September 2025

Cryptoassets Regulation Working Group Position Paper

Thinking Europe's Response to the Rise of Dollar Stablecoins

In many countries around the world, a growing number of investors and corporates are acquiring cryptoassets, and many credit institutions already offer products and services to meet this demand. Among these cryptoassets, stablecoins, designed to be pegged to a reference asset, e.g. fiat currencies, occupy a unique position: at least 98% of them are USD-denominated, and the support they receive from the US authorities represents a challenge for European sovereignty.

Thanks to their extremely low usage costs and broad accessibility, these US-backed stablecoins are increasingly being adopted as a new means of payment. They are already playing a significant role in financing the US public debt. The European Central Bank (ECB) has flagged key risks for European banks, including potential deposit outflows, financial and data security vulnerabilities, and threats to the autonomy of monetary policy.

We therefore recommend a thorough assessment of the rapid expansion of stablecoins—particularly their implications for financial stability and the competitiveness of European financial institutions.

Beyond this analysis, Europe must address this trend with a multi-pronged strategy. To preserve monetary sovereignty, reduce strategic dependencies, and foster innovation, complementary actions should be prioritized:

- Developing a wholesale central bank digital currency (wCBDC), which is essential to enable safe and efficient settlement in tokenised financial markets.

- Analyse the development of euro-denominated stablecoins and promote their issuance by EU-based credit institutions and banking groups under robust regulatory frameworks to ensure safety and trust.

- Supporting the issuance of tokenised deposits by credit institutions as a reliable form of commercial bank money.

- Strengthen European payment solutions (e.g., EPI/Wero, Bizum, Blik) and promote their interoperability to ensure seamless cross-border functionality within the EU.

- Apply consistent compliance and risk management standards to non-bank issuers, aligning them with banking regulations—particularly regarding Know Your Customer (KYC), Anti-Money Laundering (AML), and Counter-Terrorist Financing (CTF) obligations.

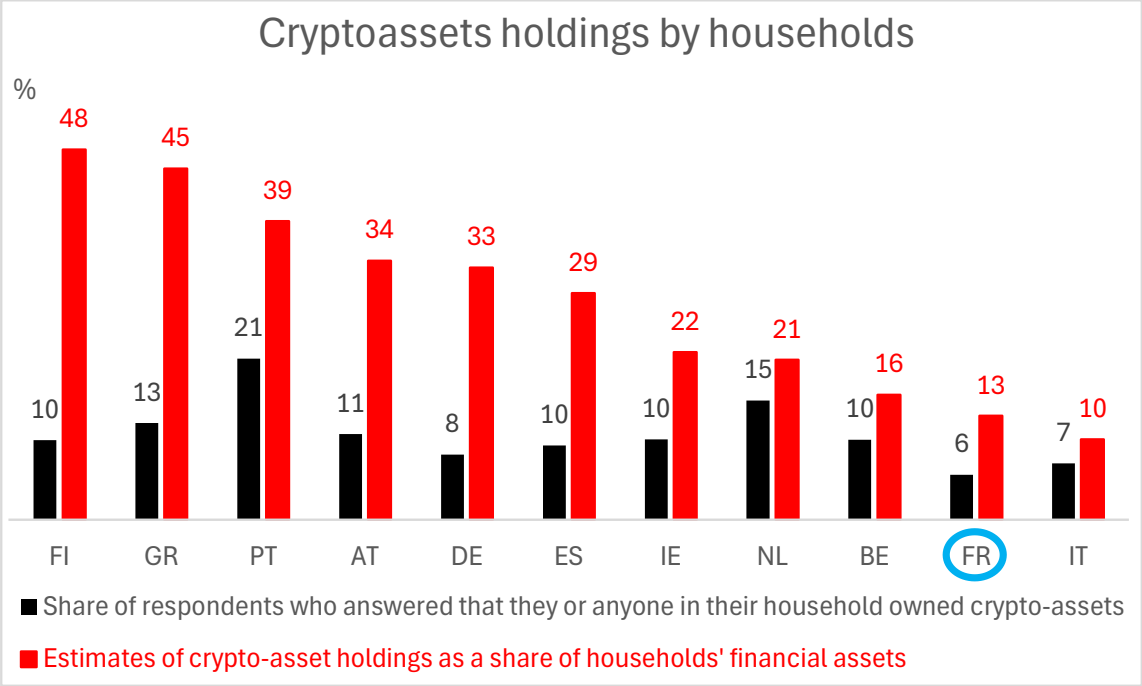
- Safeguard European liquidity by ensuring that proceeds from stablecoins issued within the EU are not used to transfer liquidity/operational deposits outside the region.

This approach will help ensure that Europe remains competitive and autonomous in the rapidly evolving landscape of digital payments and financial infrastructure, while also safeguarding financial stability.

1. The demand for stablecoins has grown significantly in recent years

In recent years, the appetite for cryptoassets among both retail and institutional investors has grown significantly. In France, among investors who invested for the first time since the COVID pandemic, cryptoassets are the most widely held financial product, according to an AMF report[1]: 54% of new investors since Covid reported holding cryptoassets, twice as many as they held individual shares in listed companies (24%)[2]. Many other European countries have even higher rates of cryptoassets ownership by individuals, according to the ECB[3], with cryptoassets representing a very significant share of household financial wealth in some countries (Chart 1).

Chart 1



Source: ECB. 2024 data.

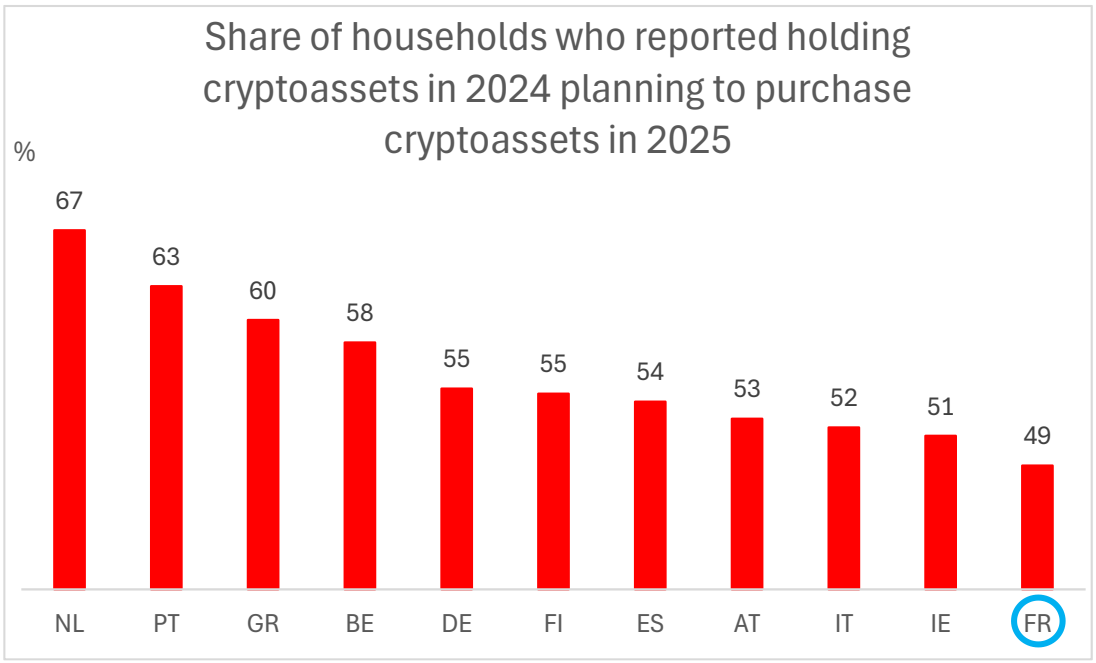
Furthermore, retail investors who already hold cryptoassets overwhelmingly indicate an intention to continue such investments, according to ECB analysis (Chart 2).

[1] AMF News Release, 9 November 2023: https://www.amf-france.org/en/news-publications/news-releases/amf-news-releases/oecd-study-amf-profiles-new-french-retail-investors

[2] OECD Report: https://www.oecd.org/content/dam/oecd/fr/publications/reports/2023/10/new-retail-investors-in-france_9aecd005/251c1f38-fr.pdf

[3] ECB *Financial Stability Review*, May 2025: https://www.ecb.europa.eu/press/financial-stability-publications/fsr/html/ecb.fsr202505~0cde5244f6.en.html

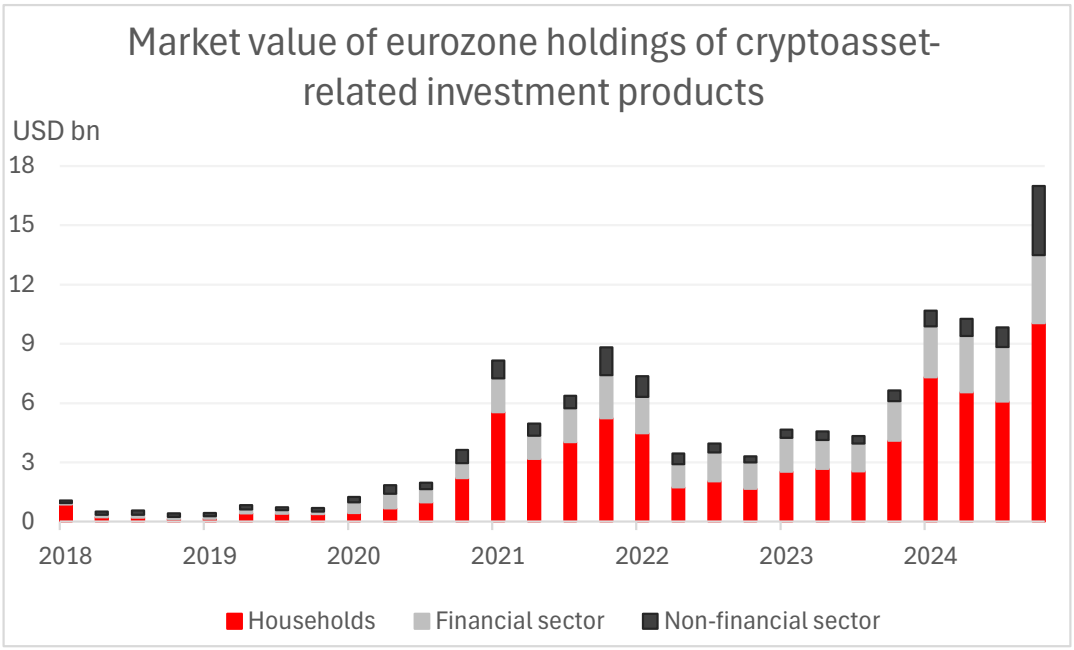
Chart 2



Source: ECB.

Beyond just households, institutional investors, whether from the financial sector or companies, have also shown increasing interest in these assets in recent years, ECB data suggest (Chart 3).

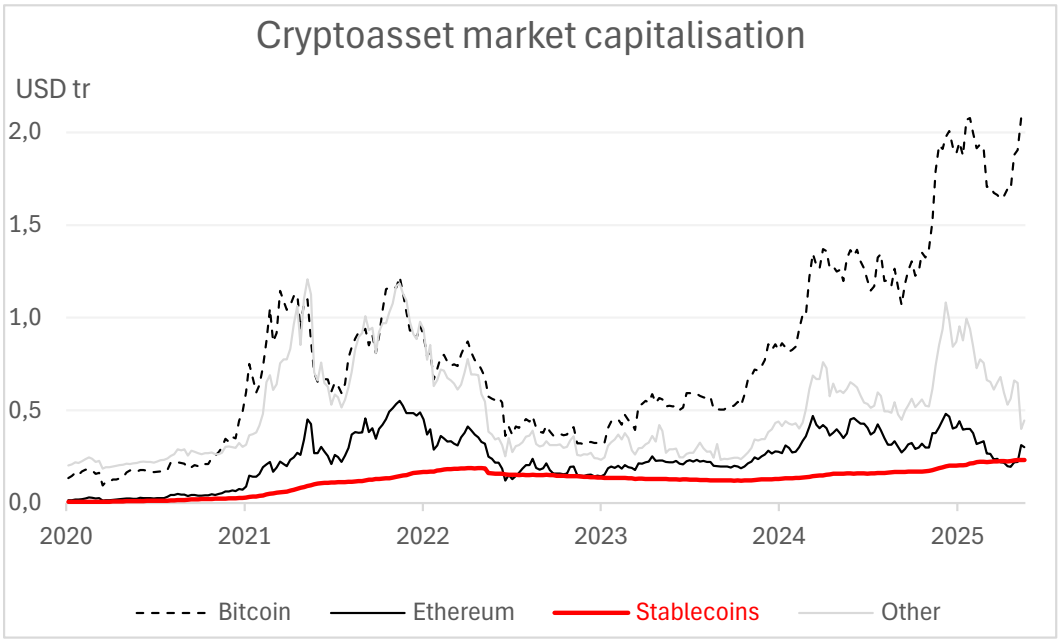
Chart 3



Source: ECB.

This interest is explained mainly by the upward trend in the market capitalization of cryptoassets like Bitcoin (Chart 4).

Chart 4



Source: ECB.

However, it is important to note that in Europe, most of these exposures - whether from households or institutions - are currently linked to investment in cryptoassets, rather than the adoption of blockchain-based payment solutions. In crypto-trading, stablecoins serve as cash leg (currently, the only cash leg pegged to a fiat currency available on public blockchains are stablecoins).

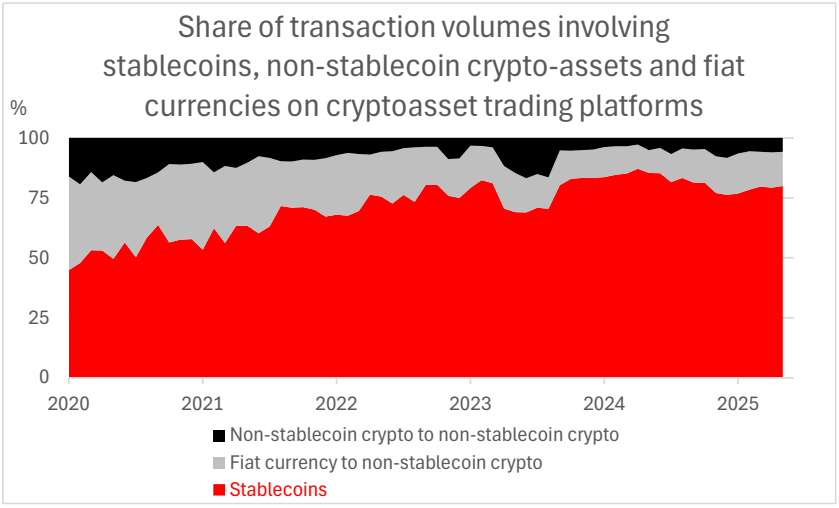
Their use in broader financial or payment services remains, at this stage, limited. The ECB notes[4] that **stablecoins are now used in almost 80% of transactions on cryptoasset exchange platforms**, compared to less than 50% five years earlier (Chart 5).

These evolutions have undoubtedly accelerated the debate on the potential contribution of digital innovations to the profitability of credit institutions and the financing of the economy, particularly on the role that stablecoins could play in these two areas.

Importantly, **American authorities have positioned themselves strongly in favor of stablecoins**: they have banned in January 2025[5] the issuance and the use of retail CBDCs on its territory and they intend to put in place a new framework[6] to regulate and promote the development of stablecoins. On wholesale CBDCs, the US position is less clear, as the Fed continues to participate in CBDC projects.

[4] ECB *Financial Stability Review*, May 2025: https://www.ecb.europa.eu/pub/pdf/fsr/ecb.fsr202505~0cde5244f6.en.pdf
[5] The White House, *Strengthening American Leadership in Digital Financial Technology*, January 23, 2025: https://www.whitehouse.gov/presidential-actions/2025/01/strengthening-american-leadership-in-digital-financial-technology/
[6] Stablecoin Legislation: https://www.congress.gov/crs-product/IN12522

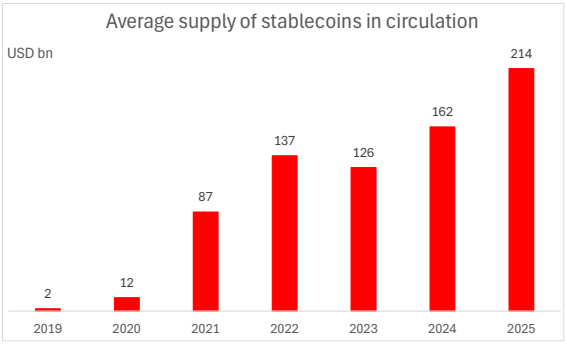
Chart 5



Source: ECB.

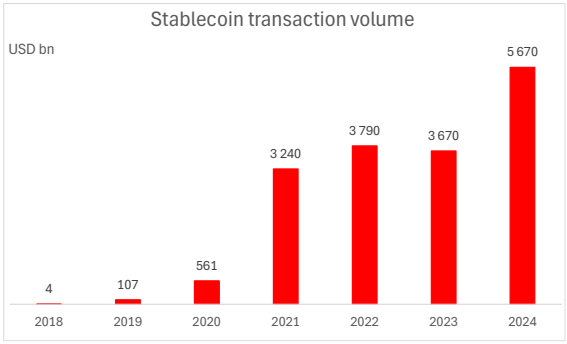
This expansion of stablecoins has become evident both in terms of supply (Chart 6) and transactions (Chart 7).

Chart 6



Source: visaonchainanalytics.com

Chart 7



Source: visaonchainanalytics.com

It is therefore imperative to better understand the potential role of stablecoins, before considering any potential policy recommendations.

2. Potential use cases of stablecoins

There are many categories of stablecoins in the broad sense, which may involve different risks :

- Cryptoassets whose value is pegged to another asset, such as fiat currency, financial instrument, commodities, etc.;
- Stablecoins issued by a legal entity, either (i) collateralized by assets of the same value managed by a third-party custodian or (ii) issued by credit institutions without being backed by segregated collateral;
- Decentralized stablecoins, issued by a decentralized finance protocol or a DAO (Decentralized Autonomous Organization);
- Algorithmic stablecoins: the stability of the price of the stablecoin is ensured not by reserves, but by an algorithm and smart contracts that manage the supply of tokens in circulation.

Behind this diversity, stablecoins are always managed on an agnostic DLT infrastructure (blockchain), which clearly facilitates the development of services. Indeed, the use of public blockchains may **lower cost in cross border transactions and allow immediate recording, immutability and programmability** of transactions 24/7[7]. The EBA[8] readily admitted that the automaticity of action enabled by DLT can allow efficiency gain for the financial sector, for example in the fight against money laundering and the financing of terrorism (AML/CFT). However, stablecoins are also increasingly being used in illicit activities. Despite the transparency of public blockchains, there remain significant opportunities for anonymity—such as through unregulated wallets and obfuscation techniques—that make it possible to conceal transactions and identities.

Currently, the main use cases for stablecoins include:

- Crypto trading, which remains the dominant application.
- Cross-border fund transfers, particularly remittances, offering a lower-cost alternative to traditional channels—where fees currently average around 7% of the transferred amount.
- Store of value in countries with weak currencies and high inflation, enabling users to convert local currency into more stable assets such as USD.
- Illicit activities, including the circumvention of capital controls or foreign currency holding limits, as well as payments on darknet marketplaces and other unregulated platforms.

Many fintechs—and an increasing number of traditional financial institutions—are actively exploring the use of stablecoins for a broader spectrum of applications. However, despite not possessing the full attributes of fiat currency—such as compliance with the principle of the singleness of money (see section below on challenges)—they could nonetheless enable the development of innovative financial applications such as[9]:

- Facilitate the inclusion[10] of unbanked people in the financial system;
- B2C payments, bypassing traditional payment systems (although this use remains very limited in the European market, where existing payment infrastructures are already highly efficient and cost-effective);
- Settle financial transactions;
- Be posted as collateral.

However, these cases must still be proven, especially at scale. In Europe, the use of stablecoins remains today primarily limited to transactions involving cryptocurrency trading. Their broader adoption is still emerging. Looking ahead, one of the most significant potential developments lies in their use for cross-border payments, where they may offer efficiency gains in terms of speed, cost, and settlement finality. Several payment service providers and fintechs are exploring this potential. However, even in this area, incumbent players such as Wise currently maintain a significant lead, offering competitive pricing, regulatory compliance, and user-friendly interfaces that remain challenging to replicate through blockchain-based solutions alone.

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[7] Paris Europlace Position Paper, *Asset tokenization*, April 2024: https://www.paris-europlace.com/global/gene/link.php?doc_id=21590&fg=1

[8] EBA, *Report on Tokenised Deposits*, December 2024: https://www.eba.europa.eu/sites/default/files/2024-12/4b294386-1235-463f-b9b5-08f255160435/Report%20on%20Tokenised%20deposits.pdf

[9] https://x.com/HadickM/status/1910314025847496795?t=Ao_Cxeg7Hp8C3LtIp1t6Ng&s=19

[10] Standard Chartered, Zodia Markets, *Stablecoins: The first killer App*, 2024: https://av.sc.com/corp-en/nr/content/docs/sc-stablecoins-the-first-killer-app.pdf

Reserve-backed stablecoins and sovereign financing

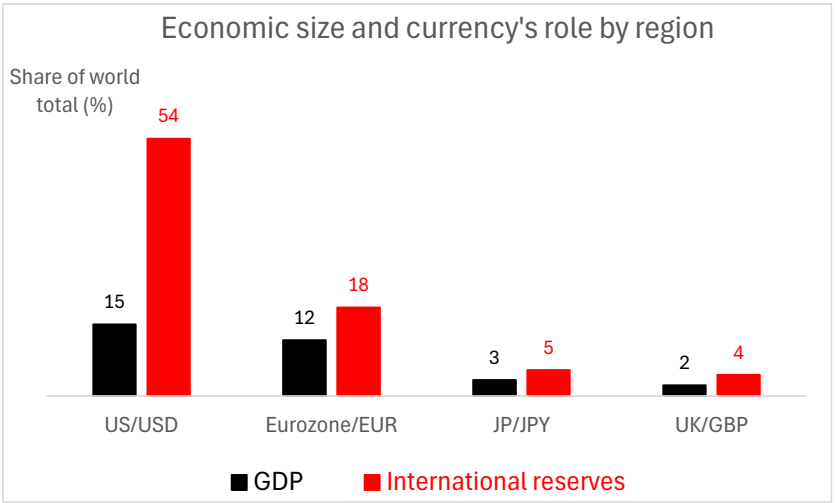
Another aspect is that the obligation imposed on its issuer to ensure the stability of the stablecoin by having high-quality liquid assets as collateral is a direct way of contributing to the **financing of some sovereign borrowers' needs**: stablecoin issuers, ranked at the end of 2024 as the 17th largest[11] foreign holders of US Treasuries, could, according to some estimates, be the very first[12] within five years.

Also, according to recent estimates[13], inflows into dollar-backed **stablecoins may lower US three-month Treasury yields**, while outflows tend to push them higher. As a result, countries with strong currencies – particularly the United States – are likely to benefit from growing adoption of stablecoins. In the European context, the macro-financial impact of stablecoin reserve allocations remains limited, due to the very modest size of euro-denominated stablecoins and the absence of large-scale institutional demand. As such, while the potential financing implications are noteworthy in theory, they are as yet not material in the euro area.

Importance of EUR-denominated stablecoins

A larger use of euro-denominated stablecoins could also support the **use of the euro in cross border payments on public blockchain**. However, this largely depends on the relative attractiveness of the euro compared to the US dollar in foreign markets -particularly in countries with weak currencies and high inflation. In 2024 according to IMF data, the euro represented 18% of total foreign exchange reserves, whereas the USD share hit 54%, reflecting a much higher gap between the eurozone and the US than what their respective economic weight may suggest (Chart 8).

Chart 8



Source: IMF. 2024 data.

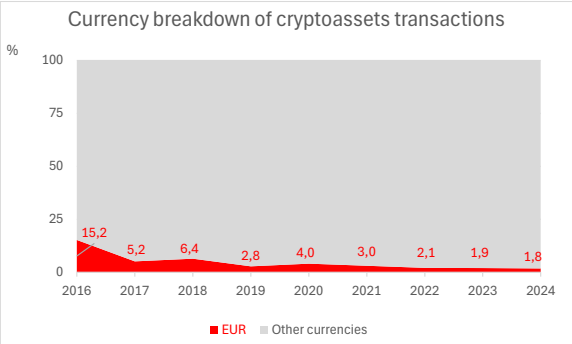
However, at least 98% of stablecoins are indexed to the USD (Charts 9 and 10).

[11] Bitwise, *Crypto Market Review Q1.25*: https://s3.us-east-1.amazonaws.com/static.bitwiseinvestments.com/Research/Bitwise-Crypto-Market-Review-Q1-2025.pdf

[12] Citi, *Digital Dollars*, April 2025: https://www.citigroup.com/rcs/citigpa/storage/public/GPS_Report_Blockchain_Digital_Dollar.pdf

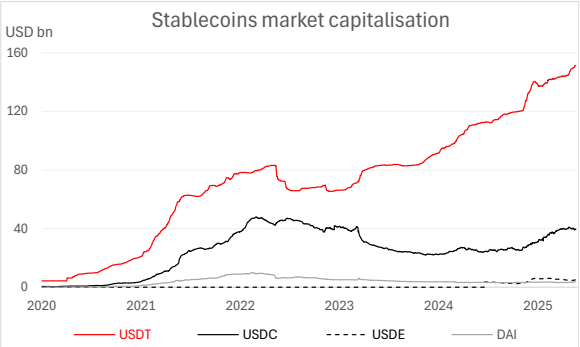
[13] BIS Working Papers, n°1270, *Stablecoins and safe asset prices*, May 2025: https://www.bis.org/publ/work1270.pdf

Chart 9



Source: theblock.co

Chart 10



Source: coinmetrics.io

3. Stablecoins: limitations in functioning as money and impacts on the financial industry

Stablecoins do not fulfill the three foundational criteria required to function as money—singleness, elasticity, and integrity—as also confirmed by recent analysis from the Bank for International Settlements (BIS)[14]:

- Singleness of money**:** asset-backed stablecoins resemble digital bearer instruments and fail to ensure monetary singleness. Each stablecoin represents a liability of a specific issuer, leading to fragmented claims. These claims are not settled on central bank balance sheets and not convertible at any time into central bank money, therefore their values can diverge, depending on issuer creditworthiness and risks in the reserve funds and redemption mechanisms. Such deviations from par value undermine the principle of universal acceptability, a core feature of money.
- Elasticity**:** stablecoins lack the capacity for elastic supply. Their issuance requires full pre-funding, preventing the creation of leverage and limiting responsiveness to liquidity needs. In contrast, banks—supported by central banks—can dynamically adjust their balance sheets. This elasticity is critical in payment systems and in sectors requiring immediate liquidity, such as manufacturing and its supply chains during economic stress. Additionally, in regions with low or declining interest rates, the business model of stablecoins—reliant on interest rate transformation—becomes less viable. This reduces the incentive for issuers to maintain or expand stablecoin supply, further constraining elasticity.
- Integrity of the monetary system**:** stablecoins pose challenges to financial integrity due to their bearer nature and cross-border mobility. Non-MiCA regulated stablecoins are susceptible to KYC and AML/CFT compliance gaps if their issuers don't apply equivalent KYC, sanctions and anti-crime measures. Since MiCA entered into application in July 2024, both EU stablecoin issuers and non-EU issuers targeting EU clients are subject to stringent AML/CFT requirements, similar to those applicable to financial institutions. In order to ensure that these obligations are systematically enforced, supervision of AML-CFT requirements on stablecoin issuers and cryptoassets service providers should be reinforced, as vulnerabilities may persist, especially in transactions involving self-hosted wallets or anonymizing tools such as mixers. Unlike traditional intermediaries, some

[14] The next-generation monetary and financial system, BIS Annual Economic Report, 24 June 2025, https://www.bis.org/publ/arpdf/ar2025e3.pdf

stablecoin issuers may lack visibility into their holders' identities, complicating enforcement of sanctions and anti-crime measures.

In contrast, traditional deposit-based systems and regulated e-money providers maintain stronger safeguards through customer-facing intermediaries, ensuring compliance and accountability. A rapid adoption of stablecoins would thus present challenges for the financial system, which should be taken into consideration to address them:

- Competition between banks and non-banks issuing institutions, potentially impacting liquidity conditions and bank intermediation.
- Risk of erosion of operational bank deposits, reducing the ability of banks to provide credit to the economy, deteriorating prudential ratios (e.g. the liquidity coverage ratio)[15]. In this respect, all jurisdictions should be strictly aligned on the question of the remuneration of stablecoins to ensure a fair level-playing field and financial stability. In this regard, the GENIUS Act is not aligned with MiCA which prohibits all forms of yield on stablecoins while the GENIUS Act prohibits yield only for issuers. If this misalignment remains, European stablecoin market will face a severe competitive disadvantage.
- The risk of de-pegging, where a stablecoin loses its 1:1 parity with its reference currency. This may occur during sharp market corrections or in the event of mass redemptions, forcing issuers to liquidate reserves at a loss and potentially leaving them undercollateralized. The de-pegging of USDC in March 2023, which fell temporarily to $0.87 following the collapse of Silicon Valley Bank -where 8% of its reserves were held- illustrates the fragility of stablecoin stability under stress.
- In addition, counterparty risk increases when issuers concentrate their reserves with a small number of financial institutions. As the USDC-SVB episode demonstrated, such exposures can create systemic vulnerabilities, particularly if issuer access to reserves is disrupted.
- Another source of risk lies in the potential for market volatility. In the United States, for example, proposed regulatory frameworks would require stablecoins to be backed by high-quality liquid assets such as short-term Treasury bills. If such legislation is enacted and adoption accelerates, demand for front-end U.S. government securities could rise sharply. This may exacerbate volatility in the Treasury market, steepen the yield curve, and introduce new dynamics into a traditionally low-risk segment of the financial system.
- Sustainability of the stablecoin business model in low-interest-rate environments (e.g., CHF, EUR): in jurisdictions where interest rates are close to zero or even negative, stablecoin issuers may incur losses due to limited returns on reserve assets. This could lead them to withdraw their stablecoins from the market, creating potential instability by making the instrument unreliable over time. Moreover, it may incentivize a shift toward stablecoins denominated in higher-yield currencies.

For the eurozone, the development of stablecoins issued by non-European private institutions already raises questions about **sovereignty and strategic autonomy** in monetary and payment matters[16]. As recently indicated by the ECB:

[15] ECB Occasional Paper Series, n°353, *Toss a stablecoin to your banker*, 2024: https://www.ecb.europa.eu/pub/pdf/scpops/ecb.op353~11120d3428.en.pdf

[16] See also Digital Euro Association Working Group, *The Role of Stablecoins in Financial Sovereignty*, June 2025: https://home.digital-euro-association.de/hubfs/DEA%20-%20The%20Role%20of%20Stablecoins%20in%20Financial%20Sovereignty.pdf?hsLang=en

- "The measures taken by the new US Administration to promote crypto-assets and US dollar-backed stablecoins raise concerns for Europe's financial stability and strategic autonomy. They could potentially result not just in further **losses of fees and data**, but also in **euro deposits being moved to the United States** and in a further strengthening of the role of the dollar in cross-border payments. At the same time, private businesses are increasingly open to accepting stablecoins for customer payments, which could have far-reaching implications for monetary sovereignty" [17].
- "Our dependency could soon extend to foreign stablecoins, 99% of which are dollar-denominated in terms of total value […]. If the use of US dollar stablecoins becomes more widespread, the banks could lose fees, data and deposits" [18].

On the other hand, a well-calibrated adoption of appropriately regulated stablecoins could also present opportunities for Europe:

- benefiting from productivity gains and value created through blockchain technology, which enables faster and less costly international transactions,

- attract capital to Europe to finance, in particular, European public debts,

- develop a euro-denominated instrument that would be available on the new payment and distribution channels created around blockchain to compete with the US dollar,

- support the euro's role as an international currency.

4. Recommendations to seize opportunities and address challenges

The development of stablecoins raises important questions for monetary and regulatory authorities, private firms and investors. **Quantitative impact studies** are therefore necessary to assess the potential benefits, limitations and risks arising from their expansion.

DLT characteristics such as low cost and speed of transactions should boost **productivity** gains in cross border transactions, supporting the profitability and the competitiveness of the financial sector.

Based on the conclusions to be drawn from an impact assessment of the opportunities and challenges highlighted above, decisive initiatives could be taken. A strategic response should encompass the following approaches:

1. Priority should be given to the development of wholesale central bank digital currency (wCBDC) to support the tokenisation of capital markets and to provided a safe, trusted cash leg for large value transactions. As the foundation of safe and efficient settlement mechanisms, wCBDC is essential for the large-scale adoption of DLT in traditional financial market infrastructures.

[17] Piero Cipollone's Speech, *Empowering Europe: boosting strategic autonomy through the digital euro*, 8 April 2025:https://www.ecb.europa.eu/press/key/date/2025/html/ecb.sp250408~40820747ef.en.html

[18] Piero Cipollone's Speech, *Harnessing the digital future of payments: Europe's path to sovereignty and innovation*, 15 May 2025: https://www.ecb.europa.eu/press/key/date/2025/html/ecb.sp250515~fd8adac5a4.en.html

2. The development of euro-denominated stablecoins should be analysed, and their issuance by EU-based credit institutions and banking groups operating should be promoted under strict regulatory safeguards. While most stablecoins currently in circulation are pegged to the US dollar, the question of currency denomination should not be viewed in binary terms. Stablecoins issued by EU-based credit institutions - whether denominated in euros or in other currencies - can have a legitimate role to play, provided they support Europe's economic and financial interests. This analysis should encompass the issue of multi-issuance of stablecoins.

3. Support the emergence of tokenised deposits, which preserve the fundamental features of commercial bank money while being adapted to new technological environments. These instruments may offer a reliable and scalable means of digital settlement in both retail and wholesale contexts.

4. Promote European-led payment solutions, such as EPI/Wero, Bizum, Blik…, including their interoperability across systems. These solutions would preserve European autonomy in digital payments and reduce reliance on non-EU providers.

5. Ensure that non-bank issuers adhere to the same compliance and risk management standards as banks, particularly with respect to Know Your Customer (KYC), Anti-Money Laundering (AML), and Counter-Terrorist Financing (CTF) regulations.

6. Prevent the externalization of European liquidity by ensuring that proceeds from stablecoins issued within the EU are not used to transfer funds outside the region—particularly through the conversion of operational deposits into stablecoins.

These measures must be designed not in isolation, but as part of a coherent approach to digital finance that safeguards monetary sovereignty, promotes innovation, and enhances financial stability.