



Stable Token Legislative Report

Anthony Apollo

Executive Director

Wyoming Stable Token Commission (091)

LSO Report ID 1526

November 1, 2023

This version of the Stable Token Legislative Report has been provided to the Select Committee on Blockchain, Financial Technology and Digital Innovation Technology by 5:00pm MT on November 1, 2023 in accordance with statutory deadlines.

The Stable Token Commission may provide supplemental or supporting documents to the Select Committee until the deadline of 5:00pm MT on November 3, 2023 for inclusion as discussion materials at the upcoming meeting of the Select Committee on Monday, November 20, 2023.

Executive Summary

The Wyoming Stable Token Commission (the “**Commission**” or “**STC**”) was established with the passage of [Senate Enrolled Act 85 – Wyoming Stable Token Act](#) (the “**Act**”), which authorizes the Wyoming Stable Token Commission to issue Wyoming stable tokens (the “**WST**”).

Section 2 of the Act states that the Commission “shall endeavor to issue at least one (1) Wyoming stable token not later than December 31, 2023” and that “the director shall provide a report not later than November 1, 2023” to the Select Committee on Blockchain, Financial Technology and Digital Innovation Technology (the “**Select Committee**”) regarding the legality of issuing the WST as designed under federal and state law.

As Executive Director of the Stable Token Commission (the “**Director**”), I wish to share this report (the “**Report**”) as a progress update covering the key elements of the stable token initiative.

In consultation with the Attorney General’s Office and other external consultants, it appears that the WST, as currently designed, may be permissible under federal and state law. The Commission intends to press forward, and continues to endeavor to issue WSTs as provided in the Act.

The creation of WSTs remains an uncharted area in the law; some legal and regulatory uncertainties exist as a result. The Commission will continue to assess how the WST can succeed in an evolving regulatory environment.

Details around the Commission’s work to date, budget, and roadmap follow. At a glance:

- I was onboarded as the Executive Director on September 18, 2023.
- Paul Hastings LLP was onboarded for securities consultation on October 23, 2023.
- A dedicated online presence has been deployed at: <https://stabletoken.wyo.gov> (the “**Website**”).
- Several iterations of a Business Plan have been drafted, and continue to refine the WST offering.
 - The Commission shall move forward with the “Settlement Token” model, similar in structure to existing fiat-backed private offerings.
- Previously-created “Subcommittees” dedicated to specific areas requiring subject matter expertise will be restructured and segmented into smaller, more tactical “Working Groups.”
- Against a US\$500,000 budget, the Commission has spent US\$25,631.54 to date on both salaries and other agency expenses. US\$150,000 has been proactively allocated for professional services.
- We anticipate requesting a budget allocation of US\$8,000,000 - 12,000,000 for the 2024 - 2025 biennium.
 - As with the initial funds allocated by Section 4 of the Act, the Commission anticipates that these funds will be recouped from revenue generated by the WST.
- At this time, the Commission does not anticipate requesting any statutory changes to create a state-owned bank for the stable token initiative.
- **The first issuance of a fully-reserved WST is expected in early Q3 2024.**
 - **We continue to endeavor to launch a “test” token by December 31, 2023.**

I look forward to presenting this Report to the Select Committee during its November 20, 2023 meeting. I am available to answer any questions you may have in the interim.

Letter from the Director

Stable tokens are a \$125B asset class, fully built on blockchain technology.¹ Combined, fiat-backed stable tokens (or “stablecoins”) now represent the 16th largest holder of U.S. Treasuries.² These numbers will only continue to grow as real-world assets like gold and real estate come to be represented on digital ledgers, and more users are onboarded to blockchain-enabled platforms through simplified interfaces.

Wyoming has a unique, immediate, and global opportunity to enter this space with a fully-reserved digital token that preserves price parity to the United States dollar. By creating the first domestic stable token issued by the public sector, Wyoming can offer significant benefits over the privately-issued incumbents. These include enhanced privacy for users, increased transparency of reserves, and support of public initiatives (e.g., school funding).

Paradoxically, the State must move expeditiously on this effort while also minimizing its reputational risk. We know that other states have embarked on their own stable token efforts, such as Texas’ gold-backed design.³ Abroad, the Digital Yuan has been live for several years.⁴ Key members of BRICS nations continue to push for creation of a “super currency.”⁵

While none of these projects have achieved mainstream adoption, and the dollar is unlikely to be displaced in the near future,⁶ any small number of policy or regime changes could alter that. It is in the State’s best interest to proactively develop its own solution — one built on a public and permissionless blockchain.

Thankfully, Wyoming’s legislators and forward-thinking citizens worked for almost a decade developing a regulatory landscape to support these efforts. Much credit is due to those who started and continued building this “regulatory moat.”

In fact, that innovative environment is what attracted me to Wyoming in the first place. My brothers and I moved to Cheyenne in September of 2021 to build our company, Rensa — one of the blockchain-focused startups I have launched since 2017 to enable fair and transparent payments. Candidly, I did not expect to leave the startup world for a government position. But the importance of this role cannot be denied.

No matter where you go in the world, people want U.S. dollars.⁶ Blockchain presents an opportunity to make global transmission of those dollars both instant and transparent. But to achieve that opportunity, there is much to build. At a high-level, this includes:

- Designing the WST to fit into existing state, federal, and international legal frameworks.
- Creating an economic model that can preserve the WST’s dollar parity amid changing rates.
- Developing a code base that leverages public and decentralized technology to issue the WST.
- Assuaging concerns about “creating a Central Bank Digital Currency” through educational efforts.

Wyoming is embarking on a generational opportunity with its entrance into the stable token industry. I am honored and humbled to be selected by the Commission to lead this effort.

¹ <https://coinmarketcap.com/view/stablecoin>

² <https://messari.io/report/stablecoin-brief-october-19th-2023>

³ <https://capitol.texas.gov/tlodocs/88R/billtext/pdf/HB04903I.pdf>

⁴ <https://www.fpri.org/article/2023/06/china-is-doubling-down-on-its-digital-currency>

⁵ <https://www.reuters.com/markets/currencies/what-is-brics-currency-could-one-be-adopted-2023-08-23>

⁶ <https://www.wellsfargoadvisors.com/research-analysis/reports/policy/dollar.htm>

Regulatory Considerations

W.S. 40-31-104 defines the WST as “a virtual currency representative of and redeemable for one (1) United States dollar held in trust by the state of Wyoming as provided by W.S. 40-31-106. Stable tokens shall only be issued in exchange for United States dollars.”

Given the Act’s broad definition, the Commission assessed several potential models of implementation. The merits and limitations of each have been well-articulated by the University of Wyoming’s Center for Blockchain and Digital Innovation and can be accessed [through our website](#).

The WST, as currently anticipated, would take the form of a “settlement token” that could be used in either institutional or retail scenarios.

Existing settlement tokens have been issued by private companies, such as Paxos and Circle. Wyoming’s entry into the stable token space will be the first time a public entity in the United States seeks to perform such an issuance.

The Commission has identified legal considerations that may impact the development of the WST.

“Structural” considerations include federal constitutional concerns, money transmitter licensure, and securities laws. “Implementation” considerations include adherence to the Bank Secrecy Act, OFAC sanctions, and know your customer (“KYC”) and anti-money laundering (“AML”) requirements.

Further, there is significant discussion at the federal level around appropriate regulation for cryptocurrencies and stablecoins. The “Clarity for Payment Stablecoins” bill was approved by the House Committee on Financial Services in August.^{7,8} Senators Lummis and Gillibrand reintroduced the “Responsible Finance Innovation Act” in July.⁹ International frameworks such as the “Markets in Crypto-Assets Regulation” in the European Union¹⁰ and Japan’s “web3 White Paper”¹¹ may eventually be in-scope for the Commission’s operations.

Given the complex network of potentially applicable laws, the Commission anticipates enhanced regulatory scrutiny of its offering — by domestic regulators, international regulators, and the public. As discussed below, we believe that any potential inquiry will increase costs for the Commission and will require an allocated appropriation to address these costs.

With the above considerations, at this time, **it is the opinion of the Director that there are no definitive legal concerns that would preclude the Commission from endeavoring to issue a WST.**

The Commission endeavors to issue a test token as a proof of concept by December 31, 2023. Continued legal analysis must be performed as the Commission advances WST development and further expands its day-to-day operations.

⁷ <https://www.congress.gov/118/bills/hr4766/BILLS-118hr4766ih.pdf>

⁸ <https://www.davispolk.com/insights/client-update/chairman-mchenrys-clarity-payment-stablecoins-act-approved-house-financial>

⁹ www.forbes.com/sites/jasonbrett/2023/07/13/senators-reintroduce-landmark-crypto-bill-amid-heavy-competition-and-regulatory-turf-battles

¹⁰ <https://www.cnbc.com/2023/04/20/eu-lawmakers-approve-worlds-first-comprehensive-crypto-regulation.html>

¹¹ <https://twitter.com/akihisashiozaki/status/1660669353216610304>

Statutes & Policies

The Commission has identified the need for potential statutory updates to the Act, as well as policies that will better define the Commission’s authority and operations.

For example, a Budget Policy was presented by the Director and implemented at the previous meeting of the Commission. This discussion revealed the need for additional policies around core WST services, such as reserves and digital wallet management. These policies will be drafted by the Commission as business operations continue to evolve.

Regarding statute, the Commission anticipates suggesting several changes to the Act that will allow better operational efficiency and increase trust from WST holders. These will be presented at the next meeting of the Select Committee, to be held on November 20, 2023. Potential changes may include:

Definition of “Financial Institution” — 40-31-102(a)(iv)

Increase clarity on the roles of the token custodian, wallet provider, and system integrator, specifically in comparison to U.S. state- or federally-chartered depository institutions or asset custodians holding the Reserves. The terms “manage,” “operate,” and “maintain” should be made distinct from each other.

Powers of the Commission — 40-31-105(c)(i)

Increase clarity regarding the Commission’s ability to determine the overall number of WST to be issued, across other potential models of WST to be implemented in the future (e.g., asset-based instead of fiat-based).

Reserves Composition — 40-31-106(a)

Investment of the Reserves should not be limited to U.S. treasury bills but should also permit for other highly liquid instruments, such as reverse repurchase agreements and government money-market funds. The Commission will collaborate with the State Treasurer’s Office to provide additional context on this matter.

Redemption Process — 40-31-107

For timeliness (T+2, unless in extraordinary circumstances such as banking institution failure) of redemption, a certain portion of the Reserves should be maintained in liquid assets (i.e., cash and cash equivalents) at the respective Financial Institutions. The remainder should be invested per the Commission’s Investment Policy, and liquidation of financial instruments should be made pursuant to said Policy. The percentage of cash versus investment should be determined on an ongoing basis subject to daily redemption request averages and financial market dynamics. Hence, it is unlikely that investments would need to be liquidated to meet daily redemption requests.

Comprehensive Report — 40-31-105(e)

Specify that the report due to the Select Committee on Blockchain, Financial Technology and Digital Innovation Technology and Joint Minerals, Business and Economic Development Interim Committee shall be delivered by the Director ahead of the initial issuance of the fully-reserved WST, rather than any tokens created to demonstrate technical viability.

Background Checks — 40-31-103(b)(iv) & 40-31-105(c)(vii)

Update language pertaining to background checks, to make Act consistent with W.S. 7-19-106 and W.S. 7-19-201.

Financial Considerations

Section 4 of the Act “transferred US\$500,000 from the general fund to the Wyoming stable token administration account for purposes of this act. These funds shall not be transferred or expended for any other purpose. These funds shall be repaid pursuant to W.S. 40-31-105(a), as created by Section 1 of this act.”

To date, the Commission has deployed US\$25,631.54, or 5.13% of the allocated funds. These funds have been spent on the Director’s salary, Commissioner travel, and other miscellaneous agency expenses. Paul Hastings LLP was engaged for legal consultation services, and has a flat fee contract for US\$80,000. During a meeting held on October 19, 2023, the Commission voted to allocate an additional US\$50,000 towards any professional services required to endeavor to issue a WST by December 31, 2023.

Development of novel technology comes with an associated cost. Several incumbents have raised nine-figure amounts to achieve their multibillion-dollar market shares.¹² Thankfully, Wyoming has the ability to leverage open-source software that has been developed over the last few years, and can negotiate firmly based on its status as a public entity first-mover.

The Commission intends to request a budget allocation between US\$8,000,000 – US\$12,000,000 during the upcoming appropriations period in early 2024. This funding is expected to fund two years and cover costs that may include, but are not limited to the following.

Personnel	Operations	Technology	Legal
<ul style="list-style-type: none"> ● Executive Director ● Chief Compliance & Risk Officer ● Chief Information Security Officer ● Additional FTEs / PTEs 	<ul style="list-style-type: none"> ● Systems Integrator ● Reserves Management ● Reserves Audit ● Marketing ● Training (Internal & LSP) 	<ul style="list-style-type: none"> ● Smart Contract Development ● Digital Wallet Whitelabel ● Code Audit ● Real-Time Monitoring 	<ul style="list-style-type: none"> ● External Counsel ● KYC / AML ● Compliance ● Litigation*

* Up to \$2,000,000 may be necessary to defend the State’s interest in any potential litigation with the federal government and federal regulators. To the extent the funds allocated to litigation are expended to defend the State’s interest, the agency does not anticipate repayment of these funds through generated WST revenues.

As with the initial allocation provided in Section 4, all funds provisioned by the general fund shall be repaid from revenues generated through issuance of the WST.

The requested allocation may be modified in either direction ahead of the appropriations session to reflect discussions held with potential vendors as part of an anticipated request for proposal (“RFP”) process, as well as creating a detailed economic analysis inclusive of financial forecasts and stress testing of the prospective reserves.

¹² <https://www.coindesk.com/business/2022/04/12/usdc-issuer-circle-raises-400m>

Development Roadmap

The development and launch of the WST will be segmented into several defined phases with their own respective goals, features, and audiences. At a high-level, the Director has structured these phases as follows below.

Additional details regarding the Proof of Concept stage are expected to be shared publicly at the next meeting of the Commission on November 16, 2023.

Phase	Est. Delivery	Goals & Features	Users
Proof of Concept (“Private Alpha”)	Dec. 31, 2023	<p><i>Note that the Commission continues to endeavor to achieve the following goals.</i></p> <ul style="list-style-type: none"> • Deploy a WST “test token” on one or more blockchain testnets. • Demonstrate capabilities around token issuance, transmission, and privacy preservation. • For the avoidance of doubt, this POC will not include any of the supporting financial infrastructure. 	N/A - for demonstration purposes only
Minimum Viable Product (“Private Beta”)	June 30, 2024	<ul style="list-style-type: none"> • Create the technology stack and establish partnerships that will enable the “end-to-end” WST process, including funding, issuance, and redemption. • Perform stress-testing of the platform with an initial cohort of domestic users. • Implement risk mitigation measures. 	<ul style="list-style-type: none"> • Testers • Vendors • Select Institutional Partners
Early Onboarding (“Public Beta”)	Sept. 30, 2024	<ul style="list-style-type: none"> • Scale the WST platform by onboarding Licensed Service Providers (“LSPs”), as defined in the Business Plan. • Manage WST reserves on a real-time basis. • Resolve any technical issues that were discovered during the Private Beta. • Set up a Customer Support hotline. 	<ul style="list-style-type: none"> • Selected cohort of initial U.S.-based users • Selected cohort of U.S.-based LSPs • WY Community Banks
Full Launch	Dec. 31, 2024	<ul style="list-style-type: none"> • Continue developing the WST code base and perform stress-testing / code audits as necessary. • Launch WST tokens across new blockchains. • Issue WST tokens in international marketplaces. • Share audited reserves publicly. 	<ul style="list-style-type: none"> • Selected cohort of international users • Additional U.S.-based LSPs • Internationally-domiciled LSPs