FX Thoughts

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Stablecoins: Unpacking the Future of Digital Currency

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Stablecoins are gaining scale and relevance, with a market capitalisation of approximately US$268 billion (CoinGecko, Jul 2025), while 2024 annual transaction volumes range from US$5.5 trillion (Visa, Allium) to US$26.1 trillion (BCG) depending on methodology. Use cases span trading, payments, remittances, DeFi, and store-of-value functions in emerging markets.

Design models vary—from fiat and crypto-backed to algorithmic and hybrid—each with different trade-offs in transparency, decentralisation, and risk. Regulatory gaps and episodes like the TerraUSD collapse have highlighted the need for stronger oversight. Emerging and frontier economies face rising risks of digital dollarisation, as stablecoins increasingly substitute for local fiat currencies.

Policymakers are responding with regulatory frameworks such as MiCA (EU), the GENIUS Act (US), and licensing regimes in Hong Kong, the UK, and Singapore. How these rules evolve will shape stablecoins' role in global finance, digital settlements, and monetary systems.

With stablecoins emerging as one of the most consequential innovations in digital finance, this report lays the foundation—exploring their design, use cases, associated risks, and recent regulatory developments.

What are Stablecoins and Why Do They Matter?

Stablecoins are a type of cryptocurrency designed to maintain a steady value relative to another asset or pool of assets. They represent a revolutionary development in digital finance, bridging the gap between traditional banking systems and the cryptocurrency world.

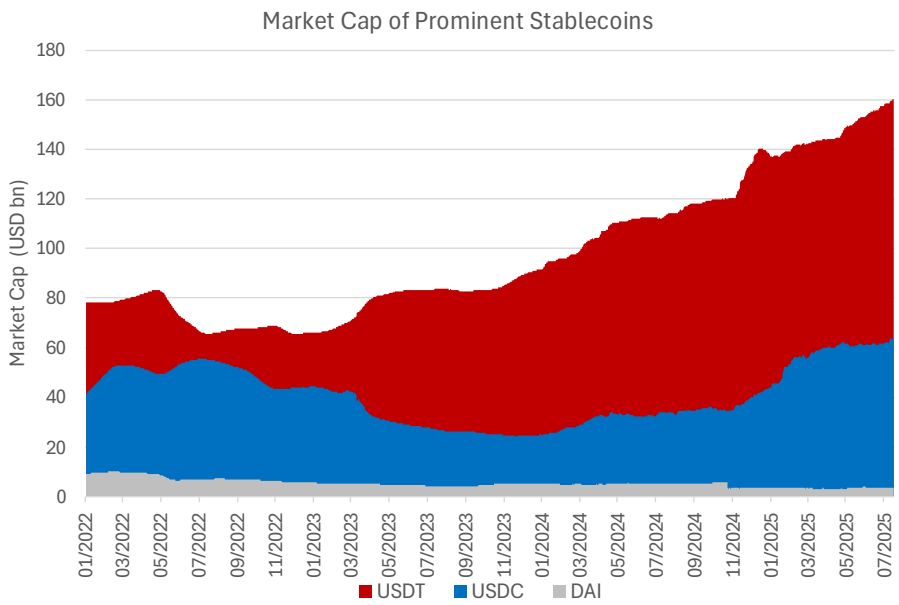
Most stablecoins are issued by centralised entities and can be categorised by the asset backing them. The stability of each stablecoin also differs based on the asset it is backed by. Fiat-backed stablecoins maintain stable value through a 1:1 peg with a traditional fiat currency or cash-equivalents. For instance, USDC issued by Circle has a 1:1 value with USD. Stablecoins can also be pegged to the price of other assets such as gold and other cryptocurrency assets or can be algorithm-based.

The fundamental value proposition of stablecoins lies in offering the benefits of digital assets (speed, programmability, borderless nature) while

maintaining price stability—often by pegging to the USD or other stable stores of value.

The growth of stablecoins has been explosive, reaching US$268 billion in market capitalisation in July 2025 (CoinGecko, Jul 2025). Dominated by centralised issuers like Tether (USDT, US$162 billion) and Circle (USDC, US$64.7 billion), the market is increasingly drawing interest from corporates, regulators, and retail users alike.

Market cap over time of prominent stablecoins (2022-present)



Source: Bloomberg

Top 5 largest stablecoins by market cap (Ethereum chain)

Coin	Price	1h	24h	7d	24h Volume	Market Cap	Last 7 Days
Tether USDT	$1.00	▲ 0.0%	▲ 0.0%	▲ 0.0%	$164,353,193,859	$162,003,547,205	
USDC USDC	$0.9999	▲ 0.0%	▼ 0.0%	▼ 0.0%	$16,060,212,944	$64,748,155,147	
USDS USDS	$0.9999	▲ 0.0%	▼ 0.0%	▲ 0.0%	$10,835,645	$6,955,882,515	
Ethena USDe USDE	$1.00	▲ 0.0%	▼ 0.0%	▲ 0.1%	$269,933,670	$6,500,944,251	
Dai DAI	$0.9999	▲ 0.0%	▼ 0.0%	▼ 0.0%	$114,720,312	$3,721,085,117	

Source: CoinGecko (as of 23 July 2025)

Types of Stablecoins: Mechanism and Trade-offs

Stablecoins can be broadly classified into four main types based on how they maintain their price stability: 1) fiat or commodity-backed; 2) crypto-collateralised; 3) algorithmic; 4) and hybrid models.

- **Fiat or commodity-backed stablecoins**, such as USDT and USDC, are backed 1:1 by traditional fiat currencies or cash-equivalent assets held in custody. These are the most common type of stablecoins and aim to provide simplicity and high liquidity by maintaining a stable value that it is fully backed by fiat assets in a bank account or other financial institutions. That said, fiat-collateralised stablecoins rely heavily on centralised issuers (such as Circle – issuer of USDC, Tether – issuer of USDT or Paxos – issuer of gold-backed PAXG, etc) to maintain and manage these reserves, and their stability depends on the issuer's credibility, transparency and accuracy of reserve disclosures to ensure that the claimed backing is fully maintained.

- **Crypto-collateralised stablecoins** like DAI, and USDS are backed by cryptocurrencies such as Ethereum, Bitcoin which are locked in smart contracts. Crypto-collateralised stablecoins are typically overcollateralised due to higher market volatility. These coins operate in a more decentralised manner but can be sensitive to sharp market swings.

- **Algorithmic stablecoins** are unlike fiat or crypto-collaterialised models. Algorithmic stablecoins attempt to maintain their peg without collateral backing. Instead, it relies on smart contract-based algorithm to adjust supply based on market demand. When price rises above the peg, the protocol expands supply and when it falls below the peg, the protocol contracts supply. TerraUSD was an example of this type of stablecoin before its collapse in 2022. The high-profile failure exposed the complexity and fragility of algorithmic stablecoins in times of market stress or erosion of confidence.

- **Hybrid stablecoins** like Ethena's USDe have recently emerged. It is a more complex type of stablecoin that combines characteristics of collateralisation and algorithmic design. Unlike fiat or commodity-backed stablecoins, it does not hold fiat or government securities. It is also unlike traditional crypto-collateralised stablecoins as it does not rely on over-collateralisation but instead focus on delta-neutral hedging strategies to maintain peg stability while also offering yield.

Each type reflects a trade-off between decentralisation, capital efficiency, regulatory readiness, and risk resilience.

The following table offers a brief summary of the different types of stablecoins with unique characteristics, pros and cons.

Type of Stablecoins	Examples	Mechanism	Advantages	Risks
Fiat or commodity-backed Stablecoins	USDT, USDC, TUSD, XAUt (Tether Gold)	Maintain 1:1 reserves typically with stable underlying assets (USD, gold, etc.)	**Stability and liquidity:** Simple model, easy to understand, generally reliable and easily liquidated to maintain peg	**Centralisation:** Centralised, requires trust in issuer's reserve management
Crypto-Collateralised Stablecoins	DAI/USDS	Overcollateralised with cryptocurrency reserves (e.g. $1.50 in ETH backing each $1 of stablecoin)	**Stability and liquidity:** More decentralised, operates without traditional banking relationships	**Centralisation and greater volatility:** Complex system, vulnerable to cryptocurrency market volatility
Algorithmic Stablecoins	TerraClassicUSD (USTC). Formerly TerraUSD	Uses smart contracts to algorithmically adjust supply based on demand	**Decentralised and flexible:** Does not require collateral reserves	**Volatile and complex:** High risk: UST collapse erased US$45 billion in value within days
Hybrid Models	Emerging new generation of stablecoins, such as Ethena's USDe	Combine aspects of collateralisation with algorithmic controls	**Decentralised with enhanced stability:** Achieve better stability while maintaining decentralisation	**Nascent and complex:** Might face challenges with market adoption due to limited understanding and in infancy stage of adoption

Source: Various sources, OCBC Research

Mechanics of Stablecoin Flow:

Stablecoins' unique value proposition of speed, cost, programmability and price stability is achieved through a different type of operational flow from traditional finance payment mechanisms.

The following table offers a brief summary of the difference between the 2 different types of mechanisms and their key characteristics.

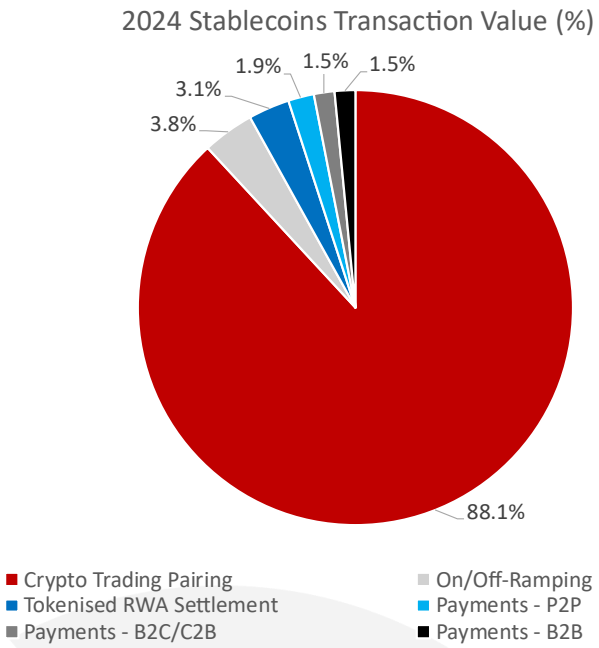
	Stablecoins	Traditional Finance
Collateral/ Reserves	Backed by fiat currencies (e.g. USDT, USDC), crypto assets (e.g. DAI), or managed algorithmically (e.g. UST, USDe).	Reserves are managed by regulated institutions like commercial or central banks, subject to financial reporting and oversight.
Cross-Border Transfers	Cross-border functionality is embedded, bypassing the need for correspondent banks and reducing friction and cost.	Cross-border payments rely on a chain of correspondent banks, incurring higher fees, slower transfers, and limited transparency.
Intermediaries	Require few to no intermediaries—users interact directly with smart contracts or wallets on blockchain networks.	Multiple intermediaries (banks, payment processors, clearinghouses) are required to facilitate transactions.
Operating Hours	Operate on blockchain infrastructure, which is accessible 24/7, including nights, weekends, and holidays without interruption.	Operates during regulated business hours; most bank transfers pause during weekends and public holidays.
Programmability	Can be integrated into smart contracts and automated workflows, enabling programmable financial logic (e.g. escrow, yield farming).	Programmability is generally absent; most systems rely on manual processes or legacy IT infrastructure.
Settlement Time	Transactions are settled in near real-time (seconds to minutes), enabling instant transfer of value globally across blockchain networks.	Clearing and settlement typically takes 1–3 business days, especially for cross-border payments using SWIFT or correspondent networks.
Transaction Cost	Typically low gas fees (fractions of a cent to a few dollars depending on network congestion; e.g. as low as US$0.01 via USDC on Base L2); no intermediary or FX markup.	Can be high due to intermediary fees, foreign exchange spreads, compliance checks, and network charges, especially for cross-border payments (e.g. average US$44 via international wire transfer).
Transparency	On-chain activity provides real-time transparency into issuance, circulation, and reserve holdings (if disclosed by issuer).	Transparency is limited to periodic disclosures or audits; real-time visibility into fund flows is not available.
Regulatory Framework	Weaker regulatory compliance, nascent stage of frameworks being established.	Well-defined frameworks governed by established regulatory bodies (e.g. SEC in the US).

Source: Various sources, Roland Berger, BCG, OCBC Research

Key Use Cases for Stablecoins:

Stablecoins have emerged as a foundational utility within the digital asset ecosystem, and their use cases are beginning to diversify beyond crypto-native applications. In a BCG white paper on stablecoins published in May 2025, 88.1% of stablecoin transaction volumes are still driven by cryptocurrency trading activity, underscoring their integral role in facilitating liquidity and price stability within digital markets. However, about 4–6% share is now tied to payments use cases, including cross-border remittances, merchant transactions, and on-chain settlements. About 4% is on on/off ramping activity—stablecoin flows bridging wallets and exchanges.

Stablecoin diversified use cases



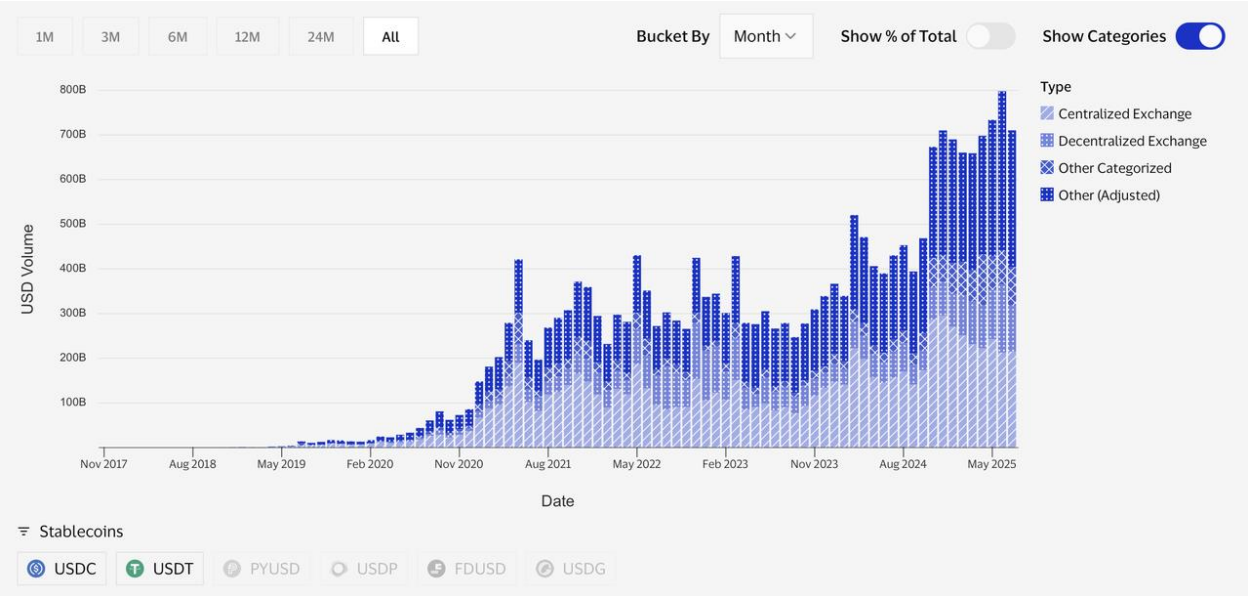
Source: BCG estimates, Visa, Allium

With increasing institutional interest and regulatory developments, the use of stablecoins is steadily expanding into areas such as tokenised asset settlement, corporate treasury, and programmable finance—broadening their relevance across both traditional and digital financial systems.

1. **Payment and Settlements:** Stablecoins are increasingly being explored as a faster and lower-cost alternative to traditional payment networks. Their ability to settle transactions in near real-time, 24/7, and across borders makes them particularly attractive for merchant payments, digital commerce, and

cross-border remittances. Major retailers such as Amazon and Walmart have reportedly begun testing stablecoin-based payments through pilot initiatives and partnerships, exploring cost savings and efficiencies compared to legacy settlement rails. While these trials are still at an early stage, they reflect rising interest in integrating blockchain-based settlement layers into consumer-facing platforms. Stablecoin transaction volumes tied to payments are also gaining traction. According to Visa–Allium, stablecoins facilitated approximately US$5.5 trillion[1] in real-world transaction volume in 2024—after stripping out high-frequency trading and bot-driven flows. For comparison: Visa processed around US$14 trillion in total payments volume in 2024 while PayPal processed approximately US$1.68 trillion in total payment volume over the same period. These comparisons suggest that while stablecoins still trail traditional giants, like Visa in scale, they may close the gap at some point, especially in cross-border and crypto-native use cases. In some emerging markets, stablecoins already function as a digital dollar alternative for remittances and day-to-day commerce—often offering lower fees and faster settlement than conventional money transfer services.

Adjusted stablecoin transaction volume (~US$5.5 trillion)



Source: Visa, Allium

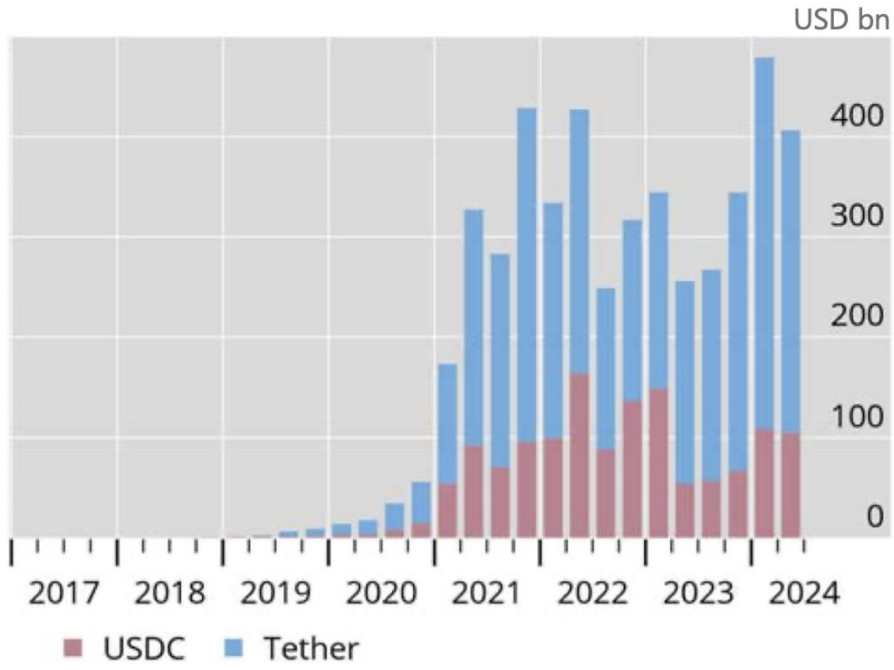
Note: Data focuses on USDT and USDC, which accounts for a majority of stablecoin transactions.

[1] *Total transaction volume for 2024 can be as high as US$26.1 trillion (BCG, 2025) or US$27.1 trillion (McKinsey, 2025). Instead, we refer to US$5.5 trillion as adjusted transaction volume (Visa-Allium) as it excludes high-frequency trading, automated bot transactions and internal wallet transfers – providing a more accurate reflection of real world usage in payments, remittances and commerce*

2. **Cryptocurrency Trading:** Stablecoins serve as the primary medium of exchange in the cryptocurrency space, allowing users to trade cryptocurrency products on blockchain platforms seamlessly without having to convert back to fiat currency, reducing the high on-ramp and off-ramp costs.

3. **Cross-border Remittances:** Traditional cross-border remittances incur high fees and several days for settlement. However, blockchain-based stablecoin transfers can be settled in minutes and without the need for intermediaries, reducing transaction fees. Furthermore, due to the decentralised nature of blockchains, remittances can be made to anyone all over the world as long as they have a blockchain wallet, reducing the requirement for financial intermediaries. Blockchains also operate 24/7, allowing for payments to be made outside normal banking hours.

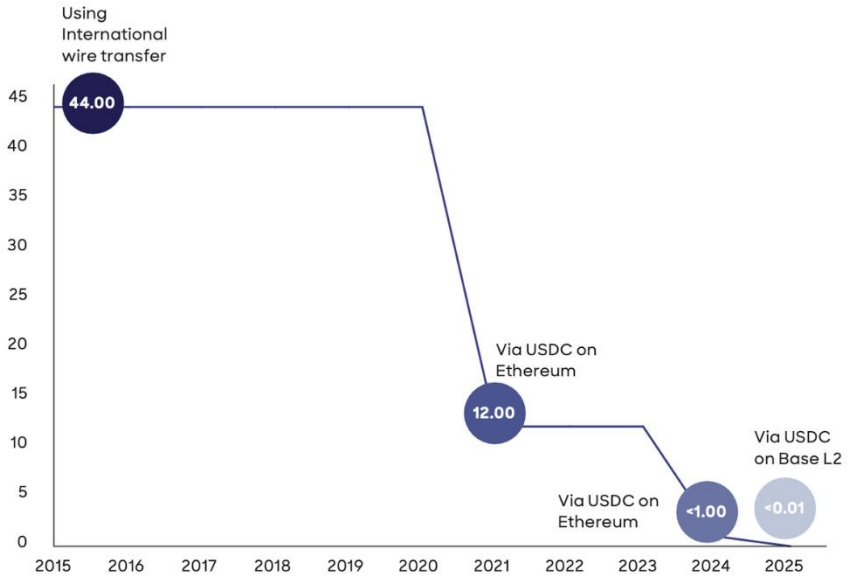
Cross-border stablecoin flows are steadily increasing



Source: Auer et al (2025), Chainalysis, BIS

A study from Roland Berger has found that the costs of sending USD internationally via stablecoins (USDC) on Ethereum and Base L2 could go as low as US$0.01, as opposed to via international wire transfer that will cost US$44 on average.

Stablecoins as a cheaper alternative to send USD internationally



Source: Roland Berger, Bankrate, Etherscan, Basescan, CoinGecko

4. **Institutional Liquidity Management:** Corporates and banks are exploring stablecoins for its 24/7 settlement capabilities and to overcome liquidity challenges and prefunding requirements when moving funds to and from emerging markets as a part of interbank liquidity management.

5. **Store of Value:** In countries with volatile currencies like Nigeria and Turkey, stablecoins are increasingly being used by individuals and businesses to preserve purchasing power and transact globally.

   In a joint report by Castle Island Ventures, Brevan Howard Digital and Artemis, a survey conducted by YouGov found that in over 500 respondents from each of Brazil, Nigeria, Turkey, Indonesia and India, utilising stablecoins as a store of value was the most popular non-cryptocurrency trading use case on average (an average of 47% of respondents selected this option). Unsurprisingly, some of these countries tend to face large currency fluctuations at times, making stablecoins an important instrument to preserve currency value.

Survey results: Users are utilising/want to utilise stablecoins to store value

What are your primary goals when using stablecoins? Select all that apply.

		Country				
	All	Brazil	Nigeria	Turkey	Indonesia	India
To trade crypto or NFTs	50%	44%	58%	51%	49%	48%
Save money in dollars	47%	40%	64%	37%	47%	46%
Obtain better currency conversion rates	43%	33%	50%	35%	54%	44%
Earn a yield (e.g. DeFi, etc.)	39%	42%	38%	55%	27%	33%
Convert my local currency to dollars	38%	31%	51%	32%	39%	40%
Get access to the crypto economy	38%	35%	49%	28%	39%	41%
Take my finances into my own hands	34%	29%	34%	29%	35%	44%
Buy or sell goods and services	34%	28%	48%	21%	33%	38%
Sending money internationally	32%	23%	45%	19%	39%	36%
Have self-custody of my money	29%	24%	31%	27%	33%	32%
Make transactions that I otherwise can't make	22%	27%	28%	17%	16%	24%

Source: Castle Island Ventures, Brevan Howard Digital, Artemis
Note: 1) Respondents have utilised cryptocurrency or blockchain related technology within the past 12 months, with 93% of them having experience with stablecoins. 2) Survey was conducted between May 2024 and June 2024.

Potential Risks and Vulnerabilities to Consider:

As stablecoins grow in size and significance—surpassing US$268 billion (CoinGecko, Jul 2025) in market value as of mid-2025 and projected to expand further with institutional and cross-border use—the urgency to address their underlying risks has become increasingly clear.

Unlike traditional financial instruments, stablecoins operate at the intersection of technology, finance, and regulation, potentially exposing them to a unique set of vulnerabilities. These include opacity around reserve quality, inconsistent redemption mechanisms, susceptibility to depegging or "run risk", and concentration in a handful of issuers.

Without clear, harmonised regulatory standards, these weaknesses can amplify systemic risks—particularly as stablecoins are increasingly being used more widely for payments, asset tokenisation, and on-chain financial infrastructure. Regulation, therefore, plays a critical role in safeguarding trust, ensuring operational resilience, and anchoring the credibility of stablecoins as they evolve from crypto-native tools into mainstream financial instruments. That said, these risks vary across different stablecoin models and jurisdictions, and not all apply equally to every issuer or structure.

1. **The TerraUSD Collapse: Risks of Algorithmic Stablecoins**

   The dramatic collapse of TerraUSD (UST) in May 2022 remains one of the most prominent examples of how algorithmic stablecoins can unravel under stress. Unlike fiat-collateralised stablecoins such as USDT or USDC, which are backed by reserves of cash and short-term securities, UST relied on a dual-token algorithmic structure with its sister token, LUNA, to maintain a 1:1 peg to the US dollar. When confidence eroded and redemptions surged, UST began to depeg—falling to US$0.91—and triggered a feedback loop where users rushed to mint LUNA in exchange for UST. This led to an oversupply of LUNA, causing its price to crash from over US$120 to near zero within days.

   The resulting collapse wiped out nearly US$45 billion in market value, devastating retail and institutional investors alike. The episode underscored the fragility of stablecoins that lack real asset backing, and catalysed a wave of regulatory scrutiny globally.

2. **Regulatory: Gaps and Improvements**

   While some major jurisdictions have introduced regulatory frameworks for stablecoins, the global landscape remains fragmented. Different regulators apply inconsistent classifications—some treating stablecoins as e-money, others as securities or digital payments. The lack of

international coordination raises legal complexity for cross-border use cases and increases the risk of regulatory arbitrage. Policymakers are pushing toward the principle of "same risk, same regulation," aiming to apply equivalent safeguards to stablecoins that function like traditional money. Moreover, stablecoins remain vulnerable to redemption and run risk—especially if reserves are opaque or illiquid. Without proper guardrails such as capital requirements or redemption transparency, a sudden loss of market confidence can trigger destabilising redemptions similar to those seen in money market funds. Emerging markets also face unique policy concerns. As USD-backed stablecoins become more accessible, they may encourage currency substitution or "digital dollarisation", potentially weakening local monetary sovereignty and complicating capital control efforts.

3. Reserve Transparency

One of the most persistent concerns surrounding stablecoins is whether their issuers hold enough reserves to back every token in circulation. The controversy centred primarily on Tether (USDT), the largest stablecoin by market share, which has faced repeated scrutiny over its backing.

In 2021, the New York Attorney General fined Tether US$41 million for falsely claiming its tokens were fully backed by USD. However, disclosures revealed that at times throughout 2016-2019, Tether only held fiat reserves sufficient to backup USDT for just 27.6% of the time over a period of 26 months. While Tether now claims its reserves are fully collateralised, it still relies on attestations from accounting firm BDO rather than full audits, leaving doubts to investors.

By contrast, USDC has taken a more transparent approach, publishing annual audit reports in addition to monthly reports verified by Deloitte and holding reserves exclusively in cash and short-term US Treasuries.

Even so, USDC briefly lost its peg in March 2023 when US$3.3 billion of its reserves were temporarily frozen in the collapse of Silicon Valley Bank. This highlights that even "safer" stablecoins are not immune to depegging or "run risk".

4. Market Concentration: Domination of USDT, USD-denominated coins

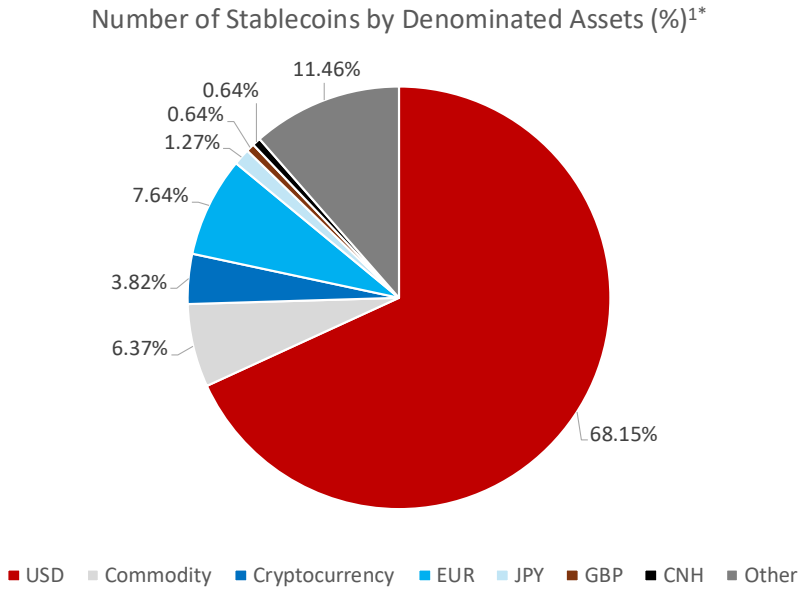
Despite the growth of stablecoins, the market remains heavily concentrated, with Tether (USDT) alone accounting for approximately 60% of the total supply. This monopolistic market raises concerns about systemic risk.

USDT's dominance stems from its early-mover advantage and deep integration into cryptocurrency trading. Many exchanges rely on USDT as the primary trading pair, and its liquidity makes it indispensable for traders. However, this also means that if USDT were to face a crisis—whether from regulatory action, a loss of confidence, or reserve

shortfalls—it could send ripple effects that could destabilise the entire cryptocurrency market.

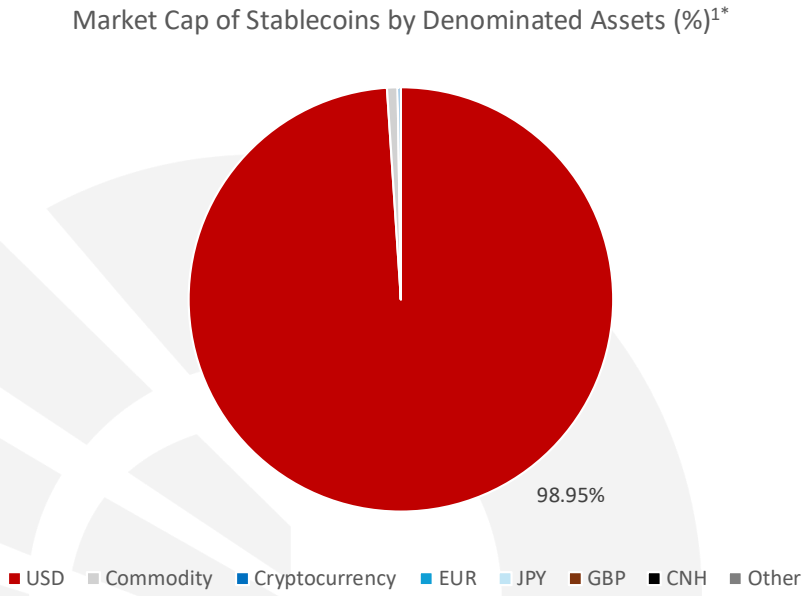
Alternatives such as USDC and DAI/USDS have yet to challenge Tether's supremacy. This skewed landscape leaves the stablecoin market vulnerable, where a single point of failure in a market could trigger a widespread market crash and unprecedented volatilities.

Most stablecoins are USD-denominated



Source: BIS, CoinDesk Data, CoinGecko, Kosse et al (2023)

Stablecoin market cap is largely dominated by USD



Source: BIS, CoinDesk Data, CoinGecko, Kosse et al (2023)

1 As of 10 June 2025. "Other" includes other currencies and a basket of different assets*

As of mid-2025, an estimated 98–99% of stablecoins in circulation are denominated in US dollars, with USD-backed tokens like USDT, USDC, and USDe accounting for the overwhelming majority of supply and trading activity (BCG, 2025; Kaiko, 2025). Other fiat-backed stablecoins—such as those linked to the EUR, SGD, or JPY—remain niche, collectively represent less than 2% of the market (CoinGecko, 2024). This skewed concentration raises risks about digital re-dollarisation, particularly in emerging and frontier markets where USD-backed stablecoins may increasingly displace local currencies in domestic payments, savings, and informal trade (Atlantic Council, Jul 2025; Bian, 2025). In such settings, stablecoins act as a frictionless, mobile-accessible proxy for the US dollar—bypassing FX controls and reducing central banks' influence over monetary conditions. Unless counterbalanced by robust regulation or viable alternatives, this could entrench USD dominance across new layers of the digital financial system.

Recent Developments and Regulatory Landscape – A Quick Glance

Recent Trends

1. **Financial Institutions are embracing stablecoins.** Citi has unveiled that it has plans to launch its own stablecoin in the future, with intentions to utilise stablecoins to bolster 4 key areas: 1) reserve management; 2) cash and coin on and off-ramps; 3) tokenised deposit space; 4) and custodial solutions for cryptocurrency assets. Citi has been very active in the digital payments space, and the issuance of its own stablecoin would be a step forward from its current Citi Token Services network that focuses on smart contracts for instant payments.

   Another significant development came from the partnership between banking giant J.P. Morgan and cryptocurrency exchange Coinbase. Their collaborative project, JPMD, is a strategic bridge between traditional finance and digital assets. It is designed specifically for institutional clients, and the blockchain-based payment solution offers 24/7 settlement capabilities and integrated interest payments. So far, clients have been leveraging this technology for on-chain digital asset settlements and cross-border B2B transactions. While J.P. Morgan emphasises that JPMD is not strictly a stablecoin, its functionality demonstrates how financial institutions are increasingly adopting stablecoin-like technologies to modernise payment infrastructure.

2. **Shopify launches a partnership with Coinbase and Stripe that allows merchants to accept payments in USDC.** Shopify has taken a big step into the world of digital currencies by integrating USDC payments for merchants through partnerships with Coinbase Commerce and Stripe. This strategic move allows businesses across 34 countries using Shopify's e-commerce platform to accept payments in USDC over the exchange's base network (Ethereum Layer 2), combining the efficiency of cryptocurrency transactions with the stability of a dollar-pegged asset. By enabling USDC payments, Shopify is providing its global network of merchants with faster settlement times and reduced transaction fees compared to traditional payment methods.

3. **SGD-backed stablecoin XSGD.** StraitsX, a digital payment infrastructure provider, launched XSGD in 2020. It is regulated by the Monetary Authority of Singapore (MAS) and fully backed by reserves held with DBS Bank and Standard Chartered Bank, providing users another option for payment, including real-time cross-border payments and on-chain settlement.

4. **Ethena: Yield generating stablecoin**. Innovation in stablecoin design continues to advance, with Ethena's USDe emerging as a notable example of next-generation models. Unlike traditional stablecoins that simply maintain parity with fiat currencies, USDe incorporates a yield-generating mechanism through a delta-neutral strategy, offering yields as high as 30%. By pairing crypto-collateral with short futures positions in Ethereum, the mechanism can offer returns to holders while maintaining its peg. Ethena points to the evolving utility of stablecoins beyond mere payment instruments.

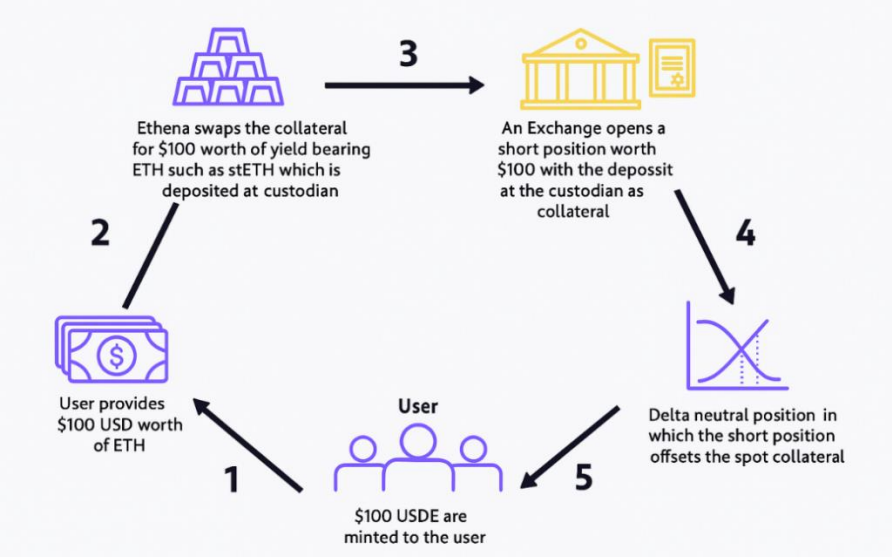
   How it works:

   a. When users mint USDe, Ethena takes your collateral and buys the spot asset, Ethereum, and then opens a short futures position of the same size. This offsets price swings and maintains the value of USDe. If Ethereum rises, the short position loses value, but Ethereum gains. If Ethereum falls, Ethereum loses value, but the short position gains.

   b. Ethena earns funding fees from those short futures positions. When you stake USDe into sUSDe (staked), users get a share of those rewards.

   c. Unlike overcollateralised stablecoins that require more value than users mint, USDe is capital-efficient and fully backed at a 1:1 ratio. The peg stays steady from continuous rebalancing and off-exchange settlement with trusted custodians.

How Ethena maintains its delta-neutral position



Source: Ark Invest

5. **CRCL and Ant Group are working on a partnership to adopt USDC onto its own blockchain platform.** While still under development, Ant Group announced on 10 July 2025 that USDC will form part of Ant's plan to incorporate regulated digital currencies into its current blockchain platform, provided USDC achieves full regulatory compliance in the US. USDC would help bolster Ant's platform that currently supports treasury management and cross-border payments**,** potentially increasing adoption for their blockchain platform.

6. **Joint venture by Standard Charted Bank (HK), Animoca Brands and Hong Kong Telecommunications (HKT) to issue HKD-backed stablecoin.** HKT will use its mobile wallet expertise to develop stablecoin for use in both domestic and cross-border payments by institutions and individuals.

7. **ChinaAMC launches first Yuan-tokenised money market fund.** The Hong Kong arm of China's second-largest fund has launched the world's first Yuan-denominated tokenised money fund, which gives investors an opportunity to diversify away from US-denominated money funds and gain exposure to the Yuan through HKMA's new framework that takes effect from 1 August 2025.

Regulatory Trends

Regulatory timeline: Global stablecoin developments (2014–2025)

- **Jul 2014** – Launched as RealCoin and rebranded as Tether (USDT) in November 2014 – the first stablecoin pegged to USD.
- **Dec 2017** – MakerDAO launched DAI, the first crypto-collateralised stablecoin.
- **Jun 2019** – Facebook announces Libra (later renamed Diem), sparking global regulatory scrutiny.
- **Apr 2020** – China begins public trials of its central bank digital currency (e-CNY).
- **Oct 2021** – BIS and IMF raise concerns about global stablecoin regulation and financial stability risks.
- **May 2022** – Collapse of TerraUSD (UST) prompts regulators worldwide to call for stronger oversight.
- **Jun 2023** – EU passes MiCA (Markets in Crypto-Assets Regulation), setting clear standards for stablecoins across member states.
- **Aug 2023** – Singapore MAS finalises new regulatory framework to ensure a high degree of value stability for stablecoins regulated locally.
- **Dec 2023** – Hong Kong proposes stablecoin licensing regime.
- **May 2024** – China expands e-CNY pilot into more cities; starts exploring cross-border e-CNY applications.
- **Nov 2024** – UK sets out rules on fiat-backed stablecoins under the Financial Services and Markets Act.
- **Jul 2025** – US passes GENIUS Act – the first comprehensive federal regulation for stablecoins.
- **Aug 2025** – Hong Kong's stablecoin licensing regime takes effect in August.

Source: Various sources, MAS, Bloomberg

1. **GENIUS Act (Guiding and Establishing National Innovation for U.S. Stablecoins).** In US, the GENIUS Act, which establishes the first comprehensive federal framework for stablecoins, was passed by the House (308–122) with broad bipartisan support after clearing the Senate, is now on track to become law. The GENIUS Act mandates full reserve backing with liquid assets and requires monthly transparency reports from issuers and anti-money laundering compliances. Notably, it includes provisions to prevent large technology companies from directly entering the stablecoin market unless they partner with regulated financial institutions — a measure designed to maintain financial stability and prevent monopolistic control. However, the US' approach to "who should control the future of stablecoins" has highlighted a stark difference compared to Europe's, with the former prioritising private companies while the latter prioritising stricter government control. For instance, the GENIUS Act has allowed smaller stablecoin issuers (<US$10 billion in stablecoins) to operate outside of this jurisdiction.

   "Crypto Week" (week of 14 July 2025) was a major win for the cryptocurrency industry with the GENIUS Act passing the house, alongside the CLARITY Act and Anti-CBDC Surveillance State Act.

The following table offers a brief summary of the difference between the 3 different bills that were passed.

Bill	GENIUS Act	CLARITY Act	Anti-CBDC Surveillance State Act
Purpose	Mandates stringent standards for reserves, audits, and transparency for issuers and anti-money laundering compliances.	Sets forth authority between the SEC and the CFTC, offers greater legal certainty around the classification and treatment of digital assets. SEC will oversee tokens that meet securities criteria, while digital commodities will fall under the CFTC's jurisdiction.	Aims to prevent the Federal Reserve from issuing a central bank digital currency (CBDC) without explicit congressional approval. This move bans the Fed from launching a surveillance style digital currency.
Votes	Passed the House (308–122)	Passed the House (294–134)	Passed the House (219–210)

Source: Various sources, Bloomberg

2. **MAS Stablecoin Regulatory Framework.** Singapore was among the early movers in the region to establish a clear regulatory framework for stablecoins. In August 2023, the Monetary Authority of Singapore (MAS) finalised its stablecoin regulatory framework, focusing initially on single-currency stablecoins (SCS) pegged to the Singapore dollar or any G10 currency. The framework sets out stringent requirements for reserve backing, capital adequacy, redemption rights, and disclosure standards, aimed at ensuring a high degree of value stability (MAS, 2023). Notably, MAS requires issuers to maintain reserves in low-risk, highly liquid assets with a minimum base capital and provides for redemption within five business days upon request. Issuers who meet these standards will be able to label their products as "MAS-regulated stablecoins." This move positions Singapore as a regulatory frontrunner in Asia, and reflects its broader ambition to balance innovation with financial stability and consumer protection.

3. **HKMA Framework (HK).** Hong Kong took a significant step in regulating stablecoins when the Legislative Council passed the Stablecoins Bill on 21 May 2025. The government aims to strengthen Hong Kong's virtual asset framework while balancing financial innovation with stability. The new licensing regime, set to take effect by year-end, specifically targets fiat-referenced stablecoins.

   With effect from 1 Aug 2025, HKMA requires licenses for three categories of operators: 1) those issuing stablecoins in Hong Kong as part of their business; 2) overseas issuers whose stablecoins reference the Hong Kong dollar (even partially); 3) and any entities designated by the HKMA for specific stablecoin-related activities.

   To qualify for a license, applicants must meet rigorous standards across multiple criteria. These include maintaining proper reserve asset management and redemption mechanisms, adhering to business activity restrictions (such as prohibitions on lending), establishing local physical presence, demonstrating adequate financial resources, and implementing robust anti-money laundering and counter-terrorism financing protocols. Additional requirements cover comprehensive risk management frameworks, transparent disclosure practices, regular auditing, and proof of the organisation's overall fitness and propriety to operate in this space.

4. **Hong Kong Policy Statement 2.0 (HK).** On 26 June 2025, a new policy statement on the Development of Digital Assets was published, highlighting the LEAP framework as the cornerstone of Hong Kong's digital asset strategy. Key supportive developments include: 1) test stablecoin applications in public scenarios; 2) and legislative proposal to expand tax concessions on profits from blockchain assets. Private funds and family-owned investment vehicles can claim tax breaks on profits from digital asset transactions—subjected to approval by Legislative Council. Hong Kong would also embrace new venture investments

within the cryptocurrency space, with government-backed startup incubator Cyberport backing the funding for such projects. This highlights Hong Kong's ambition in advancing its digital asset ecosystem, with plans to utilise cryptocurrency for transactions relating to 1) tokenised government bonds; 2) precious metals; 3) and renewable energy projects, linking traditional and decentralised finance and positioning Hong Kong as a global leader of real-world assets.

On 23 July 2025, Bloomberg reported that HKMA will publish summary of stablecoin issuer rules next week.

5. **China exploring cryptocurrency regulatory shift (CN).** Cryptocurrency has been banned in China since 2021 due to concerns over the regime losing financial control to decentralised assets. Following the passing of the HKMA framework earlier this year, Shanghai's state-owned Assets Supervision and Administration Commission held talks on 10 July 2025 to discuss policies surrounding stablecoins. This came about after China's tech powerhouses JD.com and Alibaba urged the Chinese regime to increase its influence within the cryptocurrency and stablecoin space by launching offshore Yuan-pegged stablecoins in Hong Kong. Such a move could potentially promote the internationalisation of the Yuan and shift sentiments of China's cryptocurrency stance to a friendlier one. Otherwise, the Chinese regime might lose a golden opportunity to promote the internationalisation of the Yuan and risk the US dominating the decentralised finance space.

6. **Markets in Crypto-Assets Regulation (MiCA).** Europe has the MiCA regulation which became fully operational in December 2024. The framework has already caused significant ripples across the industry, particularly its requirement that stablecoin issuers must obtain e-money licenses. This has led major exchanges like Binance and Crypto.com to delist non-compliant stablecoins such as USDT from their European platforms, forcing users to convert to approved alternatives like USDC. Only stablecoins that meet MiCA standards, like USDC, will thrive in Europe. Moreover, MiCA also requires large stablecoin issuers to maintain strong capital reserves, adopt clear liability frameworks and implement tight operational controls. Additionally, MiCA plans to curtail the spread of non-euro stablecoins by increasing compliance costs, making regulations stricter for foreign issuers.

Conclusion: Implications of Stablecoins on Fiat Currencies and the Re-dollarisation Risk

Stablecoins—particularly those pegged to the US dollar—can potentially reshape the global currency landscape. While much attention has been paid to de-dollarisation trends, the widespread use of USD-backed stablecoins may, paradoxically, reinforce dollar's dominance in digital finance. This is especially relevant in emerging and frontier markets, where access to US dollars is limited, local currencies are volatile, and financial infrastructure may be underdeveloped. In such environments, stablecoins offer a digital on-ramp to the dollar—borderless, permissionless, and accessible via mobile devices—creating a pathway for "digital dollarisation."

As of mid-2025, total stablecoin market capitalisation (or supply) stands at approximately US$268 billion (CoinGecko, Jul 2025), with more than 98% denominated in USD while stablecoin transaction volume was estimated to be $5.5 trillion in 2024 (Visa, Artemis).

The stablecoin supply and transaction flow may be small, relative to global FX volumes (>US$7 trillion traded daily) while the global[2] money supply (~US$93.7 trillion in M2 as of May 2025). But stablecoin supply and transaction volume is rising.

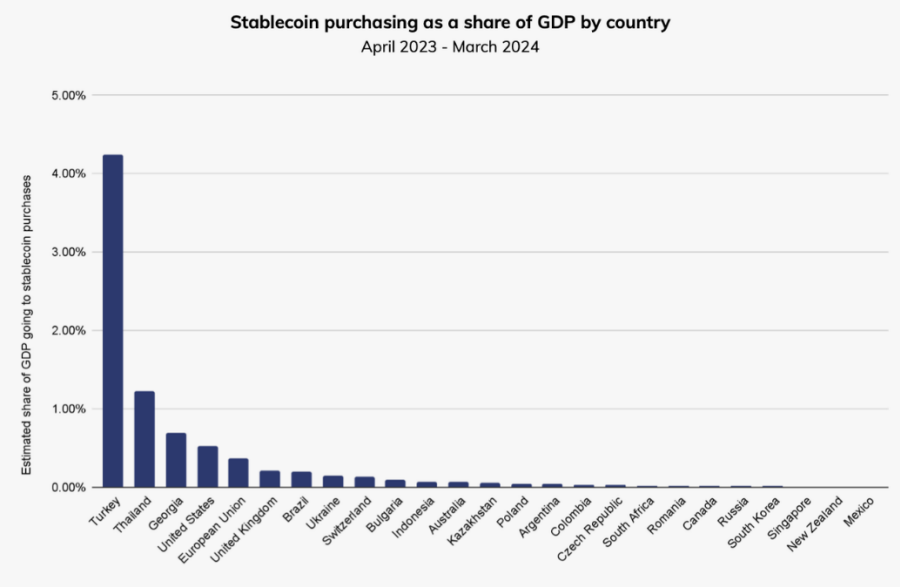
Concentration and ease of access already posed challenges to currency sovereignty in economies with more volatile currencies. In countries like Argentina and Venezuela, stablecoins such as USDT are already being used for day-to-day commerce and informal dollar savings (Chainalysis, Oct 2024). In Turkey and Nigeria, they serve as a hedge against local currency depreciation, while in parts of Southeast Asia and Sub-Saharan Africa, they are increasingly explored for cross-border B2B transactions and trade invoicing (Chainalysis, Oct 2024). These trends suggest that in FX-fragile jurisdictions, stablecoins are not theoretical—they are already filling functional monetary roles.

Looking ahead, the risk can become more material. According to various sources, including the US Treasury, BCG and McKinsey, stablecoin circulation (or supply) could reach US$400 billion by end-2025 and US$2 trillion by 2028, particularly if institutional adoption accelerates and regulatory clarity improves.

At that scale, stablecoins would no longer be peripheral—they could meaningfully influence capital flows, FX market liquidity, and local monetary autonomy in developing markets.

[2] *Refers to US, Europe, Japan and China M2 as of May 2025 reporting*

Stablecoins transactions amount to 4.3% of Turkey's GDP—highest volume globally



Source: CCData, Chainalysis

This dynamic raises several key implications:

- **Monetary Sovereignty Risks:** Widespread use of USD-backed stablecoins in local economies may undermine central banks' ability to manage domestic monetary policy and control inflation expectations.
- **Capital Flow Volatility:** Stablecoins enable near-instant cross-border movement of value, potentially making it harder for authorities to monitor or restrict capital flows—especially during periods of market stress.
- **FX Market Distortions:** The potential increase in demand for fiat USD to back stablecoins may affect dollar liquidity, FX swap pricing, and may amplify pressures on non-USD funding conditions.
- **Reinforced USD Dominance:** Far from weakening the dollar's role, stablecoins may entrench it more deeply into global digital infrastructure, complicating de-dollarisation trend and extending US monetary influence into tokenised and on-chain ecosystems.

While stablecoins offer clear utility—particularly in markets underserved by the formal financial system—their global expansion must be accompanied by thoughtful regulation and viable domestic alternatives. Otherwise, their rise could quietly reshape the monetary order, eroding the influence of sovereign currencies in the digital age.

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