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EXECUTIVE VIEW

Stablecoins and the tokenization of money

What banking leaders need to know

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As digital money evolves, banks face new opportunities and challenges. Discover how stablecoins and tokenization are shaping the future of finance.

Introduction: A rapidly evolving form of money

Digital representations of money are advancing quickly as blockchain[1]-based forms of value settlement are moving from experimentation to adoption. Among the most prominent developments are stablecoins and tokenized bank deposits. While often discussed interchangeably, these instruments differ fundamentally in their issuance model, legal structure and underlying infrastructure – differences that have meaningful implications for banks, regulators and market participants.

For leaders in the financial services industry, understanding these distinctions is no longer considered 'nice to know' but rather a 'need to know'. These assets are increasingly central to conversations around payment modernization, treasury operations, liquidity management and competitive positioning in a tokenized financial system.

Two models, two fundamentally different constructs

Below we will explain the differences between each payment model to provide a clear understanding of how these instruments are structurally distinct.

Stablecoins: Digital value outside the banking perimeter

Under the Guiding and Establishing National Innovation for U.S. Stablecoins Act (GENIUS Act[2]), payment stablecoins are issued by Permitted Payment Stablecoin Issuers (PPSIs) and function as digital bearer instruments, meaning whoever holds the coins legally owns the value. Stablecoins are transferable peer-to-peer via public blockchains, are designed to maintain a stable value relative to fiat currency and are backed by highly liquid reserve assets such as cash or short-dated treasuries. Therefore, each stablecoin represents a 1:1 claim on a reserve pool.

Stablecoins enable fast and cheap global value transfer and introduce new channels for transaction activity and liquidity alongside the traditional banking system.

Where they create opportunities:

- **Enhanced cross-border efficiency.** Near real-time, peer-to-peer settlement can reduce friction, cost and settlement times in cross-border payments and remittances, particularly outside traditional correspondent banking networks.

- **24/7 availability and programmability.** Public blockchain infrastructure enables 'always-on' payments and programmable transactions, supporting emerging use cases such as 24/7 trading and automated settlement or conditional payments through smart contracts[3].
- **Strategic optionality through partnerships.** Banks can partner with stablecoin issuers or become 'stablecoin enabled' by integrating stablecoins into payment offerings without needing to build full issuance capabilities.
- **Access to new ecosystems and client segments.** Stablecoins enable participation in digital asset markets, decentralized finance (DeFi) and crypto-native client activity, where traditional banking systems may not be present.
- **Consumer confidence in asset-backed value.** The reserve-backed nature of stablecoins can support user confidence through transparency into the underlying assets and stability of value.
- **Expanded global access to US dollar and demand for US dollar assets.** Stablecoins can provide broader access to US dollar-based markets across jurisdictions, which may contribute to increased demand for underlying reserve assets (e.g. US Treasuries) and support the continued global role of the US dollar.

Where complexities may arise:

- **Regulatory uncertainty and evolving oversight.** Regulatory frameworks for stablecoins are still being developed across jurisdictions, which can create uncertainty for banking entities around permissible activities, capital treatment and compliance expectations.
- **Liquidity and funding dynamics.** Stablecoins may shift customer balances and transactions out of the core banking system, which can have an impact on liquidity profiles and lending activities.
- **Enhanced sanction screening and monitoring.** Activity occurring on public blockchains can introduce additional considerations for sanction screening and monitoring, including the need to assess wallet addresses.
- **Technical and operational considerations.** The use of stablecoins introduces additional considerations around custody, key management[4] and transaction execution. Given the nature of blockchain transactions, there is increased exposure to loss if assets are not issued and maintained in a reliable manner.

Tokenized bank deposits: Traditional deposits on new infrastructure

Tokenized bank deposits are issued by regulated banks and are a digital representation of existing bank deposit liabilities recorded on a blockchain. The funds remain on the bank's balance sheet and function under the same legal construct as a traditional deposit, including capital treatment, 'Know Your Customer (KYC)' considerations and insurance limits. In instances of interbank tokenized deposits (e.g. consortiums), transactions still rely on central bank settlement between participating institutions.

This model is best understood as a modernization of deposit infrastructure, not the creation of a new asset class. Tokenized bank deposits are currently the only tokenized instrument that is still backed by FDIC insurance protection.

Where they create opportunities:

- **Preservation of existing deposit economics.** Tokenized deposits stay within the bank's ecosystem, allowing banks to retain funding benefits, liquidity and customer relationships.

- **Regulatory alignment and depositor familiarity.** As insured deposits, they operate within existing regulatory frameworks and retain established consumer protections.
- **Operational efficiency and automation.** Tokenization improves programmable treasury functions by streamlining reconciliation (e.g. less system-to-system reconciliations because of fewer intermediaries, instantaneous settlement decreases pending/unsettled transactions, etc.), as well as cash management and internal liquidity movement (e.g. real-time settlement decreases idle cash during settlement processes).
- **Improved client settlement processes.** While still requiring traditional settlement, they can enhance speed and visibility within bank-controlled ecosystems, including improved traceability of transactions.

Where complexities may arise:

- **Limited interoperability across banks.** Tokenized deposits are often deployed on permissioned[5] or bank-specific platforms, which may limit transferability and require coordination across institutions.
- **Dependence on existing settlement infrastructure.** In interbank use cases, tokenized deposits still rely on traditional settlement mechanisms, which reduces some of the speed advantages.
- **Implementation and integration effort.** Adoption may require significant investment in technology infrastructure, including integration with core systems, payment hubs and treasury platforms.

A third emerging category of tokenized products to watch

Deposit tokens: A more programmable, transferable form of digital deposits

Deposit tokens (not to be confused with tokenized deposits) represent a further experimental evolution of tokenized money. While they are issued by regulated banks, these tokens are structured as tokenized claims on a pool of deposit reserves rather than a digital representation of a traditional bank deposit. They are designed for on-chain circulation, transfer and settlement. While these tokens are backed by deposits, the token itself is a crypto native on-chain asset and not legally a deposit. Therefore, deposit tokens can transact on public or private blockchains. This introduces the benefits of increased accessibility via public blockchains (like stablecoins or other commodity digital assets). Because these tokens are backed by deposits, KYC considerations still apply; however, application of these considerations can be accomplished through smart contracts and/or by using a permissioned blockchain.

This distinction is critical: While economically linked to deposits, deposit tokens introduce different legal and regulatory considerations (e.g. treatment, settlement finality, holder rights).

What bank leaders need to consider

Liquidity strategy: From prefunding to dynamic allocation

Today's liquidity model is frequently fragmented across payment channels, requiring institutions to position balances and manage intraday needs to avoid payment delays. Stablecoins and tokenized deposits introduce the possibility of real-time, peer-to-peer settlement on shared ledgers, reducing trapped liquidity and the need for multiple prefunding pools. However, 'always-on' settlement also raises a familiar question in a new form: how quickly can money leave, through what channels, and with what real-time controls?

Competitive positioning: Disintermediation vs modernization

Stablecoins highlight a critical strategic risk as transaction flows and customer relationships can migrate outside traditional banking channels. Tokenized deposits and deposit tokens, by contrast, offer a pathway for banks to preserve deposit-based intermediation, retain customer relationships and payment flows, and compete with non-bank digital money on functionality – not just trust. Banks are at a crossroads to decide whether to compete directly (e.g. issuing their own stablecoins or tokenized deposits), partner with existing issuers, or focus on institutional use cases where regulatory trust is paramount.

Operational transformation: New infrastructure, new control environments

The introduction of digital money models brings new operational and financial risks, including sanctions screening and transaction monitoring, digital asset custody and key management, and considerations related to settlement and legal enforceability. Core challenges include:

- **Dual-ledger environments:** maintaining synchronization between core banking systems and on-chain ledgers
- **Integration complexity:** connecting payments hubs, treasury systems and blockchain infrastructure
- **Network governance:** participation rules, data sharing and interoperability across institutions

Auditability, governance and controls will be critical, particularly as institutions integrate blockchain-based settlement into core processes.

Accounting and disclosure: Familiar foundation, new complexities

Each model carries different implications for balance sheet recognition, capital and liquidity treatment, and customer protection and disclosures. Additionally, new complexities arise in the system of record (on-chain versus off-chain authority), audit evidence and reconciliation, and disclosures related to operational, technological and counterparty risks. Banks must closely monitor evolving regulatory guidance, particularly around deposit classification and tokenization frameworks.

Strategic actions to prepare for tokenization

As banks explore how to use blockchain technology in their operations, leaders should take a structured and pragmatic approach that balances near-term experimentation with long-term strategic alignment.

Build early capabilities and institutional knowledge

Banks do not necessarily need to be first movers; however, delaying engagement can result in missed opportunities to shape emerging standards and operating models as well as potentially losing market share to banks and fintechs who offer stablecoin and tokenized deposit options.

- Establish dedicated cross-functional teams to evaluate tokenization use cases across payments, liquidity and client offerings
- Prioritize targeted pilot programs and proofs of concept, focusing on assets and workflows where tokenization can deliver clear efficiency or control benefits
- Participate in industry consortiums and working groups to remain informed and influence evolving frameworks

Align tokenization with enterprise strategy

Tokenization initiatives should be anchored in enterprise strategy and supported by executive-level understanding and sponsorship.

- Educate the C-suite and board on the strategic implications of stablecoins and tokenized deposits, including the inherent risks, impacts to liquidity, payments and competitive positioning.
- Develop end-to-end business process flows that demonstrate how stablecoins and tokenization can complement and enhance existing products and services.
- Align stablecoins and tokenization efforts with broader digital transformation priorities, including modernization of core systems, payments infrastructure and data architecture.

Position for a network-driven ecosystem

Tokenization is inherently network-driven, so banks will need to consider how value can be further enhanced through interoperability, participation and scale across institutions and platforms.

- Build strategic partnerships with fintechs, technology providers and peer institutions to develop a viable tokenized value chain.
- Engage proactively with industry bodies and regulators to support the development of standards, governance models and policy frameworks.
- Evaluate opportunities to participate in network-based models (e.g. shared ledgers or consortium platforms) to enable seamless cross-institution activity.

Conclusion: Preparing for multiple forms of digital money

Stablecoins, tokenized bank deposits and deposit tokens each represent distinct approaches to digitizing money, reflecting different trade-offs across trust, efficiency, accessibility and regulatory alignment.

The future is unlikely to be defined by a single dominant model, but rather by the coexistence of complementary instruments, each optimized for specific use cases and market participants.

For banking leaders, the imperative is clear:

- Develop a coherent digital money strategy
- Understand where to compete and where to collaborate
- Invest in infrastructure, governance and talent to support this transition.

Organizations that engage early and with a clear strategy will be better positioned to shape market structure rather than respond to it.

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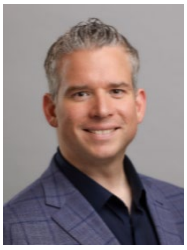
Contact Us

Katie Rozsa
Audit Managing Director
KPMG US



Gregory Genega
Lead Specialist I, Digital Innovation
KPMG US

Brian Consolvo
Principal, Advisory
KPMG US

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1 Blockchain, in the context of this article, refers to a form of distributed ledger technology (DLT) where transaction records are maintained across a network of participants using cryptography, rather than a central intermediary.

2 The GENIUS Act is US legislation that introduces a regulatory framework for payment stablecoins including provisions related to issuer authorization, reserve backing and supervisory oversight."

3 Smart contracts refer to digital code containing a set of rules. The code is deployed to a blockchain via a transaction that establishes the contract at a unique on-chain address making it accessible to network participants for execution. If, and when, the predefined rules are met, the agreement is automatically executed by the code.

4 Key management refers to the processes and controls over the generation, storage, protection, use, and recovery of the cryptographic private keys that provide access to, or control over, digital assets.

5 Permissioned refers to blockchain networks where access is restricted through defined authorization controls, allowing only approved participants to read, write, or validate transactions.

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