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GFTN
GLOBAL FINANCE & TECHNOLOGY NETWORK

Coining the Right Strategy for Stability

July 2025

About

Global Digital Finance (GDF) is the leading global non-profit association of member firms offering an open innovation platform for advocating and accelerating the adoption of best practices for digital assets. GDF's mission is to promote and underpin the greater adoption of market standards for the use of crypto and digital assets, through the development of best practices and governance standards in a shared engagement forum with industry, policymakers and regulators.

For more information, visit www.gdf.io

The Global Finance & Technology Network (GFTN) (formerly known as Elevandi) is a not-for-profit organisation established by the Monetary Authority of Singapore (MAS) in 2024 to harness technology and foster innovation for more efficient, resilient, and inclusive financial ecosystems through global partnerships. GFTN organises convening forums, offers advisory services on innovation ecosystems, provides access to transformative digital platforms, and invests in technology startups with the potential for growth and positive social impact through its venture fund.

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The GFTN Forum, Japan - formerly known as Japan FinTech Festival - is part of the Japan Financial Services Agency's Japan FinTech Week (JFW). This Forum highlights the dynamic international ecosystem within JFW, embracing the bold theme of "Building Financial Corridors Worldwide" while supporting the domestic ecosystem.

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Session Synopsis

Stablecoins are often highlighted as being one of the most critical forms of digital assets for mass adoption in both institutional markets and Web3. They can be defined as a token designed to maintain stable value ('par value') with regard to an underlying fiat currency, backed at least one-for-one by a mix of cash and cash-equivalent reserves and/or other high-quality liquid assets (HQLA) denominated in that currency. Stablecoins may be used for payment and settlement purposes across a wide range of use cases spanning both traditional and digital finance.

In the future, it is likely that stablecoins, alongside other new forms of digital money, will co-exist and interoperate across the current financial services ecosystem, each taking on a specific role and addressing different niches in the ecosystem.

However, as stablecoins are frequently exchanged at a slight deviation from par with their referenced fiat currency, some policymakers have argued that this phenomenon means that stablecoins do not meet the criteria of 'singleness', the principle that all forms of money in an economy, whether physical or digital, should be valued on a one-to-one basis at all times and in all circumstances. Accordingly, they argue, they are unsuitable for large scale adoption or use in financial markets as money.

This Roundtable aimed to discuss:

1. The unique characteristics of stablecoins and their potential to support financial system innovation;
2. The arguments both for and against stablecoins – including both risks and risk mitigants, nuances around the singleness of money, dollarisation/de-dollarisation, volatility;
3. Safe innovation in stablecoin markets; and
4. The regulatory frameworks or other solutions needed for wider adoption.

Contents

Introduction

The discussion was structured around five thematic questions that examined the role of stablecoins in today's financial landscape, including their characteristics, risks and mitigants, regulatory challenges, pathways for safe innovation and adoption, and future considerations in the context of emerging technologies such as AI.

1 Unique Characteristics of Stablecoins and Their Potential to Support Financial System Innovation

The session began with an exploration of the unique characteristics of stablecoins and their potential to drive financial system innovation.

Overview and Economic Context

Roundtable participants provided key highlights from the 2025 State of the **Stablecoin Economy report**, noting significant growth in the stablecoin market, including a 78% increase in circulation and record monthly transaction volumes.

Use Cases and Industry Growth

They explained that stablecoins are widely adopted for facilitating on- and off-ramps on exchanges, with approximately 60% of volume attributed to these functions. Other use cases include remittances, corporate treasury management, trade finance, trade settlement, and humanitarian aid delivery.

It was noted that for trade finance and trade settlement, the majority of transactions are denominated in US dollar. This makes dollar-backed stablecoins (which form the majority in the market currently) the logical use case for the contract and settlement.

Bridging TradFi and Digital Assets

Roundtable participants elaborated on how stablecoins bridge traditional finance and digital assets by supporting on-chain settlements, reducing cross-border payment fees, and enhancing compliance with AML and KYC standards.

Stablecoins in the Crypto and DeFi Ecosystem

For the decentralised finance (DeFi) world, they are anticipating stablecoins growing to be a US$2 trillion industry. For this to happen, merchants need tangible opportunities for returns on investment. A common use case highlighted that can build a sustainable ecosystem for stablecoins is prefunding (filling a gap for the fiat leg between two institutions).

Global Industry Implications

Participants also highlighted that the past year's dynamic growth has been instrumental in fuelling further innovation and adoption across the industry. For real-time international payments, this means better visibility of cash management from a corporate treasurer perspective and real-time B2B payments. Stablecoins can help to improve the speed of transactions for corporate treasurers globally.

Impediments to Adoption

It was, however, discussed that the current risk exposure for traditional institutions can be an impediment to adoption. It is important to mitigate these risks with collaboration between the public and private sector, and to have comprehensive regulation so that stablecoins meet regulatory objectives, and internal compliance teams feel more comfortable embedding them in day-to-day activities.

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Stablecoins: For or Against?

Risk Identification: The Most Commonly Heard Arguments Against Stablecoins

Participants shared a range of concerns frequently voiced within institutions evaluating stablecoin adoption. These concerns should not be viewed as arguments against innovation per se, but rather as reflections of the genuine risk considerations that continue to shape internal discussions. Understanding and addressing these barriers will be critical to enabling responsible adoption at scale. The following ar the most commonly heard arguments which roundtable participants discussed:

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1 Lack of Trust in New Technologies

Many institutions remain cautious about adopting nascent blockchain-based systems, particularly when stablecoin infrastructure involves untested models or perceived black-box dependencies. This scepticism is compounded when projects lack transparent governance structures or credible backing.

2 Regulatory Uncertainty and Compliance Risk

A major recurring theme was the shifting regulatory landscape, particularly in cross-border contexts, where conflicting interpretations of stablecoin classifications (e.g., e-money, tokenised deposits, securities) create legal ambiguity. Firms are concerned about inadvertently breaching AML, capital, or payments rules due to unclear regulatory status.

3 Fear of Future Bans or Restrictions

Even where current frameworks permit certain stablecoin use cases, institutions fear that future political or regulatory shifts could result in prohibitions or operational disruptions, especially given the patchwork approach globally and some jurisdictions' vocal opposition to privately issued digital currencies.

4 AML/KYC and Sanctions Compliance Complexity

Stablecoins are sometimes perceived as enabling anonymity or obfuscation despite technical traceability, raising concerns about how to meet AML/KYC and sanctions screening requirements, particularly in decentralised contexts or when dealing with self-hosted wallets.

5 Financial and Operational Risk

Uncertainty persists around how certain stablecoin arrangements perform under stress, including questions about liquidity, redemption frameworks, and reserve transparency. Operationally, institutions worry about reliance on infrastructure that lacks clear failover, support mechanisms, or resilience guarantees.

6 Counterparty Risk

Concerns around who is ultimately liable for stablecoin issuance and redemptions were common. Where issuers or custodians are lightly regulated, questions arise about the enforceability of obligations, rights of redemption, and exposure in a failure scenario.

7 Absence of Deposit Protection or Insurance

Unlike traditional deposits, most stablecoins do not benefit from deposit guarantee schemes. This raises red flags for compliance and treasury teams who must assess where stablecoins sit in the institution's risk and capital models.

8 Existing Banking Relationships and Restrictions

Traditional institutions often have obligations to maintain certain balances or flows within legacy banking systems. Use of stablecoins may conflict with these relationships or introduce friction where traditional partners are wary of crypto exposure.

9 Technology and Integration Barriers

Integrating stablecoin rails into legacy systems presents a major hurdle. Concerns range from compatibility with core banking infrastructure to risks associated with custody, key management, and operational control.

10 Interoperability and Standards Gaps

The absence of commonly accepted standards across chains and protocols undermines stablecoin adoption. Institutions fear committing to a technology that may later become obsolete or incompatible with emerging ecosystems.

11 Cybersecurity and Fraud Risk

The increased surface area introduced by digital wallets, smart contracts, and API-based systems raises the risk of hacks, data leaks, and internal control failures. Some institutions lack the tooling or expertise to mitigate these risks at scale.

12 Macro-Economic Competition Concerns

Policymakers and banks may perceive stablecoins as competing with sovereign currency tools, potentially impacting monetary sovereignty or interest rate transmission. Some institutions are wary of adopting products that could put them at odds with central banks or regulators.

13 Reliance on Third-Party Providers

Many stablecoin arrangements require engagement with third-party issuers, custodians, or protocol operators, raising dependency concerns, especially when these parties are not subject to robust oversight or have unclear risk-sharing arrangements.

14 Reputational and Strategic Concerns

Association with the broader crypto ecosystem, which has faced significant negative media coverage and enforcement action, can raise reputational risks. Institutions may hesitate to engage if they perceive reputational spillover or internal brand risk.

15 Unclear Business Case

For some institutions, especially those operating in stable jurisdictions with efficient payment systems, the value proposition of stablecoins is not always compelling. Without clear efficiency gains or customer demand, internal buy-in can be difficult to secure.

16 Lack of Internal Ownership or Expertise

Even where interest exists, institutions struggle to identify the right internal owner for stablecoin strategy. Legal, compliance, finance, and operations teams often take divergent views, and many lack the technical expertise to confidently proceed.

17 Resistance from Legal and Finance Teams

Ultimately, legal and finance functions are often the most sceptical of adoption, citing liability concerns, accounting treatment questions, and compliance complexity. Without strong business sponsorship and policy clarity, efforts frequently stall at this.

Differentiated Jurisdictional Impacts & Financial Stability Impacts

Roundtable participants also discussed how financial stability vulnerabilities, and many of the specific risks outlined above, vary significantly across jurisdictions, particularly depending on the local economic context and use case for stablecoins. For instance, in emerging or high-inflation economies, stablecoins, especially those pegged to the US dollar, can be used as a store of value or means of exchange in lieu of volatile local currencies. In these markets, widespread adoption of foreign-denominated stablecoins has different implications for their monetary sovereignty, and could in some instances reduce the efficacy of domestic monetary policy if not appropriately risk managed and regulated.

In advanced economies, where stablecoin use is more often linked to settlement within capital markets or efficiency gains in cross-border transactions, financial stability risks may emerge from concentration of activity in a small number of issuers, lack of robust redemption frameworks, or the interlinkages between stablecoins and traditional financial institutions. A failure of a major issuer or a breakdown in convertibility, for example, due to reserve mismanagement or a cyber incident, could transmit stress into the broader financial system. These are all risks however that can be managed and mitigated through appropriate and proportionate regulation.

Participants noted that these risks are not inherent to the technology, but rather to its design, governance, and regulatory framing. As such, stablecoins can be part of a safe and resilient financial ecosystem, provided their use is properly scoped, their reserves transparently managed, and their interactions with the traditional financial sector well understood. A one-size-fits-all regulatory approach, however, may overlook critical jurisdictional nuances and stifle use cases that present low risk and high utility.

Another challenge raised was the difficulty of stablecoins being a global asset class. It was noted that jurisdictions will need to cooperate in order to fully regulate something that is globally fungible.

While financial stability risks were discussed, participants agreed that identifying financial stability risks from stablecoins is not an argument against stablecoins themselves. Rather, it is a call for these risks to be considered and addressed in a responsible way that meets regulatory objectives.

Arguments in Favor of Stablecoins

A key benefit of stablecoins highlighted by roundtable participants is their potential to significantly reduce transaction costs and accelerate settlement times, particularly in cross-border and B2B contexts. Unlike traditional international payments, which often involve multiple intermediaries, foreign exchange conversions, and settlement lags, stablecoins can offer near-instantaneous settlement on a 24/7 basis, at lower cost and with greater transparency.

A notable example discussed was SAP's integration of stablecoin functionality into its enterprise resource planning (ERP) systems, which now gives corporate users the option to leverage stablecoins such as USDC as a settlement rail for cross-border B2B payments. This is particularly impactful for multinational companies operating across multiple banking jurisdictions or regions with limited real-time payment infrastructure. Several participants observed that for SMEs and supply chain actors in emerging markets, stablecoins offer an alternative to expensive and slow correspondent banking corridors, which have historically limited financial access.

Participants also noted that the programmability of stablecoins introduces opportunities for conditional and automated settlement, allowing for more efficient invoice reconciliation, just-in-time payments, and real-time cash management. In this way, stablecoins are not only a payment instrument but a foundational layer for more efficient, automated financial workflows.

It was also noted that stablecoins, and the blockchain infrastructure they rely on, present an opportunity to improve upon legacy financial processes and enhance security. Features such as immutable transaction records, real-time auditing of reserves, and enhanced traceability can help address longstanding challenges in financial crime monitoring, reconciliation, and transparency. Several institutions highlighted their exploration of stablecoins not just for speed and cost efficiency, but as part of broader efforts to modernise infrastructure, improve visibility across treasuries, and build resilience against fraud or operational failures.

Participants stressed that innovation in this space should not be conflated with deregulation. On the contrary, regulated stablecoins that meet robust standards for redemption, reserves, and disclosures could help enhance financial stability rather than detract from it, particularly in well-regulated environments where risks are clearly delineated and mitigated through thoughtful frameworks.

Risk Mitigation Strategies

To address the risks associated with stablecoin adoption, roundtable participants described a 'concentric circles' approach to risk management, where risk controls are layered progressively from core technical safeguards to broader policy and governance measures.

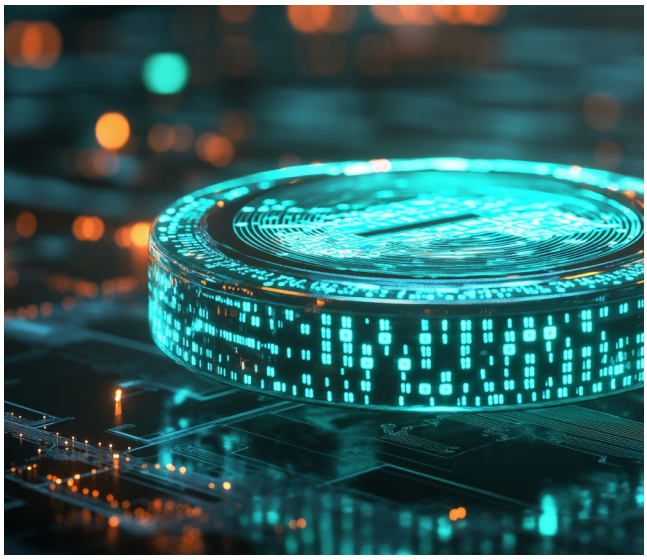
At the centre of this model is transparency, particularly around reserve composition and redemption rights. Participants emphasised the importance of clear disclosures regarding the type, quality, and location of reserve assets, as well as guaranteed redemption terms. Where these are legally enforceable and publicly auditable, many of the perceived risks such as counterparty exposure or liquidity mismatches can be materially reduced.

Surrounding this are measures to ensure secure asset custody, robust technological resilience, and cybersecurity. For example, engaging regulated custodians, implementing multi-signature wallets, and conducting regular penetration testing were cited as important tools to reduce operational and cyber risk.

Another layer involves compliance with AML/KYC and sanctions obligations, where participants noted that many of the tools used in traditional finance, such as transaction monitoring, risk-based customer due diligence, and sanctions screening, can be effectively applied to stablecoin use cases. Several institutions also pointed to blockchain analytics platforms as offering even greater visibility than traditional banking systems, particularly for tracing flows and identifying potentially illicit behaviour.

Importantly, participants pushed back on the idea that stablecoin-specific risks are wholly novel. Many argued that the risks most frequently cited such as counterparty exposure, fraud, or misuse already exist in traditional financial systems, and in many cases, stablecoins allow for more precise monitoring and control. For instance, unlike cash or some wire transfers, on-chain transactions are transparent and permanently recorded, enabling more effective forensic analysis.

In sum, the consensus was that a well-designed, regulated stablecoin framework, backed by clear risk disclosure, interoperable compliance standards, and technological safeguards, can not only mitigate risks effectively but could serve as a model for improving risk management across financial services more broadly.



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Regulatory Frameworks Needed for Wider Adoption and Evolving Jurisdictional Approaches

Global and Local Regulatory Initiatives

Roundtable participants cited efforts in the UK, Japan, Hong Kong, and the US to establish stablecoin regulations. It was noted that different approaches are being taken, with some jurisdictions looking to regulate the issue, and others regulating domestic exchanges and distributors.

The UK was discussed in depth, with speakers noting that the UK's primary focus was on making sure that money remains money despite its form. They also highlighted the country's dual objectives for both consumer protection and growth, which is driven by governance objectives. The UK has a published roadmap for its crypto and digital asset regime and will be consulting on stablecoins later in 2025.

The US is currently developing the STABLE and GENIUS Acts to regulate stablecoins. They aim to have a federal level framework completed in 2025.

In Japan, it was noted that there is an increased focus on stablecoins, with Hong Kong also working on a bill.

For stablecoins, key features of regulatory regimes are backing assets (how to make sure it is 1:1 backed with high quality liquid assets (HQLA), redemption, how the firm is issuing them, governance (and meeting SMCR requirements), operational resilience, and ensuring trust in the system.

Regulators believe that for stablecoins to be used as a form of payment, they must have the above features.

The Role of Global Standard Setters

Custody of stablecoins was also noted as a key focus for regulators and of high importance for the market. Speakers noted that the way you safeguard tokenized money is the way you safeguard everything else. Cybersecurity of digital assets is different from traditional cybersecurity, which applies to custody arrangements as well. For this reason, participants highlighted that regulation should be outcome based rather than technology based. It was noted that for custody, more could be done to develop dedicated digital assets cyber security posture.

The Role of Global Standard Setters

Roundtable participants explained how bodies like the Financial Stability Board (FSB) and International Organization of Securities Commissions (IOSCO) shape global regulatory approaches. It was noted that these approaches could be further specified and updated as the market matures to match industry best practices in areas like cybersecurity.

The Singleness of Money

The singleness of money was also discussed as an outcome that is achieved through good regulation. The way that reserves are regulated was cited as a key way to achieve this.

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Fostering Safe Innovation and Wider Adoption of Stablecoins

Ensuring Safe Adoption

Roundtable participants noted that 'localisation' for stablecoin adoption can both drive local innovation and be a means of reducing reliance on the US dollar.

Integration of Traditional Finance and Fintech

They explained how traditional finance is adapting to stablecoins for B2B payments, emphasising speed and efficiency gains. It was also noted that regulatory frameworks heavily influence where the market might choose to grow and build in these early years of the stablecoin market.

Innovation, Regulation, and Ecosystem Maturity

Participants compared stablecoin innovation to the evolution of smartphones, predicting significant future advancements. Sandboxes were raised as way to conduct responsible innovation.

However, it was also noted that there is a need to work towards a future world of digitisation, and all sizes of companies should be supported in working to get there.

To drive maturity, it is important to have clear milestones to work towards on the path to broader adoption - this is true not just for stablecoins but for CBDCs and tokenised deposits as well.

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Future Considerations: Stablecoins, AI, and the Evolution of Payment Systems

Emerging Risks and Technological Integration

Participants emphasised the need to anticipate risks as stablecoin adoption grows. Furthermore, they also highlighted that it is important to consider risks not only in the stablecoin ecosystem, but also potential risks from other technologies as well as those broader influences such as geopolitics.

The Convergence of AI and Programmable Money

AI's role in automated payment optimisation and tokenized financial systems was discussed - that an AI-integrated future is already here and being used in day-to-day life. For this reason, speakers noted that regulation should start to address these risks now.

Tech Neutrality

Participants noted though that technology remains a tool and is neutral. It depends on how people use it. It was noted that threat actors are agile, they are working together and learning rapidly. The key message for regulators was that it is critical to work with industry to develop future proof regulatory frameworks that support responsible innovation. This can be enabled via the continued development of tech fluency for both the public and private sector to match the speed of growing risks will be essential.

Practical Implications for the Future

Speakers noted that financial transactions are likely to become real-time and fully transparent, necessitating swift regulatory adaptation.

Balancing Innovation with Human Oversight

They stressed that despite technological advances, human oversight remains critical in financial decision-making.

Conclusion

The roundtable concluded with a summary of key insights. While stablecoins present significant opportunities for innovation, their adoption must be guided by risk management, regulatory clarity, and continuous development. Collaboration between market participants, regulators, and technology providers will be essential in shaping the future of digital finance.

Key Themes to Further Explore in Future GFTN Forums

- **Practical steps to ensure reciprocity across stablecoin regimes**
  - What type of reciprocity (e.g., market access, liquidity, clearing and settlement, regulatory)
- **Advanced risk mitigation strategies for stablecoin**
  - How to improve public and private sector tech fluency
  - More detailed discussions around cyber security
  - How to leverage machine learning and AI while also mitigating risks that combining AI and stablecoins for payments can pose
- **Deeper dive into the bridge between TradFi and DeFi**
  - Exploring in depth technical use cases for how stablecoins bridge TradFi and digital ecosystems
  - Then in discussing those use cases, how they mitigate day to day risks
- **A roadmap and milestones to wider adoption**
  - Discussing what key milestones we need to reach in stablecoin adoption as well as how they interact with other digital currencies
  - Specific milestones for key themes like: backing assets, custody, and cyber
  - Creating best practice guidance for the key milestones that can support industry and regulators in responsible adoption

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