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Digital Asset Forum | Briefing Note

Future of Money and Tokenization

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The Digital Asset Forum is a senior-level global network of financial institutions that meets periodically to discuss developments in digital assets and perspectives on enterprise-level implications for technology, business, and strategy. The IIF convenes the Digital Asset Forum with our knowledge partner, the Oliver Wyman Forum. This briefing note summarizes the discussion held on May 24, 2023, respecting that the forum is conducted under the Chatham House Rule and does not represent the official position of the IIF or its membership.

Multiple forms of money are likely to co-exist and vary by use case.

Future forms of money will not be all-or-nothing, as multiple forms, including tokenized deposits, stablecoins, or deposit tokens, are likely to exist. Payment solutions should not be pitted against each other, but rather seen as different solutions to differing needs across retail and wholesale use cases. There are lingering effects of Libra's impact on payments innovation, with some fear of private forms of money (e.g. stablecoins) creating financial stability risks. To date, stablecoins have demonstrated value in specific use cases. While singleness of money is an important objective, even in the current fiat system, there are examples of different forms of currency being ostensibly the same yet not equally accepted (for example, physical notes with high nominal value not always accepted at point of sale).

More experimentation on the interactions between payment tokens would be beneficial.

More work remains to be done on how different forms of private money may co-exist. The expected and unexpected consequences of adopting a variety of forms of money need to be mapped out, including retail and wholesale applications. Fungibility is key but will depend on the underlying technology (for example, permissioned vs. permissionless) used across payment tokens. Permissionless and open protocols may help foster further innovation and these questions deserve further exploration. The BIS's envisioned unified programmable ledger could itself potentially be a venue for multiple payment solutions. The time is now for banks to collaborate and experiment.

CBDCs could play multiple roles, but questions remain regarding their effects on global liquidity.

Beyond settlement and payments innovation, CBDCs as national infrastructure could provide central banks with more tools to influence the economy. Alternatively, if the goal is to ensure central bank money serves as a monetary anchor, CBDCs don't need to be widely used; they can function at the base money layer, while further innovation occurs at the private money layer. Monetary sovereignty remains a key policy goal of many CBDC projects. The current system relies globally on the US Dollar and a small number of liquidity providers. A global permissionless network could provide a new playing field, where tokenized deposits could be issued by banks across jurisdictions. Many questions remain regarding global access to liquidity in a digital monetary system.

Current regulatory uncertainty is influencing business planning.

Global standards may be challenging to achieve as jurisdictions are moving at different paces. In contrast to coordination achieved post-global financial crisis, there is no clear consensus on guiding principles. Some firms are prioritizing jurisdictions that have provided legal clarity and staffed up their regulatory agencies, while others are building out their risk management infrastructure by assuming requirements will be on par with those for traditional assets.