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Stablecoin: opportunity or threat?

REPORT

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1. Introduction: stablecoins in the digital money evolution.

Stablecoins have rapidly moved from the fringes of cryptocurrency to the forefront of digital finance. These digital tokens are typically pegged to fiat currencies (often the U.S. dollar) and aim to combine the speed and programmability of crypto with the stability of traditional money[1]. In the broader evolution of payments and monetary policy, stablecoins represent a new hybrid: privately issued digital money that is globally accessible. Today, the global stablecoin market exceeds $250[2] billion, and issuers have even become significant holders of government debt (Tether, for example, now holds over $120 billion in U.S. Treasuries). This underscores how **"stablecoins have become an integral asset class**" and how their influence **"extends well beyond the crypto realm"**[3]. Central banks and payment schemes can no longer ignore these tokens, as they now entwine with mainstream financial flows and user demands.

In this context, stablecoins provoke pressing questions for policymakers and industry leaders. Are they an opportunity to enhance the payment ecosystem, or a threat to financial stability and monetary sovereignty? The reality is nuanced. As someone with over 20 years in digital payments and risk management, I see stablecoins as both a catalyst for innovation **and** a source of new risks. This paper explores both sides – offering a balanced yet softly provocative analysis to spark strategic dialogue among central bankers and payment executives. We will examine the key opportunities stablecoins present, the core threats they pose, and the implications for domestic payment schemes and central banks. Finally, we will offer recommendations on how to harness stablecoin innovation within prudent guardrails.

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1 Circle's IPO and the new era of stablecoin regulation in the U.S.

2-3 USDT, USDC, and Beyond: Stablecoin Adoption and Regulation Across the Globe in 2025.

2. Stablecoin opportunities: inclusion, efficiency, and innovation.

Stablecoins introduce several compelling opportunities in the global financial landscape. If leveraged wisely, they could address long-standing pain points and unlock new digital business models:

- Financial inclusion and access.
- Faster cross-border payments.
- Programmability and smart payments.
- Support for new business models and efficiency.

Financial inclusion and access.

Stablecoins have the potential to bring basic financial services to millions of unbanked or underbanked people worldwide. With over a billion people lacking bank accounts but many owning mobile phones, stablecoins allow users to **store and transfer value digitally without a traditional bank**. In inflation-prone economies like Turkey, Nigeria, or Argentina, households and small businesses are already turning to dollar-pegged stablecoins to **protect their savings from currency freefall**. For example, during Lebanon's banking crisis, people used stablecoins (notably USDT on a low-fee network) to get money in and out of the country when banks froze withdrawals. A taxi driver in Buenos Aires or a shopkeeper in Ankara can now hold and accept a stablecoin on a smartphone, effectively transacting in dollars even if local banks restrict access. This "**crypto dollarization**" offers a lifeline of stability at the individual level, bridging gaps where traditional finance has failed. Humanitarian projects are also piloting aid disbursements via stablecoins, reaching people who lack bank access with just a mobile app. In short, stablecoins can foster greater financial inclusion by **democratizing access to a stable digital cash** on a global scale.

Faster cross-border payments.

One of the most touted advantages of stablecoins is the ability to **settle payments across borders in near-real time**. Today's international transfers are often slow and costly, relying on intermediary banks and batch processing. Stablecoins, by contrast, move on internet time – 24/7 and nearly instant. This makes them attractive for remittances and global commerce. Notably, **major payment players have begun integrating stablecoins for cross-border use**. For example, MoneyGram and Visa have piloted using USD Coin (USDC) for settlement, demonstrating real-world transactions completed in seconds on blockchain rails. In Asia, USDC has already become a significant medium for remittances, enabling cheaper and faster transfers than traditional remittance channels[4]. Businesses can also use stablecoins to streamline trade finance and B2B payments, avoiding the cut-off times and frictions of correspondent banking. Even **consortia of large banks are exploring their own stablecoin networks to speed up interbank settlements and foreign exchange** – a recent report showed major U.S. banks (JPMorgan, Citibank, Wells Fargo, and others) discussing a consortium-backed stablecoin to improve cross-border payment efficiency and defend against fintech competition[5]. By leveraging blockchain's global reach, stablecoins offer a path to **real-time, low-cost international payments**, which is a significant opportunity for both emerging markets and advanced economies.

4 Central banks, get ready – or not – for the US stablecoin boom.

5 Big Banks Explore Interoperable Stablecoin.

Programmability and smart payments.

Because stablecoins are digital tokens often running on smart contract platforms, they enable **programmable money** – value that can execute logic. This opens up use cases impossible with traditional cash or even standard bank transfers. Companies can program complex payment instructions: for instance, escrow smart contracts that automatically release funds (in stablecoin) when a shipment is delivered or an IoT sensor confirms a condition. Insurance payouts could trigger instantly based on event data (so-called parametric insurance) without manual claims processing. Stablecoins make **micropayments** feasible as well: very small payments (fractions of a dollar) can be sent at near-zero cost, enabling new business models for content and services. Imagine paying a few cents to read an article or per-second streaming fees – stablecoins can handle that granularity which card networks cannot due to fees. We also see innovation in blockchain-based gaming and digital assets: many NFT marketplaces and games use stablecoins so that in-game purchases hold stable real-world value. This **programmability** effectively gives money an API – allowing developers to embed payments into applications and automate transactions. It paves the way for "smart money" that can carry rules about who, when, and how it is spent (for example, a business could issue a token to an employee that can only be spent on certain items). These capabilities herald **new digital business models**. Indeed, **stablecoins are enabling novel economic interactions online, blurring the line between traditional finance and digital commerce**. From decentralized finance (DeFi) platforms offering yield on stablecoin deposits, to brands experimenting with **tokenized loyalty points that carry monetary value**, the stablecoin ecosystem is a hotbed of innovation. The key is that stability of value makes these experiments viable by removing the volatility that plagues cryptocurrencies like Bitcoin in payment use cases.

Support for new business models and efficiency.

Beyond specific use cases, stablecoins push incumbents to rethink legacy systems. They show that payments can be **always-on and software-driven**, inspiring upgrades in domestic systems as well. For example, many central banks are studying how to improve their RTGS and ACH systems to be faster and more flexible, influenced in part by the realization that crypto networks offer near-instant finality. Some domestic schemes are even considering **issuing their own stablecoins or tokenized deposits** to compete. In the U.S., multiple community banks launched stablecoins on public chains to enable fintech-style services, and now larger banks are planning a joint stablecoin to avoid disintermediation. **Domestic payment schemes may integrate stablecoins as another rail** – for instance, a mobile wallet could allow users to hold and send regulated stablecoins alongside bank account balances, choosing whichever is cheaper or faster for a given transaction. Merchants might accept stablecoins for e-commerce, converting to local currency seamlessly. All of this can support new digital business models: cross-border e-commerce without currency conversion frictions, pay-as-you-go services with micropayments, and decentralized finance applications that interlink with traditional finance. The bottom-line opportunity is that stablecoins, with their combination of **speed, global reach, and compatibility with software**, can drive the next wave of efficiency and innovation in payments. They act as a bridge between the traditional banking world and the new digital economy – potentially bringing the benefits of each to the other.

3. Core threats and risks of stablecoins.

Balanced against these opportunities are serious threats. Stablecoins introduce new risks to financial stability, consumer protection, and the monetary system.

Central banks and regulators have flagged several core concerns that must be managed:

- Regulatory uncertainty and consumer risk.
- Systemic risk and financial stability concerns.
- Monetary policy and sovereignty threats.
- Cybersecurity and operational risks.

Regulatory uncertainty and consumer risk.

For years, stablecoins operated in a gray zone with unclear regulations. This lack of clarity created risks around consumer protection, oversight, and legal status. Users often had to trust that issuers actually held adequate reserves, without a consistent regulatory regime to ensure it. The collapse of the TerraUSD stablecoin in 2022 – an algorithmic token that imploded and wiped out $40+ billion in value – underscored how quickly things can go wrong in the absence of safeguards. Terra's failure left holders with worthless "stablecoins" and sent shockwaves through crypto markets, catalyzing global calls for stablecoin regulation. The incident highlighted the **run risk**: if users doubt a coin's backing, they may all rush to redeem, causing a collapse of the peg. Until recently, many governments were slow to define rules, leaving even reputable issuers in limbo over whether their products are considered e-money, securities, or something else. This uncertainty not only hindered responsible innovation but also exposed consumers to potential fraud or loss. **Regulatory clarity is still catching up** – for example, the U.S. only in 2025 saw major bills (the STABLE Act and the GENIUS Act) advance in Congress to set federal standards for stablecoin issuers. These bills (if passed) will impose licensing, reserve requirements, audits, and other safeguards. Europe's approach via the Markets in Crypto-Assets (MiCA) regulation similarly introduces standards for stablecoin reserves and supervision. Until such frameworks are globally in force, **regulatory uncertainty remains a threat** – both to the industry's credibility and to users who may not be fully protected by law.

Systemic risk and financial stability concerns.

As stablecoins grow, they could pose **systemic risks** to the financial system, especially if not properly regulated. One worry is the possibility of a sudden loss of confidence leading to a "stablecoin run" that spills into other markets. If a major stablecoin issuer failed to honor redemptions, it could force fire-sales of reserve assets and contagion in money markets. In fact, because top stablecoins invest heavily in short-term Treasuries, a run could even disrupt funding markets. Regulators are acutely aware that **stablecoin issuers have become big players in traditional markets** (with some $200 billion parked in Treasuries), so instability in these coins could reverberate widely. Another systemic concern is the **custody of reserves** – stablecoin users rely on the issuer's claims that reserves are safe and liquid. Past incidents show this trust can be shaken. In March 2023, for instance, Circle's USDC temporarily **depegged to $0.88 when $3.3B of its reserves were stuck in a failing bank (Silicon Valley Bank)**. Although USDC recovered after regulators backstopped the bank's deposits, the scare led some users to flee to other stablecoins. This revealed that even fully backed stablecoins can have vulnerabilities if their reserves are entangled with the banking system's failures. More fundamentally, central bankers worry that if stablecoins largely replace bank deposits or cash for transactions, they could undermine the **"singleness of money"** – the idea that one national currency should circulate uniformly. If many private tokens are used as money, will they all hold value in a crisis like central bank money does? A senior ECB official warned of a possible **"return to the 19th-century proliferation of U.S. charter bank currencies, which were prone to crises and necessitated the creation of the Fed"**. In other words, **a fragmented landscape of different stablecoins could recreate wildcat banking era risks**, with inconsistent reliability. If people start to doubt a stablecoin's redeemability during stress, it may not "behave like cash in extremis" – breaking the trust that one stablecoin dollar equals one real dollar. Such a scenario, if unmitigated, poses a threat to overall financial stability.

Monetary policy and sovereignty threats.

Stablecoins also raise alarms about erosion of monetary sovereignty and unintended macroeconomic effects. Because most stablecoins are denominated in major currencies (notably USD), their spread can lead to "digital dollarization" of other economies. As noted, many individuals in countries with volatile currencies now prefer holding USDT or USDC over local money. While beneficial to those individuals, this trend could **undermine local monetary policy control,** as central banks find their currency being partly displaced by a privately issued digital dollar. Officials in some emerging markets worry that widespread stablecoin use might reduce the effectiveness of domestic monetary tools or even facilitate capital flight (since crypto wallets allow easy cross-border transfer of value). In response, some regulators consider banning or heavily restricting stablecoins to prevent a crypto version of dollarization. Even in major economies, if **big tech firms issue their own stablecoins**, it could create closed-loop currencies that weaken the central bank's influence on payments. Recall the reaction to Facebook's Libra (Diem) proposal in 2019 – regulators feared a global stablecoin managed by a tech giant could challenge traditional currency models. Moreover, **stablecoins could divert deposits away from banks**, especially if non-banks can offer stablecoin wallets that function like high-interest savings (though currently issuers are prohibited from paying interest). Bank lobbyists have expressed concern that tech companies' stablecoins might siphon off a substantial share of deposits and payment volume, leaving banks with less funding for loans. This scenario represents a **competitive threat to the banking sector** and potentially to credit provision in the economy. Central banks must consider that if money creation shifts to private digital tokens, their conventional monetary policy levers (like reserve requirements, interest on reserves, etc.) may lose some potency. In short, **stablecoins at scale could alter the balance of the monetary ecosystem**, diluting central banks' control unless appropriate measures are taken.

Cybersecurity and operational risks.

Being digital and often operating on decentralized networks, stablecoins inherit all the cyber risks of the crypto world. Hacks, fraud, and technological failures are non-trivial threats. A smart contract bug or a breach of a custodian could lead to theft or loss of reserves. While the largest stablecoins have so far avoided smart contract failure, the surrounding infrastructure (exchanges, wallets, cross-chain bridges) has seen high-profile hacks. Even users face risks: if an individual loses the private key to their stablecoin wallet, their funds are effectively irrecoverable – a different risk model from bank accounts with password resets. During Lebanon's crisis, for example, stablecoins offered resilience in access to funds, but users also had to guard against crypto-specific risks like key loss. **Cybersecurity concerns extend to potential attacks on the networks themselves.** If a stablecoin relies on a public blockchain, any attack on that chain (51% attacks, denial of service) could halt transactions or undermine confidence. Moreover, the **illicit use of stablecoins** is a concern: their ease of transfer and pseudonymity can facilitate money laundering or sanctions evasion if not properly policed. While blockchain analytics can trace flows, the industry has seen cases of stablecoins being used in ransomware payments and black-market transactions. This puts a spotlight on compliance – **anti-money-laundering (AML) controls and cybersecurity measures are critical** for stablecoin arrangements. A major breach or scandal could quickly turn public sentiment and political support against stablecoins. Therefore, robust operational risk management and regulatory oversight (such as mandated audits and tech standards) are needed to mitigate these threats.

"In summary, stablecoins present a paradox: they promise a more efficient and inclusive financial system, yet they also introduce new vectors of risk – from potential runs and systemic impacts to challenges for regulators in maintaining monetary and financial stability. The threats are real, but they can be addressed with thoughtful action. This is where central banks and domestic payment schemes must step in.

4. Implications for domestic payment schemes and central banks.

The rise of stablecoins forces crucial strategic choices upon central banks and domestic payment operators. These institutions must determine how to position themselves – as competitors, collaborators, or integrators of this new form of digital money. Let's examine the implications through three roles that central banks and payment authorities play: as issuers, as regulators, and as infrastructure operators.

Central banks as issuers (and the CBDC response).

One response to private stablecoins is for central banks to issue their own digital currencies. Indeed, the stablecoin boom has been a catalyst for many central banks to accelerate work on Central Bank Digital Currencies (CBDCs). For example, the European Central Bank's project for a digital euro has gained urgency; by mid-2025 the ECB was hoping to have a political agreement by early 2026 to launch a digital euro within a few years[6]. The idea is that a **"digital euro"** or **"digital pound"** could offer the benefits of stablecoins (fast, electronic payments) with the safety of central bank backing. A Bank of England progress report in 2025 noted that a digital pound, if introduced, would be a public digital money complementing cash and bank deposits, ensuring citizens have access to a risk-free form of digital sterling[7]. However, many central banks (including the BoE) are still in research or design phases, and no G7 central bank has launched a retail CBDC yet. The delay is partly caution and the need for legislation, but the **presence of stablecoins puts competitive pressure** on these timelines. If private USD stablecoins become ubiquitous globally, countries fear their own currencies (and payment systems) could be overshadowed. This concern was vividly expressed by developing nations who see U.S. dollar stablecoins flooding in – some have called for speeding up local CBDC or stablecoin projects to maintain monetary autonomy. On the flip side, the U.S. itself under the recent administration has signaled a strategy to **promote regulated USD stablecoins as a way to preserve the dollar's international role** (going so far as to prohibit a U.S. CBDC). This divergence – U.S. boosting private stablecoins versus others exploring public CBDCs – will shape the global currency landscape.

Domestic schemes and central banks will need to navigate whether they join the stablecoin trend (e.g. by supporting a domestic stablecoin or tokenized bank deposit initiative) or provide a public alternative via CBDC. Regardless, as issuers, central banks have to articulate how their currency will remain relevant in a tokenized economy. The **coexistence of CBDCs and stablecoins** is a likely scenario, where central banks provide the ultimate safe digital money while private players innovate on top. Striking that balance (public sector foundation with private sector creativity) could be the optimal path.

Central banks and regulators as overseers.

Whether or not they issue a CBDC, central banks alongside financial regulators must exert oversight over stablecoin activity to mitigate risks. We are beginning to see frameworks taking shape. The **United States is on the cusp of federal stablecoin legislation** that would impose bank-like regulations on issuers – including capital, liquidity, and supervisory requirements. Draft U.S. bills would require 1:1 reserve backing in safe assets and regular audits, essentially treating stablecoin issuers like insured depository institutions (or narrow banks). In the EU, the MiCA regulation limits stablecoin issuance and requires authorization and reserve guarantees, which some criticize as too stringent (Tether even ceased operating in certain European jurisdictions, citing the compliance burden). The Bank of England has indicated that **UK law will likely bring systemic stablecoins into the Bank's oversight**, much as they oversee payment systems, to ensure redemption guarantees. A clear message from regulators is that **stablecoins performing critical payment functions should be held to high standards akin to those of traditional payment schemes or banks.** For domestic payment schemes, this means any integration with stablecoins will come with compliance requirements – e.g. only dealing with regulated stablecoins that meet transparency and liquidity norms. There is also a question of licensing: central banks and regulators may decide **who gets to issue stablecoins**.

6 ECB hopes to have political deal on digital euro by early 2026.

7 Progress update: the digital pound and the payments landscape.

For instance, some jurisdictions may restrict issuance to banks or fintechs that are under prudential supervision, to prevent "wildcat" issuers from creating unstable money. The implication is that some domestic schemes might partner with approved issuers or even become issuers themselves (as we saw with consortium proposals by banks). Another regulatory angle is consumer protection and cybersecurity standards for wallets and exchanges handling stablecoins. Central banks (often through their payments oversight role) will likely set rules on safeguarding private keys, handling outages, and indemnifying users for fraud. From a **monetary policy perspective**, regulators are also contemplating measures to limit any disruptive impact: for example, some have floated caps on stablecoin holdings or requirements that large stablecoin floats be backed by central bank deposits to neutralize their effect on money supply. In summary, central banks as regulators must craft policies that **enable innovation without compromising stability** – a delicate balancing act of creating "guardrails" (a term U.S. lawmakers have used) for this new form of private money.

Domestic Schemes and Central Banks as Infrastructure Operators.

Perhaps the most profound implication is the need to adapt national payment infrastructure to a world of tokenized money. Central banks operate the backbone settlement systems (like RTGS – Real-Time Gross Settlement systems) that underpin all electronic money transfers today. To maintain **"the singleness of money"**, any new payment instruments – including stablecoins – ultimately need to settle in central bank money or be interoperable with it. The Bank of England explicitly stated that stablecoin-based payment systems must be **interoperable with the central RTGS, allowing one-for-one exchange with bank deposits and cash at all times**. This is crucial to avoid fragmentation (where, say, a pound in stablecoin form might trade at a slight discount or premium to a pound in bank account form). Maintaining par convertibility means integrating stablecoins into the existing money infrastructure. Some central banks are already working on technical solutions: for instance, the ECB has plans for an interim system linking its Target2 settlement system with DLT platforms by 2025 to enable synchronized settlement of tokenized assets with central bank money. Others, like the BIS's Project mBridge and Project Meridian, are exploring cross-border settlement platforms that connect multiple countries' ledgers (including stablecoins and CBDCs) in one network. **Network interoperability is key** – domestic schemes will need common technical standards so that a payment initiated in stablecoins can, if needed, clear through the banking system or be converted to a CBDC seamlessly. We may even see "hybrid" infrastructures: regulated liability networks that bind together central bank money, commercial bank money, and stablecoins on a unified ledger. The Hong Kong Monetary Authority's Project eHKD and Project Ensemble, for example, envision a platform where e-HKD (CBDC) and stablecoins coexist under supervision. For domestic payment schemes like ACH networks, card networks, or mobile payment systems, the implication is that **the rails of the future might need to handle both traditional messages and blockchain transactions**. Some schemes might directly leverage stablecoin technology for faster clearing (we're seeing early partnerships, like a major card network working with stablecoin firms to settle transactions in near real-time). Also, **domestic schemes face competitive pressure:** if they do not innovate, stablecoin alternatives could bypass them. This is partly why a consortium like EWS (operator of Zelle in the U.S.) is reportedly in the bank-led stablecoin discussions – they recognize the need to be proactive. Overall, central banks and payment operators must upgrade their **infrastructure, standards, and networks to accommodate interoperable digital tokens**, ensuring that the benefits of stablecoins (speed, global reach) are harnessed within a safe, unified financial system rather than fragmenting it.

5. Strategic recommendations: enabling innovation with guardrails.

To navigate the opportunities and threats of stablecoins, a collaborative and forward-looking approach is essential. Here are four strategic recommendations for central banks, regulators, and payment providers as they chart the course:

- Enable innovation within clear guardrails.
- Support interoperability and parity.
- Promote public-private collaboration.
- Ensure transparency, auditability and security.

Enable innovation within clear guardrails.

Rather than a blanket embrace or ban, the goal should be **responsible innovation**. Policymakers ought to provide a clear regulatory framework that legitimizes stablecoin use under defined conditions. This means enacting rules for f**ull reserve backing, capital quality, and redemption rights** so that users can trust stablecoins not to break their peg. Recent policy moves offer a template – for instance, the U.S. Senate's proposed **GENIUS Act** would require dollar stablecoins to be fully backed by liquid assets and issuers to redeem at par on demand. These kinds of provisions act as **"guardrails" for stablecoin issuers, ensuring they operate like narrow banks or money-market funds and cannot gamble with reserves. With such safeguards in place, regulators can allow stablecoins to integrate into the financial system more freely. The **message to industry** should be: innovation is welcome, but within boundaries that protect consumers and stability. Regulatory sandboxes can help too – letting companies pilot stablecoin use cases (e.g. remittances, settlement) under supervision. By removing legal ambiguity and setting minimum standards, authorities will invite more mainstream institutions to participate (as we saw with Circle's IPO signaling confidence in clearer rules). In short, **don't stifle the stablecoin opportunity, but do fence off the risk**. This balanced approach can channel the creativity of fintechs and banks into building stablecoin services that are safe, interoperable, and aligned with public interests.

Support interoperability and parity.

To avoid a splintered monetary ecosystem, interoperability between stablecoins and existing money is paramount. Central banks and standard-setting bodies should lead efforts to **harmonize technical standards and legal definitions** so that stablecoins can plug into the current payments landscape. This includes promoting common messaging standards and APIs that allow banks, stablecoin wallets, and payment systems to communicate seamlessly. For example, requiring that any significant stablecoin must be able to interface with national payment infrastructure (as the Bank of England has advocated) will support convertibility. Ensuring **1:1 redemption at par value** between stablecoins and fiat is non-negotiable – users should always be able to cash out a stablecoin for the equivalent fiat currency without delay. Regulators might mandate that stablecoin issuers participate in central bank settlement systems or hold reserves at the central bank (as a few proposals have suggested) to guarantee this parity. On a global scale, central banks can collaborate on **cross-border interoperability**, possibly linking CBDCs with stablecoins in exchange or bridging networks. For domestic payment schemes, supporting interoperability could mean adapting infrastructure to accept tokenized representations of money. For instance, national RTGS systems could extend access or provide APIs to regulated stablecoin issuers for seamless settlement finality in central bank money. The goal is a future where **end-users can move funds easily between different forms – bank deposit, CBDC, or stablecoin – without friction**. By emphasizing interoperability now, we prevent the trap of walled gardens and ensure that stablecoins enhance rather than erode the unity of the monetary system.

Promote public-private collaboration.

Stablecoins straddle the line between public interest and private innovation, so a cooperative approach is needed. Central banks and governments should actively engage with fintech companies, consortiums of banks, and technology providers in this space. One avenue is to establish **industry advisory panels or joint task forces** on digital money implementation. For example, some central banks have launched innovation hubs or "labs" (the Bank of England's Digital Pound Lab in 2025, or BIS Innovation Hub projects) bringing together regulators and market players to experiment with prototypes. Through such collaboration, public authorities can guide stablecoin development toward policy goals (like inclusion, resilience) while industry can inform regulators of technological possibilities and challenges. **Public-private partnerships** might emerge where, say, a central bank provides the core ledger or settlement facility and private firms handle distribution and customer-facing innovation. This two-tier model is already familiar in currency issuance (banks distribute physical cash) and could extend to digital cash. An example of constructive partnership is Circle's recent collaboration with a major payments processor (Fiserv) to help banks and merchants handle stablecoin payments within existing systems[8]. By working with private sector initiatives like this, central banks can encourage mainstream adoption under prudent oversight. Similarly, domestic payment schemes and fintech firms can collaborate on pilots integrating stablecoins for specific use cases (like interbank clearing or cross-border remittances), sharing data with regulators to inform policy. The key recommendation is to **foster open dialogue and joint experimentation**. Rather than viewing each other with mistrust, regulators and innovators should co-create solutions – for instance, developing compliance tools for on-chain transactions, or standards for auditing smart contracts. Public-private collaboration will ensure that stablecoins evolve in a way that leverages the efficiency of private innovation while embedding the trust of public oversight.

8 Circle and Fiserv Announce Strategic Collaboration to Power Stablecoin Payments Across Financial Ecosystems.

Ensure transparency, auditability and security.

Trust is the coin of the realm for any currency, and stablecoins are no exception. To build and maintain trust, there must be rigorous transparency and auditability of stablecoin operations. This starts with **regular independent audits of reserve holdings** and public disclosure of reserve compositions – practices that should be codified in law or regulation. Both of the leading U.S. legislative proposals stress transparency (mandating frequent reserve attestations), and reputable issuers like Circle already publish monthly audits of USDC reserves. Regulators should require that stablecoin reserves are held in high-quality liquid assets (cash, T-bills, central bank deposits) and not commingled or leveraged. This makes audits straightforward and meaningful. Moreover, **real-time monitoring** could be employed – since many stablecoins operate on public blockchains, authorities can use on-chain analytics to observe the supply and large movements, providing an additional layer of oversight for anomalous activity or potential runs.

Another aspect is **cybersecurity auditability:** smart contracts and technical infrastructure for stablecoins should undergo security audits and certifications. Just as payment systems must meet operational risk standards, stablecoin smart contracts and wallets should adhere to best-in-class security practices (multi-signature controls, penetration testing, etc.). Finally, **consumer protections** such as clarity on redemption rights and liability in case of fraud are vital. For example, if a wallet is hacked, to what extent can a user be made whole? These need to be addressed through industry standards or regulation. Ensuring auditability and security not only protects users and stability, but also invites greater institutional participation. Governments can even consider **public transparency dashboards** that show, for each major stablecoin, the latest reserve audit, market cap, and any stress indicators – to keep the market honest. The overarching recommendation is: **embed trust through verification**. By making stablecoins as transparent and robust as our regulated financial institutions, we transform them from a perceived threat into a well-supervised part of the financial architecture.

6. Conclusion: toward a balanced coexistence.

Stablecoins represent a convergence of technology and finance that is challenging the status quo. As we have explored, they carry **tremendous opportunity** – to inclusively uplift individuals, supercharge payment efficiency, and enable a new era of programmable money. Yet they also pose **non-trivial threats** – to financial order, regulatory authority, and economic sovereignty – if left unchecked. Rather than choosing a side in the "opportunity or threat" debate, leaders in central banking and payments must navigate a nuanced middle path. The future likely holds a **coexistence of public and private digital monies**: well-regulated stablecoins circulating alongside central bank digital currencies and modernized bank money. The conversation now should focus on how to shape that coexistence to maximize public good.

Crucially, we should ask ourselves: **Can we harness the benefits of stablecoins – inclusion, innovation, efficiency – while firmly controlling the risks to stability and trust?** The answer will depend on the actions taken today. It will require open-mindedness from central banks to adapt and possibly collaborate with new actors, and it will demand responsibility from private innovators to respect the financial system's core safeguards. Domestic payment schemes and central banks sit at the intersection of these changes; their strategic choices will determine whether stablecoins become a **complementary tool in the digital economy or a destabilizing force.**

In the spirit of strategic dialogue, I leave you with a final thought: If money is fundamentally a tool of trust and policy, then who should ultimately hold the keys in this new digital era? **Stablecoins challenge us to rethink the answer.** By proactively setting the rules and engaging with innovation, central banks and payment leaders can ensure that **stablecoins are an opportunity realized, not a threat unchecked**. The discussion we have today will shape the trajectory of money for the coming decades – let's make sure we get it right.

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