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Re: Discussion Paper 12 - Distributed Ledger Technology (DLT) & Tokenisation in Financial Services

Responses to individual questions

Q1: Beyond the enablers outlined in the discussion paper, what additional enablers are required to realise the potential of tokenisation in financial services?

State Street welcomes the opportunity to respond to the Central Bank of Ireland's ("CBI") Discussion Paper on Distributed Ledger Technology (DLT) and tokenisation in financial services ("DP12"). We strongly support the CBI's objective of enabling innovation while maintaining the highest standards of investor protection, financial stability, and operational resilience. The responses provided represent the view of our Irish-domiciled fund administration and depositary entities and of our Investment management arm, State Street Investment Management.

Ireland is one of the world's leading domiciles for investment funds and we see tokenisation, when recognised and implemented within existing regulatory frameworks, as having the potential to strengthen Ireland's competitiveness. As with other technological developments in market infrastructure, we believe tokenisation should be regarded as an evolutionary step within established fund structures, rather than as a parallel or bespoke regime.

Overall, State Street considers cross-border harmonisation as the single most important enabler. The promise of tokenisation, e.g. atomic settlement, real-time collateral mobility and frictionless cross-border distribution, will not be achieved if each jurisdiction develops its own legal

characterisation of tokens, its own terminology for issuance models, its own supervisory expectations for transfer agency, depositary oversight and on-chain registers. For global custodians, fund administrators and asset managers, the value of tokenisation diminishes if it cannot scale internationally and if fragmentation prevents the emergence of the more advanced native tokenisation use cases. Within the EU there is a convergence opportunity thanks to a harmonised funds framework and the ongoing work within the Market Integration and Supervision Package (MISP) including on settlement finality, collateral framework and CSDs. As the EU's two leading fund domiciles, Ireland and Luxembourg are uniquely positioned to lead this convergence.

We believe that the Discussion Paper identifies the main enablers for tokenisation deployment and scalable use in Ireland, but we would like to expand on some specific considerations.

Our experience across multiple jurisdictions suggests that legal and regulatory certainty is essential for scalable, institutional adoption of tokenisation. Existing Irish fund legislation is not fully technology-neutral, creating uncertainty when applied to certain tokenisation models. We address these points under Q2 and Q3 and we also refer to the legal analysis conducted by Irish Funds.

We therefore see value in targeted legislative clarifications by the Department of Finance which should be supported by regulatory guidance from the CBI confirming the legal certainty around ownership rights associated with tokenised fund units/shares, title transfer and control finality of such tokens and the validity of DLT-enabled fund registers, with appropriate controls in place.

In particular, we offer the following constructive suggestions where we think CBI guidance would be welcomed:

- A clear taxonomy that distinguishes the different fund token issuance models, distinguishing between registered fund units represented on DLT (where the legally authoritative record remains the fund register) and dematerialised fund units issued natively on DLT (where ownership is evidenced via securities and issuance accounts maintained on DLT). This has important implications for ensuring clarity on custody and safekeeping as explained below;
- Clarity on how DLT-based register location, access, and control requirements must be satisfied in practice and confirmation that the fund register can be validly maintained using any system, including DLT;
- Clear expectations on governance of smart contracts and on the use of public networks, including related implications from a data privacy, AML and operational resilience perspective;

- Further clarity on the conditions under which digital forms of cash may be used within Irish regulated fund structures would be welcomed. Confirmation that no regulatory obstacles stand in the way of tokenized Money Market Funds ("tMMFs") acceptance as collateral in uncleared transactions and commitment to undertake further work at the Eurosytem level to consider broadening the scope of acceptable collateral to include tokenised assets within central banks' operations. Further work at the EU level may be required under EMIR to ensure acceptances of tMMFs as collateral in cleared transactions and as HQLA.

Preserving clarity around custody and safekeeping models

A recurring concern in the institutional adoption of tokenisation is the ambiguity as to whether tokenisation alters: i) the nature of investor entitlements, ii) the scope of depositary responsibilities, and iii) the allocation of liability in insolvency scenarios. Comparative experience in other EU jurisdictions demonstrates that tokenisation can be advanced without undermining custody or investor protection, where the legal framework clearly distinguishes between issuance models.

In Luxembourg this has been done by articulating two different legal issuance forms via the subsequent Blockchain laws I-IV. Under the first, the fund units are issued in registered form and the legally authoritative record of ownership remains the fund's register, maintained by the transfer agent/registrar. In this model, the DLT layer supports lifecycle events such as subscription, redemption and transfer through minting and burning, but does not introduce custody of fund units. By contrast, the second legal framework applies to fund units issued in dematerialised form, where ownership is evidenced through securities accounts and a single issuance account maintained on DLT.

Under these two issuance forms different operating models have emerged with specific roles for each: the Digital Transfer Agent is the operating model for registered shares, whereby the underlying assets remain off-chain and are custodied by the depositary/custodian under the existing fund operating model and the TA record remains the legal source of ownership for registered shares. Control Account Keepers (CAK) and Control agents are the operating models for dematerialised shares, the DLT record constitutes the legally effective investor record, units are held in securities accounts operated by CAKs, with the Control agent maintaining the issuance account. The holding of units allows broader utility of tokenised securities and direct transfers between participants.

The distinction between these models, register-led vs account-led, is central to preserving legal certainty, investor protection and clarity of responsibility, and demonstrates that tokenisation can

be implemented without disturbing established regulatory principles when roles and records are clearly defined.

We believe that Ireland is well placed to follow a similar path, and we see value in CBI guidance confirming supervisory expectations on record-keeping, reconciliation, and control in DLT-enabled environments, including for depositaries, across different tokenisation models. However, while setting out a clear and technology neutral framework is a necessary step, we also stress that fundamentally what will help tokenisation to scale will be the emergence of a coherent and harmonised operating model across jurisdictions, with clear regulatory and supervisory expectations for all roles and responsibilities within the custody chain.

Q2: Which elements of the current Irish or EU framework may constrain scalable tokenisation?

As a global custodian and asset manager, we believe that scalable tokenisation in Ireland and the EU would benefit from targeted legal and regulatory enhancements expressly recognising (i) tokenised financial instruments, (ii) the force of fund registers held on DLT and (iii) finality and irrevocability of the on-chain token transfers. While the existing Irish and EU legal frameworks do not expressly prohibit fund tokenisation, the current rules have been developed with intermediated registers and traditional transfer mechanisms in mind and prior to the emergence of the DLT. As a result, they do not address or contemplate DLT-specific requirements central to developing market confidence in the DLT and promoting wider adoption of tokens. Therefore, especially when applied to native tokens or DLT-based operating models, these provisions may create legal uncertainty and limit scalability.

We share the outcomes of the research conducted by Irish Funds and we refer to their response for a comprehensive legal analysis. Here we would like to point to four specifics issues which are directly relevant for native tokenisation models:

- Several aspects of Irish fund legislation including provisions under the Companies Act 2014 and the ICAV Act 2015 are not fully technology-neutral, notably the provisions relating to the register of members, transfer formalities and shareholder record keeping were developed on the assumption of a centralised register infrastructure. These may not align with the issuance, transfer and registration mechanics associated with natively issued DLT fund interests. At the EU level, the same ambiguity exists in the legal confirmation that token-based transfer mechanisms (including via smart contracts) may constitute valid instruments of transfer. Clarity is needed to officially recognise DLT-based fund register as constituting the definitive legal record or ownership and remove the need for off-chain mirroring and duplication;

- Irish fund legislation and regulation is built on the assumption that the definitive register of shareholders is a centrally maintained register physically located within Ireland. While this requirement does not prevent pilot activity on tokenisation models built around so called "twin models", where the traditional register remains the legally authoritative record of ownership, it does not clearly contemplate DLT-based registers. This leaves market participants with the suboptimal option of relying on legal structuring workarounds, increasing cost, complexity and legal risks;
- From a custody and safekeeping perspective, ambiguity regarding responsibility for control and oversight in the context of native models also constraints adoption, as discussed in our previous response;
- DP12 rightly identifies (paragraphs 105-108 and Use Case 1) the considerable potential for tMMF units to serve as high-quality collateral in margining, securities financing and intraday liquidity arrangements. We share the view that this is one of the highest-impact use cases for tokenisation in funds, and one in which Irish-domiciled MMFs (given Ireland's position as a leading EU MMF domicile) should play a particularly significant role. As it stands, the regulatory framework under EMIR, however, does not expressly recognise MMFs as collateral in cleared transactions. We encourage the CBI to take the lead and drive this discussion in its engagement with ESMA, the ECB and at the international level, to advocating for a coordinated recognition of regulated tMMFs as eligible collateral.

Market participants will not commit to tokenised infrastructures without confidence in legal finality, depositary treatment and usability of tokenised funds. We believe that a coordinated EU programme that addresses all these in parallel, rather than serially, would substantially accelerate adoption.

Q3: What legal clarifications are needed regarding ownership, settlement finality and smart contract enforceability, particularly cross-border?

As discussed under our response to Q1, we believe that a clear taxonomy is needed to distinguish between different issuance models and to define the legal entitlements attached to each. From a cross-border perspective, regulatory uncertainty is further compounded by concerns on conflict-of laws. Clarification is required that:

- tokenised fund units are capable of constituting legally effective evidence of ownership and investor entitlement;

- token transfers can achieve final and irrevocable settlement on DLT for the purposes of applicable settlement finality;
- and smart-contract-driven actions are enforceable with appropriate governance and intervention rights.

Irish and EU legislation around settlement finality does not expressly address the issue of legal title transfer in a DLT context, creating uncertainty as to the point at which ownership is considered legally transferred when transactions are recorded on DLT. This limits the use of tokenisation in specific use cases such as collateral mobilization, netting and intraday liquidity management. The recent EU proposals in the MISP which adapt the Settlement Finality Directive and Central Securities Depositories Regulation for DLT-based settlement are essential, and we strongly support their swift adoption with a level of ambition beyond the original EU DLT Pilot Regime.

Q4: What governance arrangements are appropriate for tokenised markets, including permissionless networks?

We welcome a regulatory approach that supports public networks, and we believe public permissioned networks is where the industry should be heading towards. We would also welcome clarification that the use of public networks would not be categorized as outsourcing arrangements.

A technology neutral approach to governance arrangements related to public/private networks should ensure that risks, including AML checks, can be appropriately managed in all technological configurations. Further work by the industry together with regulators will be required on best practices and standards that should consistently apply as explained below.

State Street believes that regulators have an important role to play when it comes to defining token standards by supporting interoperability and minimum expectations on outcomes, in particular when it comes to AML/KYC standards. Along these lines, creating a safe harbor for certain tokens that meet minimum requirements (e.g., ERC-3643) should also be considered, together with audit controls that are sufficiently flexible to support innovation in smart contract design.

We would welcome an initiative to convene relevant SMEs across the industry to help design this framework. This also includes consideration of the implications that a public permissionless network would have on transparency and privacy. We believe that strong controls can be implemented to avoid that such privacy and confidentiality risks materialize such as for example maintaining a level of pseudonymity on chain while personal data remains securely managed off chain in GDPR-compliant registries. Without exposing personal data on-chain, this solution ensure that DLT transactions remain pseudonymous and auditable.

Q5: Are existing operational resilience standards sufficient for DLT-based infrastructures? Where might gaps arise?

As described in previous responses, DLT introduces specific operational characteristics that may require targeted supervisory expectations. Clearer guidance would help firms design resilient systems aligned with the CBI's operational resilience framework.

In particular, it is important to clarify the circumstances in which alternative arrangements are needed to ensure records could be maintained in the event of DLT outages. Smart contracts also introduce additional automation risk in particular for settlement processes. Minimum supervisory expectations on how smart contracts can be developed and deployed would help support scalability.

Q8: What high-value use cases could tokenisation deliver for investment funds?

We welcome the CBI's articulation of the four illustrative use cases in DP12. As a general point, we strongly support the case for a clear policy trajectory underpinning native tokenisation models. DP12 acknowledges that Irish authorised funds have to date focused on digital-twin models. In our view, digital-twin models should be understood as a transitional solution, and the policy framework should provide a clear trajectory toward native issuance as the end state. The main advantages of tokenisation, in terms of atomic DvP, real time settlement, programmable corporate actions, reduction of reconciliation, all depend on the on-chain record being the legal record of ownership, which is delivered by native models. Digitally native assets considerably reduce challenges related to collateral look-through compared to traditional tokenised assets and only by relying on fully native tokenised assets can a fund atomically settle redemption and subscriptions.

As discussed in Q2, for the end state of native tokenisation to materialize, the regulatory framework (including supervisory expectations) in Ireland needs to address with intent the following:

- Where and how a DLT-based register can constitute the primary statutory register for all fund's purposes;
- Whether on-chain transfer constitutes legal transfer of title without the need for any off-chain register update;
- How the depositary's oversight duties (cash flow monitoring, ownership verification, asset safekeeping) will evolve where the primary record is on DLT;
- How the role of the transfer agent evolves in a native model as operator of a DLT-based register.

We offer additional observations on MMFs and ETFs in turn, with the goal to constructively identify how the use cases could be developed further and where regulatory guidance could be more ambitious in driving the above natively-tokenised end state.

Realistically, traditional and tokenized models will coexist for the foreseeable future: individual funds will offer tokenized and non-tokenized share classes, funds' portfolios will hold a mix of traditional and tokenised share classes, and market participants will operate across both rails. This hybrid state has relevance from a policy perspective and requires clear consideration by regulators and appropriate supervisory expectations.

MMF tokenisation and collateral mobility

In our view, tokenisation has first and foremost the potential to improve the efficiency of collateral management by both expanding the pool of regulatory eligible collateral and the speed at which these assets can be transferred through the financial system. In particular, the ability to post, pledge and transfer tokenised shares of MMFs as collateral is the most mature use case for tokenised collateral.

We believe that tMMFs have strong benefits for collateral management especially in relation to:

- The elimination of pro-cyclical redemption flows at times of stress, whereby investors are forced to redeem MMFs into cash to meet margin calls, causing MMF managers to become forced sellers into stressed markets;
- The ability for collateral providers to retain yield until the point of collateralization;
- Reduction of operational risk by facilitating near-instantaneous settlement and reducing the need for frequent cash conversions;
- More transparency for supervisors over the real-time view on the collateral chain.

With Irish-domiciled MMFs accounting for a material share of EU MMFs, legislative and supervisory clarity on this use case will influence whether the European centre of gravity for the tokenised collateral market sits in Ireland or elsewhere.

DP12 in the design for Use Case 1 indicates that "*Token transfers would be permitted only during defined dealing windows aligned with the fund's NAV calculation cycle*", in order to guard against deviation between traded price and NAV. We believe that this design assumption conflates two distinct activities that should be distinguished: the subscription and redemption process that operates within the primary market under the fund rules, and the transferability of the token. The latter are transactions between parties as part of a collateral arrangement and do not trigger subscription or redemption of shares/units within the fund. Applying a dealing-window restriction to

the transfer of tokenised units would effectively prevent the collateral use case, which is predicated on the ability to transfer units 24/7. That is why it is crucial that any rule or supervisory expectation remains technology-neutral and continues to accommodate innovation as it evolves.

Finally, DP 12 recognizes the benefits of tMMFs depend on the availability of tokenised cash for the subscription, redemption and collateral settlement processes. While we strongly support the Eurosystem's Pontes and Appia initiatives, given the urgency to progress fund tokenisation initiatives, we urge the CBI to provide clarity on the role and eligibility of private digital cash solutions, including stablecoins and tokenised deposits. As we discuss under Q14, tokenised deposits issued by regulated credit institutions are, in our view, the most institutionally credible private digital cash solution for wholesale markets and we would welcome supervisory clarity from the CBI on their treatment for fund cash-leg purposes.

ETF tokenisation

From an ETF perspective, in general terms, we agree with the CBI's observation (paragraphs 110-112) that tokenisation may blur the functional distinction between traditional open-ended funds and ETFs, because tokenised fund units that support efficient secondary trading would replicate some features of ETFs including intraday transferability and improved liquidity. Our position is that the existing market structure protections that underpin ETF integrity, namely the role of Authorised Participants ("APs"), the arbitrage mechanism that aligns market price with NAV, and the secondary-market trading infrastructure, must be preserved.

In terms of use cases, in our experience ETF tokenisation is most immediately of use in enabling new forms of distribution across institutional and retail investors, particularly if the tokenised share class is added as a new distribution channel of an existing fund, as a means to reach digitally native investors. The same considerations already made for the tokenisation of open-ended funds are valid for this use case as well.

We strongly support the CBI's Use Cases 3 and 4 for ETFs, particularly because tokenisation could deliver the greatest benefits at the creation and redemption layer, where APs currently face meaningful operational and intraday liquidity costs. By enabling near-real-time, atomic DvP through tokenised baskets, ETF units and tokenised cash (stablecoin, tokenised deposits or CBDC), tokenisation could eliminate intraday funding costs, while 24/7 tokenised cash availability could also support continuous secondary-market liquidity. At the same time, atomic settlement would reduce operational risk by removing timing mismatches that currently drive settlement failures, partial settlements and burdensome reconciliation processes. However, the full benefits of atomic

settlement can only be met if the ETF fund is able to invest in on-chain assets and can resort to digital forms of cash (e.g. stablecoins, tokenized deposits or central bank digital currencies).

In a fully tokenised ETF model, reconciliation frictions that exist today can be materially reduced thanks to an end-to-end fully digitalized order workflow, the potential via smart contracts to remove certain timing differences or market claims in relation to corporate actions entitlements, reducing reliance on manual processes and the associated operational risk.

Q9: What new liquidity, valuation or interconnectedness dynamics could emerge as tokenised fund markets scale?

We would like to refer here to the comprehensive response provided by Irish Funds, in particular in relation to the dynamics relevant to MMFs and ETFs.

Q10: How can regulators monitor these developments effectively?

From the perspective of a supervisor, we believe that fund tokenisation will require building deeper technical capabilities across supervisory teams, particularly in areas such as smart contracts, token standards, protocol governance, data integrity and DLT operational resilience, as we further discussed in Q4 and Q5.

At the same time, tokenisation should not alter the core accountability framework and regulation should remain technology neutral: regulated fund service providers should remain responsible for monitoring risks, maintaining operational integrity and escalating issues to supervisors. In particular, fund tokenisation does not remove the need for independent valuation, liquidity management and effective depositary oversight. The regulatory framework must continue to uphold the foundational principles of asset segregation, operational resilience and functional separation that ensure systemic stability and full investor protection in the traditional assets space. As a custody bank we are also committed to apply the highest standards that we currently adopt for traditional assets to the digital space, including our global financial crime compliance program.

Q11. How can cross-border interoperability be supported without creating regulatory fragmentation?

We believe that cross-border interoperability in a tokenised environment is dependent on whether regulators apply consistent legal frameworks and standards across jurisdictions. In the absence of early coordination, fragmented national approaches become embedded into the design of tokenised markets, making future alignment difficult and costly. This is even more important in a EU context where regulatory inaction or national gold-plating can prevent scalability at Single Market level.

As discussed in previous responses, alongside proactive engagement by Ireland to remain competitive as other jurisdictions move ahead, we believe that at the EU level it is essential to establish a clear and harmonized framework for legal recognition, settlement finality, regulatory classification and clear operating requirements for tokenised funds.

Finally, we support continued alignment with the UK and within international frameworks, notably IOSCO, to support interoperability with other major markets and progress toward a fungible on-chain settlement assets.

Q12: What factors constrain the development or adoption of tokenised deposits in Ireland or internationally?

For the purposes of this response, we refer to tokenised deposits understood as a DLT representation of a bank deposit operating within a bank's chain constituting a liability of the issuing bank, as opposed to deposit tokens which operate outside the bank's blockchain. The distinction is important given the different transferability expectations that each instrument has.

Tokenised deposits are a core part of our digital transformation strategy, aligned with our vision of a multi-cash ecosystem. We are developing a tokenised deposit solution to give our customers greater efficiencies in how they manage their cash in a way that is legally and economically equivalent to traditional deposits. Institutional clients are continuously looking for digital cash solutions that offer real-time liquidity, always-on settlement and the safety of regulated banks. Tokenised deposits address this demand across payments, clearing, collateral management and settlement systems without the type of financial stability risks highlighted in the CBI's Discussion Paper and associated with other private digital cash solutions.

The adoption of tokenised deposits raises practical considerations around fungibility, interoperability and integration with existing banking systems. In our experience, four types of constraints are slowing the development of tokenised deposits relative to their potential and to the pace at which alternative settlement assets are emerging:

- Firstly, although tokenised deposits are widely understood to be a tokenised version of existing deposit liabilities, banks need explicit legal and regulatory confirmation of this equivalence. Regulatory authorities must, in this respect, confirm that the on-chain record of a tokenised deposit is the authoritative evidence of a deposit claim rather than a parallel asset giving rise to legal duplication. Based on this confirmation, market participants should then be able to rely on regulatory guidance specifying that the tokenised form of a deposit does not trigger capital, liquidity and accounting rules that differ with current banking rules.

Equally important is confirmation that the deposit is eligible for protection from national Deposit Guarantee Schemes contrary to other forms of private digital cash. This protection has been recognized in the US by the FDIC in the context of its GENIUS Act rule proposal. For scaled adoption, the market will also need comfort that transfers of tokenised deposits enjoy Settlement Finality Directive protection and that AML/CFT obligations are clearly allocated among relevant parties. While we urge the CBI to reflect these considerations within the Irish framework, we also recognize that EU regulatory alignment through the Eurosystem is necessary to ensure the consistent EU-wide treatment of tokenised deposits and is a pre-condition to achieving scale. For a custody bank serving institutional clients globally, this fragmentation is a material barrier. Tokenised deposits cannot serve cross-border collateral mobility or DvP use cases at scale until the cross-border regulatory and legal framework is clarified, ideally through coordinated supervisory guidance at EU and international level.

- Secondly, activity on tokenised deposits to date has taken place across various bank-private permissioned platforms with limited interoperability. There are today no agreed industry standards for token formats, messaging protocols, settlement models, or governance arrangements. The result is that each bank's tokenised deposit implementation risks becoming a closed-loop system, incapable of supporting financial market intermediation. Transferability beyond the issuing bank's client base requires the build out of industry systems and explicit legal treatment and disclosure. We note, in this respect, that EU deposits currently sit outside the MICAR framework. Limited interoperability undermines the fungibility of money across bank-issued tokenised deposits and limits client utility, since economic and financial activity cannot take place at scale unless tokenised deposits can freely move among and between banks. The Eurosystem's Pontes initiative provides a credible path toward interbank settlement of tokenised deposit transfers in central bank money, which would resolve the singleness-of-money problem at the wholesale layer. But common standards will still be needed at the tokenised deposit layer itself. We would encourage the CBI, working with the ECB and other Eurosystem central banks, to support industry-led standards on tokenised deposits in parallel with the Pontes initiative, similarly to other ongoing initiatives such as the Project Agora.
- Thirdly, tokenised deposits do not exist in isolation. They must be connected to core banking systems, payment rails, treasury, risk and control functions. The move to real-time or extended-hours processing, which is necessary if tokenised deposits are to deliver their efficiency benefits, requires substantial investment in legacy systems, not just in the DLT

platform itself. Before they are willing to commit at scale, banks will need confidence that the cost of modernising the existing bank infrastructure will be rewarded, both through commercial demand and a stable regulatory framework.

In conclusion, if regulators want to preserve the place of tokenised deposits in regulated wholesale activity, and with it the traditional two-tier monetary system and the safeguards that today apply to traditional commercial bank money, resolving regulatory and legal ambiguity is necessary, together with active steps that support the development of common standards and infrastructure modernisation at the interbank settlement layer.

Q13: Are there particular use cases or market needs that are better met by stablecoins relative to tokenised deposits in a future DLT-based financial system? If so, why?

The use cases where stablecoins are better suited than tokenised deposits are limited and involve participants, geographies, or operating models that sit outside of, or are imperfectly served by, the regulated banking perimeter. We see four main uses cases:

- Stablecoin growth in cross-border payments reflects efficiency gains over correspondent banking, especially in emerging markets, where stablecoins offer a better user experience in terms of speed, cost transparency and predictable settlement. Tokenised deposits could in principle compete in this space, but only with a multi-currency interbank infrastructure across jurisdictions. We would suggest that CBI policy in this area should therefore focus on accelerating the establishment of a framework for tokenised deposits with cross-border interoperability.
- Crypto-asset markets, decentralised finance protocols, and certain emerging on-chain trading venues operate continuously and have defaulted to stablecoins as their settlement asset. The relevant universe is participants whose primary activity sits outside the regulated wholesale financial system, and whose activity is genuinely native to these venues. In these cases, stablecoins offer transferability without bilateral banking relationships, composability with smart contract protocols, and continuous availability without dependency on interbank settlement.
- Stablecoin may also fill a gap in economic activities involving counterparties who are not, and may not wish or be able to become, banking customers of a regulated institution. In these cases, the relevant regulatory question should be about ensuring that stablecoins

serving these participants are regulated for the investor protection, financial stability and AML risks they create.

- Finally, stablecoins, particularly major USD-denominated ones, offer practical utility for use cases requiring cash to move across multiple DLT platforms. Tokenised deposits are today typically deployed on a single bank's chosen platform and are not interoperable with others. The stablecoin advantage in this use case however could in principle be addressed through common standards and shared interbank infrastructure as discussed in our response to Q12.

The existence of certain use cases for payment stablecoins does not change our strongly held view that tokenised deposits should be the default form of on-chain money for the regulated wholesale core of the financial system. The absence of supportive policy for tokenised deposits open up the risk of substitution by other forms of private money outside the traditional two-tier monetary system with related financial stability implications.

Q14: What implications do current Eurosystem exploratory initiatives (Pontes and Appia) have for market development and risk management?

We fully support the Eurosystem's Appia and Pontes initiatives which are key to reduce some of the existing barriers to tokenised market development such as fragmented platforms, legal uncertainty and the absence of central bank money settlement. They support common standards for DLT-based digital money and will strengthen trust in tokenised finance through direct central bank involvement.

Having said that, given the rapid pace of development of private digital cash solutions and the urgency to advance tokenisation in the European financial system, we believe that any future European framework should preserve optionality by supporting central bank money, stablecoins and tokenised commercial bank deposits as complementary settlement assets within a multi-network, interoperable ecosystem.