Stablecoins: regulatory responses to their promise of stability[1]

Executive summary

In contrast to other cryptoassets, stablecoins come with a promise of stability. Their issuers promise that they can maintain parity relative to a referenced asset and be redeemed upon request. Among various types, stablecoins that are pegged to a single currency, such as the US dollar, and backed by traditional financial assets have the potential to be widely used as a means of payment. Due to this potential, they are increasingly entering mainstream finance, and a number of jurisdictions have developed regulatory approaches for issuers of stablecoins pegged to a single fiat currency.

While stablecoins might bring a range of benefits, they also introduce significant risks. Proponents argue that they have the potential to increase financial inclusion, reduce costs and enhance the efficiency of cross-border payments. Yet many benefits remain theoretical. Instances of stablecoins de-pegging and, in some cases, collapsing have occurred, undermining their promised stability. Moreover, their role in illicit activities and potential to threaten financial stability, especially if their ties to traditional finance deepen, raise concerns.

Many regulatory approaches have similar key requirements for stablecoin issuers. Most follow two types of authorisation regimes that allow stablecoins to be issued by: (i) banks and certain non-bank financial institutions; and/or (ii) a new type of financial entity holding a crypto-specific licence. Issuers are widely required to maintain reserves in segregated accounts equal to the value of their stablecoins in circulation. Regulations generally emphasise prudential, governance, risk management, anti-money laundering and countering the financing of terrorism (AML/CFT) and disclosure requirements, and providing clear information to stablecoin holders.

However, there are relevant differences in regulatory regimes that could lead to a lack of consistency and coordination in the oversight of stablecoins across jurisdictions. The terminology used to define in-scope stablecoins varies significantly across regulations. There are also notable differences in the specifics of the regulatory treatment of reserves, and in relation to segregation and custody. Despite common expectations about redemption policies, the nature of stablecoin holders' claims varies across regimes, as well as the treatment of redemption fees.

As the adoption of stablecoins increases, preventing regulatory fragmentation and achieving a harmonious coexistence of different types of digital assets will become more important. Authorities face the challenge of establishing a regulatory framework that encourages innovation while mitigating risks. Therefore, as stablecoin markets develop, international cooperation will be critical to shape an effective and consistent regulatory environment for stablecoins. In addition, the interoperability of stablecoins with other digital assets, such as central bank digital currencies (CBDCs) and tokenised deposits, will help to facilitate an integrated global financial system.

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