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An edge in security and transparency could help US banks' USDF stablecoin take off

Article

The news: **A group of FDIC-insured US banks** [is launching](#) **its own stablecoin** through a consortium. The new stablecoin, called **USDF**, is redeemable for cash on a 1:1 basis through member banks.

More on this: The consortium's incumbent members include **Synovus Bank**, **New York Community Bank (NYCB)**, and **Sterling National Bank**. The organization, called the USDF Consortium, is encouraging more FDIC-backed banks to join it.

The new stablecoin also runs on the public **Provenance Blockchain**, which the consortium says is designed to make it useful for a range of activities such as financing for supply chains and invoices.

The bigger picture: The unveiling of USDF follows a November 2021 report from the President's Working Group on Financial Markets (PWG), which called on Congress to restrict stablecoin issuance to insured depository institutions.

The PWG voiced concerns that current stablecoins could experience runs if customers don't trust issuers to meet redemption requests, and that they may become conduits for laundering money and financing terrorism.

The consortium touches on the regulatory environment, stating that its stablecoin "addresses the consumer protection and regulatory concerns of non-bank-issued stablecoins and offers a more secure option for transacting on blockchain."

USDF's emergence is the latest example of mainstream financial institutions getting involved with stablecoin, or at least exploring it:

- **PayPal** is considering its own stablecoin, with security and scale as essential traits.
- Smaller US banks are getting into blockchain, with smart contracts filling the stablecoin role. One of the examples mentioned, per American Banker, is NYCB using Provenance.

Why this could succeed: The USDF Consortium gives incumbent banks a shot at becoming major crypto players by using their reputations to surmount the Wild West perception of the space. The bank-backed stablecoin, plus the prospect of federal action, also pose direct threats to a pair of standalone stablecoins: **Circle's USD Coin** and **Bitfinex's Tether**.

The group's member banks can position USDF to businesses and consumers as providing greater security due to their track records in holding people's money. They can also design it with transparency in mind—this was a notable problem for Tether, which was fined in October 2021 by the Commodity Futures Trading Commission (CFTC) for lack of transparency.

Banks' advantage could get a further boost **if the FDIC rules that stablecoins' US dollar reserves are protected with deposit insurance**, per CoinDesk, which reported that the regulator has considered giving pass-through status.

Financial Institutions' Perceived Uses of Select Cryptocurrencies for Businesses According to Financial Executives Worldwide, Aug 2021

% of respondents

	Transacting only	Investing only	Both
Ether	0.0%	3.4%	96.6%
Stablecoins	2.9%	1.0%	96.2%
Bitcoin cash	4.1%	0.0%	95.9%
Bitcoin	3.7%	3.1%	93.2%
Alternative coins	0.0%	7.4%	92.6%
Ripple	0.0%	9.7%	90.3%

Source: PYMNTS.com, "Cyptocurrency, Blockchain and Global Business: Assessing the Potential for Multinational Companies and Financial Institutions" in collaboration with Circle, Aug 11, 2021

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