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The Stablecoin Debate Unpacked: Crafting the Right Rules for Stability, Security and Growth

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About

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 Point Zero Forum is an annual gathering of 2,000 leading central bankers, regulators, policymakers, industry leaders, technologists, and investors from around the world. Over three days of dialogue and collaboration, we work to align policy, finance, and technological roadmaps to advance sustainability, inclusivity, innovation, and efficiency in the global financial ecosystems.

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GFTN Insights is a year-round series that connects senior officials and industry leaders across continents to address key financial and tech challenges. Held under Chatham House rules, these dialogues foster partnership, culminating in the two-day Insights Forum in Singapore.

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Tremendous Untapped Opportunities

Stablecoins have been used mainly for crypto trading, but their ability to serve other use cases offers tremendous untapped opportunities. While global stablecoin transaction volume grew above US$27 trillion in 2024, over 90% of this was from crypto trading activity. Speakers highlighted other promising use cases such as shipping transaction settlement, same-day corporate treasury flows, merchant payments and low-cost remittances. Pilot data has shown that the use of stablecoins in cross-border payments can reduce costs by up to 40% compared to traditional rails, and reduce settlement time from days to minutes.

Speakers identified the enablers needed to grow stablecoin adoption to tap these opportunities: regulatory clarity on reserve composition, redemption rights and prudential treatment, cross-jurisdictional recognition of stablecoin regulatory frameworks, and harmonisation of reserve custody models, on-chain compliance and attestation frameworks.

Same Risk, Same Rules? Governing Tokenised Deposits and Stablecoins

A key question is how banks' tokenised deposits and payment firms' stablecoins can be regulated in a risk-appropriate manner. While these instruments appear similar on the surface, they may carry very different risks depending on the issuer, location of issue, structure, and nature of the legal claim. Speakers advocated risk-proportionate regulatory outcomes for these instruments that considered their actual risks profiles underlying the form of instrument.

Tokenised Deposits

Certain speakers cited the advantages of tokenised deposits relative to stablecoins:

- They operated under global banking standards and benefitted from central bank support;
- Their value was assured by daily asset backing under commercial bank money frameworks;
- They could be protected by deposit insurance if linked to deposit accounts with licensed banks; and
- They preserved the singleness of money, thus supporting financial stability and were conducive to crisis intervention by central banks.

Stablecoins

Other speakers pointed out the relative advantages of stablecoins:

- Stablecoins' value derives from a fixed pool of backing assets underpinned by transparent, segregated reserve mechanisms, without any exposure to the credit risk of banks. In contrast, the reserve assets for tokenised deposits may shift daily, which complicates recovery in stress events; and
- Stablecoins can be regulated under a fit-for-purpose regulatory framework conducive to serve next-generation use cases involving programmable money and agentic finance. In contrast, banking regulatory frameworks (which would govern tokenised deposits) have less flexibility for such tailoring.

Stablecoin Regulation: Common Principles

Speakers all agreed that an effective stablecoin regulatory regime should have the following critical requirements:

1. Full reserve backing by high-quality liquid assets in the same currency;
2. Reserve assets being held in segregated, bankruptcy-remote arrangements, with proper audit and accountability;
3. Disclosures on the value-stabilising mechanism of the stablecoin and on latest audit results of the reserve assets; and

4. Regulations on anti-money laundering and countering the financing of terrorism.

These requirements feature in existing comprehensive stablecoin regulatory frameworks such as the US GENIUS Act[1] and STABLE Act[2], EU's Markets in Crypto-Assets (MiCA) Regulation, and Singapore's Payment Services Act.

"When Things Go Well They Are Global. When They Don't, They Are Local." – The Limitations of Reserve Localisation

Some jurisdictions' regulators require stablecoin issuers operating in their jurisdiction to hold reserve assets in local custody arrangements. Their objective is domestic consumer protection through tighter oversight of stablecoins.

However, stablecoin issuers argued that reserve localisation requirements reduce the efficiency of stablecoins and potentially introduce risks. Specifically:

- Stablecoin issuers would take on greater counterparty risk in utilising a broader pool of custodians, particularly when operating in jurisdictions where custodian banks have lower credit ratings. This may even dissuade stablecoin issuers from operating in jurisdictions without well-rated custody arrangements or strong legal frameworks; and
- Reserve localisation would fragment stablecoin liquidity and even undermine global fungibility (i.e. the same stablecoin may carry different legal and financial risks depending on its country of issue).

A regulator pointed out that the requirement under EU's MiCA regulation for stablecoins to have a portion of reserve assets deposited in a European credit institution did not preclude USD-denominated deposits, which the European custodians would then place with US banking institutions – giving an illusion of localisation.

The regulator also noted that where stablecoin reserve assets are held in a jurisdiction, the jurisdiction's authorities should not claim more of these assets than the amount of stablecoins held in their jurisdiction. If authorities' attitudes made overclaiming a likely outcome, markets may demand stablecoins to be over-collateralised to address this risk of overclaiming by authorities, making the stablecoin business model unviable.

A speaker opined that Singapore's regulatory framework was pragmatic in this area — not requiring reserve assets to be held in Singapore, but requiring that overseas-based custodians of reserve assets have a branch in Singapore regulated by MAS to provide custodial services, and a minimum credit rating of "A-".

Passporting as Smart Regulation

Despite tensions, there was consensus that **stablecoins** bring meaningful benefits. Regulatory passporting[3], if done right, could unlock the full benefits of global stablecoin arrangements while preserving consumer protection and financial stability. Regulatory passporting has worked well in traditional finance, an example being the EU financial services passport.

Effective regulatory passporting requires several critical elements:

1. Internationally-standardised criteria for stablecoins on reserving levels, reserve composition, transparency of reserve pool, and redemption rights;
2. International regulatory agreement on what constitutes a compliant stablecoin; and
3. Robust cross-border supervisory coordination mechanisms - MoUs, joint enforcement protocols and standardised reporting to maintain consistent oversight.

Collaboration for the Right Outcome

Stakeholders across the ecosystem have a role to play:

- **Regulators:** Establish dedicated supervisory colleges for globally significant stablecoins, and coordinate on cross-border insolvency and resolution frameworks;
- **Banks:** Develop interoperable payment rails, standardised reserve custody arrangements, and transparent attestation models;
- **Stablecoin Issuers:** Build robust governance frameworks, enhance transaction-level transparency, and publish regular audited reserve reports; and

1 Guiding and Establishing National Innovation for US Stablecoins Act of 2025.
2 Stablecoin Transparency and Accountability for a Better Ledger Economy Act of 2025.
3 An arrangement where approval in one jurisdiction opens access to multiple markets through mutual recognition

- **Standard-Setting Bodies:** Set consistent standards for smart contracts, redemption processes, and technical interoperability.

Speakers expressed optimism that forthcoming U.S. regulations and the emergence of regulated on- and off-ramp facilitators would catalyse broader real-world use cases of stablecoins. Mutual recognition, passporting, and reciprocity could ultimately enable globally interoperable stablecoins backed by a range of fiat currencies.

Amid differences, one shared goal stood out: a safe, innovative, and interoperable future for stablecoins.

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