Statement for the Record

On Behalf of the

American Bankers Association

Before the

Subcommittee on Digital Assets, Financial Technology and Inclusion

Of the

House Financial Services Committee

June 5, 2024

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The American Bankers Association (ABA) appreciates the opportunity to provide a Statement for the Record for this hearing, *Next Generation Infrastructure: How Tokenization of Real-World Assets Will Facilitate Efficient Markets*. The ABA is the voice of the nation's $24 trillion banking industry, which is composed of small, regional and large banks that together employ approximately 2.1 million people, safeguard $19 trillion in deposits and extend $12.4 trillion in loans.

We appreciate the Subcommittee's attention to tokenization of real-world assets. While so much of the digital assets conversation to date has been dominated by discussion of cryptocurrencies, we believe tokenization of real-world assets is more likely to generate tangible and near-term benefits for financial markets. We strongly support reframing the digital assets discussion around tokenization and look forward to working with the Subcommittee and other policymakers on the topic.

Distributed ledger technology (DLT) has potential for application in financial services that, over time, may lead to enhanced efficiencies, reduced risk, new products, and new ways to deliver traditional products. For example, just last week, driven by the availability of faster technology and investor preference, settlement cycles for US securities trades moved from "T+2" settlement to "T+1" settlement. It is possible that the use of DLT and tokenization could enable even faster settlement cycles, and this is among the concepts being explored in various pilots.

The fundamental characteristics of DLT, including immutability and transparency, are relevant and valued in the financial services market. Tokenization – the process of recording ownership of a given asset or liability as a digital token on a distributed ledger – is an application of DLT with potential to enable near real-time transfer of value and exchange of value (asset settlement) that is programmable and transparently recorded on a shared system of record.

One application of tokenization is the opportunity to create a digital token representing commercial bank money, or a tokenized deposit. The same regulatory and legal framework that applies to a traditional bank deposit would apply to the tokenized deposit – the primary difference is how the deposit is recorded. The use of tokenized deposits could enable more efficient use of commercial bank money in payments and asset transactions.

In fact, many financial institutions are exploring the use of blockchain or other types of DLT to support tokenization of commercial bank money and other real-world assets. Several ABA members are participating in various payments and assets tokenization projects to test settlement, delivery versus payment, payment versus payment, network interoperability, and related concepts. Three such projects are described below and are additional to the work large financial institutions including JPMorgan Chase[1], Citi[2], and Goldman Sachs[3] are doing to build and test their own tokenization networks and use cases.

- Nine banks participated in the Regulated Liability Network proof of concept[4], which tested interoperable tokenized deposits on a shared ledger. The next phase of that project, called Regulated Settlement Network (RSN), kicked off in May 2024[5] and plans to test domestic, multi-asset transactions on an interoperable network.
- In the Canton Network Pilot[6], forty-five financial institutions including asset managers, banks, custodians, and exchanges tested the interoperability of transactions for tokenized assets, including using tokenized money market funds to cover margin calls and facilitating an intraday repo financing by using tokenized cash as collateral for variation margin.
- In April 2024, the Bank of International Settlements (BIS) announced Project Agora[7] which includes seven central banks including the Federal Reserve Bank of New York, working with a to-be-selected group of private financial institutions. The project builds off the BIS's unified ledger concept and will explore the use of tokenized commercial bank deposits in transactions with tokenized wholesale central bank money. Importantly, the scope of this project is limited to wholesale central bank money, which is exchanged between central banks and its financial institution members, and it will not include a consumer-facing central bank digital currency (CBDC).

ABA remains strongly opposed to a consumer-facing or retail CBDC. In fact, tokenization may address some of the goals proponents of a retail CBDC seek to achieve, for example by increasing efficiency of payments and supporting near real-time settlement of real-world assets. With tokenization, these goals can be achieved without introducing a fundamental change in consumers' relationship with the Federal Reserve or reducing the availability of liabilities banks can use to support lending, both of which are likely consequences of a retail CBDC.

At this stage, with a few notable exceptions like the work of USDF Consortium[8], most community, midsize, and smaller regional banks are not directly engaged in tokenization activities. However, they may have money service business and payment processor customers that engage in tokenization of real-world assets. As banks seek to serve those customers,

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[1] https://www.jpmorgan.com/onyx/index
[2] https://www.citigroup.com/global/businesses/digital-assets
[3] https://developer.gs.com/discover/gs-dap
[4] Regulated Liability Network Phase 1 report, July 2023: https://www.rlnuspoc.org/home
[5] Regulated Settlement Network press release, May 2024: https://www.sifma.org/resources/news/members-of-the-u-s-financial-sector-to-explore-multi-asset-settlement-using-shared-ledger-technology/
[6] Canton Network Phase 1 report, March 2024: https://www.canton.network/insights-from-the-canton-network-pilot
[7] Project Agora project page, May 2024: https://www.bis.org/about/bisih/topics/fmis/agora.htm
[8] https://usdfconsortium.com/

policymakers must ensure there is legal and regulatory clarity to accommodate those customer desires within the regulatory perimeter. Authorities should be careful to avoid excluding banks from innovation, or preempting technological progress, by being overly prescriptive.

Further, as the potential benefits and use cases for tokenization become clearer, it is critical to focus on the ability for banks of all sizes to hold and transact with tokenized assets and liabilities. Fortunately, many current tokenization projects have a focus on interoperability, which is important to ensuring broad accessibility of tokenization to the banking industry. In addition, organizations like the USDF Consortium are providing a venue for banks of all sizes to learn about and explore tokenized deposits. USDF Consortium is a participant in the RSN project described above. For our part, ABA is closely following the launch and progress of these and other tokenization projects and seeking ways to help community banks stay abreast of developments and opportunities.

In closing, regulations should be risk based and technology neutral, and they should allow banks to use distributed ledger technology in a safe and sound manner for more efficient, risk-reducing and cost-effective solutions. Technological evolution is rapid, and highly prescriptive regulation cannot be adjusted quickly enough to remain current. Inflexibility would constrict financial inclusion and other benefits of emerging technology.

While policy discussions on digital assets have been dominated by conversations about cryptocurrencies, in our view tokenization of real-world assets is more likely to generate tangible and near-term benefits for financial markets. That is why we strongly support reframing the digital assets discussion around tokenization.

Thank you for the opportunity to express our views, and we look forward to working with the Subcommittee and other policymakers on this important topic.