Chiara
Munaretto

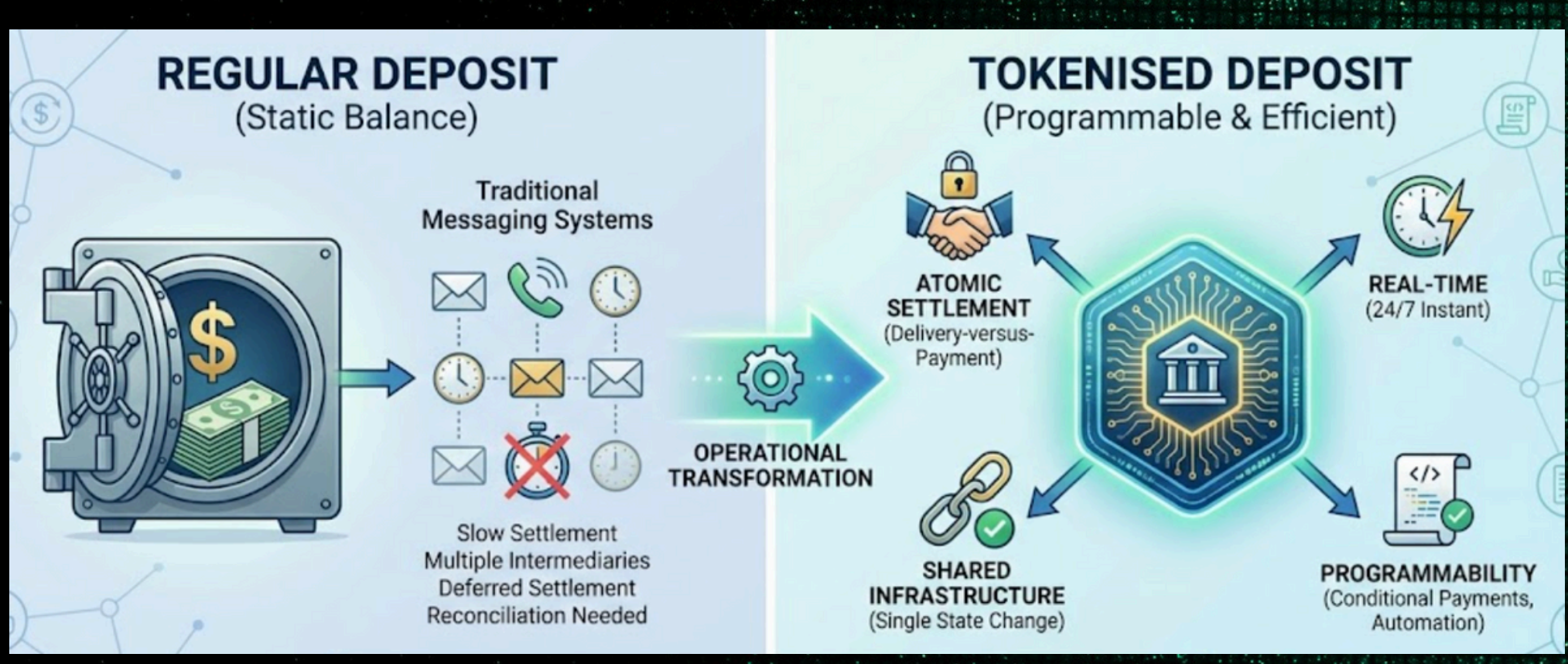
Behind the Peg

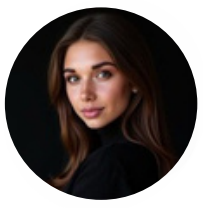
Stablecoin Insider's Series

Traditional vs Tokenised Deposits

An Institutional Guide for Banks

+ case study LLOYDS ARCHAX Canton





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Banks are increasingly required to distinguish between tokenised deposits and stablecoins.

While both are often described as "digital money," they are fundamentally different in legal form, balance-sheet treatment, risk profile, and institutional suitability.

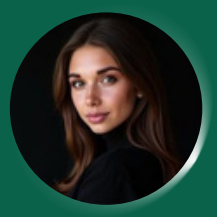
Inside here:

- What tokenised deposits are
- How they technically work
- How they differ structurally from stablecoins
- What benefits they carry against trad deposits
- A real Lloyds Bank case study

... and more!

Enjoy the reading.

Traditional vs Tokenised Deposits



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What Tokenised Deposits Are

Traditional vs Tokenised Deposits

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A tokenised deposit is a traditional commercial bank deposit that is represented and transferred using DLT.

- The legal nature of the deposit does not change
- The depositor holds a direct claim on the issuing bank
- The liability remains on the bank's balance sheet

Tokenisation changes the transport and settlement mechanism.

- Regulated bank money
- Issued by licensed deposit-taking institutions
- Redeemable at par into conventional accounts
- Capable of being used natively in on-chain settlement

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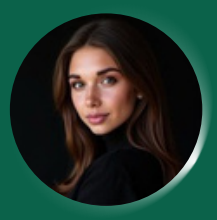

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Legal and Regulatory Structure of Tokenised Deposits

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Tokenised deposits retain the same legal status as traditional deposits:

- Direct claim on the issuing bank
- Governed by existing banking law and supervision

From a bank's perspective:

- Tokenised deposits are on-balance-sheet liabilities
- No no automatic change to capital, liquidity, or leverage treatment
- No new credit exposure introduced

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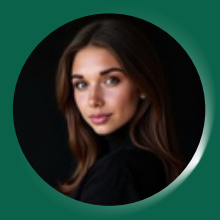

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Technical Architecture of Tokenised Deposits

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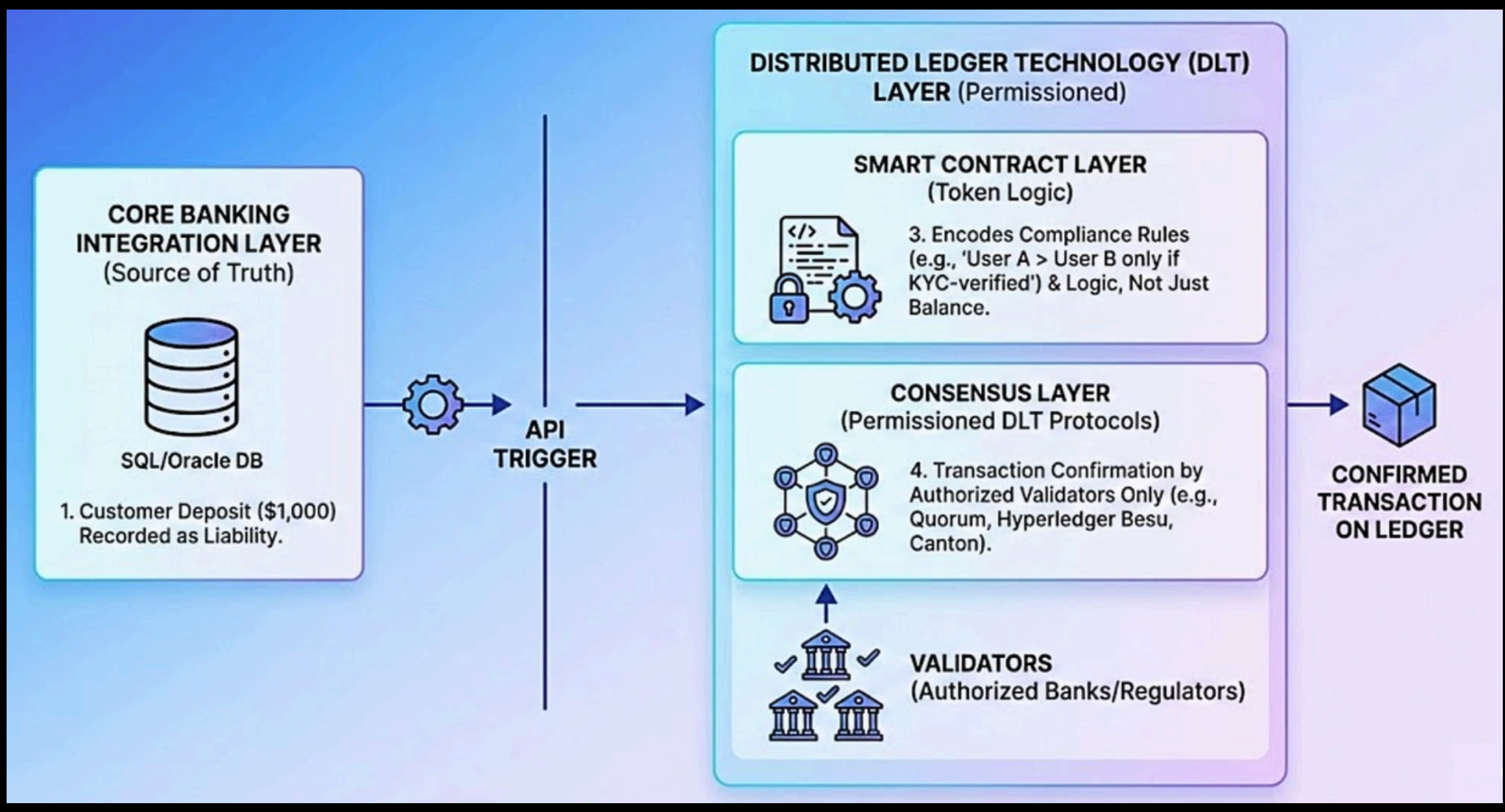
Unlike cryptocurrencies, which operate on public, anonymous networks, **tokenized deposits are designed to sit within a highly regulated perimeter.**

To understand how these deposits function, we look at them as a stack where the bank's traditional core meets the distributed ledger



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The Core Banking Integration Layer: When a customer deposits $1,000, the bank's traditional database (SQL/Oracle) records the liability. An API trigger then communicates with the DLT layer.

The Smart Contract Layer: This contains the logic for the token. It records a balance and encodes the compliance rules (like "User A can only send to User B if both are KYC-verified").

The Consensus Layer: Unlike Bitcoin, these systems use protocols like Quorum, Hyperledger Besu, or Canton.

Only "Validators" (authorized banks or regulators) can confirm transactions.

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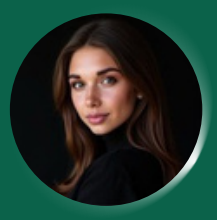

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How Stablecoins differ

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A **stablecoin** is a **privately issued digital instrument** that references a fiat currency but is not a bank deposit.

At least for now, **even when fully backed, stablecoins are:**

- Not claims on a commercial bank
- Not covered by deposit insurance
- Not part of the regulated deposit base

Note: Some stablecoins do create a claim, just not on a commercial bank.

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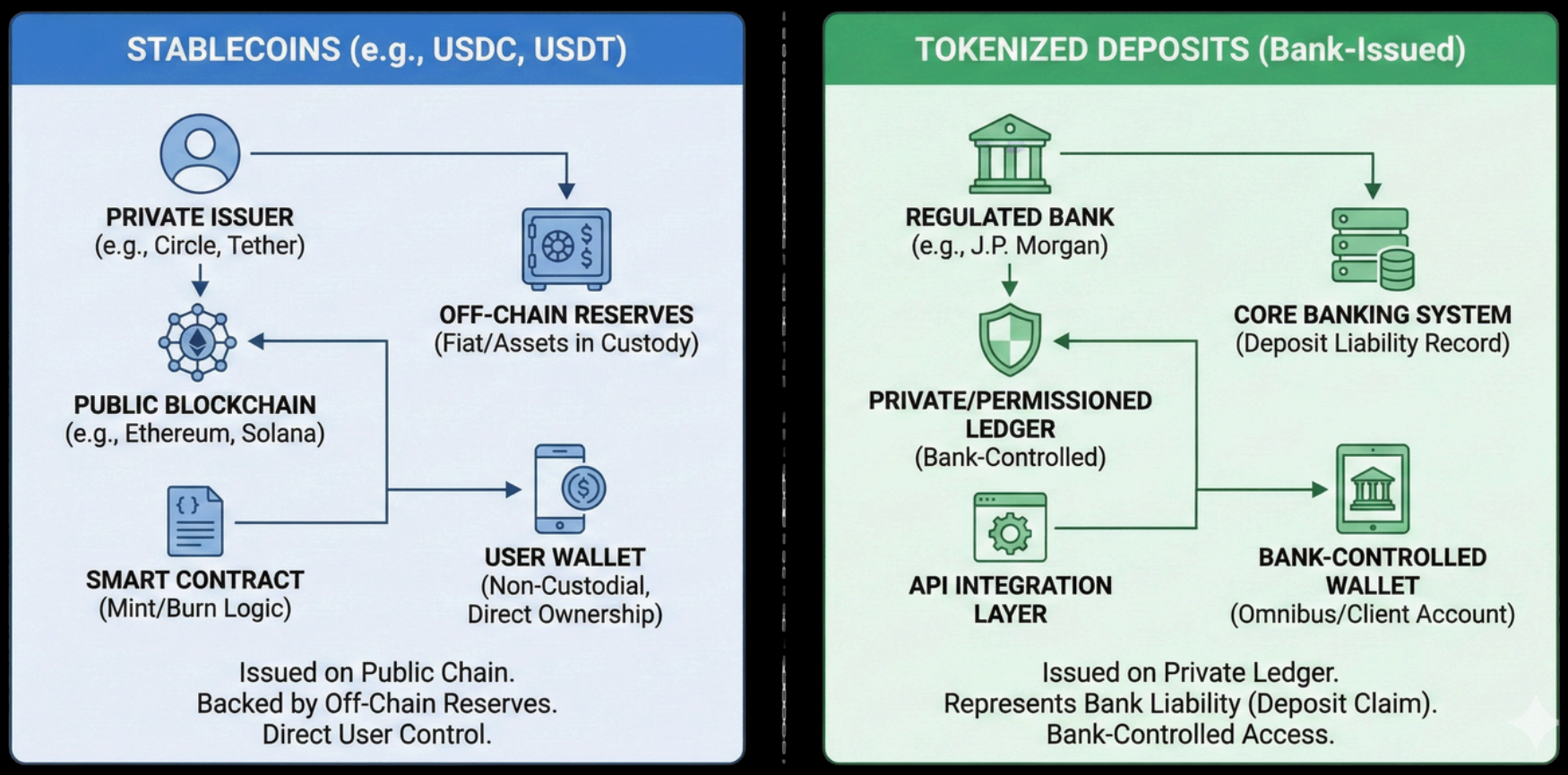
A comparison.



	Stablecoins	Tokenised Deposits
Issuer	Private entity	Regulated bank
Legal nature	Private IOU	Bank deposit
Balance sheet	Off-balance-sheet	On-balance-sheet
Deposit insurance	No	Yes
Interest	Usually no	Yes
Settlement finality	Redemption-dependent	Immediate bank money

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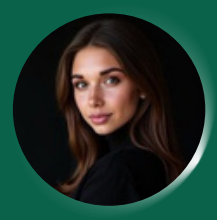

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Against Traditional Deposist

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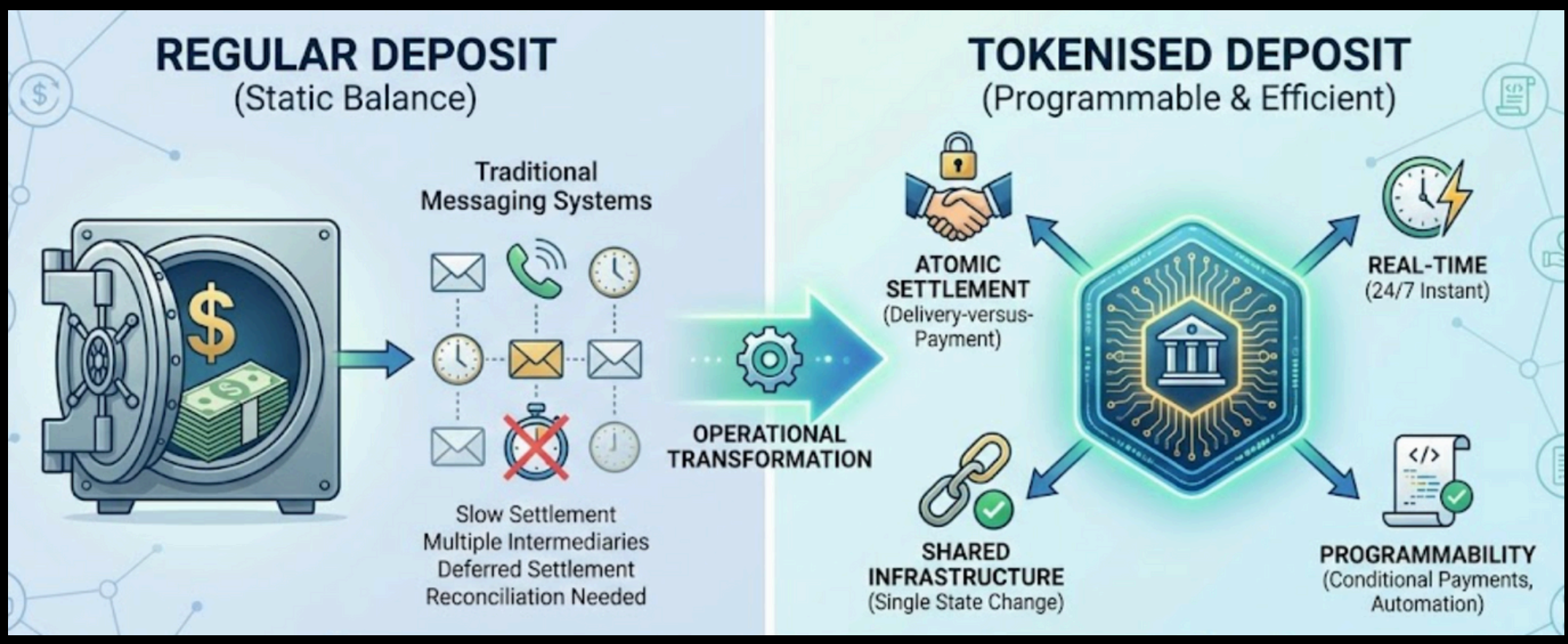
Tokenised deposits enable **real-time**, **atomic settlement** against tokenised assets, delivering true delivery-versus-payment with no settlement lag and reduced principal risk.

Unlike regular deposits, this occurs **without/or few intermediaries** or deferred settlement, **reducing intraday liquidity** requirements and operational buffers while **extending settlement** beyond traditional cut-off times.



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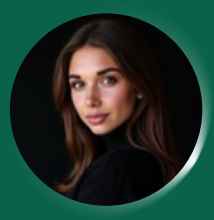

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Case Study:

Lloyds Bank Tokenised Gilt Transaction

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Lloyds Bank used **tokenised deposits** it had issued itself to purchase a tokenised UK government gilt on shared distributed ledger infrastructure.

The **payment** (tokenised deposits) and the **asset** (the gilt) were exchanged using **true atomic delivery-versus-payment**,
meaning both legs of the transaction settled simultaneously, with no settlement lag and no principal or counterparty risk.

The deposits remained normal Lloyds bank liabilities throughout and could be redeemed back into the traditional banking system.

LLOYDS

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Archax acted as the regulated digital market infrastructure for the asset side of the trade.

It was responsible for the issuance, listing, and trading of the tokenised UK government gilt.

Archax provided the market venue and asset servicing layer that allowed the gilt to exist and trade in tokenised form.

ARCHAX

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The Canton Network provided the shared distributed ledger infrastructure that enabled the transaction to settle.

It connected Lloyds' tokenised deposit system with Archax's tokenised gilt platform in a privacy-preserving, permissioned environment, allowing both the cash and asset legs to move atomically.

It acted as the interoperable settlement layer that enforced delivery-versus-payment, ensured finality, and allowed the transaction to integrate cleanly with existing bank systems and regulation.

Canton

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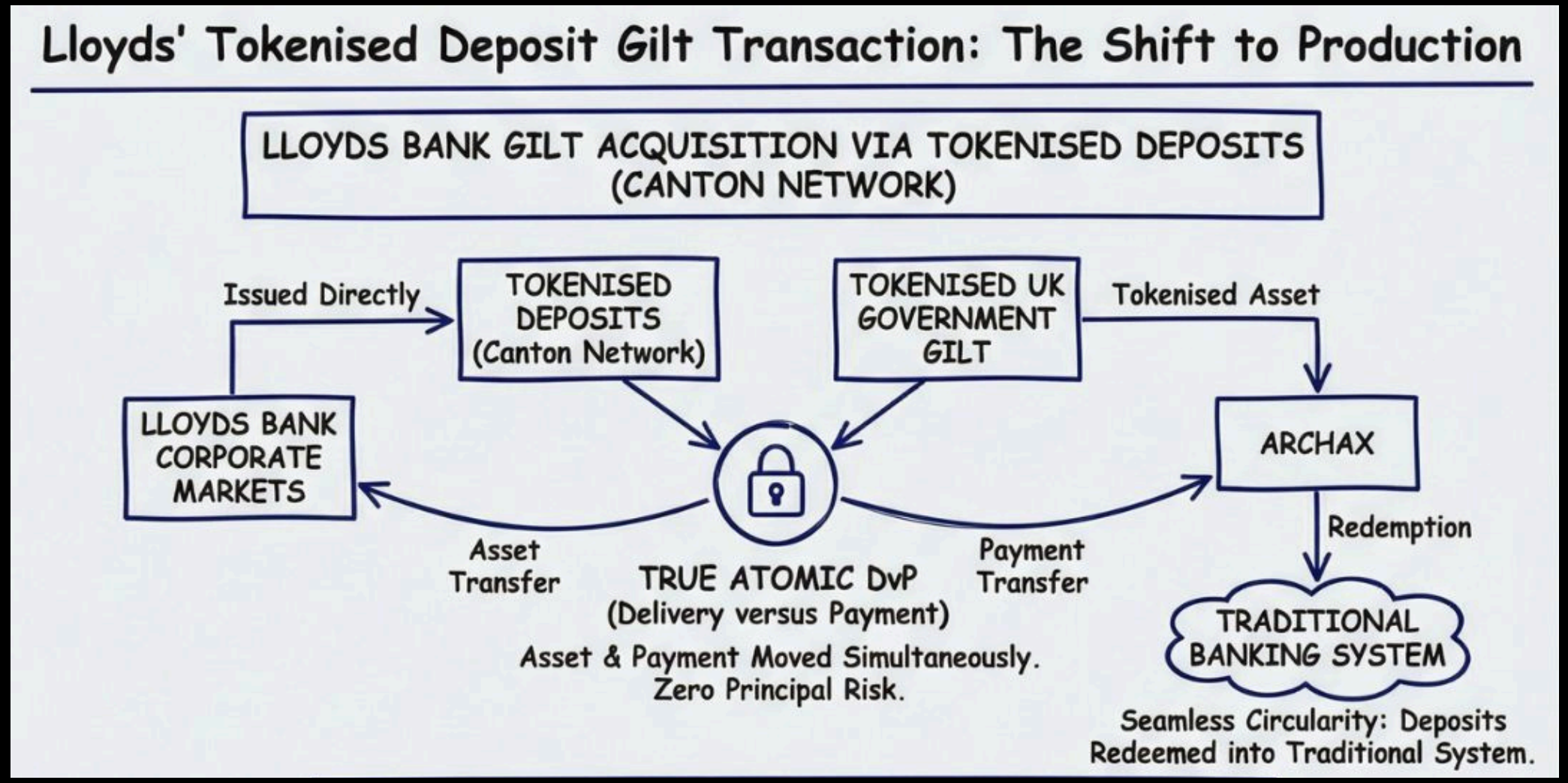
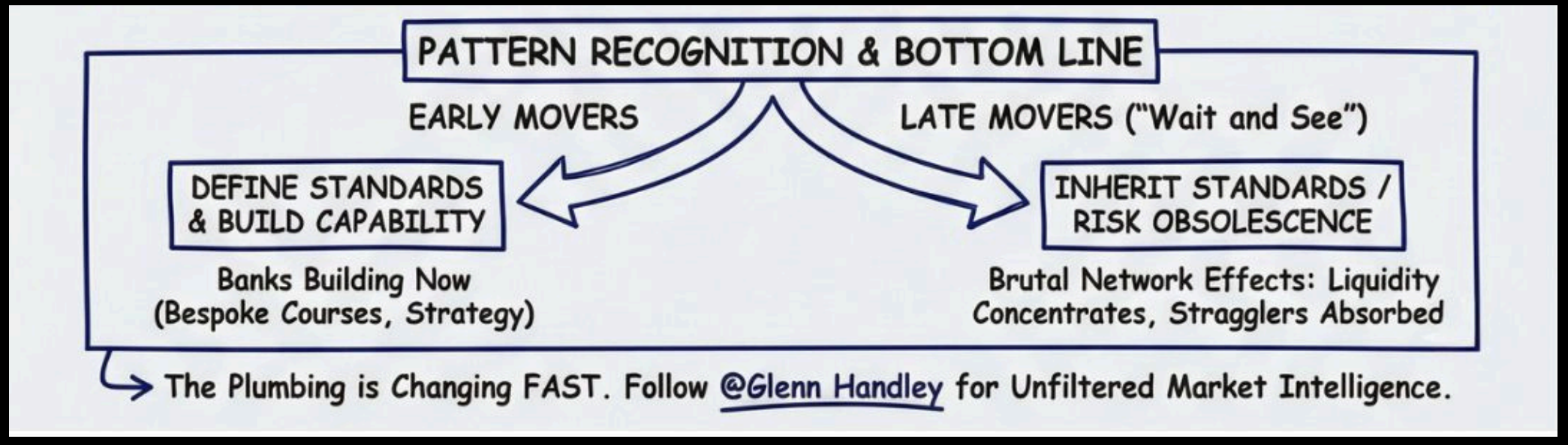
Through Glenn Handley's example:





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Good knowledge is built together.

Feel free to send me feedback, ideas, topics you would like to read more, or directly collaborate with me on the next post.

Share if you find this valuable.

Chiara Munaretto