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Tokenised Deposits vs Stablecoins: Why America's Largest Banks are Building a Shared Tokenised Deposit Network

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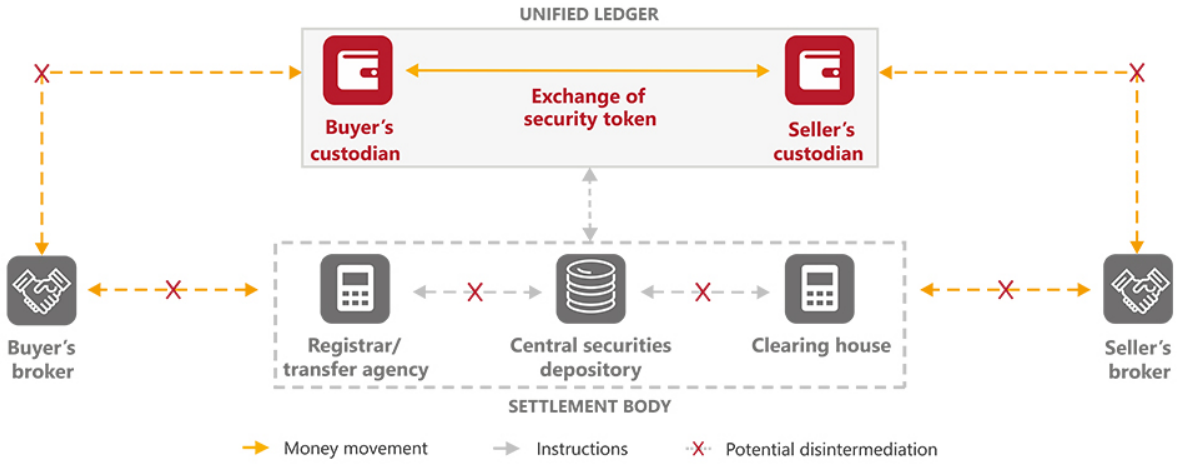
Executive Summary

- JPMorgan Chase, Bank of America, Citigroup and Wells Fargo are reportedly developing a shared tokenised deposit network to modernise payments while ensuring commercial bank deposits remain the primary form of digital money.
- By offering instant, programmable blockchain-based payments while remaining regulated bank liabilities, tokenised deposits help banks protect their deposit base, lending capacity, and the role in the financial system.
- Unlike isolated bank initiatives, a common multi-bank platform can establish shared standards, improve settlement efficiency, create network effects, and strengthen the competitiveness of regulated bank money.
- It supports the preservation of the existing two-tier monetary system, aligns with regulatory frameworks, and reinforces the "singleness of money" by keeping digital settlement within the regulated banking sector.
- As payments and financial assets become increasingly tokenised, the key strategic question is not simply who issues digital money, but who controls, the networks, standards, and governance that underpin the next generation of financial markets.

Key Picture: Tokenised Deposits vs. Stablecoins



Source: BIS

US Banks Bet on Tokenised Deposits

A recent initiative by the largest US banks signals a potentially significant shift in financial infrastructure. JPMorgan Chase, Bank of America, Citigroup and Wells Fargo are reportedly exploring a shared blockchain-based tokenised deposit network, to be operated through The Clearing House, with a target launch in H1 2027.[1] [2] Here, the story is not merely of 'banks using blockchain' but a larger shift as it points towards commercial banks appearing to accept that blockchain-based settlement is becoming inevitable, and they want bank deposits – not privately issued stablecoins – to remain the main digital dollar in that system.

This move is significant because, in argument, the future of payments is no longer just about speed but about who issues the money, who controls the rails, and which institution captures the trust embedded in the payment asset itself. If dollars can move instantly on blockchain networks either as tokenised deposits or as stablecoins, then the real contest is not technological but institutional i.e., which form of digital money will become the preferred settlement asset for finance? The answer to this question may determine whether the future of payments strengthens the commercial banking system or builds a parallel system.[3] [4] To understand why this competition has become strategically important for commercial banks, it is first necessary to examine the forces reshaping digital money and payments.

Drivers of Digital Money

This shift reflects broader developments that are reshaping the future of digital money and payments. Stablecoins have evolved beyond a niche crypto instrument into a credible alternative for digital settlement. The Bank for International Settlements (BIS) has warned that tokenised private money circulating as bearer instruments can undermine the "singleness of money",[5] while the New York Fed has stated that competition between the stablecoins and tokenised deposits raises important questions regarding welfare, bank credit creation, and financial regulation.[6] In practice, stablecoins are increasingly being used for treasury operations, exchange settlement, and cross-border payments, positioning them as a direct competitor to bank payment products rather than merely a complementary innovation.[7]

Furthermore, customer expectations around payments are changing as corporates and financial institutions increasingly demand payment systems that operate continuously, settle transactions instantly, and support programmability across jurisdictions and platforms. Conventional payment infrastructure, constrained by cut-off times, reconciliation processes, and cross-border frictions, was not designed for these requirements.[8] Here, blockchain based settlement offers a convenient alternative by enabling near real-time settlement while providing a shared digital infrastructure on which cash-like instruments and financial assets can interact seamlessly.

Moreover, banks have an incentive to preserve the relevance of deposits. As transaction balances shift towards stablecoins, commercial banks risk weaker deposit funding, reduced lending capacity, lower payment-related revenues, and diminished customers.[9] [10] Tokenised deposits can therefore be understood as more than a technological adoption. They can be viewed as both a defensive response to the growing role of private digital money and an offensive strategy to modernise bank-issued money for an increasingly tokenised financial system.

What are Tokenised Deposits and Why Banks Prefer Them

Tokenised deposits are not simply stablecoins in a different form. Rather, they are digital representations of ordinary commercial bank deposits, with the underlying liability remaining on the balance sheet of a regulated bank. While both tokenised deposits and stablecoins can function as digital representations of the dollar, they differ fundamentally in their institutional design and legal claims. Stablecoins are typically issued by private entities and backed by reserves such as Treasury bills or cash equivalents, whereas tokenised deposits remain direct liabilities of commercial banks within the regulated banking system. As the BIS argues, tokenised deposits are more closely aligned with the principle of "singleness of money" because they preserve settlement at par

within the two-tier monetary system.[11] This distinction matters because digital money is ultimately a claim on an institution, and differences in the issuers and underlying liability mean that even dollar-denominated digital tokens can carry very different implications for payment stability, financial intermediation, and monetary control.[12] [13]

In this context, banks naturally prefer tokenised deposits as they let financial institutions modernise payments without giving up the deposit franchise. In other words, tokenised deposits offer the speed and programmability associated with blockchain while keeping the underlying claim inside the regulated banking system.[14] Here, the most immediate advantage for banks is the preservation of deposits. Commercial bank deposits are not simply payment balances; they are primary source of funding that supports credit creation and financial intermediation. If transaction balances migrate from bank deposits to privately issued stablecoins, banks risk losing a stable funding base, potentially reducing their capacity to extend credit and weakening their role in the financial system. By ensuring that digital money remains a bank liability, tokenised deposits enable banks to participate in blockchain-based payments without accelerating deposit disintermediation.[15] [16] [17]

Moreover, tokenised deposits also fit more naturally within the existing regulatory architecture as they retain their legal character as bank deposits and therefore remain subject to established prudential supervision, capital requirements, AML/CFT obligations, customer due diligence, and other banking regulations. This enables their deployment within blockchain-based payment systems while leveraging the existing banking regulatory framework rather than requiring an entirely new regulatory regime.[18] Furthermore, they also address the changing technical requirements of modern finance i.e. payment instruments that can operate continuously, support programmability, and interact seamlessly with tokenised assets across DLT networks.[19]

Taken together, these advantages make the case why tokenised deposits have become an increasingly attractive strategic response to the rise of stablecoins. Their appeal is not simply defensive, rather, they represent an effort to ensure that as payments become blockchain-native, the digital money circulating on those networks remains regulated commercial bank money rather than a parallel monetary instrument issued outside the banking system. In doing so, the banks aim to modernise payment infrastructure while preserving the institutional foundations of credit creation, monetary transmission, and financial stability.

Why a Shared Network Matters

The significance of the reported initiative by these banks lies not simply in the use of tokenised deposits, but in the decision to develop a shared network. A tokenised deposit issued by a single bank can modernise that institution's payment infrastructure, but its usefulness is inherently constrained unless it can interoperate with other financial institutions. By contrast, a shared network connecting multiple major banks has the potential to establish common technical standards, improve interoperability, deepen liquidity across participating institutions, and generate network effects that no single bank could achieve independently.[20] [21] [22]

In this context, comparisons with payment networks such as Visa or SWIFT are instructive as their enduring value lies not in the deployed technology by a single entity, but in the shared infrastructure, governance, and common standards that enable money and information to move efficiently across institutions.

A multi-bank tokenised deposit network could perform a similar role for regulated digital money by enabling more efficient settlement across banks while ensuring that the underlying liabilities remain commercial bank deposits rather than privately issued stablecoins.[23] [24] Shared infrastructure could also facilitate greater interoperability between tokenised deposits, securities and smart contracts, supporting more automated and, where appropriate, atomic settlement across financial markets.

Furthermore, this initiative also reflects a broader strategic shift in how banks are approaching digital payments. Rather than competing individually against stablecoin issuers, they appear to be collaborating to shape the infrastructure on which future digital payments will operate. The objective is not merely to issue a digital

payment instrument, but to establish a common platform capable of supporting payments, settlement, and other financial services while keeping commercial bank money at the centre of the ecosystem. If blockchain-based settlement becomes mainstream component of financial market infrastructure, influence will depend not only on who issues digital money but also on who establishes the networks, technical standards, and governance arrangements through which that money circulates.

At the same time, this strategy presents important coordination challenges. Shared infrastructure requires participating institutions to agree on governance, standards, cybersecurity, operational resilience, and access arrangements – areas in which commercial rivals must cooperate while continuing to compete in the marketplace. The success of the initiative will therefore depend not only on DLT capabilities but also on whether participating banks build a trusted, interoperable network capable of attracting broad market adoption.

System-Wide Implications

If tokenised deposits achieve widespread adoption, they could enable the banking system to become increasingly blockchain-native without fundamentally altering its institutional structure. Deposits, payments, and potentially the settlement of financial assets could increasingly operate on programmable DLT infrastructure while remaining liabilities of regulated commercial banks. Rather than replacing banks, tokenisation would modernise the way bank money is issued, moved, and settled, preserving the role of commercial banks in credit creation and financial intermediation.

Such a transition would also reshape the regulatory agenda. The policy challenge would shift from whether digital money should exist to how different forms of digital money including tokenised deposits, stablecoins, and central bank money can operate safely and interoperably within a coherent monetary framework. The BIS has consistently argued that preserving the “singleness of money” depends on ensuring settlement at par, effective supervision, and where appropriate, settlement in central bank money. In this context, interoperability is not merely a technical objective but a prerequisite for maintaining confidence, monetary stability, and the integrity of the payment system.

The implications extend beyond payments. As financial assets become increasingly tokenised, they will require equally efficient digital settlement assets capable of supporting programmable transactions and, where appropriate, atomic settlement. This suggests that the institutions responsible for issuing and governing digital money may also play a central role in shaping the future architecture of financial markets. In that sense, the competition is no longer simply over payment products or settlement technology, it is increasingly about who provides the monetary foundation on which the next generation of financial infrastructure will be built.

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