



Tokenized Deposits: Rapid Progress But Persistent Limits - the Path Forward

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Over the past month, tokenized deposits finally moved from theory to market reality. JPMorgan's move with JPMD (JPM Coin) on Base signaled that even GSIBs are bringing bank money on-chain. State regulators have called for coordinated guidance on stablecoins and tokenized deposits. BlackRock's tokenized Treasury fund BUIDL surged past \$2.5 billion in assets and is now even accepted as collateral on major exchanges. Japan's Datachain announced a next-generation tokenized deposit initiative for AI-driven payment infrastructure. It's clear: on-chain dollars are fragmenting into three major asset classes — bank deposits, stablecoins, and tokenized funds — each serving different needs. But despite their inherent advantages, today's tokenized bank deposits are still not a true alternative to payment stablecoins. They remain superior in safety, but not competitive – **YET**.

Why Tokenized Deposits Still Fall Short

1. Not fungible: Each bank's token is a claim on that specific bank only. A JPMorgan deposit token is backed by JPMorgan's balance sheet alone; a Citi token would be a claim on Citi. These tokens are not interchangeable across banks.
2. Permissioned wallets: Deposit tokens can only circulate among whitelisted, KYC'd clients of the issuing bank. This destroys the open-network utility that made stablecoins ubiquitous in crypto and global payments.
3. On-chain fragmentation: With each bank issuing its own token, every network becomes a closed loop tied to that bank. The clearest evidence is that JPMorgan even allows JPMD to off-ramp into USDC on Base – if JPMD were truly general-purpose money, off-ramping into a stablecoin wouldn't be necessary. In practice, these deposit tokens only work inside each bank's silo, not **YET** across the open blockchain economy.

Regulators Are Paying Attention

Regulators have taken note of these developments. The Conference of State Bank Supervisors (CSBS) recently urged federal agencies to craft joint rules for stablecoins and tokenized deposits. Notably, the new GENIUS Act prohibits stablecoin issuers from paying interest — giving banks a structural advantage if their tokens can ever achieve the same network effects as open stablecoins. But so far, they can't – **YET**.

Meanwhile, at the federal level, officials are clarifying the status of tokenized deposits. FDIC Acting Chairman Travis Hill emphasized that *“a deposit is a deposit,”* asserting that moving a deposit from traditional finance onto a blockchain *“shouldn't change the legal nature of it”*. In other words, a tokenized bank deposit on-chain is still an insured bank liability with the same protections and legal status as any other deposit. Regulators intend to treat tokenized deposits just like traditional deposits in terms of oversight and FDIC insurance coverage, even as the technology evolves. This is also consistent with the GENIUS Act that exempts (Tokenized) Deposits from the Act.

Meanwhile, the Market Is Moving to Yield

The market is already responding to the appeal of safety and yield. Dollar stablecoin supply has contracted by billions as institutions rotate into tokenized Treasuries and other yield-bearing real-world assets. BlackRock's BUIDL – a tokenized U.S. Treasury money-market fund – shows the strong demand for regulated, interest-bearing digital dollars. BUIDL's rapid growth (now the largest on-chain money fund) demonstrates how investors hunger for yield in their digital dollars without compromising on stability. This trend highlights a broader desire: everyone wants a risk-free dollar in the crypto economy, not just a stable one.

This demand sharpens the question of risk. Stablecoin holders are increasingly seeking to eliminate counterparty and de-pegging risk. We've already seen warnings: for example, S&P Global recently downgraded Tether's USDT stablecoin to a stability rating of “5 (weak)” – the lowest on its scale – citing an uptick in high-risk reserve assets and “persistent gaps” in disclosure. Even if a major payment stablecoin never outright loses its \$1 peg, holders remain exposed to the issuer's solvency and reserve management. The coin is ultimately only as good as the issuer's assets and willingness to redeem, making every stablecoin holder an unsecured creditor of a private company. By contrast, tokenized bank deposits are actual bank liabilities inside the regulated banking system, benefiting from deposit insurance making it de facto risk free. In essence, a tokenized deposit combines the open-network utility of digital tokens with the safety net of FDIC-insured dollars, bringing us to the “risk-free”, interest-bearing digital dollar that institutions and individuals alike are demanding. And that only sharpens the question: Which form of digital dollar will become the dominant settlement asset? Tokenized deposits seem poised to win out – but not **YET**.

The Missing Piece: Bank-Agnostic, Permissionless Tokenized Deposits

The limitations of JPMD, Citi's tokenized deposit trials, and other one-bank offerings are not technical – they're design choices. Each bank is currently issuing its own token, on its own infrastructure, with its own closed user group. To truly compete with stablecoins, tokenized deposits must evolve to be:

- Fungible across banks – i.e. one deposit token interchangeable with another, regardless of issuing bank.
- Usable on public chains without whitelisting – open access rather than closed KYC-only loops.
- Open for settlement across the entire crypto economy – usable in DeFi, on exchanges, and for global payments, not confined to bank-only networks.
- Representative of deposits at any bank – a standardized token that can represent insured deposits from multiple participating banks, not just one.

Right now, none of these criteria are met – **YET**. This is where the infrastructure of Deposit Coin becomes transformative.

Deposit Coin: How Tokenized Deposits Become a Stablecoin Alternative

Deposit Coin is the infrastructure designed to make tokenized bank deposits truly bank-agnostic and permissionless – effectively a viable, better alternative to today's stablecoins. Here's how Deposit Coin addresses the shortcomings:

1. Full fungibility: Deposit Coin tokens are not tied to a single bank's balance sheet. One token can represent insured deposit claims on any participating bank, making each token interchangeable with another.
2. No wallet whitelisting: Tokens circulate on public blockchains without pre-approved wallet lists but with embedded compliance. This enables open-network utility.
3. Bank-agnostic issuance: Rather than each bank issuing its own siloed token, a neutral stablecoin-style issuer (or consortium) mints tokens 100% backed by deposits spread across multiple partner banks. This means the digital dollars on-chain aren't a single-bank product – they're backed by deposits of all of the participating banks.
4. Elimination of fragmentation: Instead of "JPM-only" or "Citi-only" tokens, Deposit Coin creates one standardized, interoperable token representing claims on many banks. It breaks down walled gardens by allowing any compliant bank to plug into a common token network. The result is deposit-backed money that can move across institutions just as freely as today's stablecoins.

5. Stablecoin simplicity with bank-grade safety: Deposit Coin marries the open-network simplicity of stablecoins with the regulated safety and interest-bearing capability of bank deposits. Users get a digital dollar that's as easy to use as USDC or USDT, but with FDIC-insured funds under the hood and potentially even interest earnings. It's the best of both worlds – the trust of the banking system combined with the programmability and 24/7 utility of crypto.

This kind of bank-agnostic deposit token is the missing bridge between the traditional banking system and public blockchains. It's the key to making tokenized deposits a true competitor to today's payment stablecoins.

In Summary: The Coming Convergence

2025 is proving one thing: on-chain dollars are here to stay – but the category is splintering. So far:

- Stablecoins dominate open crypto markets and global payments (albeit with growing questions around reserves and risk).
- Tokenized deposits (in their current form) dominate bank-controlled settlement flows and internal use cases.
- Tokenized funds (like BUIDL and other tokenized money market funds) dominate the yield-driven demand, offering regulated on-chain dollars with interest.

The question now isn't whether banks will tokenize deposits — they already are. It's how they will do so to compete. Right now, bank-issued tokens remain isolated experiments that are not competitive **YET** with open stablecoins. Deposit Coin provides the path to convergence. By enabling fungible, bank-agnostic, permissionless tokenized deposits on public chains, it can transform deposit tokens from siloed trials into a universal digital dollar standard. When that happens, the line between a “stablecoin” and a “deposit” will blur – with enormous implications for payments, banking, and capital markets. Time to bring the best of both worlds together: the innovation and openness of crypto dollars with the safety and trust of the banking system.