

# Amnon Samid

Strategic Advisor | Technologist | Business leader | Independent Board-member | Founder X 3 & CEO | Speaker | AI | Tokenization | Crypto | Quantum | stablecoins | CBDC | Privacy | Freedom | Human-Dignity  
**Israel**

## Tokenized Deposits and Stablecoins

### Redefining the Digital Asset Landscape

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The entire financial ecosystem is undergoing a rapid transformation. It is currently evolving around the tokenization of money, assets and securities, being transferred in real time and AI-powered.

Tokenization is a means to represent a non-digital asset with digital expression. According to the latest Chartered Financial Analyst (CFA) Institute report, tokenized assets could surpass \$16 trillion by 2030, unlocking new efficiencies and market access.

The biggest risks are from regulatory uncertainty and cybersecurity.

Policymakers need to adopt an open-minded approach to financial innovation, because overly cautious regulation could stifle progress. The US administration is promoting regulatory clarity for digital asset trading platforms, easing the entry of new players into the market. To fully harness the tokenization potential, tokenization should be non-algorithmic and be carried out via randomization.

Tokenization that is settled on blockchain is not suitable for day-to-day payments. We need more advanced and innovative validation, transaction and settlement mechanism for the cash leg, like the LeVeL-paying-Field ("LeVeL"), that provides clearing, settlement, security, user-friendly, scalability and compliance benefits. It can settle retail transactions locally and cross border, in the form of central bank money (CBDC) or in the form of privately issued tokens, including payment-stablecoins.

The future landscape of digital currencies and assets depends much on adopting appropriate technologies, more advanced than typical DLTs, and making sure that friendly regulation will keep-up.

## Stablecoins

Stablecoins had captured the spotlight of media, regulators and financial institutions already in 2024, being number one in digital asset category by value transacted across exchanges, outperforming even bitcoin, with a potential to redefine the digital asset landscape.

Money market funds (MMFs) will most benefit from tokenization. Tokenized MMFs are more accessible because they can be traded 24/7 on tokenized asset platforms. It's unlocking new liquidity opportunities, making this innovation compelling for investors, but cannot be used for day-to-day payments.

As the stablecoin ecosystem gains momentum, President's Trump issued an Executive Order (EO) on January 23, 2025, aims at protecting Americans from the risks of Central Bank Digital Currencies (CBDCs), and promoting the creation and issuance of digital assets, including stablecoins and crypto. It caused heated discussions about decentralized finance (DeFi) in general and particularly about accepting non-cash stablecoins as collateral in derivatives, and about cash stablecoins as a means of payment.

### How did stakeholders react to Trump's move?

President Trump's Executive Order (EO) banning CBDC and advocating dollar-backed stablecoins worldwide, already caused acceleration of regulatory developments not only in the US, but also in the EU, Singapore and Hong Kong, paving the way for tokenized markets.

Several countries looking to reduce reliance on a payment system controlled by the U.S., especially the EU and Asian

countries. It can contribute to a more fragmented and competitive global payment landscape. However, it's unlikely that it will be weakening the U.S. dollar's dominance, even if other digital currencies will gain international traction.

The US congress is exploring Bipartisan Legislative Frameworks for Digital Assets, and promoting Bills for Stablecoin Transparency and Accountability, like the STABLE Act, and introducing Guiding and Establishing National Innovation for U.S. Stablecoins (GENIUS) Act.

Top U.S. banks now racing to solidify their digital asset strategies and The Federal Reserve dropped using the term CBDC, following the President Executive Order banning CBDC, while in order to justify continuous participating at the wholesale CBDC project Agora, they title it as 'a protocol to move existing liabilities faster and safer'. They also start to consider tokenizing commercial bank deposits.

The European Central Bank (ECB) accelerates CBDC as the U.S. pushes back. ECB Board Member, Piero Cipollone says in an interview that he is worrisome, because if people in Europe start using stablecoins to pay, given that most of them are American and dollar-based, they will be transferring their deposits from Europe to the United States. At a recent European Parliament debate, the ECB President Christine Lagarde emphasized the urgency: Europe's payment systems are dominated by non-European companies, making the region vulnerable to external pressures.

The Digital Euro's narrative is well positioned to secure Europe's economic autonomy, strengthen resilience, and drive digital payment innovation, provided that the ECB would have chosen proper technologies that fit to the AI era, with a

value based digital euro, to enable peer-to-peer payments with no intermediaries. Unfortunately, it seems they chose inferior technologies, that cannot exploit the benefits of a real digital currency, ignoring solutions that can make Europe more competitive for the benefit of its citizens.

India is yet to see any tangible impact from recent developments in tokenization policy, but China is actively discussing the new challenges facing the currency space. Several other central banks consider to accelerate the development of alternative financial systems, not necessarily denominated on the US dollar, fostering a shift towards decentralized and regionally autonomous financial networks.

Many of them think that tokenized MMFs and stablecoins will redefine the digital asset landscape in the near future, and consider encouraging commercial banks and Private Payment Providers (PSPs) to compete on issuing payment fiat-backed stablecoins, as Tokenized-cash seems like a missing leg in the financial ecosystem.

### The difference between stablecoins and CBDCs

Main difference between CBDC and stablecoin is that CBDC is a public money with no counterparty risk (at least in theory), while stablecoins that are backed on bank deposits have counterparty risk. This difference could be solved by regulation that will make sure that traders/depositors will be able to redeem (withdraw) the stablecoin at any time (switch back to public money). In other words, public money is the peg that keeps private money stable.

A 'typical stablecoin' uses a public blockchain that acts as a ledger where everyone can see everyone else's

transactions. It can also freeze its users' wallets to prevent them from transacting.

Even public permissionless blockchains that presumably are designed to be censorship resistant, are not immune to the potential for certain transactions to be excluded due to external pressure. On top of that, are not immune against quantum attack and AI-cryptanalysis.

Stablecoins in their current form, are only coated in a veneer of "freedom" and "innovation" and are useless for secure private bilateral day-to-day payments.

### What else is there?

Payment-stablecoins could be validated and transacted without the DLT heavy lift hassle, rather on public ledgers, like BitMint's LeVeL, that enables seamless access to tokenized cash without the blockchain onboarding headaches. People will make digital cash payments 24/7, smoother, safer, faster and more efficient than ever, delivering the benefits of tokenization while eliminating DLTs complexities and vulnerabilities. The LeVeL platform is hinged on the fundamental experience of payor passing a transactable instrument of value to a payee, with no intermediaries, enabling scalability and preserving highest security challenges (AI and Quantum cryptanalysis resistant) and cash-like privacy.

Payment-stablecoins should offer ease of use and convenient trading, with no cumbersome consensus mechanism; grant traders more control on their money and data, without being an enabler to illicit activities, while hiding payments pattern to avoid being mis-profiled by A.I.; Otherwise, we could all become innocent victims that will be denied a loan, a job, school admission on account of what Artificial

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Intelligence said about us.

#### What can and should central banks do now?

Concrete measures in the regulation of crypto-assets should be taken in a way that promotes innovation. It is necessary to put regulatory clarity for digital asset markets to ensure that robust guardrails are in place.

It is advisable to central banks to distinguish the nature of their future money from the practice of moving it about. The latter can be done and experimented with through the notion of payment fiat-denominated stablecoins (Tokenized-Cash).

The idea is to issue digital claim-checks (IOUs) for the national currency as is, and keep these claim-checks with instant redemption ability. They can be introduced through commercial issuers, commercial banks and PSPs, well regulated by the central bank.

Such fiat-denominated stablecoins can enter the payment space, compete with card schemes, reducing the price for the merchant and make it more convenient for citizens to pay cash-like with their phone, and several other advantages, if it is done properly.

Amnon Samid is a seasoned and forward-thinking professional, technologist and business leader, with a diverse journey spanning roles from R&D and university lecturer, through co-founding and managing global technology companies, as well as acting as strategy advisor to governmental agencies, to industrial conglomerates and to high-tech SMEs. Amnon was leading the first-ever value-based quantum-resistant digital currency tokenization project, that successfully passed banking stress tests, and joined the expert panel of the digital euro association.

Amnon is the co-founder and CEO of BitMint AI-Powered Cyber-Innovation Hub, that is dedicated to contributing to preserving human rights, dignity and privacy, democratizing access to finance, equalizing and connecting people, creating trust between strangers, achieving financial inclusion, social responsibility, with an impact on unlocking a low carbon economy

Amnon Samid: "At BitMint we are dedicated, among others, to inventing and developing technologies and trusted protocols to enable safety and privacy in our online world and digital communities for empowering citizens, enabling each of us confident interactions with others, when we work, play, buy, sell, create and engage socially."

LeVeL-Technology based Tokenized-cash is designed for everyday use by individuals and businesses, effectively replacing or complementing physical cash. It offers benefits such as reduced cash or card handling costs, improved payment efficiency, and greater financial accessibility, can better deal with challenges like data privacy concerns and cybersecurity risks, being quantum-safe and AI-resistant, ready for widespread implementation.

It can be used also for interbank transactions and financial market settlements, and can facilitate efficient and secure transfers of small sums, from micropayments, up to large sums.

A remaining challenge that could be solved is achieving interoperability with existing financial systems and aligning regulatory.

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The central banks will watch. There is a distinct possibility that the set of competing stablecoins will be sufficiently supportive of the societal goals of money, rendering CBDC per se to a non-urgent development, waiting for deeper insight.

#### To conclude

Industry leaders need to come together to create a cohesive and efficient digital asset market, starting with frameworks and standards for diversification in digital assets tokenization and stablecoins, introducing advanced technologies that do not suffer from the limited functioning and

vulnerabilities of DLT-based tokenization and risks they may impose on the financial markets.

Currently, cash is the only way for the public to access public money. IOUs payment stablecoins, Tokenized-Cash, could have the attributes of physical cash, including bilateral private interaction between traders, while enjoying the convenience of the cyber space, without causing instability into the entire financial system.

<https://www.linkedin.com/in/amnon-samid-3057418/>