February 10th, 2025

RE: Testimony to the North Dakota Senate Judiciary Committee – SB 2364

Chair Larson and Members of the Committee,

Thank you for the opportunity to testify in support of Senate Bill No. 2364.

For the record, my name is Kyle Wanner, and I am providing this testimony as a private citizen—born, raised, and currently residing in North Dakota. My education background includes a double major with a Bachelor of Business Administration & a Bachelor of Science in Aeronautics from the University of North Dakota. Additionally for full transparency - I am also a current employee of the state of North Dakota. As a private citizen, I recognize the critical importance of this bill and the profound positive impact it could have on North Dakotans. I also firmly believe this may be one of the most significant pieces of legislation you will consider this session.

As a father of five, I am testifying not only on behalf of my own family and future generations but also for the many North Dakotans who remain unaware of the systemic financial risks that this bill seeks to address. The complexity of our financial system and the legal jargon embedded within financial regulations are not accidental—they are intentional. Layers of convoluted language are designed to discourage scrutiny and keep the public dependent on so-called financial "experts," many of whom will likely oppose this bill.

To fully grasp the implications of Senate Bill 2362, it's essential to first understand the history of our financial system, the risks it carries, and then identify who currently holds control over the custody of our financial securities.

Complexities of the Current Financial System

Over the past five years, I have extensively studied our financial system. During the COVID-19 crisis, I watched as central banks across the world acted together in lockstep: slashing interest rates, printing massive amounts of fiat currency, and inflating asset prices. These actions led to the largest wealth transfer in history, disproportionately benefiting those who already controlled substantial financial assets while devaluing the savings and purchasing power of everyday citizens.

The root of this problem traces back to 1971, when the U.S. dollar was unpegged from gold. True money serves three essential functions: it acts as a medium of exchange, a store of value, and a unit of account**.** When our currency was detached from gold, it lost its ability to be a reliable store of value. The consequences of this decision are clear—since 1971, the U.S. dollar has lost over 85% of its purchasing power, largely due to excessive monetary expansion. Inflation is not just a natural economic phenomenon; it is a direct result of policies that continue to erode the wealth of hardworking Americans.

With the shift away from the gold standard and the adoption of a debt-based fiat system, financial institutions have engineered a vast web of artificial, "money-like" instruments—including derivatives, securities, and synthetic financial products that lack backing by tangible assets. They are financial contracts whose value is based on the price of an underlying asset, such as stocks, bonds, commodities, or even interest rates. Instead of trading the actual asset, the derivative market allows investors to speculate on the price movements of the asset. Common types of financial derivatives include options, futures, swaps, and forwards. The worldwide derivatives market alone is currently estimated to exceed 2 quadrillion U.S. dollars—an unfathomable figure that dwarfs the annual GDP of the entire world. This phenomenon, known as the **financialization of assets**, has exponentially increased systemic risk, leaving the now fully connected worldwide economy more vulnerable to instability.

These dynamics have allowed central banks worldwide to sustain an unsustainable cycle of debt expansion. Data from the Federal Reserve's own website highlights a troubling trend: since 1971, the money supply, the federal government's balance sheet, and the national debt have not only increased - they have grown exponentially. As a result, the annual interest payments on the national debt have now surpassed the total spending of our military and has become the third-largest line item in the federal budget – now exceeding $1 trillion each year. I have included charts from the Federal Reserve's own website in the appendix of this testimony to illustrate these concerning trends.

This trajectory is unsustainable. Anyone who thoroughly examines and understands this issue quickly realizes that our financial system cannot persist indefinitely on its current path. History proves that financial resets have occurred many times before and that fiat currencies have historically high failure rates. Yet, because most Americans have never experienced a monetary reset in their lifetime, they fail to grasp the profound implications of what may lie ahead.

This is why I also believe that there is a growing push to normalize a new system of cryptocurrencies, central bank digital currencies (CBDCs), and the tokenization of assets—initiatives that further centralize financial control and erode fundamental property rights. These trends expose ordinary citizens to even greater risk, as control over personal wealth shifts away from individuals and into the hands of unelected financial institutions.

The Risks to Bank Deposits and Personal Assets

Since the 2008 financial crisis, the Federal Reserve has kept interest rates historically low to "encourage borrowing and economic growth" —a trend that has continued through the COVID-19 pandemic, with rates remaining near zero. As a result, the worldwide economy has become deeply dependent on low interest rates and easy monetary policies, leading to historically high debt burdens across governments, businesses, and individuals.

However, in response to rising inflation is recent years… central banks have now reversed course, implementing the fastest interest rate hike in modern history. This sudden shift comes at the risk of triggering financial instability, recession, and a debt crisis, as economies throughout the world now struggle to adjust after decades of ultra-loose monetary policy.

To make matters more concerning - during the COVID-19 pandemic, the Federal Reserve lowered the deposit reserve requirement ratio for banks to 0%. While the “emergency status” of the pandemic has long passed, this policy still remains in effect today. In simple terms, this 0% reserve requirement allows banks to use all of their bank deposits for lending, with no requirement to hold any money in reserve to cover those loans if anything goes wrong. This eliminates a critical safety buffer, making the system more vulnerable if large numbers of people suddenly desire to withdraw their money or if banks experience any sort of financial instability.

Additionally, one of the most overlooked concerns is the vulnerability of our bank deposits**.** While the Federal Deposit Insurance Corporation (FDIC) provides deposit insurance to protect depositors in the event of a bank failure, insured deposits represent only a fraction of the total deposits within the banking system. Essentially, we now have a financial system that is burdened with immense debts and obligations and lacks sufficient collateral to fully cover them. If multiple major financial institutions were to fail simultaneously, the FDIC would likely require emergency funding from the Federal Reserve—potentially leading to more money printing, higher inflation, and even direct depositor losses or widespread bank failures.

Lastly, another important point to make – is that these low interest rates and inflationary policies of the past two decades have not only eroded the purchasing power of our currency but have also discouraged traditional savings. As a result, individuals have been increasingly driven to invest in financial instruments simply to preserve their wealth and keep pace with inflation. This shift has led to a world where **the majority of the wealth is now concentrated in financialized assets** rather than in tangible, real-world assets. So now, we need to ask the question – who truly owns these finalized assets?

Who Truly Owns these Financialized Assets?

In 1973 - only two years after the U.S. dollar was unpegged from gold, the Depository Trust Company (DTC) was founded and took over the responsibility for holding and transferring financial securities in book-entry form, with Cede & Co**.** serving as the nominee’s name for the holdings. It is important to note that the DTC and Cede & Co are both **privately owned** by its members. These members include major banks, broker-dealers, and financial institutions that provide for the clearing, settlement, and custody of financial securities.

Cede & Co. holds securities on behalf of DTC participants, making it the **legal owner of most publicly traded securities in the U.S.** on paper, while the actual investors hold "beneficial ownership" through their brokerage accounts.

In fact, this excerpt is taken directly from the Cede & Co – Wikipedia page:

> Cede and Company (also known as Cede and Co. or Cede & Co.) is a specialist United States financial institution that processes transfers of stock certificates on behalf of Depository Trust Company, the central securities depository used by the United States National Market System, which includes the New York Stock Exchange, and Nasdaq.[1] Cede and Company is a shorthand for the phrase 'certificate depository.'[2]

> **Appropriately, the word 'cede' means to 'give up (power or territory)'[3] because investors give up their stock and companies give up their shareholders to an intermediary**.[4]
>
> **Cede technically owns most of the publicly issued stock in the United States.[5] Thus, most investors do not themselves hold direct property rights in stock, but rather have contractual rights that are part of a chain of contractual rights involving Cede.[6]** Securities held at Depository Trust Company are registered in its nominee name, Cede & Co., and recorded on its books in the name of the brokerage firm through which they were purchased; on the brokerage firm's books they are assigned to the accounts of their beneficial owners.[7]

This is a critical finding - as we find ourselves now living in a system where the people truly do not own the financial assets that we have been purchasing. Essentially, financial institutions have quietly worked over the years to shift the legal ownership of financial assets away from individuals and towards banks and other secured creditors.

Protecting North Dakotans' Property Rights: The Case for SB 2364

Senate Bill 2364 introduces two key improvements for North Dakotans.

First, it would ensure that North Dakota law would govern security entitlement disputes and would prevent financial institutions from dictating jurisdiction. This change strengthens legal clarity and guarantees that disputes over security interests are resolved locally, right here in North Dakota—further protecting the rights of our investors and ensuring fair oversight.

Second, and most importantly, this bill restores property rights of financial assets to their rightful owners. Under current law, financial institutions—such as banks, brokerages, and clearing corporations—can claim priority over an individual's financial assets in times of insolvency. This means that in the event of a financial crisis, everyday investors are left with little to no recourse while institutional creditors seize assets that should belong to North Dakotans.

The problem is clearly outlined in Section 3 of SB 2364, which reveals that owners of financial asset owners are now referred to as an "entitlement holder." The current law then grants priority of ownership to financial institutions instead of the "entitlement holder" in cases of insolvency.

Specifically, as the law currently states:

> "In the event that a clearing corporation does not have sufficient financial assets to satisfy its obligations… the **claim of the creditor has been given priority** over the claims of entitlement holders."

This is nothing short of legalized theft, obscured behind layers of complex legal language. SB 2364 seeks to correct this injustice.

In summary - by passing this bill, North Dakota will:

- **Ensure security interest disputes are resolved locally**, keeping jurisdiction within the state.
- **Strengthen property rights** by ensuring that financial assets remain in the hands of their rightful owners.
- **Protect individual investors** from predatory claims by banks and financial institutions.
- **Position North Dakota as a leader in financial security reform**, setting an example for other states to follow.

While other states are also beginning to recognize this issue, North Dakota has the opportunity to lead the way in restoring true ownership rights. This legislation ensures that, in times of financial uncertainty, North Dakotans' private property is protected—not seized by powerful institutions. Now is the time to take action and defend the property rights and financial security of North Dakotans.

The Opposition's Motivations

Our financial system is currently controlled by unelected and unaccountable individuals within the major commercial banks and the Federal Reserve— which is a private institution, not a government agency. Many are unaware that the United States has actually abolished two previous central banking systems, and I firmly believe it is time to reconsider the role of the current one. While a nationwide solution may eventually be necessary, we are currently seeking a local solution to this dilemma. North Dakota has the power—right now—to take a stand and safeguard its own people.

I fully expect the banking industry to oppose this bill, as they have in other states. However, I have yet to encounter a compelling argument from the banking sector that justifies their opposition to ensuring financial securities are prioritized to their rightful owners.

Some in the opposition have claimed that this language only applies to "margin accounts," but this is simply not true. They will also likely argue that modifying these sections will pose a risk to our financial system and economy, but this is also a misrepresentation. These proposed changes do not impact how the system is operating, **it only affects the procedures in the event of insolvency**, ensuring that individual property rights of these financialized assets are protected—rather than being seized by large financial institutions. I urge you to demand more substantial responses from the opposition.

Please ask yourselves - Are those who oppose this bill truly acting in the best interests of North Dakotans who have been led to believe that they fully own their financial assets? Or are the financial institutions merely protecting their ability to exploit a system that was designed to serve them?

A Call to Action

I urge this committee to recognize the historical significance of this issue. This is not just another bill—it's passing would provide us with critical defense of fundamental property rights. North Dakotans deserve financial security and the assurance that their financial assets are truly theirs.

I respectfully urge the committee to give Senate Bill No. 2364 a **"Do Pass"** recommendation. Thank you for your time and consideration.

Respectfully,

Kyle C. Wanner
North Dakota Citizen

Key Word Definitions

1. **Adverse Claim** - A claim that disputes the ownership or rights to a security or financial asset and can be asserted against a person who holds a security.
2. **Clearing Corporation** -An organization responsible for facilitating and clearing the settlement of transactions between buyers and sellers in financial markets, ensuring the proper transfer of securities.
3. **Commodity Account** - A financial account that holds contracts or rights related to commodities, which can be used as collateral for loans or other financial transactions.
4. **Commodity Contract -** An agreement or contract related to the purchase or sale of commodities, which may include goods, materials, or products typically traded in markets.
5. **Control (of a financial asset)** - The power of a person or entity to direct the disposition of a financial asset, often granting them authority to access, transfer, or utilize it in transactions.
6. **Creditor (of a securities intermediary)** - An entity or individual that holds a financial claim against a securities intermediary, which may include a claim over securities or assets held by the intermediary.
7. **Financial Asset** - A non-physical asset that represents a financial value or investment, such as stocks, bonds, or other securities.
8. **Financial Asset Held by a Securities Intermediary** - A financial asset that is held by an entity, known as a securities intermediary, on behalf of a client or entitlement holder.
9. **Issuer's Jurisdiction** - The jurisdiction or legal authority under which the issuer of a security is organized or operates, which governs various aspects of the security's validity and transfer.
10. **Perfection (of a security interest) -** The legal process by which a lender or secured party establishes priority rights over a financial asset or security, often involving the filing of public records to ensure the security interest is legally enforceable.
11. **Priority (of security interests) -** The order of rights that different parties have in a financial asset or security when multiple claims exist, which determines who has the first right to access or control the asset.
12. **Security Entitlement** - The rights a person or entity holds in a security, typically as a result of holding a financial asset through a securities intermediary, giving them the right to transfer or use the asset.
13. **Security Interest** - A legal claim or right in a financial asset or property, typically used as collateral for a loan or other financial obligation.
14. **Security Certificate** - A physical document representing ownership of a security, such as a stock certificate or bond certificate, that can be transferred or pledged.
15. **Securities Account -** A financial account held by a securities intermediary that tracks the ownership or interest in securities on behalf of entitlement holders.
16. **Securities Intermediary** - An entity, such as a broker or custodian, that holds securities or financial assets on behalf of a client or entitlement holder, and has responsibilities related to the administration and transfer of those assets.
17. **Security's Jurisdiction -** The jurisdiction under which a security's registration or legal transfer is governed, based on the laws applicable to the issuer or intermediary.
18. **Secured Party (or Entitlement Holder)** -A person or entity who holds a security interest or entitlement in a financial asset, often having a claim or right to that asset under specified conditions.

How do Financial Securities Flow through the System?

The financial securities system in the U.S. operates through a **multi-tiered structure**, with the **Depository Trust Company (DTC)** at the top and individual investors at the bottom. Here's a top-down explanation of how financial securities flow through the system:

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1. Depository Trust Company (DTC) (Top Level)

- The DTC acts as the central securities depository in the United States.
- It immobilizes physical securities and holds electronic records of ownership through Cede & Co**.**, its nominee name.
- The DTC and Cede & Co are both **privately owned** by its members

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2. DTC Participants (Broker-Dealers & Banks)

- Major financial institutions (e.g., JPMorgan, Goldman Sachs, Morgan Stanley) are direct DTC participants. These firms hold securities in "street name" at DTC, meaning that the DTC records them under the firm's name.
- They act as intermediaries, facilitating trading and safekeeping for their clients.

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3. Clearing Firms & Custodians

- Some broker-dealers use clearing firms (e.g., Pershing, Apex Clearing) that handle trade processing and settlements.
- Custodian banks (e.g., Bank of New York Mellon, State Street) hold securities on behalf of institutional investors.

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4. Retail & Institutional Brokers

- These include platforms like Charles Schwab, Fidelity, or Robinhood, which serve individual retail investors.
- Institutional investors (e.g., hedge funds, pension funds) also work through brokers.
- Brokers maintain customer accounts and execute trades on exchanges.

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5. Individual Investors (Bottom Level)

- Investors hold securities in their brokerage accounts, **but not directly in their name.**
- Securities are held in **"**street name" under the brokerage, meaning the broker is the registered owner, while the investor is the "entitlement holder".
- Investors rely on brokers for dividends, voting rights, and trade execution.

How Financial Securities Move in the System (Trade Settlement)

1. Investor places a trade via a brokerage (e.g., buys Apple stock).
2. Broker executes the order on an exchange or through a market maker.
3. The clearing firm matches the trade and reports it to DTC for settlement.
4. DTC updates its records, showing the brokerage as the new entitlement holder underneath Cede & Co.
5. The investor's account is credited with the shares, but they remain legally registered under the broker and owned by the DTC & their nominee's name Cede & Co.

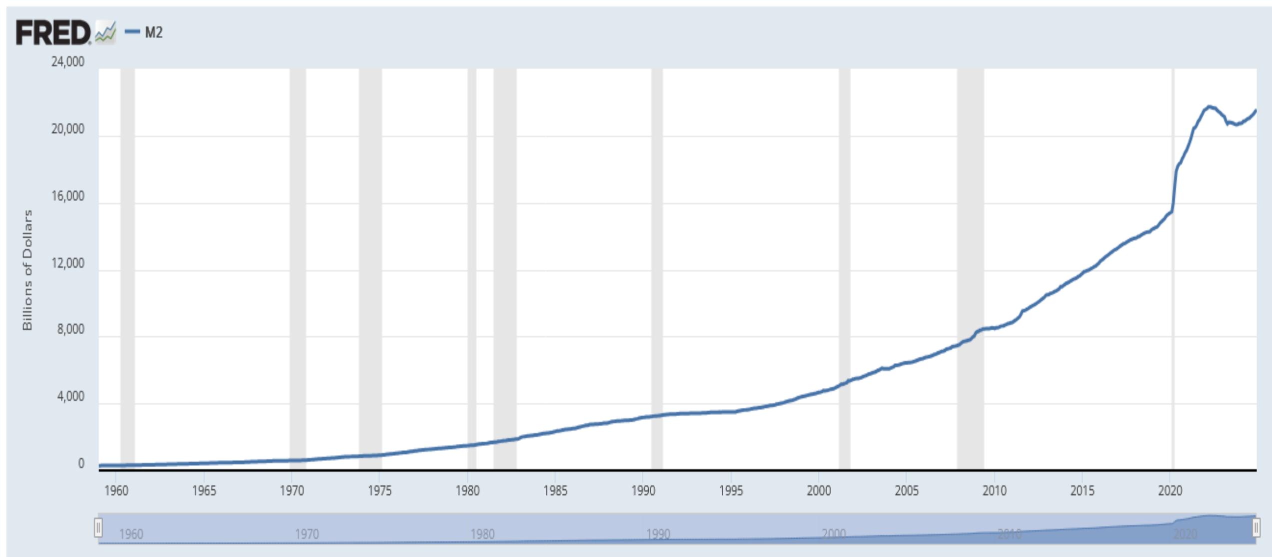
Key Takeaways

- The DTC (via Cede & Co.) is the ultimate registered owner of nearly all securities.
- Brokerages act as intermediaries, holding securities for investors.
- Investors have beneficial ownership as "entitlement holders" but not direct title to shares.
- The system is currently built to limit direct investor control over securities especially in cases of systematic insolvency.

Appendix

*This appendix offers a historical perspective on our financial system from some key indicators and highlights the unsustainable trajectory we're currently facing. This context emphasizes the **urgent need** to pass Senate Bill 2364, which would safeguard North Dakota citizens from potential asset confiscation by secured creditors in the event of future financial instability.*

United States Historical M2 Money Supply (1960 – 2024)

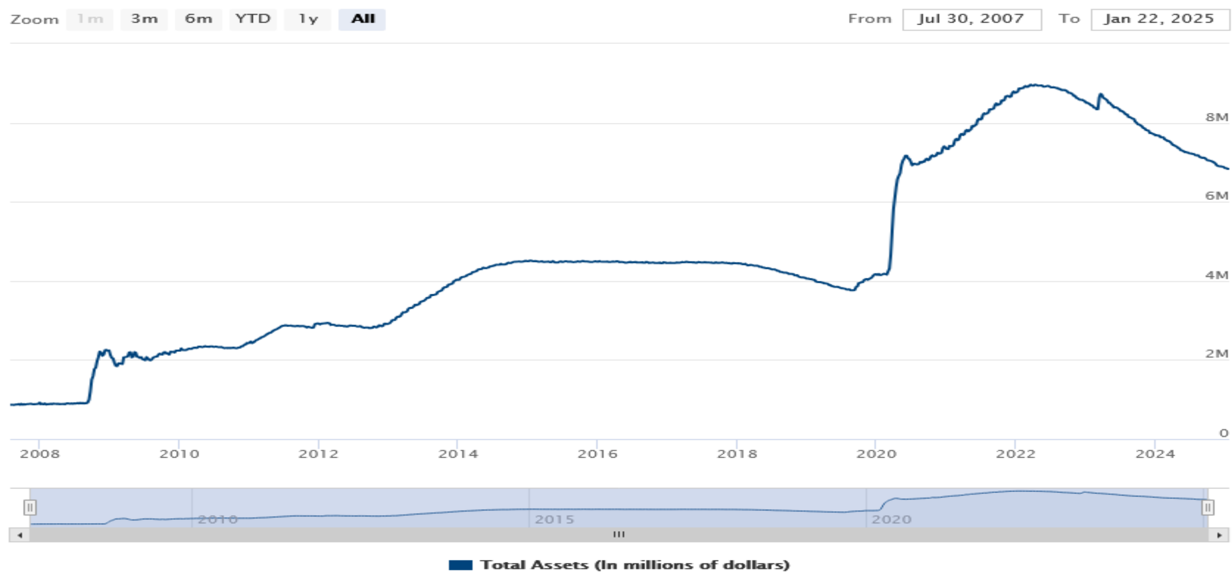


Source: https://fred.stlouisfed.org/series/M2SL

The M2 money supply is a broad measure of the total money available within the economy, including cash, checking deposits, and easily convertible near-money assets. Since the U.S. dollar was unpegged from gold in 1971, the M2 money supply has expanded dramatically. In January 1971, it stood at approximately $624.3 billion, but by November 2024, it had surged to around $21.45 trillion—an increase of approximately 3,336%.

While an expanding money supply can provide short-term economic stimulus, excessive and prolonged growth is often a symptom of unsustainable economic policies. Rapid increases in M2 contribute to inflation, financial instability, and a potential erosion of confidence in the monetary system. Historically, unchecked money supply expansion has led to asset bubbles, rising consumer prices, and long-term economic distortions, ultimately threatening financial security and economic stability.

The Balance Sheet of the total Assets of the Federal Reserve (2008 – 2024)



Source: https://www.federalreserve.gov/monetarypolicy/bst_recenttrends.htm

The Federal Balance Sheet refers to the financial statement of the U.S. federal government or the Federal Reserve, detailing its assets, liabilities, and net position. It serves as a key indicator of the financial health of both the government and the central banking system.

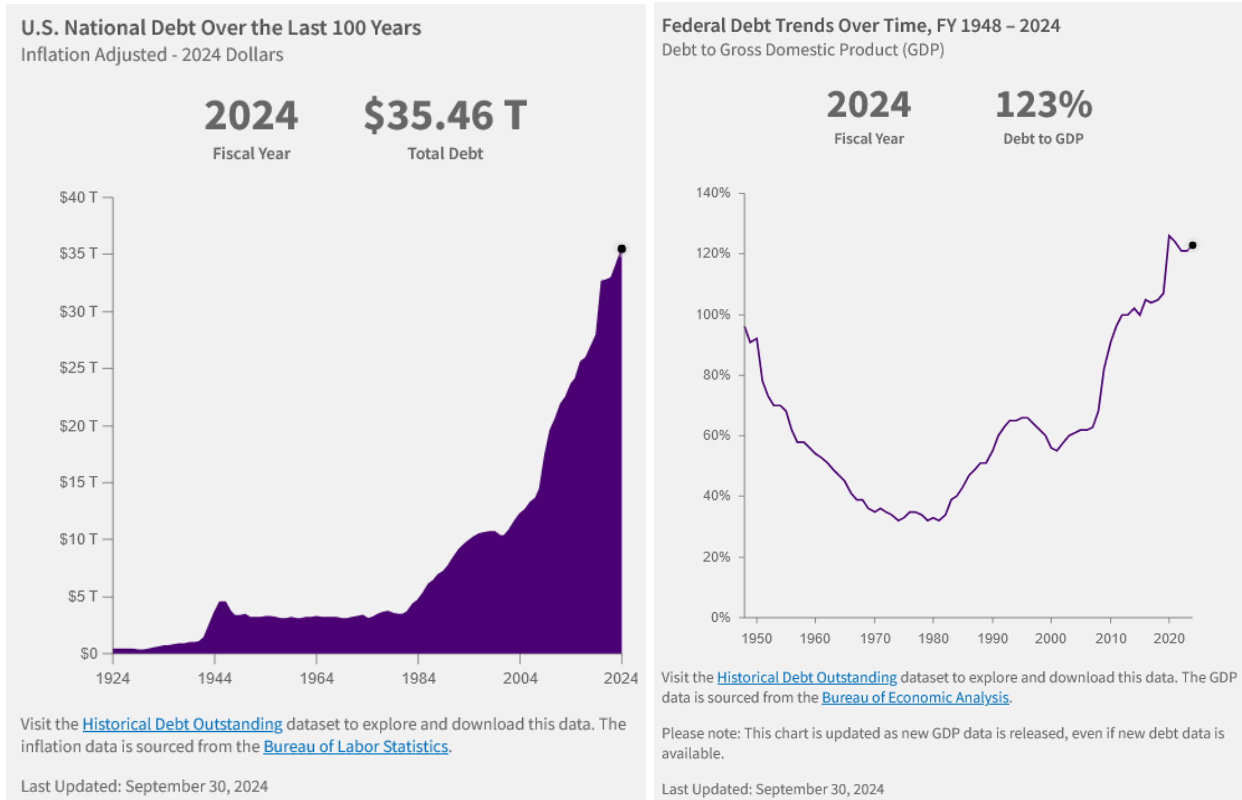
The Federal Reserve's balance sheet expands or contracts based on monetary policy actions, such as quantitative easing (QE) and quantitative tightening (QT). These policies influence inflation, interest rates, and overall financial stability.

Since the 2008 financial crisis, the Federal Reserve has significantly expanded its balance sheet through QE, actively purchasing financial assets—including U.S. Treasury securities and mortgage-backed securities from banks and financial institutions. These purchases increase the Fed's assets while injecting newly created money into the financial system to maintain liquidity and stabilize markets.

In 1971, the Federal Reserve's balance sheet was approximately $100 billion. By January 2025, it had expanded to around $6.8 trillion, marking a staggering increase of about 6,700%.

While a growing Federal Reserve balance sheet can help address short-term fiscal challenges, it carries significant long-term risks, including higher inflation, market distortions, wealth erosion, and increased dependence on unsustainable debt. If left unchecked, these issues could jeopardize economic stability and undermine the financial security of future generations. Addressing these concerns will require fiscal discipline, a more balanced monetary policy, and a long-term strategy to reduce debt accumulation and mitigate financial risks.

U.S. National Debt Historical Information



Source: https://fiscaldata.treasury.gov/americas-finance-guide/national-debt/

Since 1971, the U.S. national debt has skyrocketed from approximately $398 billion to over $36 trillion in early 2025, marking an increase of more than 8,900%**.** This surge in debt has far outpaced economic growth, leading to a significant rise in the debt-to-GDP ratio**.** In 1971, the debt-to-GDP ratio was around 35%**,** meaning national debt was just over a third of the country's economic output. However, by 2024, this ratio has ballooned to nearly 120%**,** indicating that the U.S. now owes more than its entire annual economic production.

This dramatic shift reflects decades of deficit spending, economic crises, and monetary policy changes, including the abandonment of the gold standard, financial bailouts, and pandemic-related stimulus measures. The growing debt burden raises concerns about long-term fiscal sustainability, interest payment obligations, and potential impacts on inflation and economic stability.