Digital Asset Forum | Briefing Note

Developments in the Landscape for Digital Assets

April 2023

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 April 4, 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.

Visions for the digital future of money differ between retail and wholesale systems and emphasize that these models will have different business implications.

Global policymaker visions of a unified programmable ledger as the future of international financial infrastructure (where smart contracts and composability elements are built on top of a central bank-maintained system for wholesale CBDCs, tokenized bank deposits, and other assets) have prompted extensive debate within the financial industry. Industry leaders delved into the distinctions between existing forms of money that may be made "technologically superior" versus potential new forms of money and how both forms may advance. Participants emphasized the need for careful consideration of tradeoffs between costs, accessibility, and efficiency as the financial industry considers these visions.

For ledgers to scale in a trusted manner, identity and KYC solutions are key.

Participants noted that, thus far, commercially viable projects relied on permissionless blockchains. The public-sector has largely supported permissioned ledgers, due to KYC/AML concerns, though many permissioned projects have yet to scale. Any trusted ledger requires robust KYC/AML tools and some level of a digital identity solution.

Opportunities abound for financial institutions to leverage existing scale, data, and financial resources in tokenization projects.

The need for differentiation between tokenizing existing assets and creating digitally native instruments was emphasized by several participants. Financial institutions continually create new forms of money. Successful tokenization of deposits and assets will rely on clearly defined boundaries between public and private money, as well as a role for intermediaries that allows firms to leverage existing relationships and economies of scale.

The journey from the current system to a more open, inclusive, and digital monetary system requires careful consideration of objectives and tradeoffs.

Promoting digital tools to achieve policy objectives will not, in and of itself, solve outstanding challenges if business model issues have not also been addressed. Expanding financial access, for example, is an intended outcome of CBDC projects. But digitizing money alone is unlikely to expand access, as economic incentives for public and private actors also have a role to play.

Where will industry find unifying efforts that could combat fragmentation?

Differentiating between spheres for oversight by various authorities without increasing fragmentation in the digital financial system is a pressing challenge. The BIS vision of a unified ledger could potentially establish a unified regulatory perimeter for payments, but digital asset activity extends well beyond payments. Curtailing regulated entity participation in networks where some activity falls outside the regulatory perimeter potentially creates blind spots in supervision within these networks.