The Missing Link



Why local currencies need a risk-free rate that works like money.

BY

Etherfuse

The argument in ninety seconds.

Non-USD stablecoins are 0.59% of all stablecoin supply. The usual explanation is that local-currency versions are a crisis product, needed only where the currency is broken.

Brazil and Korea say otherwise. Brazil has arguably the best retail access to local government debt in the world and a real rate above nine points. Korea has a stable currency, a credible central bank and no inflation to hedge. Both are losing balances to dollars anyway.

What they share is that the local safe asset exists and cannot be spent. A government bill is two things in one wrapper: a principal you get back, and a yield that accrues. Because they travel together, the price moves every day, and that is what makes a bond difficult for institutions to use as money.

Separating those two halves is forty years old. Doing it in a form that settles on local payment rails is not. A Stablebond holds the government bill. A Principal Token, fixed at one unit of local currency, is what circulates. The earning asset and the spendable balance, from the same instrument, at the same time.

This paper is about what that unlocks, for a company and for a country.

The category is empty, and not for lack of demand.

Dollar stablecoins alone cannot bring the world on-chain. That argument has been won. The solution has barely been built.

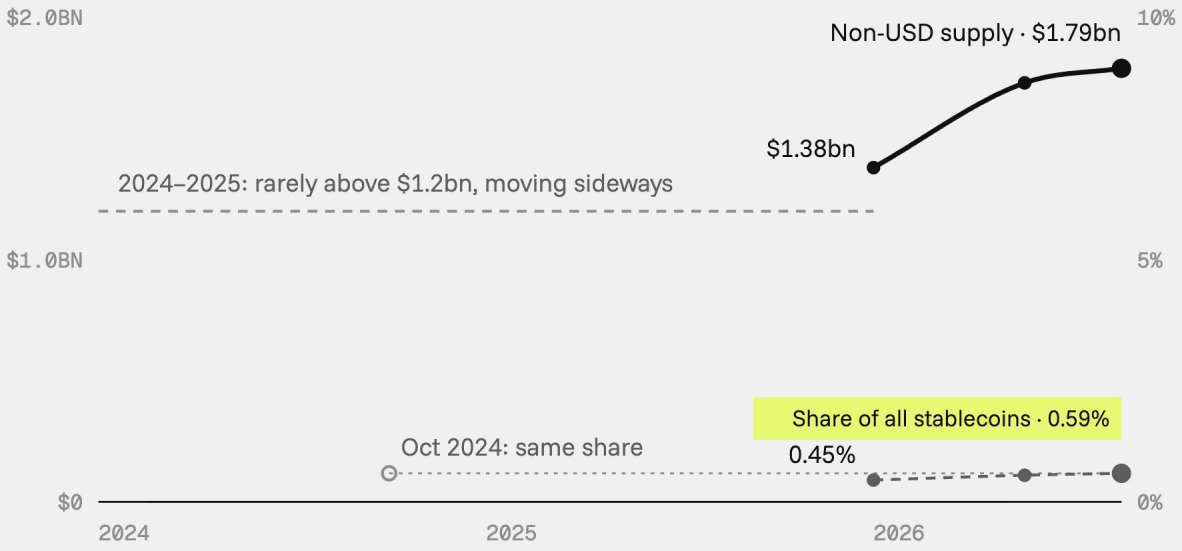
Non-USD stablecoins stood at roughly $1.79bn in mid-August 2026, up from $1.38bn on 1 January. That is 0.59% of total stablecoin supply, and the highest share since October 2024.

Scale and growth tell different stories. The median non-USD stablecoin grew 27.8% over that period, against median local M2 growth of 2.88% across 25 tracked currencies. Sixteen of those 25 grew faster than their own domestic money supply.

Demand is compounding at roughly ten times the rate of the money it is denominated in, from a base that rounds to zero. Something other than appetite is binding.

The shortfall is not demand, and it is not the absence of a local safe asset. Every country in question issues short-term government debt. The shortfall is that the local safe asset cannot be used as money.

EXHIBIT 1. NON-USD STABLECOINS, 2024 TO DATE. SUPPLY BROKE THROUGH A CEILING THAT HELD FOR THREE YEARS; ITS SHARE OF ALL STABLECOIN SUPPLY STAYED NEAR THE FLOOR, ENDING AT 0.59%.



SOURCE: CEX.IO RESEARCH, AUG 2026. MID-MAY POINTS AND JANUARY SHARE DERIVED FROM REPORTED FIGURES

Two markets, two excuses removed.

The usual account is that local stablecoins are a crisis product. Two countries with no crisis say otherwise.

If that account is right, the category should be empty outside countries in distress, and the fix is monetary stability rather than infrastructure.

The market most often cited is Nigeria, and Nigeria cannot settle the question. It is difficult to discern what is actually driving adoption there: currency collapse, dollar demand, or both at once. The conclusion usually drawn is that local stablecoins suit crisis conditions and not stable ones. Two markets let us isolate the behavior, and they say otherwise.

> A case where every explanation fits is a case that distinguishes between none of them.

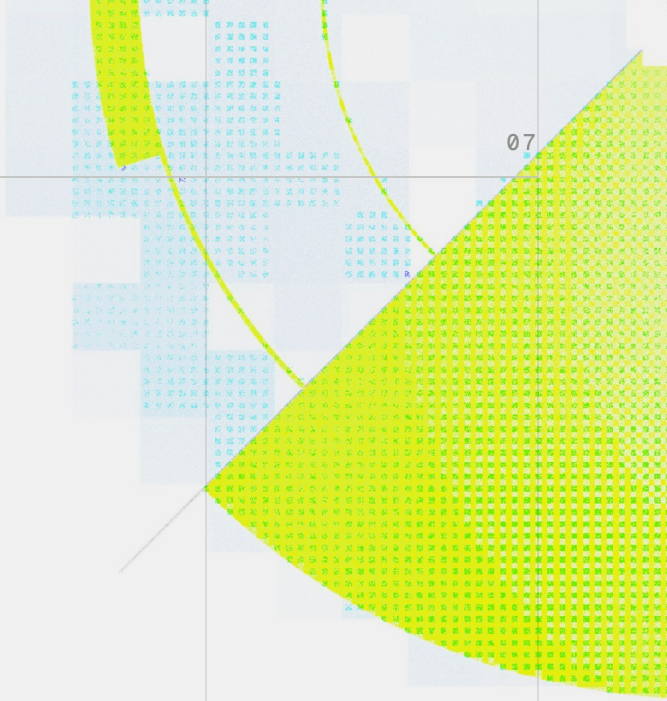
Brazil removes access and yield. Retail access to local sovereign debt is arguably better there than anywhere in the world, and the reward for using it has rarely been higher. Brazilians still bought dollar stablecoins.

Korea removes macro risk. There is no inflation to hedge and no currency to flee, and balances left anyway, through a side door, at a scale that rivals the country's net overseas equity purchases.

MEASURE	BRAZIL	KOREA
Policy rate	14.00% (Selic)	3.00% (BOK base)
Inflation	4.72% (IPCA)	2.8%
Real rate	Above 9 points	About 0.2%
Retail access to local sovereign debt	Tesouro Direto: 35m+ registered investors, R$221.2bn, holdings up 47% in a quarter	Developed domestic market, no meaningful access barrier
Demand for dollar instruments anyway	~$14.7bn of crypto bought H1 2026, over 90% dollar stablecoins	14.92trn won (~$10.4bn) left the five major domestic exchanges in 18 months to June 2026
What this removes as an explanation	**Access and yield**	**Macro risk**

Table 1. Two markets with no crisis to blame. Rates as at time of writing and subject to refresh before publication.

Good access does not stop it. A high real rate does not stop it. A stable currency does not stop it.



Usability is a property of infrastructure, not of monetary policy.

Why the gap persists.

If the problem is infrastructure, a reasonable question is why the market has not solved it already. The answer is that currency substitution is sticky in a specific, documented way, and it does not reverse on its own.

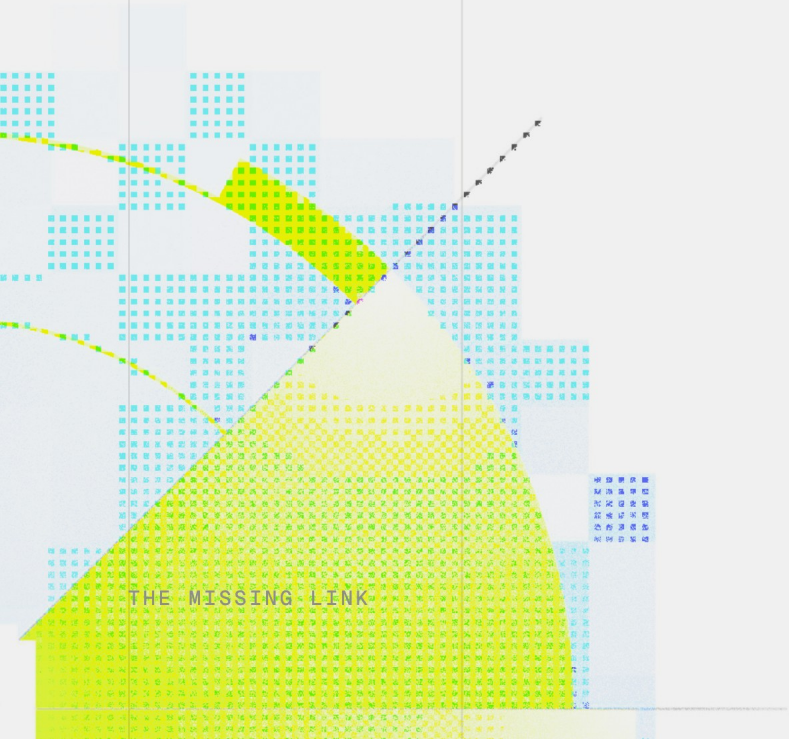
In their *IMF Staff Papers* study of Latin American dollarization, Pablo Guidotti of the IMF and Carlos Rodriguez of CEMA in Buenos Aires found dollarization "unrelated to changes in inflation or interest rates." Economies dollarize when inflation rises, and stay dollarized when it falls. The mechanism is an inaction band set by transaction costs: within a range of inflation differentials, switching currencies is simply not worth the effort. Once an economy sits near 60% dollarized, in their words, "it does not pay to change the degree of dollarization."

Worse, the band widens as it is used. Martin Uribe, then at the Federal Reserve Board, modeled currency-substitution hysteresis and showed that the private cost of transacting in the foreign currency falls as aggregate use rises. Every additional user makes the foreign currency cheaper to use, and the band harder to leave. The de-dollarizations actually on record came through governments converting deposits by decree, not through markets reversing.

Nothing in that literature narrows the band from the domestic side. **That is the opening.** Lowering the cost of holding and using the domestic instrument narrows the same band from the other direction, without prohibiting the foreign one. Every de-dollarization on record has been a stick. This is the carrot, and it is the first one available.

It also sets the clock. Every quarter the local instrument remains difficult to use as money is a quarter in which more of an economy's transactional layer is denominated in a currency it does not issue.

A ratchet does not wait.



The rate a firm can actually reach.

There is a second cost, and it shows up on every balance sheet in the country.

Every price in finance is set relative to the risk-free rate: the return on a government's own short-term debt, and the floor every other investment must clear. Loans, credit spreads and treasury decisions price off that floor whether or not anyone says so. The Capital Asset Pricing Model formalizes it as expected return equal to the risk-free rate plus a risk premium.

But firms do not optimize against the risk-free rate. They optimize against the rate they can reach. In independent papers for the *Quarterly Journal of Economics* and the *Review of Economics and Statistics*, William Baumol of Princeton and James Tobin of Yale showed that optimal cash holdings rise with transaction costs and fall with the interest rate, so where the friction of reaching the local instrument is high enough, a firm behaves as though the risk-free rate were zero.

> It is not zero. The accessible rate is zero.

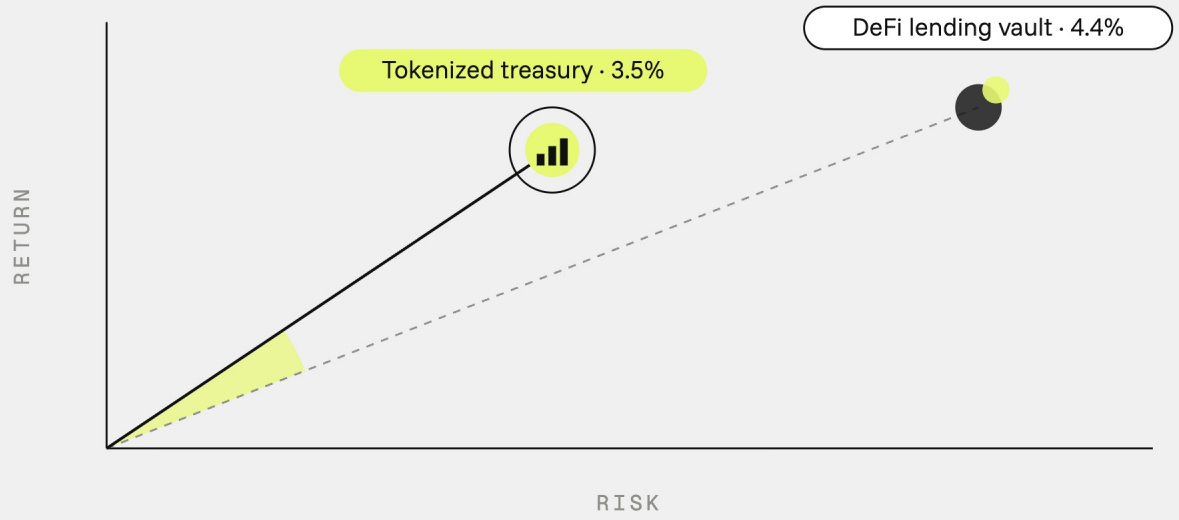
The distance between those two numbers is the subject of this paper.

That distance also behaves worse than it looks. Writing in the *Quarterly Journal of Economics*, Merton Miller of the University of Chicago and Daniel Orr showed that the band a firm tolerates before rebalancing its cash scales with the cube root of transaction cost over interest rate, which means collapsing the cost of rebalancing does not shave the band. It compresses it non-linearly. In other words, cut the cost of moving cash by a factor of a thousand and the idle balance a firm has to carry falls by a factor of ten.

A tokenized sovereign instrument, like a sovereign bond held in custody and made transferable on-chain, is the closest available proxy to the floor itself: treasury yield, denominated in local currency, continuously rebalanced, redeemable through local payment rails. It is not literally the risk-free rate, because the issuing and custody infrastructure sits on top of the sovereign asset as an additional layer of risk, but by our estimation it is the best approximation a firm in these markets can actually reach.

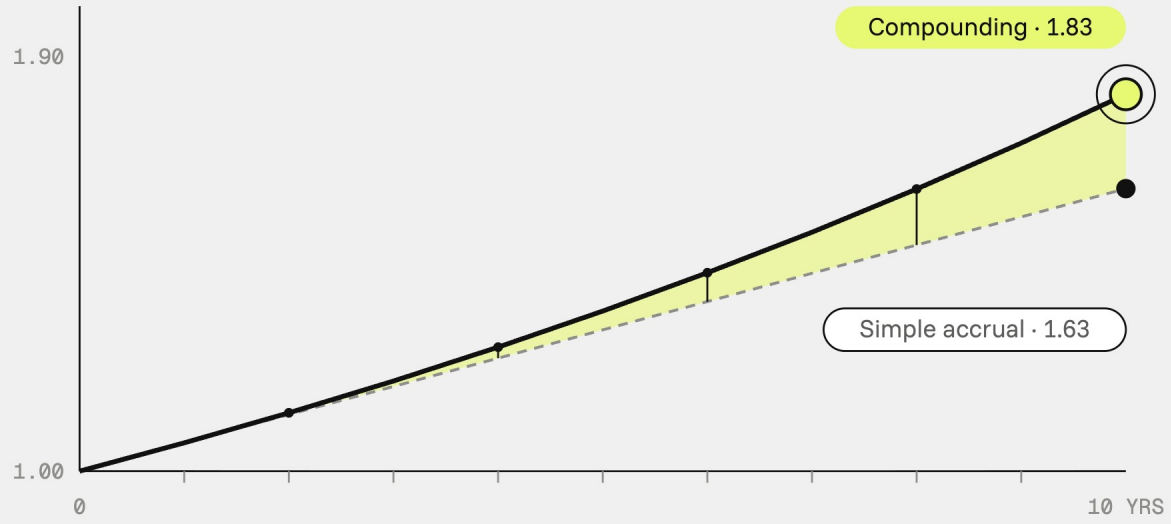
On risk-adjusted terms the comparison still favors the lower nominal yield. At the time of writing, a leading DeFi lending vault paid roughly 4.4% on dollar stablecoin deposits against roughly 3.5% for the tokenized treasury equivalent. That spread is compensation for smart-contract risk in a venue with a history of exploits, while the treasury yield is sourced off-chain from segregated custody holding government bills. Per unit of risk taken, the lower number is the better instrument.

EXHIBIT 2. RETURN AGAINST RISK. THE TOKENIZED TREASURY PAYS LESS THAN THE DEFI LENDING VAULT, 3.5% AGAINST 4.4%, BUT EARNS MORE FOR EACH UNIT OF RISK TAKEN.



One mechanical advantage compounds the rest. Government bills pay on an APR basis, and realizing the yield requires selling and rebuying as principal matures. An instrument that rebalances continuously compounds without the holder transacting at all.

EXHIBIT 3. ONE UNIT HELD FOR TEN YEARS AT THE SAME STATED RATE OF 6.25%. SIMPLE ACCRUAL ENDS AT 1.63; COMPOUNDING ENDS AT 1.83.



The Principal Token.

Everything so far describes a gap. This is the instrument that closes it.

A government bill is two things in one wrapper. There is the principal, the amount you get back. There is the yield, which accrues over the life of the bill. Those two things travel together, and that is exactly what makes a bond difficult for institutions to use as money: the value of the package moves every day. You cannot promise anyone exactly one unit of anything with an instrument whose price is a function of time and rates.

So separate them.



Separating a bond into its principal and its interest is not new. It is forty years old, and the US Treasury's STRIPS program is the direct precedent. Nothing here asks a reader to accept novel financial engineering. What is new is doing it on-chain, in a form that settles on local payment rails. That makes the principal programmable, and opens uses a paper bond cannot serve.

01 **A Stablebond is the tokenized government bill.**
Sovereign debt, in local currency, held in segregated custody.

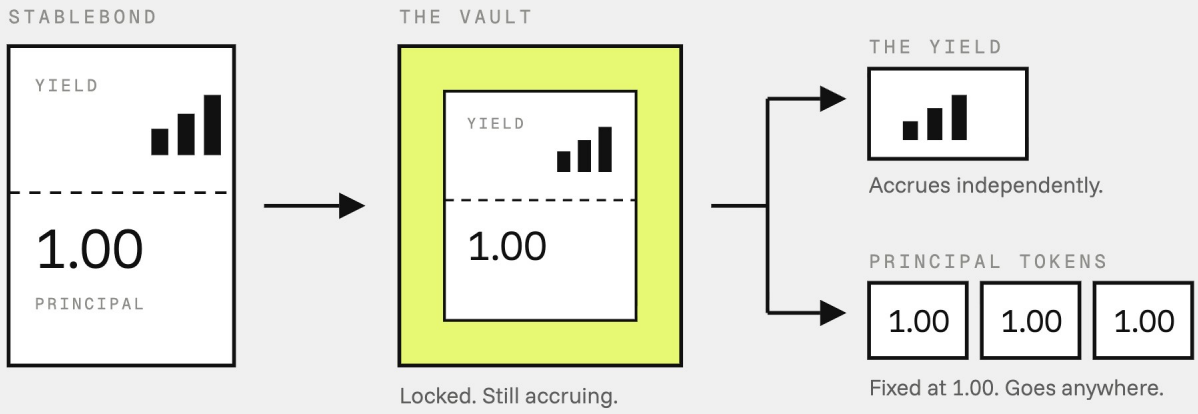
02 **The Stablebond is locked in a vault.**

03 **A Principal Token is issued against that vault, fixed at one unit of the local currency.**

04 **The yield continues to accrue inside the vault, independently of the token.**

05 **Returning Principal Tokens unlocks value from the vault.**

EXHIBIT 4. THE VAULT. A STABLEBOND GOES IN; ITS YIELD STAYS LOCKED INSIDE AND KEEPS ACCRUING, WHILE PRINCIPAL TOKENS FIXED AT 1.00 CIRCULATE OUTSIDE.



No token is tied to a particular bond. The vault backs them all.

The property most often misunderstood is the one that matters most: no Principal Token is tied to a particular bond. Tokens are fungible against a pooled vault. That is what allows them to behave like money rather than like a claim on a specific security.

What the holder gets is a balance that reads 1.00 and stays 1.00, denominated in the currency they actually earn and spend in, that moves to any wallet.

What the yield does is accrue independently. Where it goes afterwards is a property of the arrangement around the vault, not of the token. It can fund a rewards program, return to the platform, subsidize better credit terms, or sit. The token is identical in every case.

Both halves are necessary.

A Stablebond on its own solves the asset problem but creates a usability challenge for institutions, since a balance whose value moves every day is difficult to treat as money. A fixed-value local token on its own solves usability and earns nothing, which is a local stablecoin, and those already exist: pegged one to one, fully reserved, paying holders nothing.

The pair is what is new. The earning asset and the spendable balance, from the same instrument, at the same time. This is what collapses the distance between the risk-free rate and the rate a firm can actually reach, because it removes the reason the local instrument was out of reach.

> The instrument was never missing. A usable form of it was.

One regulatory note, because the design is deliberate rather than incidental. In several markets, including Mexico, paying yield directly to a token holder is restricted. The Principal Token accrues nothing to its holder by construction. That is what keeps it on the correct side of the line: it is a balance, not a yield-bearing instrument, and the yield exists elsewhere in the structure.

What it unlocks.

Each application follows the same shape: what happens today, what the instrument changes, what evidence supports it, and where it stops.

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Treasury and payroll.

Today. A company operating outside the dollar bloc chooses from three bad options.

01 **Hold local currency.**
And absorb the inflation tax, plus whatever volatility the local currency carries.

02 **Hold dollars.**
And carry a currency mismatch against the most reliable local liability on the balance sheet.

03 **Hold local treasury bills.**
Correct in theory and out of reach in practice: minimum tickets, brokerage relationships, settlement cycles, no intraday liquidity.

Most choose dollars. That is not a view on the dollar. It is a refusal to hold an asset that is certain to lose in real terms.

Payroll is the sharpest case. It is the most forecastable liability a company carries, known to within a percent in amount and to the day in timing. It is also the balance most likely to sit in a non-interest-bearing account. The most investable float is the least invested.

The unlock. Hold payroll and operating float as a local-currency instrument that earns the sovereign rate and redeems through local rails on the day it is needed.

MARKET	NOMINAL / YEAR	IN REAL TERMS
Brazil	700,000	464,000
Mexico	325,000	170,000
Korea	150,000	10,000

Table 2. On a monthly payroll of ten million units of local currency, accruing evenly and discharged at month end, roughly five million is outstanding at any moment.

Read the Korea number again. Ten thousand.

Korea is the honest test of this section. A real forgone yield near ten thousand units motivates nobody, and Korea is nonetheless losing ten billion dollars through a side door. Yield alone does not carry the argument. Usability does.

The limit. Corporate treasury operates under a board-approved investment policy, and an instrument that is not a named category cannot be bought regardless of merit. Unless it qualifies as a cash equivalent, it lands on the balance sheet as an investment, moving working-capital ratios and inviting questions from auditors.

Local-currency balances.

Today. A neobank or payment application outside the dollar bloc holds customer balances in dollars or in unremunerated local currency, because no good local store of value is available in a form it can use.

That is a bank running without a bank's revenue engine. Customer balances are float, and banks monetize float through net interest margin. The consumer-facing version of the problem is that customers earn nothing. The structural version is that the balance sheet has no carry.

The unlock. Hold those balances as Principal Tokens backed by domestic treasury bills. The operator earns the carry on a balance it is already holding, and returns value to users as rewards rather than as interest.

Why it holds. A consumer lending application in Mexico is running exactly this. Its borrowers are largely outside the traditional banking system, and they hold balances in the app between disbursement and repayment. Those balances used to sit idle.

Running them as a local-currency instrument changes what the balance is for. The underlying bills accrue while the money waits, and that accrual funds a rewards and cashback program returned to users in pesos, inside the application, without the user ever holding a yield-bearing instrument.

The balances already existed.

So the carry is new revenue against an existing liability rather than a new product a customer has to be persuaded to adopt. And the reward is denominated in the currency the borrower actually earns in, which is this paper's argument applied to a single balance sheet.

The limit. The program contracts supporting the Mexican instrument are not fully audited, and SOC 2 certification is not yet held. Reserves are custodied at BBVA Mexico, Actinver and Kuspit under a Mexican comision mercantil that makes them legally the customers' property and outside the issuer's estate, attested monthly with weekly reserve publication. Redemption is technically T+1, and immediate during market hours below roughly 7% of liquidity.

Wallets that work outside your own country.

Today. A wallet has to be local to be useful. A balance denominated in a currency you cannot spend where you are standing is a worse product than cash. That single constraint explains most dollar demand among people who move between countries: not an appetite for dollar exposure, but the fact that a dollar balance is the only one that functions in more than one place.

The result is that a worker earning in one country and supporting a household in another is pushed into a currency neither of them uses, and pays a spread in both directions.

The unlock. White-labelled Principal Tokens let a platform issue local-currency balances in its own brand, in more than one currency, inside one wallet. The user holds the currency that matches each obligation. Each balance holds its value instead of decaying, and the platform rather than the user carries the instrument.

Why it holds. A dollar-account and remittance platform used across Latin America is building this as a co-launch: local-currency balances and savings issued under its own brand, with lending available through a partner protocol inside the same application. The first three use cases are cards, hedging and payroll.

Where the yield goes in that model is the operator's decision, and the design deliberately leaves it open. Back to the user, into the platform, or into funding a product. The token is identical in every case, which is what makes the structure reusable across partners rather than negotiated from scratch each time.

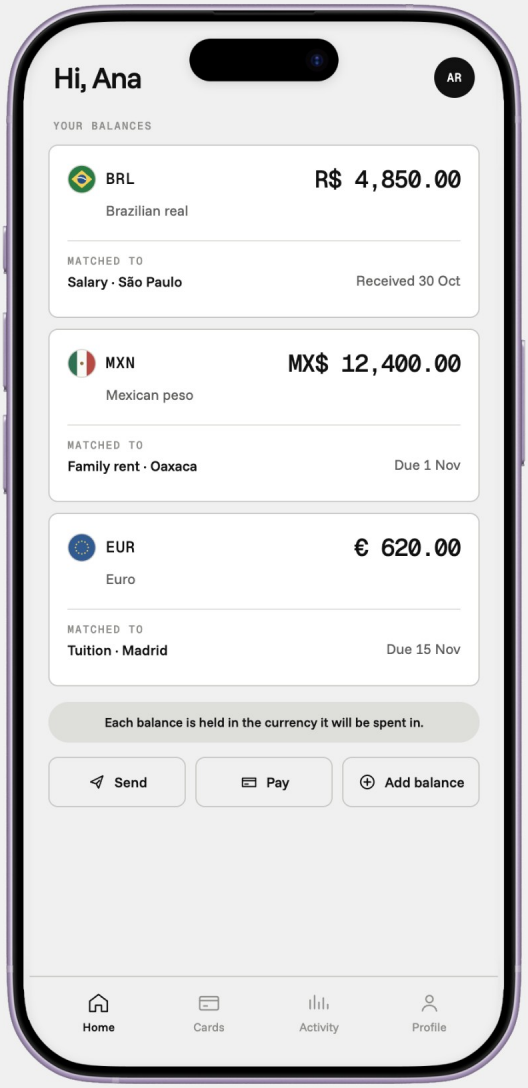


EXHIBIT 5. ONE WALLET, THREE LOCAL-CURRENCY BALANCES, EACH MATCHED TO AN OBLIGATION IN A DIFFERENT COUNTRY. NONE OF THEM IS A DOLLAR.

The limit. Multi-currency balances inside one wallet raise licensing questions that differ by market, and the answer is not uniform across Latin America. Redemption depth in each local currency is a separate constraint from redemption depth in the aggregate.

Rewards programs.

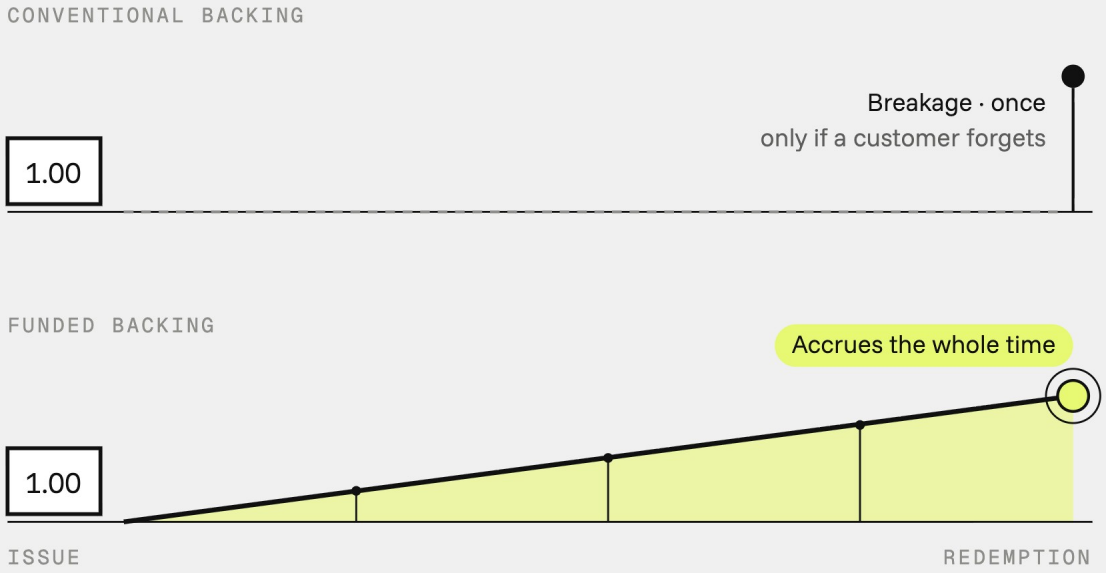
Today. Retention spend is one of the few large line items carrying no offsetting return. A reward becomes a liability the moment it is issued and then sits until claimed, often for months. The backing balance earns nothing for that entire period, and the only upside event is breakage, which arrives once and only if a customer forgets.

The unlock. Fund the program in local currency, hold the backing as domestic treasury bills, and issue the reward at face value in the operator's own brand. The bills accrue for as long as the reward is outstanding, and that accrual belongs to the operator.

The argument is generosity rather than efficiency. The same budget buys a more generous program, and generosity is what moves retention.

Why it holds. This is the same instrument attached to a different balance and a different budget owner, with the same live proof point. The largest untapped versions are consumer programs carrying long-dated point liabilities, from airlines to retail chains. Published breakage benchmarks put retail near 25%, travel and airline programs at 30% or above, and healthy programs across a 5 to 30% band.

EXHIBIT 6. THE SAME REWARDS BUDGET OVER THE SAME PERIOD. CONVENTIONAL BACKING EARNS NOTHING UNTIL A ONE-OFF BREAKAGE GAIN AT THE END; FUNDED BACKING ACCRUES FROM ISSUE TO REDEMPTION, WITH NO BREAKAGE.



Different shape, not a bigger number.

The limit. It defrays rather than erases. The operator pre-funds, which is working capital a points program never required. And breakage is traded for float: tokens in customer-owned wallets cannot be expired, so the one-time write-back disappears and is replaced by a recurring accrual. That alters the shape of the revenue, not only its size.

Regulatory note. Direct yield to holders is restricted across most emerging markets, and the United States is legislating in the same direction. The CLARITY Act text bars a covered party from paying "any form of interest or yield … solely in connection with the holding" of a payment stablecoin, while permitting incentives based on bona fide activities or transactions.

Card collateral.

Today. A card program whose collateral is dollar-denominated must convert on every domestic transaction, and the cost is not small.

COST COMPONENT	COST
Visa International Service Assessment, single currency	~0.80%
Visa International Service Assessment, conversion required	~1.20%
Acquirer fee	0.45%
Network conversion premium, before issuer markup	~40 bps
All-in, absorbed by card programs in Mexico	**~100 bps**

Table 3. Where the conversion cost sits on a domestic card transaction. Figures pending clearance before publication.

Separately, every issuer holds settlement float against its daily net obligation to the network, and that float earns nothing.

The unlock. Fund the card with a local-currency instrument. On domestic spend the conversion does not become cheaper, it ceases to exist. Nothing in the issuer's settlement workflow changes, because no token touches network rails.

Why it holds. The larger prize is the issuer's float rather than the cardholder's balance. One issuer puts its own idle settlement float at $10m to $12m, netted daily. At a 28-day CETES rate of 6.25%, that is roughly $625,000 to $750,000 a year of forgone yield on money that must sit there regardless. A bond could not reach that money. Float that turns over daily cannot be matched against an instrument with a term, which is why settlement float has always sat idle. A Stablebond accrues in real time rather than over a duration, so a balance that exists for one day earns for one day. That is what turns the most awkward float in this paper into the best-shaped one.

The limit. The unlock applies to domestic spend only. International settlement runs off an approved list of dollar stablecoins that local-currency instruments are not on. Accrual never stops, but redemption into fiat still depends on market hours, so weekend and off-hours settlement is a live operational constraint, handled through real-time redemption in market hours, T+1 outside them, and a liquidity buffer at 7 to 10% of assets.

Local-currency lending.

Today. Lenders with real distribution in emerging markets already understand that blockchain settlement is cheaper than what they operate. What they lack is the infrastructure, so they continue lending in dollars to borrowers who earn in something else. The borrower then services an appreciating loan out of a depreciating income.

The lender has two ways to manage that mismatch, and both cost money. It can leave the currency risk with the borrower, where it surfaces later as defaults that read as credit losses but began as currency losses. Or it can hedge, paying for protection on every book it writes. Meanwhile the lending treasury itself, the capital waiting to be deployed and the repayments flowing back in, sits in dollar stablecoins or a bank account and earns nothing.

	DOLLAR-FUNDED	LOCAL-CURRENCY FUNDED
Loan denomination	Dollars	Local currency
Who carries the currency risk	The borrower, or the lender through a hedge	Neither
Treasury between loans	Earns nothing	Accrues the sovereign rate
Repayments on arrival	Converted back to dollars	Accrue from the day they land
On-chain composition	A spread between differently-pegged assets	One denomination, no spread

Table 4. Two ways to fund a borrower who earns in local currency. A qualitative comparison; no rates are implied.

The unlock. Hold the lending treasury as a local-currency instrument earning the sovereign rate, and lend in that same currency. Because loan and treasury share a denomination, the two compose on-chain cheaply, without the cost of maintaining a spread between differently-pegged assets. Undeployed capital earns while it waits, and each repayment begins accruing the day it arrives.

Why it holds. A Solana lending protocol runs live markets today pairing tokenized Brazilian and UK sovereign instruments against both dollar stablecoins and their local-currency counterparts. A credit protocol on Stellar uses tokenized CETES to hedge currency exposure on dollar-denominated credit lines extended in Mexico.

A lending treasury has the same awkward shape as the settlement float on the previous page: balances that arrive and leave daily, in amounts the lender does not control. A bond with a term cannot be matched against that. An instrument that accrues in real time can, which is what makes the treasury investable at all.

> The borrower stops servicing an appreciating loan out of a depreciating income.

The limit. This addresses the lender's treasury problem and the borrower's currency mismatch. It does not address credit risk, underwriting quality or collections, which remain exactly as hard as they were.

Collateral and escrow.

Today. Collateral is money that has to exist and is not allowed to do anything. Margin at a derivatives venue, performance bonds on contracts, security deposits on leases and collateral locked in on-chain protocols share one property: the balance must stay locked and intact, and while it is locked it earns nothing.

Where a venue accepts only dollar stablecoins, a poster whose business runs in local currency converts first. The collateral then carries a currency position the poster never wanted, on top of the opportunity cost it was already absorbing.

CONTEXT	WHO POSTS IT	HOW LONG IT IS LOCKED
Derivatives margin	Traders and market makers	As long as positions are open
Performance bonds	Contractors and suppliers	The term of the contract
Security deposits	Tenants and merchants	The term of the lease or agreement
Protocol collateral	Borrowers and liquidity providers	Until the position is closed or liquidated

Table 5. Four places collateral sits locked. In each, the balance must stay intact and available, and in each it currently earns nothing.

The unlock. The same substitution applies: hold the escrowed balance as a local-currency instrument that accrues while locked. The accrual goes to whichever party the escrow terms assign it to, usually the poster, and for a domestic counterparty posting in local currency removes the conversion entirely.

Why it holds. A derivatives platform has used tokenized CETES inside its stablecoin collateral framework since December 2025. A portfolio margin protocol on Solana is working toward accepting the full set of tokenized sovereign instruments as yield-bearing collateral across venues.

Collateral is the most term-hostile balance in this paper. It must be available the instant a position moves, which rules out anything with a maturity. An instrument that accrues continuously while its principal stays fixed is the first form of the sovereign rate that collateral can sit in at all.

> Collateral has to sit somewhere.
> It does not have to sit idle.

The limit. Escrow terms frequently specify the permitted form of collateral, and counterparty consent is required before substitution. The harder constraint is pricing. Bond-backed collateral needs a reliable mark and dependable liquidity outside local market hours, and a venue liquidating at three in the morning cannot wait for a treasury desk to open. That is the open engineering question, and it is why this is listed last.

What changes for a country.

Everything so far is a single balance sheet. Those balances add up.

01 **The domestic instrument gains a kind of demand it does not have today.**

Short-dated government paper is currently bought by institutions, on a schedule, in size. A tokenized instrument held as working balances is bought continuously, in small amounts, by holders who are price-insensitive because they are not making an investment decision at all. They are holding money. For a debt management office that is a new class of demand at the front of the curve: rolling, granular, domestic, and uncorrelated with the foreign appetite that drives emerging-market flows today.

02 **The usability premium stops leaking abroad.**

US Treasuries trade at yields below what their cash flows alone justify, because holders pay for safety and liquidity as services in their own right. One common proxy for that convenience yield sat near 36 basis points in 2025, against roughly 67 through the 2010s. Emerging-market sovereigns do not collect a comparable premium. The reason is only partly credit. The other part is that their paper is not usable as money: it sits in a custody account, cannot settle a payment and does not move on a weekend.

03 **The ratchet turns the other way.**

The inaction band widens as foreign-currency use grows, because every additional user makes the foreign currency cheaper for the next one. The same mechanism runs in reverse. Every balance held in a usable domestic instrument lowers the cost of the next one: more liquidity, more places to spend it, more counterparties who accept it. This is the only lever that narrows the band from the domestic side, and it compounds the same way the problem did.

> A country whose own debt is harder to hold than another country's currency forfeits the usability premium on its own liability.

None of this requires a forecast, and this paper does not offer one. The magnitude of a convenience yield for an emerging-market sovereign has not been measured, and assigning a number to it would be inventing precision. The directional claim is narrower and harder to argue with: a government that makes its own debt spendable captures demand, and some share of a premium, that currently accrues to somebody else.

The practical version travels further in the room than the theory. A continuously rolling, price-insensitive domestic buyer for short-dated government paper is attractive to a debt management office regardless of any view about convenience yields.

Four limits, stated plainly.

A paper that only argues its own side gets read as a brochure.

01 **This is not literally the risk-free rate.**

The issuing and custody infrastructure sits on top of the sovereign asset as an additional layer of risk. It is the closest available proxy, not the thing itself.

02 **We assign no number to the sovereign-side gain.**

The magnitude of a convenience yield for an emerging-market sovereign has not been measured. The direction is arguable; the size is not yet.

03 **Nothing here addresses credit risk or underwriting.**

Lending in the borrower's own currency removes a mismatch. It does not make anyone a better judge of who will repay.

04 **Cross-border flow still crosses a currency pair.**

The domestic unlock is domestic. International settlement runs off an approved list that local-currency instruments are not yet on.

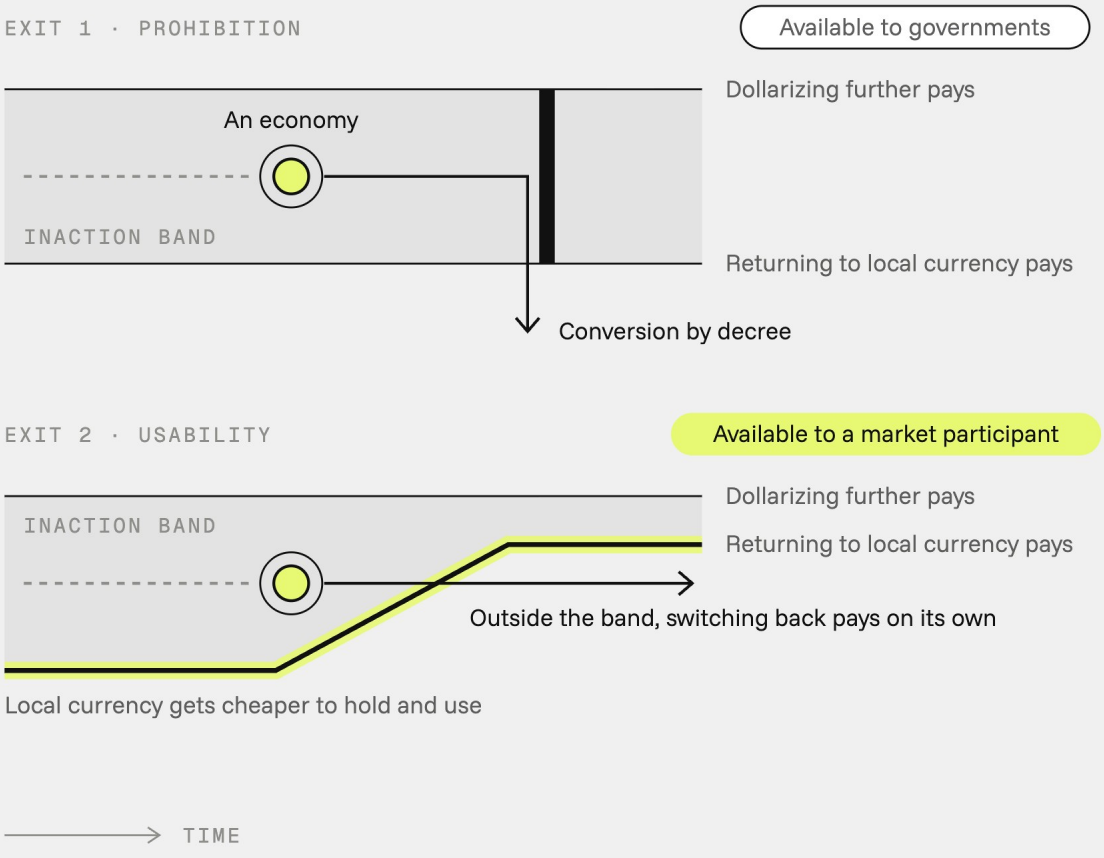
Why now.

The instruments exist. Mexico, Brazil, the United Kingdom, the United States, the European Union and Korea all have tokenized sovereign instruments live or building, with the local payment rail attached.

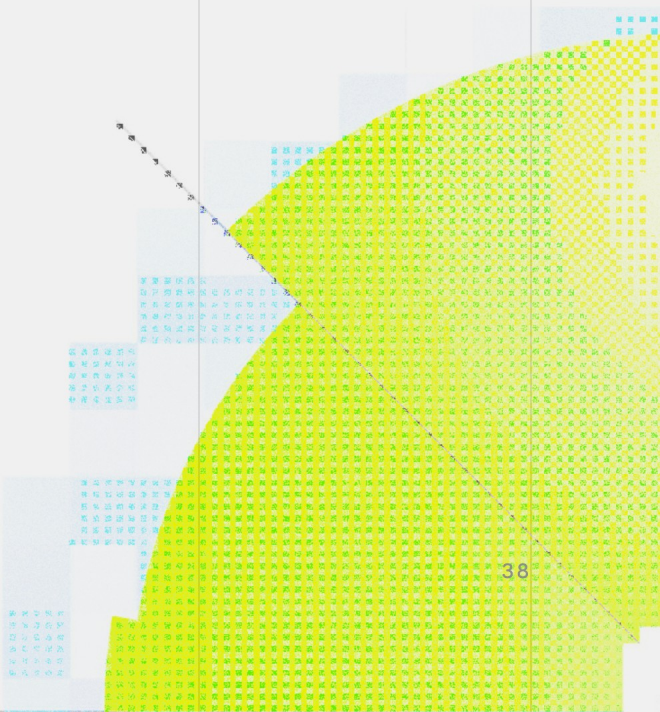
What remains is a decision about which side of the band to pull. The literature is clear that currency substitution ratchets, does not reverse on its own, and that the only historical exits were forced. Lowering the cost of holding and using a country's own safe asset is the one lever that has never been tried, and it does not require prohibiting anything.

Korea is the case that should concentrate attention. It has no inflation to hedge, a credible central bank and a real policy rate near zero, and it is still losing balances to a currency it does not issue.

EXHIBIT 7. TWO WAYS OUT OF THE INACTION BAND. A GOVERNMENT CAN FORCE AN EXIT BY DECREE; A MARKET PARTICIPANT CAN ONLY MAKE LOCAL CURRENCY CHEAPER TO USE, UNTIL SWITCHING BACK PAYS ON ITS OWN.



If it can happen there, the crisis explanation was never the explanation.



Sources for every figure in this paper are held in the evidence base. Figures marked for refresh are rates and balances that move, and are restated before publication.