



REPUBLIC OF THE MARSHALL ISLANDS OFFICE OF THE BANKING COMMISSION

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TO : Domestic RMI Banks and Financial Service Providers
FROM : Banking Commissioner of the Marshall Islands
SUBJECT : Guidance on USDM1

CONTEXT

The GRMI is issuing USDM1, a digital sovereign bond of the RMI guaranteed by the full faith and credit of the government of the RMI and the U.S Government. This letter provides guidance for domestic RMI Banks, Financial Services Providers and DNFBPs related to USDM1.

GUIDANCE

RMI Banks, Financial services providers:

- Utilize and hold USDM1 in the ordinary course of business as a sovereign debt instrument. Basis: Sovereign debt is not classified as a “virtual asset” under FATF definitions nor RMI law and therefore does not give rise to Virtual Asset Service Provider (VASP) regulatory obligations.
- Assign a zero percent risk weight to USDM1 under the Basel Standardized Approach to Credit Risk. Basis: This is consistent with Basel II paragraph 54, as the instrument is a sovereign obligation of the RMI denominated and funded in the RMI’s national currency (the U.S. dollar).
- Treat USDM1 as a Level 1 High-Quality Liquid Asset (HQLA) under the Basel III Liquidity Coverage Ratio (LCR) framework. Basis: USDM1 is a sovereign debt instrument issued by a national government and accordingly meets the criteria for a qualifying government security. It is also highly liquid as it is 1:1 fully collateralized by short term U.S. treasury securities.

For the avoidance of doubt, supervised entities are still responsible for performing their own risk analysis before they hold any asset and must adhere to all applicable laws and regulations.

RATIONALE

USDM1 is a Security, specifically a sovereign Security, and even more specifically a sovereign debt instrument (bond).

While USDM1 is issued in digital form, the international regulatory framework takes a technology-neutral approach. It focuses on the economic substance of the asset rather than the technical specification.¹ Over the past several years, FATF has issued guidance on virtual assets (VAs) and virtual asset service providers (VASPs) in order to cover new types of assets that were made possible by the blockchain but did not fit under existing regulatory definitions and thus lacked applicable guidance altogether. However, FATF did not intend to issue guidance to amend existing, mature guidance on well-established financial assets, like securities, and the financial service providers that utilize them.² Indeed:

“FATF does not intend for an asset to be both a VA and a financial asset at the same time.”³

As such, FATF’s definition of VAs explicitly excludes securities:

“Virtual assets do not include digital representations of fiat currencies, securities and other financial assets that are already covered elsewhere in the FATF Recommendations.”⁴

Similarly, FATF’s definition of a VASP is:

“any natural or legal person who is not covered elsewhere under the Recommendations.”⁵

RMI law similarly defines Virtual Assets as:

“a digital representation of value (other than digital representations of fiat currencies, securities, and other financial assets that are already covered elsewhere ...).”⁶

Thus, under RMI law, USDM1 is not treated as a Virtual Asset. Therefore, domestic RMI entities do not become subject to VASP laws or regulations simply by utilizing USDM1. Instead, the existing mature framework in RMI law and regulations on the treatment of financial assets and financial services providers already adequately covers the use of USDM1. Furthermore, Marshall Islands Financial Services company, a locally incorporated company will be treated as a financial service provider pursuant to the Banking Act and therefore will be subject to RMI AML/CFT requirements.

¹ FATF emphasizes that “Consistent with the technology-neutral approach, a blockchain-based asset that is defined as a financial asset would likely not fall under this VA-focused Guidance. This is because the technology used is not the deciding factor in determining which FATF Recommendations apply.” FATF Updated Guidance for a Risk-Based Approach, Virtual Assets and Virtual Asset Service Providers, October 2021 (“FATF Guidance for VAs and VASPs”), paragraph 52, “what is a virtual asset?”

² FATF Guidance on Virtual Assets was meant to “broaden the applicability of the FATF Standards to encompass new types of digital assets... it was not intended to subtract from the existing definitions... or from the scope of the various financial services included under the definition of a ‘financial institution’ in the FATF standards.” See FATF Guidance on VAs and VASPs, paragraph 45, “Background and general considerations for the definition of VA and VASP”

³ FATF Guidance on VAs and VASPs, paragraph 51, “what is a virtual asset?” Emphasis added.

⁴ FATF Guidance on VAs and VASPs, paragraph 44(a). Also see “The FATF Recommendations” (Updated June 2025), Section: General Glossary (pg 125), “Virtual Assets.” Emphasis added.

⁵ FATF Guidance on VAs and VASPs, paragraph 55, “what is a VASP?”

⁶ See RMI Banking (Amendment) Act 2020 section §102(hh). Emphasis added.

As an RMI sovereign bond, USDM1 is also eligible for the so-called “currency-matching exemption” under the Basel Committee’s framework on Banking Supervision, which states:

“At national discretion, a lower risk weight may be applied to banks’ exposures to their sovereign (or central bank) of incorporation denominated in domestic currency and funded in that currency.”⁷

The US has gone even further in its domestic implementation of this rule, requiring that:

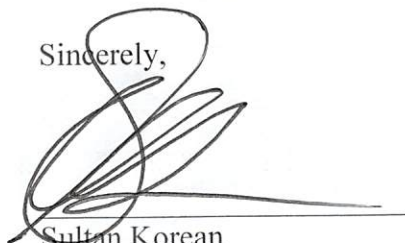
“a national bank... must assign a zero percent risk weight to...an exposure of the U.S. government.”⁸

Dr. Peter Dittus, the former Secretary General of the Bank for International Settlements, advises that:

“In the case of the USDM1 government debt security...it is not only backed by the credit and trustworthiness of the RMI government, but is also de facto backed by the credit and trustworthiness of the U.S. Government. Put another way, USDM1 is backed 1:1 by US Treasuries, and thus inherently almost as safe and liquid as US Treasury paper. Even if the RMI government was in financial difficulties, the USDM1 securities would be serviced and, if required, redeemed with the same assurances as US Treasuries....In general, the holding of government debt securities such as USDM1 will help banks to meet the capital and liquidity ratios prescribed by their regulators, and is not only permitted under Basel III but encouraged by existing regulatory regimes. Both Regulators and Banks can feel comfortable treating USDM1 the same way they would treat other government debt, because it is the same thing.”

Based on the foregoing, the Banking Commission has concluded that the RMI should treat USDM1 in a manner similar to how the US treats its US Treasuries domestically. The Banking Commission does not prescribe how banks should assess the risk of USDM1, nor any asset. However, banks may decide to hold USDM1 in their balance sheet and in their normal course of business if they consider it prudent.

Sincerely,



Sultan Korean

Banking Commissioner of the Republic of the Marshall Islands
Head of the Financial Intelligence Unit

⁷ Specifically, the Standardized Approach to Credit Risk, Basel II paragraph 54 <https://www.bis.org/publ/bcbs128b.pdf>.

⁸ US Code 12 CFR §3.32(a)(i), available at <https://www.law.cornell.edu/cfr/text/12/3.32>. Emphasis added.