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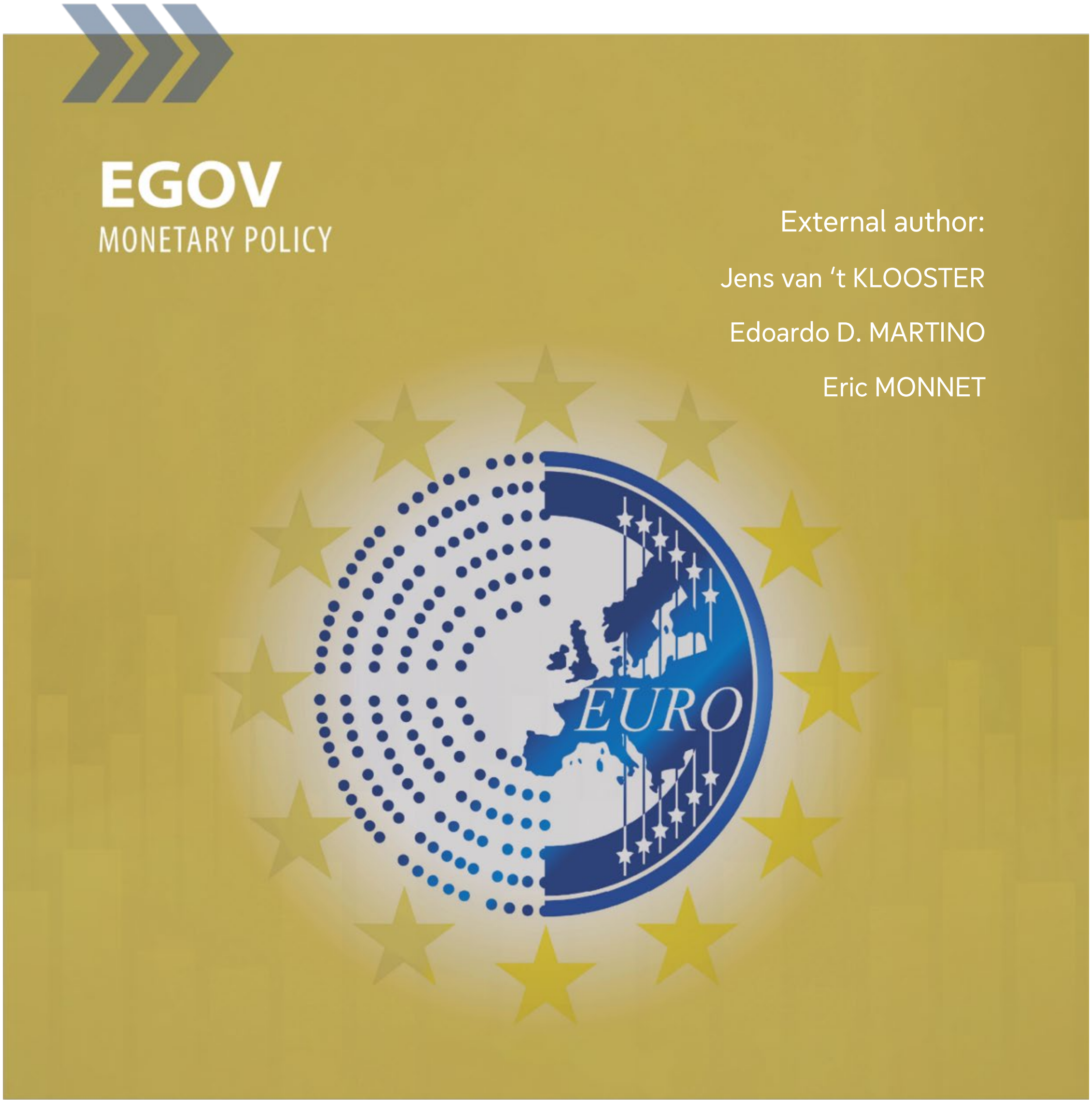
Cryptomercantilism vs. Monetary Sovereignty

Dealing with the Challenge of US Stablecoins for the EU



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Cryptomercantilism vs. Monetary Sovereignty

Dealing with the Challenge of US Stablecoins for the EU

Abstract

The current US administration promotes dollar-backed stablecoins—privately issued and supported by US debt—to reinforce dollar dominance worldwide, a strategy we dub "cryptomercantilism." This report studies the EU's 2024 Markets in Crypto Assets Regulation (MiCAR) and its safeguards for the EU's monetary sovereignty. It also compares MiCAR to the proposed GENIUS Act in the US. Under existing policies, USD stablecoins create severe risks for third countries, indirectly also affecting the EU. The EU should counter digital dollarisation by promoting the international role of the euro in a context of enhanced multilateral payment systems.

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CONTENTS

LIST OF ABBREVIATIONS 7

LIST OF BOXES 8

LIST OF TABLES 8

EXCECUTIVE SUMMARY 9

1. INTRODUCTION 10

2. STABLECOINS IN THE HISTORY OF MONEY 12

2.1. Public and private moneys 12

2.2. On-chain moneys 13

2.3. Building stability: Redemption, conversion, asset-backing 13

2.4. International use of money and stablecoin capitalization 14

3. RISKS OF STABLECOINS: IMPLICATIONS FOR FINANCIAL STABILITY, MONETARY POLICY, AND THE EURO'S INTERNATIONAL ROLE 16

3.1. Risks Related to the Redeemability of Stablecoins 16

3.1.1. Runs on Stablecoins 16

3.1.2. Market Liquidity Shocks from Portfolio Shifts 17

3.1.3. Bank Liquidity Risks 17

3.1.4. Bank Runs 17

3.2. Risks Related to Currency Denomination and Cross-Border Circulation 17

3.2.1. Exchange Rate Risk 17

3.2.2. Dollarisation and Loss of Monetary Autonomy 18

3.2.3. Erosion of the Euro's International Role 18

3.2.4. Destabilisation of Cross-Border Payments 18

4. THE MICA REGULATION AND THE GENIUS ACT 19

4.1. The construction of money-like stablecoins in the EU and the US 19

4.2. EU Law and Monetary Safeguards 20

4.2.1. Stablecoins issued by a foreign non-MiCAR compliant issuer 21

4.2.2. Non-euro denominated stablecoins issued by MiCAR-compliant issuers 21

5. ASSESSMENT OF STABLECOIN EXPANSION AND ASSOCIATED RISKS 23

5.1. EU Households' use of stablecoins will have a moderate impact on aggregate liquidity 23

5.2. Corporate Use: A Potential Game Changer 24

5.3. Competition between stablecoins, CBDC and digital payments within the euro area 24

5.4. Global expansion of Dollar-Backed Stablecoins 24

6. CONCLUSION: POLICY RECOMMENDATIONS 26

6.1. Domestic Measures 26

6.2. Promoting the international euro 26

REFERENCES 28

ANNEX I – A COMPARATIVE ANALYSIS OF THE MICA REGULATION AND GENIUS ACT 31

Issuers and license 31

Issuance and redemption 32

Significant issuers 33

Reserves and asset safeguards 34

Core Prudential Requirements 35

Supervision and enforcement 36

Extraterritorial reach and equivalence 37

LIST OF ABBREVIATIONS

ABCP	Asset Backed Commercial Papers
AML	Anti-Money Laundering
CASP	Crypto Asset Service Provider
CDBC	Central Bank Digital Currency
EBA	European Banking Authority
ECB	European Central Bank
EMD	Electronic Money Directive
ESMA	European Securities and Market Authority
EU	European Union
GAFAM	Google, Apple, Facebook, Amazon and Microsoft
GENIUS Act	Guiding and Establishing National Innovation for U.S. Stablecoins
MiCAR	Market in Crypto Asset Regulation
MMF	Money Market Funds
OCC	Office of the Comptroller of the Currency
PSD	Payment Service Directive
STABLE Act	Stablecoin Transparency and Accountability for a Better Ledger Economy Act
US	United States
USD	US dollar

LIST OF BOXES

Box 1: Stablecoins and Anti-Money Laundering compliance 18

LIST OF TABLES

Table 1 – Taxonomy of moneys off-chain and on-chain 12

Table 2– Stablecoins by category in million US Dollar (USD) – May 2025. 14

Table 3 – Issuers and license 31

Table 4– Issuance and redemption 32

Table 5 – Significant issuers 33

Table 6 – Reserves and asset safeguards 34

Table 7 – Core Prudential Requirements 35

Table 8 – Supervision and enforcement 36

Table 9 – Extraterritorial reach and equivalence 37

EXCECUTIVE SUMMARY

- **The EU and the US have taken starkly different approaches to the regulation of new monies issued using the distributed ledger technology ("On-chain money").** On-chain money can be issued by central banks as central bank digital currency (CBDC), but also "stablecoins". Stablecoins are privately issued money, which is convertible into more established forms of money at a 1-1 redemption or conversion rate ("at par") and backed by low-risk assets to meet redemptions and secure its value.
- While the EU's regulatory framework has focused on safeguarding users, internal financial stability and monetary sovereignty, **the current US administration has favoured private crypto innovation. It stopped US CBDC projects while pushing USD stablecoins as part of a strategy of "cryptomercantilism".** This strategy aims at reinforcing the dominance of the dollar in two main ways: First, by promoting more international use of the dollar for payment and invoicing. Second, since USD stablecoins are issued against US debt, they create new demand for USD debt of public and potentially even private issuers.
- **In the EU, the 2024 Markets in Crypto Assets Regulation (MiCAR) sets adequate safeguards to ensure financial stability and prevent the digital dollarisation of the European economy**. Foreign, non-MiCAR compliant stablecoins can be owned by Europeans but not issued to the public by compliant financial institutions. **Moreover, the EBA and other regulators—**following a binding opinion of the European Central Bank (ECB) — **can halt the issuance of foreign-currency-denominated stablecoins if they present significant risks.** The ECB should actively monitor those risks. Furthermore, a digital euro issued by the ECB is rightly poised to be the main on-chain money available to EU retail consumers.
- **The successful promotion of USD stablecoins globally can, however, lead to further dollarisation of third countries, raising severe risks to their monetary sovereignty and financial stability.** Dollar-pegged stablecoins may be highly attractive to citizens of countries with low levels of financial inclusion and unstable currencies. The EU would then face an even stronger international role of the US dollar, hindering key EU interests in trade and stable multilateral relations.
- **In responding to US cryptomercantilism, the EU should promote a multilateral system based on cooperation that respects the monetary sovereignty of states**. It is neither realistic nor desirable for the EU to compete with the US by promoting riskier euro-denominated stablecoins through a weakening of MiCAR. Instead, European policymakers, including the ECB, should actively support payment multilateralism by facilitating cross-border transactions between CBDCs and fast payment systems.

1. INTRODUCTION

Digital moneys are reshaping payment systems, potentially moving beyond simply enabling faster transfers between bank accounts. In the European Union (EU)—where individuals are accustomed to stable currencies and well-established banking systems—new digital payment methods will only gain acceptance if they pose little or no risk. People are willing to hold and use money when they trust the payment technology, can make payments easily, and have confidence in the currency's stability (including convertibility into other currencies).

Two main contenders are poised to replace cash: central bank digital currencies (CBDCs) and stablecoins. A CBDC—such as the proposed digital euro—is a liability of the central bank. Like physical banknotes, it is legal tender and must be accepted universally within a country. Stablecoins, on the other hand, are liabilities of the private companies that issue them. They do not have legal tender status, and trust in them does not stem from reliance on the State. Therefore, stablecoins must uphold a strong commitment to redemption and convertibility. In principle, anyone should be able to exchange a stablecoin for a widely accepted currency, like the euro or the dollar, at a fixed price. Without regulation to guarantee a stable value, stablecoins are unlikely to achieve widespread circulation.

Unlike CBDCs, stablecoins can potentially circulate globally, regardless of the geographical location of the assets backing them. A stablecoin pegged to the US dollar and backed by dollar-denominated assets can, in theory, be used easily in countries around the world.

The new Trump administration has prohibited the Federal Reserve from issuing a CBDC, while making the promotion of USD stablecoins a top priority. Drawing a parallel to mercantilist trade policies that aim to boost exports, the strategy to use stablecoins to strengthen international dollar dominance can be described as "cryptomercantilism"—a policy aimed at promoting the use of national assets and currency abroad via digital payments (Monnet, 2025). On 23 January 2025, the United States (US) President signed an executive order calling for "actions to promote the development and growth of lawful and legitimate dollar-backed stablecoins worldwide". A few weeks later, Treasury Secretary Scott Bessent stated that "we are going to keep the US the dominant reserve currency in the world, and we will use stablecoins to do that".

The current US policy of stablecoin promotion can serve to reinforce the dominance of the dollar in two main ways. First, as the global economy comes to rely more and more on dollar-pegged stablecoins as a means of payment, markets shift to pricing in dollars rather than local currencies. Second, since USD stablecoins are issued against US debt, their widespread use creates new demand for USD debt of public and potentially even private issuers. This can help offset the loss of reserve assets status of USD debt for institutional investors and foreign central banks. To encourage the widespread circulation of dollar-pegged and dollar-backed stablecoins, the US intends to leverage the strength of its crypto industry as well as its dominance in online commerce and social media (notably through the five US big-tech companies: Google, Apple, Facebook, Amazon and Microsoft – GAFAM). However, these advantages alone are insufficient. Stablecoins require regulatory frameworks that make them safe, profitable, and attractive globally. Accordingly, such regulatory frameworks are currently under discussion in the US Congress.

This report asks to what extent the policy of promoting USD stablecoins poses a threat to the EU's monetary sovereignty, in particular financial stability and broader economic policies. Monetary sovereignty is the ability of states to govern money (Murau and van 't Klooster, 2023; Martino, 2024). Such governance can take the form of directly controlling public money creation (at a central bank), but also involves regulating private money creation by banks and other financial institutions (see Figure 1).

To provide the reader with an evaluation of the threat of USD stablecoins, this report does three things. In Section 2, we situate stablecoins in the history of money to provide insight into what stablecoins are and how they differ from more familiar forms of money. In Section 3, we analyse eight risks that USD stablecoins may pose to the EU and third countries, looking specifically at monetary policy transmission, and financial stability. In Section 4, we develop a systematic comparison between the current EU regulation of stablecoins (the Markets in Crypto-Assets Regulation, or MiCAR) and the framework currently being debated in the United States (the GENIUS Act). In Section 5, we provide an assessment of the risks posed by stablecoins and policy recommendation to address the most severe risks. In Section 6, we conclude with policy recommendations.

2. STABLECOINS IN THE HISTORY OF MONEY

Since the launch of Tether in 2014, entrepreneurs and – increasingly – policymakers have sought to develop new moneys using distributed ledger technology ("on chain" money) to fit into existing monetary systems (Olk and Miebs, 2025). Unlike other crypto-assets, stablecoins are denominated in an official unit of account, today almost exclusively the dollar. They are privately-issued and derive their stability from rules on redemptions, conversion and asset-backing. Because stablecoins can potentially be used internationally, they raise new risks for the monetary sovereign of states and for the global monetary system.

2.1. Public and private moneys

For any major currency like the euro or the dollar, there is never just one monetary asset. Instead, major currencies typically function through a bewildering variety of money-like assets, often used far beyond the borders of the country issuing the currency (Helleiner, 2003; Murau and van 't Klooster, 2023).

Table 1 – Taxonomy of moneys off-chain and on-chain

	Off-chain money	On-chain money
Public money	Bank notes Central bank deposits	Central bank digital currency
Public-private money	Bank deposits	Tokenized deposits
Private money	MMF shares, repo, ABCPs, Amazon vouchers, Banknotes issued by private banks and backed by government debt (e.g. National Banking Era in USA, 19th century)	Stablecoins

For an asset to be used as money for a specific currency, it needs to have two features.

- **Stable value**: Money-like assets have a stable value measured in the unit of account. A euro on an ECB deposit is worth EUR1, but so is a deposit issued by a bank in euros.
- **Ease of payment**: Money-liked assets can be used for payment purposes relatively easily.

An asset that succeeds at achieving these features become considered credible by the public and hence widely accepted 'no questions asked' (Holmstrom, 2015). The extent to which this is the case, however, differ. Money, accordingly, is not a strictly defined category, but various assets can be more money-like depending on the stability of their value and their ease of use for payments.

Moneys are not just issued by the state. Monetary systems typically combine:

- **Public money**, which is issued directly by state institutions, such as central bank notes and reserves. For the euro, public money is either an ECB deposits or a euro note. Its issuance is governed by monetary policy.
- **Private-public credit money**, which is created by strictly regulated banks and are often backed by public guarantees (e.g., deposit insurance, central bank access). Insured bank deposits are a prime example.

Bank deposits and other private moneys can function as money because for most users the difference with public money is small. In more technical terms, private-public money is functionally equivalent to public money. Bank deposits can often be used for similar payment purposes. They are also stable due to bank deposit insurance, access to central bank credit, as well as a basic expectation that states will bail out major domestic institutions. So, ultimately, the state is crucial for facilitating the functional equivalence of private-public money, and for this reason, the support that states give to a specific money determines its status as public-private money.

Not all forms of money benefit in the same way from regulation and public insurance. A third group of money falls largely outside strict state oversight:

- **Pure private credit money (or** "shadow money") is issued by private institutions without public guarantees and often outside strict banking regulation. Today, common types of pure private money include money market fund (MMF) shares, repurchase agreements (repos), and asset-backed commercial papers (ABCPs). Amazon vouchers also fall into this category.

Private moneys are explicitly not backed by the state through public guarantees and financial supervision is limited. They are money because their issuer commits to maintain a 1-1 valuation relative to other forms of money in the same currency (through redemption of conversion "at par"), but the extent to which it fulfils this commitment differs considerably. Since they are private companies, issuers can fail to maintain that commitment and default.

2.2. On-chain moneys

When turning to the potential forms of new monies issued using the distributed ledger technology, we again find examples of all three distinct types of money (Aldasoro et al 2023).

- **Public on-chain moneys** are issued by public institutions, typically as central bank digital currencies (CBDC).[1] The ECB is currently issuing a wholesale digital euro and more than thirty central banks are involved in such projects. These can be targeted to large payments between financial institutions (wholesale) or for use in retail payments. In a recent executive order, Trump explicitly prohibited the Fed from issuing such a currency (White House, 2025)
- **Public-private on-chain moneys** are issued by commercial banks or other highly regulated financial institutions. Such tokens benefit from deposits insurance and are subject to stringent prudential requirements. For the purposes of MiCA, they would be regulated like all other bank deposits. A recent European Banking Authority (EBA) survey found only one existing project of this nature (EBA, 2024).
- **Pure private on-chain moneys** fall outside public guarantees and banking regulation. This is the case today for stablecoins, but if these acquire more implicit state backing, they may become more like public private money.

Stablecoins are genuinely private money. They are "electronic money tokens" in the sense of MiCAR Article 3(1)(7): "a type of crypto-asset that purports to maintain a stable value by referencing the value of one official currency". Their defining technological feature as crypto assets is that they are based on the distributed ledger technology. They are, again following MiCAR Article 3(1)(5), a "digital representation of a value or of a right that is able to be transferred and stored electronically using distributed ledger technology or similar technology". The coins exist on distributed ledgers (i.e., "on-chain"), but may involve various forms of governance by their issuers.

2.3. Building stability: Redemption, conversion, asset-backing

Because stablecoins are money issued outside the strict oversight of the state, they also face risks. Adequately backed and with strict rules of redemption, stablecoins could have a high level of safety, almost comparable to that provided by deposit insurance. However, for the issuers of stablecoins there

[1] The term "currency" in central bank digital currency is misleading as these projects are merely new forms of money for existing currencies like the euro and the dollar. "Digital" is also misleading as most credit moneys also only existing in digital form.

is a clear incentive to limit redemptions and shift towards less liquid and riskier, but higher yielding private assets.

Redeemability means the issuer of a money-like asset commits to provide a payment in an (typically off-chain) money-liked asset on demand. Central bank deposits would historically often be redeemable in gold or some reserve currency. Bank deposits are typically redeemable in banknotes and coins issued by the government. Similarly, money market funds are typically redeemable and hold highly liquid assets for this purpose. Stablecoins, in contrast, are often harder to redeem (Adachi *et al.*, 2022). Tether, for example, offers redemption for sums starting at USD 100,000. Other users can only convert Tether into other assets via third-parties, for example, on a crypto exchange like Coinbase.

Asset-backing means that the issuer commits to acquire low-risk assets to meet redemptions and secure the value of the money in the event that the issuer defaults. This backing structure may enhance safety, but by itself does not give the owner the right to receive that asset on demand from the issuer. Some stablecoins are backed only by other crypto assets or a commodity like gold. Algorithmic stablecoins are not backed by anything and instead use algorithms and arbitrage incentives to maintain their peg, though these have proven less reliable (e.g. TerraUSD). Already today, by far the majority of stablecoins are "fiat-backed", which means that they are backed by reserves in public money or highly liquid assets like government bonds (See Table 2).

Table 2– Stablecoins by category in million US Dollar (USD) – May 2025.

Fiat-backed Stablecoins			Crypto-backed Stablecoin	Algorithmic Stablecoin	Commodity-backed Stablecoin	Total
Tether (USDT)	*Circle (USDC)*	*All other fiat stablecoins*				
USD 151,614	USD 60,117	USD 29,408	USD 4,682	USD 499	USD 269	USD 247,031

Source: CoinGecko

2.4. International use of money and stablecoin capitalization

Moneys are typically not bound by the territorial claims of states. They either easily carried across borders or, in the case of private credit money, created ex nihilo when banks issue deposits in a foreign currency. Stablecoins are potentially even easier to use internationally, raising new scope for international use of the dollar.

The global credit money system revolves around a few key currencies with the dollar as by far the most important. In 2022, around 90 % of all FX transactions had the dollar on one side, with the euro in 38 % of transactions.[2] In 2024, 58% of reserve assets are dollar-denominated, 20% euro-denominated (ECB, 2024). The international dollar not only involves widespread international holdings of USD Treasuries (USD 8 trillion), but also the circulation of USD banknotes (USD 2.4 trillion) and bank deposits issued in dollar "offshore", i.e. by banks domiciled outside the US (estimated at USD 12.8 trillion by Aldasoro and Ehlers (2018)).[3]

International use of the dollar creates a complex governance challenge because it spans two jurisdictions: the US which issues the currency and the jurisdiction where the money is used (and in the case of bank money, created). In fact, the euro was initiated in 1987 to "reduce dependency on the

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[2] All foreign exchange transactions involve two currencies, so the total number sums to 200%, but any given currency can appear at most in 100% of FX transactions.

[3] US Treasury Major Foreign Holders of Treasury Securities (March 2025); Federal Reserve Board "Currency in circulation) (March 2025).

dollar" and strengthen the EU's "scope for monetary policy action" (ECB, 2023).[4] Unilateral promotion of USD stablecoins is potentially a grave threat to monetary sovereignty: the ability of the EU and other countries to govern money within their territory.

For now, the role of USD stablecoins in the global monetary order remains marginal. The total market capitalisation of stablecoins, including those in currencies other than the dollar, amounts to around USD 250 billion, roughly 1/10th of the volume of US banknotes and coins in circulation.[5] Euro-denominated stablecoins, meanwhile, are virtually non-existent, with a market capitalisation of 0.02% (USD 532 million (EUR 473 million), half of which is Circle's EURC (EUR 242/USD 273 million). Just Trump's USD1, currently the 7th largest stablecoin, is valued at USD 2.3 billion.

4 Genscher, H.D. (1988), "Memorandum für die Schaffung eines europäischen Währungsraumes und einer Europäischen Zentralbank", *Bundesbank Archive*, B330/018912

5 Federal Reserve Board, Currency in circulation.

3. RISKS OF STABLECOINS: IMPLICATIONS FOR FINANCIAL STABILITY, MONETARY POLICY, AND THE EURO'S INTERNATIONAL ROLE

We identify eight key risks to monetary sovereignty posed by stablecoins and that may conflict with official objectives of the EU, in terms of financial stability, consumer protection, monetary policy transmission, price stability, exchange rate flexibility, and anti-money laundering. These risks are of different nature and cannot be addressed by using the same tools. Considering these risks is essential to avoid that the development of stablecoins endangers other policy objectives.

These eight risks can be grouped into two main categories. The first category stems from the rules of redemption, conversion and asset-backing of stablecoins (see Table 1). Unlike fiat money, stablecoins remain stable as long as their issuer is able to promptly satisfy redemption requests. How stablecoins issuers manage redemptions and ensure adequate backing through high-quality assets has important consequences for stablecoins users and financial markets at large. These consequences apply to the US itself but also to other countries where USD stablecoins are used.

A second category of risks are specific to international circulation of USD stablecoins outside the US. Users may face exchange rate risk if they hold stablecoins pegged to a currency other than their own. If a large share of residents adopts dollar-pegged stablecoins, this can lead to *de facto* dollarisation, significantly limiting domestic monetary policy. The global spread of stablecoins—especially those less regulated than in the EU—could pose financial and payment stability risks in third countries, which may in turn affect the European economy.

An assessment of these risks is postponed to Section 5, after we have studied the regulatory framework of stablecoins in Section 4.

3.1. Risks Related to the Redeemability of Stablecoins

Unlike fiat currency, stablecoins are backed by asset portfolios that may be illiquid or susceptible to significant portfolio shifts as issuers seek yield. This structure introduces vulnerabilities even under tight regulation.

3.1.1. Runs on Stablecoins

Even when backed by ostensibly safe and liquid assets, stablecoins remain exposed to liquidity and duration risk. There can be a mismatch between liquidity and maturity of their assets and those of their liability. Users may be unable to redeem their holdings during periods of stress and stablecoins may not always be accepted at par (Gorton & Zhang 2023). Unlike banks, stablecoins can de-peg from their reference currency in times of stress. This safety valve for stablecoin issuers has however a cost for users as it reduces their real value—as has occurred with unregulated stablecoins like Tether (Eichengreen et al. 2023, Cantú, Frost & Noone 2025). It also makes stablecoins potentially subject to speculative attacks, like fixed exchange rates.

De-pegging events can happen swiftly, akin to currency crises, especially if a shock reduces the value of the stablecoin's asset base. In such cases, central banks may be pressured to intervene to stabilise key asset markets. This scenario could mirror the March 2020 crisis experienced by money market funds (MMFs) (Li et al. 2021; see also Section 1), albeit at a larger scale, as stablecoins do not pay interest. The risk is further magnified when stablecoins are used as collateral, as permitted under the US GENIUS Act.

3.1.2. Market Liquidity Shocks from Portfolio Shifts

Similar to MMFs, stablecoin issuers are incentivised to search for yield while maintaining asset liquidity. This may result in abrupt portfolio reallocation across jurisdictions in response to interest rate differentials. For example, euro-denominated stablecoin issuers may shift holdings from euro area sovereign debt to US Treasury bills if US interest rates rise.

Although banks face similar pressures, the effect is less pronounced due to their focus on loan-based asset portfolios. Stablecoin-driven asset shifts could affect Eurozone bond markets, potentially forcing the ECB to follow the Fed's monetary stance or to intervene on the short-term debt market by purchasing securities.

3.1.3. Bank Liquidity Risks

Stablecoin issuers not only invest in short-term securities but also deposit money in bank accounts. Stablecoin issuers' withdrawals from bank deposits in pursuit of higher yields could strain bank liquidity. This dynamic is comparable to the infamous 19th-century US pyramidal banking system, where reserve withdrawals from city banks triggered systemic crises (Jaremski & Wheelock 2020). Historically, the Federal Reserve was established partly to counteract such destabilisation by providing emergency liquidity.

3.1.4. Bank Runs

Even if stablecoins are not backed by bank deposits, customers could still affect bank funding by shifting deposits into stablecoins. In particular, they could do this in a crisis when confidence in banks is low. This dynamic would echo historical precedents, in particular the banking crises of the Great Depression in the 1930s (Monnet et al. 2021, Degorce & Monnet 2024). At that time, deposits flowed from unregulated commercial banks to government-backed savings institutions.

While this risk has been widely discussed in the context of CBDC and stablecoins (e.g. Grodecka-Messi, & Zhang 2023), its relevance may be more limited today. Modern banks operate in a vastly more regulated environment and are subject to much stricter capital, liquidity, and supervisory requirements than those of the 1930s. Furthermore, stablecoins in the EU currently do not pay interest, which reduces their attractiveness compared to traditional deposits, especially in normal times. However, recent episodes underscore that these dynamics cannot be entirely ruled out. For instance, during the 2023 banking turmoil in the United States, there was a sudden and substantial shift of deposits from a few banks to prime money market funds (MMFs) (Ennis, 2023)

3.2. Risks Related to Currency Denomination and Cross-Border Circulation

Stablecoins may circulate within a country even if denominated in foreign currencies, creating risks for monetary sovereignty pertaining to monetary policy autonomy, for users subject to exchange rate fluctuations and for the management of the international monetary system.

3.2.1. Exchange Rate Risk

A distinct risk arises when stablecoins are pegged to a foreign currency rather than the domestic currency in which users conduct most of their everyday transactions. In such cases, stablecoin users may be exposed to exchange rate fluctuations between the stablecoin's reference currency and their domestic currency—potentially leading to losses or increased volatility in their purchasing power. For example, use of dollar-pegged stablecoins by EU citizens and businesses for payments may lead to holdings in foreign-denominated digital cash, exposing users to exchange rate volatility. Depreciation of the dollar would diminish the euro-converted value of such holdings, with negative wealth effects on consumption and investment.

3.2.2. Dollarisation and Loss of Monetary Autonomy

Monetary sovereignty is a crucial precondition of state sovereignty. Today's states are crucially reliant on their national currencies for achieving their economic policy objectives. They collect taxes in that currency and often closely monitor bank payments to verify compliance with taxation. If dollar-pegged stablecoins circulate widely within an economy, fluctuations in the dollar's value relative to the domestic currency could undermine the effectiveness of domestic monetary policy or even pressure the central bank to peg its currency to the dollar (or set its monetary policy with a close eye to the dollar, without a formal peg). Such pegs significantly constrain monetary sovereignty. This risk becomes more significant if a large share of transactions in the domestic economy is conducted in foreign-currency-pegged stablecoins, effectively mimicking a form of "digital dollarization", with problems similar to dollarization (Calvo 2002).

3.2.3. Erosion of the Euro's International Role

The internationalisation of a currency is closely tied to its role in trade invoicing (Eichengreen et al. 2024). Replacing euro-denominated transactions with stablecoin-based payments (pegged to the dollar) could reduce the euro's attractiveness as a reserve asset. If dollar-backed stablecoins dominate and their reserves rival those of central banks, this would further entrench the dollar's supremacy as a reserve currency and weaken the euro's global standing.

3.2.4. Destabilisation of Cross-Border Payments

Use of non-EU-licensed stablecoins in EU-peripheral or closely connected countries may facilitate circumvention of EU regulations. This raises risks of money laundering (cf. Box 1) and it would also increase the exposure of EU households and companies to the exchange rate and financial stability risk of those unregulated stablecoins.

Box 1: Stablecoins and Anti-Money Laundering compliance

Two major pieces of AML global regulatory standards apply to EU and US Virtual Asset Service Providers (VASPs), including issuers of stablecoins. These standards are crucial for allowing law enforcement agencies to track illicit funds to combat money laundering, tax evasion, terrorist financing and other forms of crime such as online scamming. These standards would apply to the cross-border use of CBDC (Reslow, Soderberg and Tsuda, 2024; Minto, 2025), raising important implementation challenges for international use of the digital euro. Significant weakening of the US's commitment to these standards would be a clear warning sign for the EU concerning the spread of unregulated USD stablecoin use.

The **Financial Action Task Force (FATF)** requires that countries are able to assess and monitor domestic financial institutions with regard to risks of money laundering and terrorism financing (FATF, 2012, 2024). These standards generally also apply to Virtual Asset Service Providers (VASPs). For example, the so-called Travel Rule mandates that certain information about the sender and recipient of a financial transaction must accompany cross-border transactions. When they transfer virtual assets (like stablecoins), they must collect and transmit information about both the originator (sender) and beneficiary (recipient) of the transaction. This information includes the names of the originator and the beneficiary, their distributed ledger addresses, crypto asset account numbers, addresses, and official personal document number or alternative (date and place of birth) or Legal Entity Identifier (where applicable) (FATF, 2024). In the EU, the Travel Rule was implemented for VASPs through the Transfer of Funds Regulation (TFR) in June 2023. There is no "de minimis" threshold (transfer value exemption) for transactions in the EU, meaning all crypto asset transfers between CASPs must comply with the Travel Rule.

A second crucial global initiative is the **OECD's Crypto-Asset Reporting Framework (CARF).** The OECD has developed a framework for automatic exchange of information on crypto-assets, including CBDCs. This framework also generally emphasizes transparency and reporting for all transactions, without exemptions for smaller values. Its recommendations will be implemented in the EU through DAC8 and effective from 2026. For now, the US is set to implement CARF with 1099-DA reporting, digital asset reporting provisions to be effective January 2027, with reporting in 2028 (PWC, 2024).

4. THE MICA REGULATION AND THE GENIUS ACT

Money, as we saw in Section 2, is not a strictly defined category, but various assets can be more money-like depending on the applicable legal framework. Two conditions are crucial. First, **the value of the stablecoins and their redeemability and/or convertibility at par needs to be sufficiently reliable**. Second, the stablecoin must also be relatively **easy to use for payment purposes**. The risks outlined in the previous section, therefore, are shaped by the legal context in which stablecoins operate.

4.1. The construction of money-like stablecoins in the EU and the US

We compares the **EU regime for stablecoins enshrined in MiCAR** and the **US's proposed GENIUS Act**.[6] The comparison highlights **fundamental differences between the policy goals pursued by the EU and the US.** In its current version, **MiCAR seeks to ring-fence the EU's financial and monetary system**. The US GENIUS Act would do less for domestic financial stability, instead **prioritising innovation in the private sector and wide-spread adoption**.[7]

We identify **seven key regulatory variables** that make stablecoins money-like and limit the risks of allowing private parties to issue money-like claims and we show how the different decisions made by the EU and US policymakers impact on the nature of stablecoins and the risks they imply.

(1) The issuer: deciding who is allowed to issue stablecoins determines the regulatory framework applicable to the issuer and defines the scope of supervision (see Table 3). In the EU, only institutions licensed as credit institutions or electronic money institutions are allowed to issue stablecoins in the form of e-money tokens. Under the GENIUS proposal payment stablecoins could be issued by the subsidiary of insured depositary institutions or by a non-bank qualified institutions with an ad-hoc license. **Allowing 'traditional' banks to issue stablecoins seems to be a way for both policymakers to incentivize those institutions to innovate**. Allowing non-banks to issue stablecoins represents the key channel through which start-ups can enter the market.

(2) Issuance and redemption: these rules are crucial to shape the 'money like' characteristics and the credibility of the promise that stablecoin issuer can make. Both regimes treat the matter in a functionally similar way, once different legal cultures are accounted for (see Table 4). Both the EU and US **mandate a 1-1 redemption at par in off-chain assets** and **prohibit stablecoins from being interest bearing**. The promise to convert at par applies at all times but in stressed scenario MiCAR softens such promise, allowing issuers to limit redemptions to avoid excessive economic harm and market instability. For instance, the issuer of e-money token can activate redemption plans or redemption gates based on its recovery plan. The remainder of the analysis shows that **the fulfilment of such a promise is not safeguarded in the same way in the EU and the US regime**, with the former being much more conservative and mindful of potential stability concerns.

(3) Significant issuers: along this dimension, the EU and the US regime diverge enormously (see Table 5). The **GENIUS proposal features a one-size-fits-all approach**, where requirements almost the same for a small or for a systemically significant issuer. In contrast, **in the EU, issuers that are considered significant** for their size, volume or systemic relevance are subject to a **significantly stricter regime**, especially in terms of 'reserves and asset safeguards' and 'core prudential principles'.

[6] See, respectively, Regulation (EU) 2023/1114 of the European Parliament and of the Council of 31 May 2023 on markets in crypto assets. OJ L 150, 40 and S. 1582 – 119TH Congress (2024-2025): Guiding and Establishing National Innovation for US Stablecoins Act - GENIUS act (2025, May 1st). All the references are made to the version as amended after the rollcall vote of May 5th, 2025.

[7] Although not yet passed by Congress, the GENIUS Act is expected to become the dominant global regulatory framework for stablecoins. As such, any forward-looking assessment of the risks stablecoins pose to the euro's international role must consider the current version of this legislation

(4) Reserve assets: these rules ensure that redemption requests can be satisfied (see Table 6). In good times, the EU regime is much stricter: **30% of the reserve assets are always deposited in a bank account** while the rest can only be invested in 'highly liquid financial instruments'. On the other hand, **the US regime is much more flexible**, allowing issuers to invest on a wide range of products. All else being equal, **this flexibility grants a competitive advantage to non-EU licensed issuers in good times**. In bad times, the EU regime requires issuers to have **early crisis management tools**, including tools already experimented with money market funds to stop runs (Perotti and Matta, 2024). This means that the promise of redemption at par can be softened during crisis to avoid runs and value destruction. In contrast, the GENIUS Act solely focuses on the bankruptcy treatment of stablecoins **granting them priority over any other creditor in insolvency proceedings**.

(5) Prudential requirements: require issuers to **build excess capacity** in good time so to make sure that they **can withstand stressed scenarios, limiting the bail-out expectations** in bad times, but they can be perceived as burdensome for the issuer in good times. (Admati et al., 2013). The prudential treatments of stablecoins diverge tremendously (see Table 7). Under the GENIUS Act the regulator must set the **necessary capital and liquidity requirements on a tailor-made basis and only to the extent necessary to ensure orderly operation**. Under MiCAR, issuers–especially when designated as significant–must **comply with quantitatively and qualitatively defined preventive requirements.** This squares with our general claim of the US pushing a cryptomercantilist approach which increases strablecoins overall financial stability risk. Accordingly, the lack of stringent prudential requirements increases the probability of needing public backstop in times of crisis (Pistor, 2013).

(6) Supervision and enforcement: both regimes adopt supervisory approaches aligned with their respective supervisory cultures and architecture (Markakis, 2025 – see Table 8). The **enforcement powers are, on paper, more invasive under MiCAR**. However, deriving implications from stated supervisory powers may be misleading (Martino and Perotti, 2025). It is noteworthy to see that for non-bank stablecoin issuers, the US regulator and supervisor is the Office for the Control of the Currency (OCC), which is **under the (political) control of the Secretary of the Treasury** (Congressional Research Service, 2023).

(7) Cross-border reach: to understand the **challenges of stablecoins to monetary sovereignty, it is crucial understand the impact of a jurisdiction's rules beyond its borders** (see Table 9). Both regimes state that **non-licensed issuers cannot lawfully issue stablecoins** in their jurisdictions. Besides this common starting point, the US seems keen on attracting also foreign issuers so long as it can retain some (political) control over the issuer. Accordingly, the **Secretary of the Treasury can take ad hoc decisions to authorise a foreign issuers**. Moreover, the Secretary of the Treasury can **enter into agreements with other jurisdictions to facilitate international transaction**s and the interoperability with United States dollar-denominated payment stablecoins issued overseas. In contrast, **in the EU none of these options are available** and MiCAR limits itself to promoting supervisory cooperation agreements. The standard way to access the EU **internal market would be 'equivalence'** (Pennesi, 2021; however such possibility is **not included in the current version of MiCAR** and the Commission needs to report on the possibility to include it by June 2027. This reluctance to include an equivalence mechanism is likely attributable to the EU being the first mover in the regulation of crypto-assets. Our analysis reveals that such a caution is well placed when looking at the challenges that the US stablecoin policy can pose to the EU and the euro (Section 5.1).

4.2. EU Law and Monetary Safeguards

To understand the extent to which stablecoins could affect the monetary sovereignty of the EU and its member states, we analyse two distinct and complementary aspects. First, we look safeguard against the sale of stablecoins in the EU by foreign, non-MiCAR compliant issuer. We then turn to safeguards for stablecoins issued by MiCAR-compliant issuers whose denomination is not the euro–or another official currency of a Member State–such as the US Dollar.

4.2.1. Stablecoins issued by a foreign non-MiCAR compliant issuer

Since MiCAR went into force, **foreign, non-MiCAR compliant stablecoins can be legitimately owned** by European clients, but **the regulatory regime brings their liquidity, and hence moneyness, close to zero**.

The licensing regime for e-money tokens clearly states that only credit institutions and electronic money institutions can issue such stablecoins. To have such license, one need to be established in the EU and apply to the competent authority. Given these strict requirements, one possibility for foreign issued stablecoins to enter the EU market may be through Crypto Asset Service Providers (CASP).

The Commission recently clarified that **an EU CASP cannot receive, transmit and execute orders to buy and sell non-MiCAR compliant stablecoins** because it **would amount to an 'offer to the public' of the non-MiCAR compliant stablecoins**.[8] In contrast, services such as reception, transmission and execution of orders; and the exchange of crypto-assets for funds or other crypto-assets are not allowed.

Therefore, **the only possibility of non-MiCAR compliant stablecoins to enter within the European borders is through the so-called 'reverse solicitation' exemption**. Thanks to this exemption a European client initiates at its own exclusive initiative the provision of a crypto-asset service, such as the order of foreign stablecoins. This specific case does not account to offer to the public so that the platform providing such service does not need to be licensed under MiCAR.[9] However, from the perspective of this report, the reverse solicitation exemption does not represent a backdoor to the European market for foreign stablecoins: these stablecoins can be bought by clients but cannot be listed or traded; therefore their liquidity remains low. This implies that foreign stablecoins may be used as a store of value by European clients but not as a means of exchange. Furthermore, lacking liquidity, deciding to use foreign stablecoins as a store of value would imply considerable downside risks which are incompatible with the store of value function.

4.2.2. Non-euro denominated stablecoins issued by MiCAR-compliant issuers

The second aspect that requires our attention is the case of MiCAR-compliant **e-money tokens whose denomination (i.e. peg) is not the Euro or another official currency of a Member State**. This is a sensitive case since it may **hinge upon the monetary sovereignty of the European currencies**, as well as the smooth transmission of monetary policy and is further discussed in Section 3.

MiCAR features specific **monetary safeguards** that were introduced in the last round of amendments before the final approval of MiCAR. These safeguards are organized along **two lines of defence**.[10] The first line allows to restrict the issuance of e-money tokens that are **widely used as a means of payment**. This applies to issuers of e-money tokens denominated in a foreign currency with daily average number of transaction and the average volume of transaction exceeds, respectively, 1 million and EUR 200

[8] ESMA_QA_2404. Available at https://www.esma.europa.eu/publications-data/questions-answers/2404. Following up on this position taken by the Commission, ESMA clarified that some crypto asset services in relation to foreign issued stablecoins, such as custody and transfer, do not amount as an offer to the public; hence, they remain legal. See ESMA, Public Statement On the provision of certain crypto-asset services in relation to non-MiCA compliant ARTs and EMTs. 17 January 2025 ESMA75-223375936-6099.

[9] Article 61 MiCAR. To avoid market disruptions and allow for a smooth transition, ESMA invited CASPS maintain crypto-asset services for these products on a 'sell only' basis for a longer period (until the end of Q1 2025).

[10] The legal construction of these safeguards is baroque and make it difficult to interpret. It is based on Article 58(3). The norm is, in principle, dedicated to the specific additional requirements for significant e-money token. However, the third paragraphs refer to any e-money token denominated in a currency that is not an official currency of a Member State. To these tokens, article 23 and 24(3) MiCAR are applicable.

million[11]. If these thresholds are exceeded, the **issuance must stop and, within 40 working days, the issuer must submit a plan to the competent authority to restore compliance**.[12]

This first line of defence **sets clear quantitative thresholds and empowers the competent authority to monitor and ensure compliance**. In contrast, **the second line of defence empowers the ECB with a broad discretionary power** not calibrated over quantitative thresholds. The ECB can issue an opinion deeming that the **e-money token "poses a threat to the smooth operation of payment systems, monetary policy transmission or monetary sovereignty**".[13] In this instance, the competent authority is required to l**imit the amount of the e-money token to be issued or impose a minimum denomination amount as specified in the ECB opinion**. This clearly raises concerns in terms of accountability and judicial control.

From an institutional perspective, the ECB has a general power to deliver opinions and, as legal acts issued by the ECB these are subject to the judicial control of the ECJ.[14] It is important to highlight that the final decision remains with the competent authority, which is the EBA for significant e-money token issuers; but the content of the opinion issued by the ECB is binding for the competent authority. The fact that the final formal decision rests with the competent authority does not decrease the judicial oversight of the ECJ as it is well established in case law that the ECB shall act in respect of EU law also when its acts are part of a more complex procedure leading to a legally binding decision taken by another body or institution.[15] What remains unclear is the accountability of the ECB when making such a pivotal decision dense of political consequences. To the very least, inter-institutional procedure should favour dialogue between the ECB, the Parliament and the Council in the preparation of the opinion.

11 For the purpose of this safeguard, only the use of stablecoins as a means of payment is relevant and not the transactions associated simply with the exchange of e-money tokens for funds or other crypto-assets. On the specific definition of 'transactions' for the purpose of this safeguard, see Article 22(1) MiCAR.

12 Article 23(1) MiCAR.

13 Article 24(3) MiCAR.

14 See, respectively, Article 132 TFEU and article 35 ESCB Statute.

15 See, for instance the ECJ decision on the Cases C-8/15 P to C-10/15 P *Ledra Advertising Ltd, et al. v. European Commission and the European Central Bank* [2016]. The judgment comes in the context of the acts of the ECB when negotiating the Memorandum of Understanding between the ESM and a participating State. The ECJ held the ECB and the Commission responsible for the legality of the conditionalities attached to the aid received by the participating State from the ESM.

5. ASSESSMENT OF STABLECOIN EXPANSION AND ASSOCIATED RISKS

We assess the severity and likelihood of the eight risks identified in Section 3, under current EU regulation and US proposed regime, while acknowledging the high uncertainty surrounding the future development of stablecoins. We show that only a part of them are currently major risks for EU policies. Finally, we discuss possible responses from European regulators and the ECB. The challenge—and importance—of assessing these risks lies in the fact that they depend heavily on the nature of the assets held by stablecoin issuers.

Based on the assessment of the different risks, we reach the following conclusions:

1) Limited Current Stability Risks for the EU

Stablecoins currently pose limited stability risks for the EU due to low household adoption and protective MiCA regulations. However, corporate adoption could shift this dynamic, especially if the digital euro or fast payment systems fall behind.

2) Regulatory Safeguards Against Dollarisation Risks

MiCAR allows dollar-pegged stablecoins in the EU but requires diversified reserves and grants the ECB power to cap their issuance. This authority should be used proactively if such coins pose dollarisation or exchange rate risks.

3) Global Risks to Monetary Sovereignty and Strategic Response

The global spread of dollar-pegged stablecoins threatens monetary sovereignty in emerging markets and challenges the euro's international role. The EU should lead efforts to build interoperable CBDCs and payment systems to counter US dominance in digital finance.

5.1. EU Households' use of stablecoins will have a moderate impact on aggregate liquidity[16]

Even under relatively strong adoption assumptions, the role of stablecoins in the broader financial system may remain limited—at least initially. For instance, suppose all current users of physical cash in the euro area were to replace it entirely with stablecoins. The total volume of euro banknotes in circulation is currently around EUR 30 billion. Now consider a more expansive scenario: if every working-age European citizen (aged 15 and above) were to hold an average stablecoin wallet of EUR 500 for regular payments, the total volume of stablecoins would reach approximately EUR 191 billion. If the average wallet were instead EUR 1,000, this figure would rise to EUR 382 billion. While such figures are not negligible, they remain relatively modest compared to the size of current euro area bank deposits: households hold EUR 5,173.6 billion in overnight deposits and EUR 2,304.2 billion in short-term (up to 3 months) demand deposits. Under the MiCAR, 30% of stablecoin assets must remain in demand deposits, leaving 70% (EUR 267 billion, at most) investable in securities—insufficient to significantly destabilise sovereign bond markets. Total public debt in the euro area is EUR 12,753 billion (with French, German and Italian public debt each in the range of EUR 2,500-3000 billion.)

Bank-run risks linked to stablecoin expansion remain harder to quantify and may emerge under idiosyncratic bank stress, as seen in 2023 in the US and Switzerland. However, the modern EU banking sector is significantly more resilient than in past crises.

[16] All statistics on bank deposits and macroeconomic figures in this section were obtained from https://data.ecb.europa.eu/

5.2. Corporate Use: A Potential Game Changer

Firms are the crucial actors in European payment systems, both as they shape payment behaviour of consumers but also for business to business payments. The latter are crucial, as illustrated by the fact that while bank transfers—commonly used by companies—make up only 22% of the number of non-cash payment transactions in the euro area, they represent a striking 93% of the total value of those payments.

If euro area companies were to begin paying the current EUR 235 billion in monthly wages using stablecoins and started using them for business-to-business transactions as well, the volume of stablecoin usage could increase significantly. In such a scenario, a notable portion of the EUR 2,450.8 billion in overnight bank deposits currently held by companies might migrate into stablecoins.

That said, companies currently have limited incentives to bypass the banking system for payments—particularly for payroll—since banks offer a broad range of integrated financial services, including lending and cash management. The strongest incentive for companies to adopt stablecoins would likely arise in the context of cross-border payments, where stablecoins could offer faster and cheaper alternatives to traditional international bank transfers.

5.3. Competition between stablecoins, CBDC and digital payments within the euro area

For users, stablecoins offer four main advantages:

i) payments are faster and cheaper than (currently) most bank transfers;

ii) they can protect against the real loss of value of the national currency if they are pegged to an alternative currency that appreciates against the national currency;

iii) they guarantee payment confidentiality;

iv) access to payment systems does not require a bank account.

Central bank digital currency may be a suitable alternative to stablecoins (with lower risk and potentially easier access) in terms of features i), iii) and iv) and when payments are made domestically. Better payment systems linked to bank accounts may also reduce the need for stablecoins. Potential competition from stablecoins and CBDCs may force banks to improve their payment systems and make them less expensive. However, stablecoins could gain an advantage over digital payments made through banks and CBDCs if their issuers were allowed to offer cash rewards or rebates. The introduction of the digital euro is thus a key policy to limit the use of stablecoins in the euro area and push banks to improve their payment systems accordingly.

If inflation remains low in the euro area, there is no advantage in using stablecoins to protect against a loss in the real value of the euro (i.e. feature ii). However, this will not be the case in other countries. Furthermore, digital bank payments and CBDCs may offer more stable and attractive alternatives to stablecoins for domestic payments in the euro area, but this is less the case for international payments.

For these reasons, we think that widespread use of stablecoins is more likely in third countries than in the euro area. It is towards this global competition that we are now turning our attention.

5.4. Global expansion of Dollar-Backed Stablecoins

Stablecoin uptake is expected to grow fastest in regions where access to banks is limited. While 76% of the global population holds a financial account, ownership is skewed towards high-income economies (Demirgüç-Kunt et al. 2022). In many countries, it is below 50%, with mobile money dominating recent account growth. These demographics make emerging markets a prime target for stablecoin issuers, who openly market stablecoins as promoting financial inclusion (Catalini et al. 2022). Citibank estimates stablecoin capitalisation could grow from USD 250 billion to USD 2 trillion between 2025 and 2030, potentially driven by demand in unbanked and dollar-hungry economies.

The dominance of US technology companies in global online commerce is likely to accelerate the international proliferation of dollar-backed stablecoins. Major US firms—particularly the US tech companies—have the capacity to issue their own stablecoins or promote existing ones through marketing, incentive schemes (e.g., cashback offers), and integration into their digital ecosystems. This can significantly boost stablecoin adoption, especially in countries where households lack access to fast, reliable digital payment alternatives.

Dollar-pegged stablecoins offer clear advantages in economies with monetary instability. They also facilitate international transactions by making payments faster, cheaper, and less exposed to exchange rate fluctuations—particularly when trade is invoiced in us dollars (Bindseil and Pantelopoulos, 2022). However, while these benefits may appeal to consumers and businesses, they can lead to an underestimation of the broader systemic risks posed by dollar-pegged stablecoins (i.e., threats to financial stability and the erosion of monetary policy autonomy).

6. CONCLUSION: POLICY RECOMMENDATIONS

6.1. Domestic Measures

The MiCAR already imposes strong safeguards regarding asset quality and liquidity of stablecoin issuers. Coupled with already high levels of financial inclusion and relatively low cost of payments, the likelihood of rapid stablecoin-driven destabilisation appears to be low. Caution and further action remains needed:

1. **Avoid Premature Equivalence Agreements**

EU regulators should refrain from granting equivalence to stablecoin regimes in jurisdictions with weaker standards. The divergence between MiCAR and the US GENIUS Act underscores this risk.

2. **The ECB should closely monitor the development of dollar-pegged stablecoins in the EU and if needed limit their circulation**

The ECB has the ability to cap the issuance of non-euro-pegged stablecoins (see Section 4.2.2). Ensuring the EU choice for floating exchange rates and adherence to the EU Treaties' price stability objectives requires preventing de facto dollarisation of the EU payment system.

3. **Promote both retail and wholesale central bank digital currencies (CBDCs) and fast payment systems as safe and efficient alternatives to stablecoins.** In parallel, banks should be incentivized to offer faster, cheaper, and more user-friendly payment services, particularly for businesses, to reduce the appeal of private stablecoins in day-to-day transactions.

6.2. Promoting the international euro

The threat of USD stablecoins also creates new opportunities to promote the international role of the Euro. The EU should counter US cryptomercantilism by promoting the international role of the euro in a context of enhanced multilateral payment systems.

Despite the ambition to make the euro an alternative to the dollar, these ambitions have to date not remotely been achieved due to the lack of euro safe assets and the absence of an active strategy to promote its international use (Ilzetzki, Reinhart and Rogoff, 2020; van 't Klooster and Murau, 2025). US crypromercantilism could further entrench the EU's dependence on the dollar, confronting it with **a critical choice: either accept a global payments system driven by shifting US administrations and international financial actors or promote a multilateral system premised on mutual respect for domestic monetary sovereignty.**

It is neither realistic nor desirable for the EU to compete with the US by promoting euro-denominated stablecoins through a weakening of MiCAR. The current market share of 0.02% shows that the prospect for widespread international adoption is remote. Our account of risks in Section 3.1 also illustrates the profound downsides of deregulating stablecoins for domestic users.

Instead, an active policy of euro internationalisation can act as a stabilising—not hegemonic—force that helps other countries counteract the risk of dollarisation through dollar-pegged stablecoins. The EU can benefit from more widespread use of its currency, while third countries can benefit from stable and reliable international means of payment. This requires the **development of an infrastructure of payments that would guarantee the interoperability of CBDC and fast payment systems for cross-border payments.**

Building on the recent literature on cross-border payments through CBDC and fast payment systems (BIS, 2022; Aurazo et al. 2024, Reslow et al. 2024), we highlight three important features that deserves important considerations at an early stage:

- **International cooperation is essential:** information sharing, consistent communication standards and regulatory approaches, and the establishment of a common infrastructure are indispensable for facilitating the interoperability of CBDCs with other CBDCs and non-CBDC fast payment systems.

- **Currency conversion will be crucial for cross-border payments**. Currency conversion can be operated by private sector intermediaries, even for exchanges between different CBDCs. However, where necessary central banks should also consider their own role in providing liquidity or currency conversion. This could include regional agreements to pool foreign exchange reserves.

- **Capital flow management measures should be considered in payment infrastructures** to avoid financial stability risks associated with potentially increased payment volatility.

The development of a cooperative and multilateral approach to payment systems across jurisdictions is the only way to avoid the privatisation of international payments through dollar-pegged stablecoins and the associated risks to monetary sovereignty.

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ANNEX I – A COMPARATIVE ANALYSIS OF THE MICA REGULATION AND GENIUS ACT

Issuers and license

Table 3 – Issuers and license

<table>
<tr><th>Regulatory Variable</th><th>Regulatory dimension</th><th>EU MiCAR</th><th>US (proposed) GENIUS</th></tr>
<tr><td rowspan="2">Issuers and license</td><td>Issuing entities</td><td>▪ Credit Institutions - Art. 48(1)(a) MICAR
○ ie: universal bank license under the Capital Requirement Regulation
▪ Electronic Money Institution - Art. 48(1)(a)
○ Eg: Revolut Payment; Nexi Payment.</td><td>▪ Subsidiary of an insured depository institution – Sec 2(16) (A)
▪ Federal qualified nonbank payment stablecoin issuer – Sec 2(16) (B)
▪ State qualified payment stablecoin issuer – Sec 2(16) (C)</td></tr>
<tr><td>Type of license</td><td>▪ No specific MiCAR license.
▪ Either a Credit Institution License (issued by the ECB or National Central Bank) or an Electronic Money Institution License (National Competent Authority with internal market passport)
▪ Notification of the intention to issue e-money tokens to the competent authority 40 days ahead</td><td>▪ Stablecoin specific license
▪ Decision by the Primary Federal payment stablecoin regulator – see below under f) – Sec 5(a)(1)
▪ Decision based on the ability to comply with substantive requirements (see below) & factors that are necessary to ensure the safety and soundness of the issuer (secondary regulation) – Sec 5(c)
▪ Decision in 120 days; silence equals to approval – Sec 5(d)</td></tr>
</table>

Issuance and redemption

Table 4– Issuance and redemption

Regulatory Variable	Regulatory dimension	EU MiCAR	US (proposed) GENIUS
Issuance and redemption	Legal Nature	▪ E-money Tokens are deemed to be Electronic Money[17] ▪ Issuers issue e-money tokens at par upon the receipt of funds	▪ Sui generis Digital Asset designed to be used for payment or settlement – Sec 2 (15)(A)(i) ▪ Treated as cash equivalent for accounting purposes, for margin and collateral requirements, and acceptable as settlement asset for wholesale transactions – Sec 3(g)
	Redemption Right	▪ Holders have a direct claim against the issuer ▪ Redemption at par, at any time, in funds[18] other than electronic money ▪ no fees for redemptions	▪ Issuers of stablecoins obliged to convert, redeem or repurchase for a fixed amount of monetary value – Sec 2 (16)(A)(ii)(I) ▪ Redemption policy shall be public, including redemption fees, if any – Sec 4 (a)(1)(B)
	Interest Payment	▪ Prohibited – Art. 50 MiCAR	▪ Prohibited – Sec 2 (23) (B)

[17] Electronic Money means electronically, including magnetically, stored monetary value as represented by a claim on the issuer which is issued on receipt of funds for the purpose of making payment transactions, and which is accepted by a natural or legal person other than the electronic money issuer – Article 2(2) E-money Directive.

[18] In this context, 'funds' means banknotes and coins, scriptural money – Article 4(25) Payment Service Directive.

Significant issuers

Table 5 – Significant issuers

Regulatory Variable	Regulatory dimension	EU MiCAR	US (proposed) GENIUS
Significant issuers	Designation	▪ Mandatory: quantitative and qualitative threshold assessed by the EBA[19] ▪ Voluntary: at the request of the issuer if it is likely to meet the mandatory threshold.	▪ At Federal level: one-size-fits-all regulation for bank subsidiaries and non-bank issuers ▪ At State level: subject to State legislation, but if outstanding issuance > 10 mil USD the Federal Regulatory Framework applies – Sec 4(d)(1) and (2) ▪ Option to keep State level regulation if State-level regulatory regime is substantially similar to the Federal regulatory framework – Sec 4 (c) (1)
	Additional Requirements	▪ Stricter, MiCAR-specific, requirements on reserves of assets, investment of reserves, custody, liquidity management policy, liquidity stress-testing, higher capital requirements[20]	▪ Additional reporting requirements for federal issuer of payment stablecoins if consolidated total outstanding issuance > 50 bil USD – Sec 4(a)(10)(A)(1)

[19] At least three of the following criteria: (a) the number of holders of the asset-referenced token is larger than 10 million; (b) the value of the asset-referenced token issued, its market capitalisation or the size of the reserve of assets of the issuer of the asset-referenced token is higher than EUR 5 000 000 000; (c) the average number and average aggregate value of transactions in that asset-referenced token per day during the relevant period, is higher than 2,5 million transactions and EUR 500 000 000 respectively; (d) the issuer of the asset-referenced token is a provider of core platform services designated as a gatekeeper in accordance with Regulation (EU) 2022/1925 of the European Parliament and of the Council (43); (e) the significance of the activities of the issuer of the asset-referenced token on an international scale, including the use of the asset-referenced token for payments and remittances; (f) the interconnectedness of the asset-referenced token or its issuers with the financial system; (g) the fact that the same issuer issues at least one additional asset-referenced token or e-money token, and provides at least one crypto-asset service – Article 56(1) jo. 43(1) MiCAR.

[20] Article 58 MiCAR.

Reserves and asset safeguards

Table 6 – Reserves and asset safeguards

Regulatory Variable	Regulatory dimension	EU MiCAR	US (proposed) GENIUS
Reserves and asset safeguards	Reserve Assets and their investment	▪ 30% of the funds always deposited in a separate bank account in the currency that the e-money tokens refer to – Art. 36(4)(d) ▪ the remaining can be invested in 'highly liquid financial instruments'[21]	▪ requirement to maintain reserves backing the outstanding payment stablecoins of the permitted payment stablecoin issuer on an at least 1 to 1 basis, with reserves comprising – Sec 4(a)(1)(A) ▪ Wide range of potential reserve assets – Sec 4 (a)(1)(A) (i) to (vii)[22] ▪ Prohibition on rehypothecation, with exceptions – Sec 4 (a)(2)
	Custody	▪ Prohibition to commingle with other funds & insurance coverage.[23] ▪ for significant e-money tokens: reserve assets, including invested financial instruments, are held in custody by a credit institution, investment firm or crypto-asset service providers.[24]	▪ Custody from a third party is mandatory and must be carried out by a supervised and regulated entity – Sec 10(a) ▪ Prohibition to commingle with relevant exceptions, but the claims of a customer have priority over the claims of any person – Sec 10(c)(1) to (3)
	Crisis management	▪ duty to draft a recovery plan (including measures such as liquidity fees, gates and suspension of redemption)[25]; ▪ duty to draft a redemption plan for the orderly redemption of tokens in case of default[26] ▪ bankruptcy treatment according to national insolvency proceedings or resolution framework if issued by a credit institution	▪ no specific crisis management requirements in the GENIUS Act ▪ mandatory stay applies to the redemption of payment stablecoins once a petition for bankruptcy is files – Sec 11 (c) (9) and 11 US Code § 362 ▪ Explicit priority in insolvency proceedings – Sec 11 (d)

Source: Authors' elaboration based on the text of the MiCA Regulation and the proposed GENIUS Act

21 Article 38 MiCAR as amplified by EBA/RTS/2024/11 – Draft Regulatory Technical Standards to specify the highly liquid financial instruments with minimal market risk, credit risk and concentration risk under Article 38(5) of Regulation (EU) 2023/1114 [not yet in adopted by the Commission]. Specifically: Level 1 Asset with no haircut or Covered Bonds (up to 35% of reserves). The Level 1 Assets with no haircut are listed in the COMMISSION DELEGATED REGULATION (EU) 2015/61 of 10 October 2014 to supplement Regulation (EU) No 575/2013 of the European Parliament and the Council with regard to liquidity coverage requirement for Credit Institutions. Essentially, it includes banknotes, coins, exposure on Central Banks, claims on or guaranteed by Central Governments.

22 Including Coins, Currency, Demand Deposits, Treasury bills, notes, or bonds with residual maturity of less than 93 days, overnight repos, reverse overnight repos, public debt money market funds, other 'similarly liquid Federal Government-issued asset' approved by the regulation, the tokenized form of any of the previous securities mentioned.

23 Article 10 Payment Service Directive

24 Article 36(4) MiCAR.

25 Article 46 MiCAR.

26 Article 47 MiCAR.

Core Prudential Requirements

Table 7 – Core Prudential Requirements

Regulatory Variable	Regulatory dimension	EU MiCAR	US (proposed) GENIUS
Core Prudential Requirements	Capital Requirements	▪ 2% of own funds in the form of Common Equity Tier 1[27] ▪ possible to impose 20% prudential add-on top of the minimum requirement;[28] ▪ For significant e-money tokens: 3% of own funds in the form of Common Equity Tier 1; the prudential add-on can be up to 40%[29]	▪ tailor-made decision by the primary Federal regulator, not exceeding what is sufficient to ensure on-going operations – Sec 4 (a) (4) (i) ▪ possibility to introduce tailored-made buffers based on the business model and risk profile – Sec 4 (a) (4) (i)(III) ▪ if the stablecoins is issued by the subsidiary of a depository institution, the bank-specific capital requirements (both leverage ratio and risk-weighted requirements) do not apply to the issuer of stablecoins on a consolidated basis – Sec 4(a)(4)(C)(iii)
	Liquidity Requirements	▪ 30% of the funds always deposited in a separate bank account (see above – Source: XXX) ▪ for significant e-money tokens: draft 'liquidity management policy and procedure' & conduct liquidity stress testing	▪ the determination of liquidity standard is determined by the primary regulator – Sec 4 (a) (4) (A) (ii) ▪ these shall include reserve asset diversification, and interest rate risk management standards which should be tailor-made and not exceed what is sufficient to ensure on-going operations – Sec 4(a)(4) (A) (iii) ▪ if the stablecoins is issued by the subsidiary of a depository institution, the bank-specific liquidity requirements do not apply to the issuer of stablecoins on a consolidated basis – Sec 4(a)(4)(C)(ii)

Source: Authors' elaboration based on the text of the MiCA Regulation and the proposed GENIUS Act

[27] Article 5(3) EMD

[28] Article 5(5) EMD.

[29] Article 45(3) and 35(5) MiCar.

Supervision and enforcement

Table 8 – Supervision and enforcement

Regulatory Variable	Regulatory dimension	EU MiCAR	US (proposed) GENIUS
Supervision and enforcement	Designated authority	▪ National Competent Authority with 'last resort' intervention power from EBA[30] ▪ For Significant e-money tokens: centralized supervision by EBA in cooperation with the NCA[31]	▪ Key concept: Primary Federal Payment Stablecoin Regulator ▪ for the subsidiary depository institutions: the supervisor of the depository institution – either the OCC, the FDIC or the FED, depending on the type of institutions – Sec 2 (25) (A) and Sec 3 (q) of the Federal Deposit Insurance Act ▪ for non-bank payment stablecoins issuers the OCC – Sec 2 (25)(D)
	Supervisory Powers	▪ Broad powers to require information provision; amend or suspend offers or trading, etc.[32] ▪ Impose fines and penalties in case of infringements.	▪ In case of violations, the Primary Regulator can – Sec. 6(b) (1) to (3) ▪ suspend or revoke the registration. ▪ issue cease and desist orders ▪ remove or prohibit further participation of director, officer, employee, or controlling stockholder
	Reporting Duties	▪ Reporting duties as required by the National Competent Authority ▪ For significant e-money tokens: EBA power to request information – Article 122 MiCAR. ▪ For significant e-money tokens non-euro denominated: quarterly report on holders, total value, transaction volume.	▪ monthly reporting duties to the primary Federal regulatory; the reporting is examined by a registered accounting firm – Sec 4(a)(3) ▪ Submission of reports upon request of the Primary Regulator – Sec 6(a)(2)

Source: Authors' elaboration based on the text of the MiCA Regulation and the proposed GENIUS Act

[30] Article 93 and 104 MiCAR.
[31] Article 117(4) and (5) MiCAR.
[32] Article 94 MiCAR

Extraterritorial reach and equivalence

Table 9 – Extraterritorial reach and equivalence

Regulatory Variable	Regulatory dimension	EU MiCAR	US (proposed) GENIUS
Extraterritorial reach and equivalence	Equivalence and Mutual Recognition	▪ Possibility to conclude supervisory cooperation agreements[33]	▪ The Secretary of the Treasury may enter into reciprocal arrangements with jurisdictions with payment stablecoin regulatory regimes that are considered comparable to the GENIUS act, to facilitate international transactions and interoperability with United States dollar-denominated payment stablecoins issued overseas – Sec 18 (d)
	Foreign issuers	▪ Only EU licensed credit and electronic money institution can offer to the public or seek admission to trading of e-money tokens ▪ non-licensed stablecoins cannot be listed in MiCAR-compliant crypto-trading platforms, but mere custody and transfer remains possible;[34] ▪ possibility for Payment Service Providers to accept non-EU licensed stablecoins as a means of payment ▪ reverse solicitation exemption[35]	▪ It shall be unlawful for any person other than a permitted payment stablecoin issuer to issue a payment stablecoin in the United States unless the foreign payment stablecoin issuer has the technological capability to comply, and will comply, with the terms of any lawful order or reciprocal arrangement– Sec 3 (b) (2)[36] ▪ Possibility to require an ad hoc decision from the Secretary of the Treasury stating that the regulatory and supervisory regime of the foreign country of issuance is comparable to the requirements established under the GENIUS Act – Sec 18(a) ▪ Registration with the OCC is still required – Sec 18 (c)

Source: Authors' elaboration based on the text of the MiCA Regulation and the proposed GENIUS Act

[33] Article 107 MiCAR.

[34] ESMA_QA_2404

[35] Article 61 MiCAR.

[36] With explicit exemption for issuers from some offshore jurisdiction affiliated with the United States, such as claims of a customer with respect to the property described in that paragraph shall have priority over the claims of any person; as long as the issuer is registered with the OCC – Sec 18 (a)(1)

The current US administration promotes dollar-backed stablecoins—privately issued and supported by US debt—to reinforce dollar dominance worldwide, a strategy we dub "cryptomercantilism." This report studies the EU's 2024 Markets in Crypto Assets Regulation (MiCAR) and its safeguards for the EU's monetary sovereignty. It also compares MiCAR to the proposed GENIUS Act in the US. Under existing policies, USD stablecoins create severe risks for third countries, indirectly also affecting the EU. The EU should counter digital dollarisation by promoting the international role of the euro in a context of enhanced multilateral payment systems.

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