break down silos, we may end up recreating those exact silos. As a result, interoperability between various DLT solutions will be critical to realizing the potential of this technology.

Interoperability has long been a focus of industry participants and there are many projects underway that seek to explore and enhance interoperability of these systems. The RSN PoC is one such effort. By seeking to bring participants together on a shared settlement infrastructure, we can avoid creating new silos. This group is also exploring how we can interoperate between separate networks through interlinking solutions.

Clarify that new technology does not change the nature of a deposit.

The use of a new ledger technology should do nothing to change the underlying nature of a banking asset or liability. New technologies are constantly changing the way customers engage with their bank and how they manage their money. ATMs gave people greater access to cash, and mobile banking has provided customers the ability to manage deposits at their fingertips. None of these new technologies changed the underlying structure or protections associated with bank deposits.

We believe that tokenization is no different. The legal analysis conducted through the Regulated Liability Network PoC came to the same conclusion, finding that "the use of a different technology to record the ownership of the deposits or to transfer deposited funds should not alter the legal treatment of the Deposit Tokens as ordinary deposits."[16]

Despite this, we have seen several efforts from agencies to introduce technology-specific regulations that would subject tokenized deposits to a different treatment. For example, a proposed rule issued by the FDIC on signage initially included a broad definition of "crypto-asset" that would have ensured that anything recorded on DLT would be considered an "uninsured financial product." We were pleased to see the final version of the rule did not include this broad definition.

Simply put, a bank deposit should be considered a bank deposit regardless of the technology used to record it. We urge Congress to work with the banking agencies to avoid technology-specific regulations and provide clarity that allows for the adoption of DLT without fundamentally altering the business of banking.

[16] https://www.rlnuspoc.org/home#subpage/introduction/overlay/203321986.

Public-private partnerships will be essential to continued progress.

Our two-tier banking system is a careful balance of public and private infrastructure that combine to provide a dynamic model that is the envy of the world. Any efforts that ignore this important interdependency and exist in a vacuum are bound to fail. As a result, it is important to find forums for the public and private sector to collaborate as we build the infrastructure of the future.

Global coordination will also be critical to the success of these initiatives as new standards and technology are deployed. Today, leaders around the world are considering this important technology and developing systems and standards that will shape how the global financial system operates in the future. The BIS' recently announced Project Agora[17] is one such initiative. It is critical that the United States take a leading role in these discussions to ensure our continued role at the center of global financial flows.

Conclusion

Tokenization holds tremendous potential to improve financial services. When delivered responsibly, it has the potential to promote financial inclusion and help ensure that the United States remains a global leader. We believe the bank regulatory framework is well-equipped to manage the risks associated with this novel technology and that tokenized deposits are the best way to realize these benefits.

The USDF Consortium was created as a venue for banks to collaborate as they explore how tokenization can shape the future of financial services. We are committed to delivering these innovations responsibly, ensuring that our customers receive the world-class safety and protections inherent in U.S. banking regulation. We are committed to working with Congress to help ensure an appropriate regulatory framework to enable this critical innovation.

Thank you for your attention. I would be happy to address any questions that you may have.

[17] https://www.bis.org/about/bisih/topics/fmis/agora.htm.