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WHITE PAPER

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Stablecoins: Revolutionizing Global Finance?

Following the recent focus on two major regulatory frameworks—the Guiding and Establishing National Innovation for U.S. Stablecoins Act (known as the GENIUS Act) in the United States, and Regulation (EU) 2023/1114 of the European Parliament and of the Council of May 31, 2023, on markets in crypto-assets in the European Union—this *White Paper* delineates the new regulatory landscape for stablecoins in the United States and in the European Union. In addition, it includes a comparative outlook with the United Kingdom, Hong Kong, and the United Arab Emirates, while also assessing the potential impact of such regulation on stablecoins, legal challenges, and market opportunities.

INTRODUCTION

Often described as the new backbone of global finance by industry advocates, stablecoins seem poised to assume a prominent role in online currency exchange across the globe. In 2024, the total global stablecoin transfer volume reached an amount of $27.6 trillion in total, surpassing the combined transaction volumes of Visa and Mastercard.1

Latest data shows that, as of June 2025, the stablecoin total market capitalization reached a new all-time high of $251 billion, marking the 21st consecutive month of growth2 as far as stablecoin market capitalization is concerned.

Stablecoins can be defined as a form of digital currency on a blockchain network that are pegged to a reference asset, typically a fiat currency such as the U.S. dollar, and thereby designed to maintain a "stable" value.

MAJOR CLASSIFICATIONS

Stablecoins can be grouped into five major categories:

Fiat-Backed Stablecoins

Fiat-backed stablecoins are backed by reserves of fiat currency (e.g. the U.S. dollar or euro) and a pool of highly liquid assets held in reserve by a central entity, ensuring that the stablecoin maintains a 1:1 peg with the reference asset, i.e., an official currency like the U.S. dollar or euro. The two largest fiat-backed stablecoins by market capitalization are the USDC and USDT.

A particular sub-category of fiat-backed stablecoins are "e-money tokens," i.e., commercial bank money in the form of electronic money that is issued by a regulated entity fully backed by a reserve pool subject to regulatory requirements, and which grants the holder a statutory claim for redemption at par.

Crypto-Backed Stablecoins

Crypto-backed stablecoins are backed by a reserve of other cryptocurrencies. Smart contracts are used to maintain the stability of the stablecoin by adjusting the supply of the collateralized cryptocurrency based on demand. Examples include BitUSD and WBTC.

Algorithmic Stablecoins

Algorithmic stablecoins do not rely on collateral backing and, instead, use mechanisms such as algorithmic buy and sell orders to stabilize the price. This approach is often referred to as seigniorage-style stabilization, a concept borrowed from traditional monetary policy, where a central authority adjusts the money supply to maintain value. Examples include Pax Dollar (USDP) and DAI.

Commodity-Backed Stablecoins

Commodity-backed stablecoins are supported by reserves of physical commodities, such as gold, silver, oil, or other physical assets. Each stablecoin issued corresponds to a specific amount of the commodity, ensuring that the stablecoin's value is pegged to the real-world market price of the underlying asset. Examples include PAX Gold (PAXG) and Tether Gold (XAUT).

Basket-Pegged Stablecoins

These stablecoins derive their value from a basket of assets rather than a single reserve currency or commodity. A basket-pegged approach can include a combination of fiat currencies, cryptocurrencies, or commodities. Librae is an example.

WHY ARE STABLECOINS POPULAR?

In addition to being attractive to governments because stablecoin issuers are large-volume investors of government bonds, stablecoins deliver multiple valuable advantages to users, including the following.

Stability

As its name suggests, stablecoins are designed to maintain a stable value, providing users with a reliable method for money storage and day-to-day transaction purposes, without the volatility risk traditionally associated with cryptocurrencies.

Fast, Low-Cost Transactions

Given that stablecoins are native blockchain-based instruments like cryptocurrencies, stablecoin transactions can be processed quickly, often within minutes, as compared to traditional banking systems that may take several days to settle, especially for international transactions. These attributes make stablecoins a valuable replacement option for traditional remittance platforms. Transaction fees for stablecoins are also generally lower than those for credit cards and other traditional payment methods.

24/7 Global Accessibility

Requiring nothing more than a crypto wallet and an internet connection, users can access stablecoins at all times throughout the day without requiring assistance from banks and alternative financial institutions. This also creates new possibilities allowing for payments on financial instruments outside of banking hours. For example, investors could redeem a money market fund investment on a weekend.

Atomic Swaps

With stablecoins running on blockchains, they also enable immediate payment for delivery against other digital assets (including financial instruments) that are on the blockchain using atomic swaps and smart contracts.

Global Financial Inclusion

For users in developing economies or underbanked regions, the use of stablecoins may enhance financial inclusion and boost overseas payments in general and remittances in particular.

Transparency

Blockchain technology ensures that all stablecoin transactions are transparent. Every transaction recorded on a public ledger is traceable and auditable.

WHAT ARE THE RISKS ASSOCIATED WITH STABLECOINS?

Notwithstanding their popularity, stablecoins also pose the following risks.

Counterparty Risks

For stablecoins to remain stable, the issuer of a stablecoin must make an enforceable commitment to buy back the stablecoin at the current value of the asset to which it is pegged. It must also commit to hold sufficient assets as collateral backing the stablecoins in circulation that can be liquidated quickly, so that the stablecoins can be redeemed at any time at the value of the reference assets. The risks stablecoins could pose to consumers or to markets if they are not adequately collateralized is a major concern to regulators.

Technological Risks

Centralized stablecoins face risks associated with the storage or custody of reserves and issuance controls. If the infrastructure of stablecoin issuers or their custodians is compromised, access to reserve funds may be breached and/or unauthorized tokens could be minted. These breaches can undermine public confidence in the stablecoin's backing and potentially trigger market-wide instability.

Regulatory Risk

Despite the increasing adoption of legislation addressing the creation, distribution, and trading of stablecoins around the world, the regulatory environment for stablecoins is still evolving, creating a broad range of different types of stablecoins that may not be easily comparable. Not all governments and financial authorities agree on the best form of crypto asset to preserve global financial stability. Along with fast-growing stablecoins initiatives from the private sector, some central banks are also in the ongoing process of developing policies for stablecoins or other digital currencies.

De-Pegging Risk

Deviation from the pegged value is one of the most significant risks for stablecoins, in particular for algorithmic stablecoins. The de-pegging risk can be triggered in rare situations where stablecoins lose their value relationship due to market disasters or operational breakdowns. Recent history provides examples of how stablecoin vulnerabilities can snowball through the crypto ecosystem. For instance, the collapse of TerraUSD (UST) in May 2022 demonstrated how algorithmic stablecoins can lose their peg during market stress. UST lost its peg due to a sharp drop in demand and external market conditions. The system could not restore the peg, leading to a collapse of both UST and its related cryptocurrency LUNA.

Money-Laundering Risk

This risk arises, in particular, as a consequence of peer-to-peer transactions whereby neither of the parties is subject to anti-money laundering regulations (peer-to-peer transactions involving private individuals being an example).

THE GUIDING AND ESTABLISHING NATIONAL INNOVATION FOR U.S. STABLECOINS ACT ("GENIUS ACT")

Context Surrounding Adoption

In line with President Donald Trump's goal to make the country "the crypto capital of the world," the United States has witnessed intense recent regulatory and economic activity as far as stablecoins are concerned.

On April 4, 2025, the Division of Corporation Finance ("Division") of the U.S. Securities and Exchange Commission ("SEC") issued a statement on stablecoins to clarify that the Division did not consider certain "covered stablecoins" to be securities under the federal securities laws, effectively clarifying that "covered stablecoins" (defined by the SEC as "crypto assets designed and marketed for use as a means of making payments, transmitting money, or storing value") were not subject to securities regulations.

On May 27, 2025, a stablecoin market leader filed for an initial public offering ("IPO") on the New York Stock Exchange ("NYSE"). The expected IPO price was between $24 and $26 per share, and the IPO, which took place on June 5, 2025, was subsequently priced at $31 per share. The IPO vastly outperformed expectations as share prices immediately soared by 168% and have remained significantly higher than the offering price since. The closing price on the NYSE on July 21, 2025, was $210.10 per share.

As of June 2025, it was also estimated that the current supply of stablecoins in the United States was equal to just under 10% of U.S. currency in circulation.3

The sponsors of the GENIUS Act also estimate that by 2030, stablecoin issuers may collectively become the largest holders of U.S. Treasury securities, surpassing foreign central banks.

U.S. Congressional Action

On June 17, 2025, the U.S. Senate passed the GENIUS Act with a bipartisan vote of 68–30, signaling broad political support for stablecoin legislation. This passage followed a successful cloture vote of 66–32 on May 19, 2025.

By a 308–122 vote in the U.S. House of Representatives (the "House"), the GENIUS Act cleared both chambers of Congress and was signed into law by President Trump on July 18, 2025. At around the same time, the House also passed the Digital Asset Market Clarity Act ("CLARITY Act") via a bipartisan vote of 294–134. The CLARITY Act would create a regulatory framework for digital assets, including both digital securities and digital commodities, by clarifying the roles of the SEC and Commodity Futures Trading Commission with respect to such products based not only on how they are originally sold but also on how they function. The Act now moves to the Senate, where significant amendments are possible given that commentators expect high scrutiny.

Key Provisions

Permitted Payment Stablecoin Issuers ("PPSIs"). The GENIUS Act restricts stablecoin issuances to PPSIs, which include subsidiaries of federally insured depository institutions, federally licensed nonbank entities holding a specialized license from the Office of the Comptroller of the Currency, and state-qualified issuers—entities established under state law and approved to issue payment stablecoins by a state payment stablecoin regulator.

A Dual Regulatory Structure. The GENIUS Act introduces a dual-track framework that permits certain smaller issuers—those with less than $10 billion in consolidated outstanding stablecoin issuance—to opt into a state-level regulatory regime, provided that regime is certified as "substantially similar" to the federal framework. Once a state-qualified issuer exceeds the $10 billion cap, it must either transition to the federal regime within 360 days or obtain a waiver from federal regulators to remain under state supervision. This waiver may be granted based on factors such as the issuer's capitalization, regulatory history, and the strength of the state framework.

Reserve and Transparency Requirements. The GENIUS Act provides for stablecoins to be backed by a 1:1 reserve by U.S. dollars, U.S. short-term treasuries, or similarly liquid, high-quality assets. A PPSI must also disclose, on a monthly basis, the total number of its outstanding payment stablecoins and the amount and composition of its reserves, including the average tenor and geographic location of custody of each category of reserve instruments. Each PPSI is also required, on a monthly basis, to have its previous month-end report examined by a registered public accounting firm. Concurrently, the chief executive officer and chief financial officer of a PPSI will be required, on a monthly basis, to certify the accuracy of its monthly report. PPSIs will also have to demonstrate compliance with anti-money laundering and sanctions requirements.

The GENIUS Act also provides that claims of holders of stablecoin against the reserves backing the stablecoin have priority over all other claims in the event of an insolvency of the stablecoin issuer.

Limitation on Activities. The GENIUS Act provides that PPSIs may only: (i) issue payment stablecoins; (ii) redeem payment stablecoins; (iii) manage related reserves (including purchasing and holding reserve assets); (iv) provide custodial or safekeeping services for payment stablecoins, required reserves, or private keys of payment stablecoins; and (v) undertake other functions that directly support the work of issuing and redeeming payment stablecoins. PPSIs also may not pledge or rehypothecate the required reserves except for very limited purposes.

REGULATION (EU) 2023/1114 OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL OF 31 MAY 2023 ON MARKETS IN CRYPTO-ASSETS, AND AMENDING REGULATIONS (EU) NO 1093/2010 AND (EU) NO 1095/2010 AND DIRECTIVES 2013/36/EU AND (EU) 2019/1937 ("MiCAR")

Context Surrounding Adoption

Noting that the European Union was lagging behind its North American counterpart with regard to stablecoin usage, MiCAR was initiated in 2023 to establish one of the first overall frameworks for markets in crypto assets, including stablecoins. The Regulation aims at creating a harmonized and robust regulatory framework for crypto assets across the European Union, thereby ending years of fragmented national regimes.

EU Legislative Action

MiCAR was adopted by the European Parliament and the Council in 2023, and most of its provisions entered into force on December 30, 2024.

The provisions relating to the offering and admission to trading of stablecoins were specifically prioritized and entered into force on June 30, 2024.

Regulations are directly and uniformly applicable to all EU Member States as soon as they enter into force, without needing to be transposed into national law.

Various EU Regulatory Technical Standards ("RTS") have been published since the adoption of MiCAR. These RTS further clarify key novelties in MiCAR such as the white paper and sustainability disclosures (*see below*) and provide a very detailed framework for stablecoins and, in particular, the composition and management of the reserve assets.

Key Provisions

Electronic-Money Tokens and Asset-Referenced Tokens. MiCAR divides stablecoins into two main categories: electronic-money tokens or e-money tokens ("EMTs") and asset-referenced tokens ("ARTs"). EMTs are defined by MiCAR as "a type of crypto-asset that purports to maintain a stable value by referencing the value of one official currency," and they are regarded as electronic money. ARTs are defined by MiCAR as "a type of crypto-asset that is not an electronic money token and that purports to maintain a stable value by referencing another value or right or a combination thereof, including one or more official currencies." EMTs and ARTs classified by the European Banking Authority ("EBA") as "significant," based on quantitative and qualitative criteria, and they are subject to additional requirements with regard to reserve requirements and liquidity stress-testing than the ones set out below.

New Licensing Requirements. Issuers wishing to issue ARTs have to obtain a specific license. To become authorized, an ART issuer must be have its registered office in the European Union and file an application with the competent supervisory authority of its home Member State. The application must include, among others, information on the issuer's management, its shareholders, and beneficial owners as well as on its program of operations and its business model. The applicant must also submit its policies and procedures including with respect to risk management and the safeguarding of data. The application must include a legal opinion stating that the ARTs do not qualify as crypto assets excluded from the scope of MiCAR or as EMTs, which are separately regulated in MiCAR.

Issuers wishing to issue EMTs, on the other hand, will have to be licensed as a fully regulated credit institution or an electronic money institution, which are the only two actors allowed to issue EMTs under MiCAR. That entails minimum regulatory capital requirements (of at least 2% of the outstanding volume of the EMTs) in order to provide additional protection to EMT holders.

White Paper. Under MiCAR, all issuances of EMTs and ARTs require a white paper. All white papers must include information about the issuer, the crypto asset, underlying risks, and a summary. White papers must also include information about adverse effects on the environment.

Reserve Requirements. Both issuers of EMTs and ARTs are required to maintain a reserve of assets to back outstanding EMTs and ARTs. With regard to ARTs, The reserve must be composed of assets that the issuer receives when issuing the ART (such as deposits with credit institutions or commodities) and certain highly liquid financial instruments that have minimal market, credit, and concentration risk.

In contrast to typical fiat-backed stablecoins, MiCAR upgrades EMTs and clarifies that an EMT is not a stablecoin but qualifies as a euro in the form of "electronic money" under the E-Money Directive. MiCAR also stipulates a statutory claim of the EMT holder against the issuer for redemption of the EMT at par value.

Given that an EMT is a euro in the form of electronic money, it is subject to very strict and enhanced reserve requirements as to insolvency remoteness, minimum cash, and diversification requirements, as well as counterparty risk restrictions with regard to reserve banks and custodians. According to these rules, at least 30% of EMT funds (and in case of significant EMTs, at least 60% of EMT funds) must be deposited in separate accounts with European credit institutions, with these accounts being protected in case of an insolvency of the EMT issuer.

The rest of the funds received must be invested in secure, low-risk assets that qualify as highly liquid financial instruments with minimal market, credit, and concentration risks (similar to the assets forming part of the assets Capital Requirements Regulation credit institutions must hold as part of their liquidity cover ratio requirements), and which are denominated in the same official currency as the EMT and can be quickly liquidated in order to redeem EMTs. MiCAR also provides that the reserve assets do not form part of the insolvency estate of the EMT issuer in case of an insolvency of the EMT issuer and requires the EMT issuer to set up a redemption and recovery plan in order to ensure orderly redemption of the EMT in a stress scenario.

Transparency and Audits. Like the GENIUS Act, MiCAR requires EMT and ART issuers to publicly disclose details about their reserves on a monthly basis. Issuers also need to undergo regular independent audits.

Anti-Money Laundering. EMT issuers are subject to compliance with anti-money laundering obligations.

Payment Services. Given that EMTs qualify as e-money subject to the Payment Services Directive 2 ("PSD2"), the EBA recently clarified the interplay between MiCAR and PSD2 in a "no action letter" to cover the interim period until that interplay is addressed in the revision of the PSD2, which is currently being consulted. EBA advised Member State competent authorities to regard the transfer, custody, and administration of EMTs in exchange for goods and services as a payment service under PSD2, requiring an authorization under PSD2 through streamlined procedures that make maximum use of information that legal entities have already provided during their crypto asset service provider authorization under MiCAR. Member State competent authorities have been advised to grant applicants a transition period until March 1, 2026, before such authorization becomes compulsory. It should be noted that the authorization requirement is limited to EMTs as payment for goods and services with the intention to carve out transactions where EMTs are exchanged for crypto currencies (which are regulated as MiCAR services). It remains to be seen if the European regulator will perpetuate the (unfortunate) consequence that the transfer of EMTs can be subject to two different regulatory regimes under the revised PSD regime.

A COMPARATIVE STUDY OF STABLECOIN REGULATION

The United Kingdom

In May 2025, the Financial Conduct Authority ("FCA") published its Consultation Paper 25/14 "Stablecoin Issuance and Cryptoasset Custody." While noting that "the Treasury does not intend to bring stablecoins into the United Kingdom payments regulation at this time," the FCA acknowledges that "stablecoins have the potential to play a significant role in both wholesale and retail payments and [the FCA] stands ready to respond to this as part of wider payments reforms as use-cases and user adoption develops over time." Under the proposed regulatory framework, as described by the FCA, any stablecoin issued in the United Kingdom would be 100% backed by high-quality, liquid, real-world assets.

Hong Kong

On May 21, 2025, Hong Kong passed the Stablecoins Ordinance ("Ordinance"). The Ordinance, taking effect on August 1, 2025, regulates issuers of fiat-referenced stablecoins. The Ordinance applies to stablecoins that keep their value by referencing the Hong Kong dollar and currencies of other major global economies. Anyone issuing such stablecoins in Hong Kong, or offering Hong Kong dollar stablecoins to Hong Kong investors, must obtain a license from the Hong Kong Monetary Authority. To obtain a license, issuers of stablecoins must meet several requirements. These include capital adequacy, segregation of client funds, and anti-money laundering compliance. In addition, licensed issuers must follow the "currency matching" rule, meaning the reserve assets backing each stablecoin must be held in the same currency as the stablecoin itself (with the exception of the Hong Kong dollar stablecoins as, since 1983, the Hong Kong dollar has been officially pegged to the U.S. dollar within a narrow range).

The United Arab Emirates

Effective from August 21, 2024, the Payment Token Services Regulations ("PTSR") aims at regulating "payment tokens" (the local appellation for stablecoins). The PTSR imposes licensing and registration requirements for anyone wishing to provide "payment token services" such as payment token issuing, payment token custody and transfer, and payment token conversion in the United Arab Emirates. Only entities incorporated in the country may apply for a license under the PTSR. The PTSR provides for an explicit ban on algorithmic stablecoins.

While the PTSR regulates the provision of stablecoin services, it does not, however, appear to regulate reserve requirements, a recurrent theme in stablecoin regulation. It is to be noted that in the Emirate of Dubai specifically, stablecoins pegged to a commodity are governed by the general regulatory regime of the Virtual Asset Regulatory Authority. On July 2, 2025, the UAE Securities and Commodities Authority also announced the adoption of the "Security Tokens and Commodity Tokens Contracts" regulation, which ensures that security and commodity tokens (which are not stablecoins but digital representations of assets, such as companies, shares, and bonds, with the same investor protections and regulatory oversight as traditional securities) are accommodated within the existing virtual asset regulatory framework. New stablecoin regulation may follow.

CONCLUSION: "CRYPTOMERCANTILISM VS. MONETARY SOVEREIGNTY?"

The above is the title of a study requested by the European Parliament's Committee on Economic and Monetary Affairs and published in June 2025.

The study notes that the current U.S. administration promotes dollar-backed stablecoins, privately issued and supported by U.S. debt, to reinforce U.S. dollar dominance worldwide and to create additional demand for U.S. Treasury securities (a strategy dubbed as "cryptomercantilism" by the authors of the study). MiCAR, on the other hand, aims at reinforcing the European Union's monetary sovereignty.

This dichotomy is also further reflected in the approaches to regulation adopted by MiCAR and the GENIUS Act. MiCAR appears to be driven by the creation of a comprehensive regulatory framework for a wide range of crypto assets, including stablecoins, prioritizing consumer protection, market stability, and centralized oversight. The approach chosen by the GENIUS Act by itself, however, is exclusively focused on stablecoins, aiming to regulate their issuance and how they integrate into the U.S. financial system. The CLARITY Act, which is still pending in the U.S. Congress, is intended to more broadly address crypto-asset regulation in the United States.

As MiCAR's entry into force has already reshaped the European digital finance landscape by providing for a blockchain-based (commercial bank) euro in the form of EMTs, the GENIUS Act's passage marks a turning point for digital dollar infrastructure. With the regulatory landscape taking shape across the globe, it will now be interesting to see in which areas and sectors stablecoins will start to gain traction over and above the crypto world as a means of payment—cross-border payments, corporate treasury, e-commerce platforms, and retail financial products seem to be destined to adopt a fast and competitively priced stablecoin.

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ENDNOTES

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