

# The Stablecoin question: An impractical distraction or a powerful alternative?

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# Executive Summary

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While interest in stablecoins has consistently grown since their inception, and with the USA's signing of the GENIUS Act into law in July 2025, the topic continues to attract interest from all parts of the chain, especially regulators.

As digital representations of value that are designed to maintain stability by referencing an asset or pool of assets, stablecoins are presented as a form of payment akin to currencies, with their precise definition varying per jurisdiction.

Over the past three years, the development of regulatory frameworks and efforts to integrate stablecoins into traditional payment systems have intensified, with some critical points of alignment between jurisdictions emerging. One of the greatest risks that remains, however, is that of fragmentation. Greater global cooperation and coordination between countries is still needed to avoid it.

In the capital markets, the main use seen for (fiat-backed) stablecoins is as an on-chain settlement asset, similar to wholesale CBDCs and tokenised bank liabilities, with its own advantages and drawbacks. It also faces an additional roadblock in comparison to other solutions, with regulatory limitations imposed by several jurisdictions.

Even with these presented challenges, stablecoins have great potential to bring new opportunities for capital market participants, possibly “unlocking” 24/7 on-chain settlement, providing liquidity outside of the traditional cycles, and introducing fixed income products to new markets.

# Introduction

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Since the initial appearance of stablecoins in July 2014, the market has grown to a considerable size. From USD 3 billion in 2018<sup>1</sup> to over USD 300 billion in October 2025<sup>2</sup>, this type of crypto-asset, which can be used as a means of payment, has seen staggering growth, being mainly used in crypto-asset trading and for cross-border payments<sup>3</sup> up to this point.

Following the United States of America's (USA) government's signing of the GENIUS act into law in July 2025<sup>4</sup>, the world's largest economy finally decided to take action and further accelerate the growth of the domestic market, as part of its ongoing efforts to broaden its investor base, increase demand for US treasury bills and maintain the position of the USD as the "global reserve currency". Considering that USD-backed stablecoins comprise 99% of the stablecoin market cap and 70% of total off-chain spot crypto trading<sup>5</sup>, it was inevitable that this news would once again ignite interest in the digital asset world, with a spotlight placed directly on stablecoins.

Against this backdrop, stablecoins are more relevant than ever. However, what is there beyond the "hype"? In this article, we intend to look at (i) what stablecoins are, (ii) the approaches different jurisdictions have taken to regulate them and the accompanying challenges and, finally, (iii) what their practical applications are in the capital markets.

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<sup>1</sup> J.P. Morgan Global Research, *What to know about stablecoins*, published on 4 September 2025

<sup>2</sup> The Block, *Stablecoin market cap surpasses \$300 billion for first time amid crypto rebound*, published on 3 October 2025

<sup>3</sup> Bank of England, *What are stablecoins and how do they work?*, published on 6 November 2023

<sup>4</sup> United States of America, *The White House, Fact Sheet: President Donald J. Trump Signs GENIUS Act into Law*, published on 18 July 2025

<sup>5</sup> European Systemic Risk Board (ESRB), *'Crypto-assets and decentralised finance'*, published on October 2025

# What are Stablecoins?

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Stablecoins are usually combined into the greater discussion on crypto-assets, which are generally defined as (digital) assets made to function as a means of exchange and storage of value, typically and most notably using Distributed Ledger Technology (DLT), also referred to interchangeably as "Blockchain". However, that is not all that is necessary to define them.

Stablecoins are, to put it simply, digital representations of value that are designed to maintain a stable value. This is achieved in two different ways: (i) by reference to an asset or a basket of assets ("asset-backed stablecoins"); or (ii) via protocols that provide for the increase or decrease of the supply of the stablecoins in response to changes in demand (so-called "algorithmic stablecoins"<sup>6</sup>).

Asset-backed stablecoins can then be divided further into those that reference either: (i) one or more fiat currencies (eg USDC, which references the US Dollar<sup>7</sup> and JPYC, which references the Japanese yen<sup>8</sup>) – "fiat-backed stablecoins" for the purposes of this article; or (ii) one or more assets, which may or may not be fiat currencies (eg Tether Gold, which references the value of gold<sup>9</sup>) – "commodity-backed stablecoins".

It is important to stress that, beyond the general classifications above, regulators take different approaches to defining stablecoins. The European Union (EU), for example, separates them as either "asset-referenced tokens" (that reference "another value or right or a combination thereof, including one or more official currencies") or "e-money tokens" (referencing "one official currency")<sup>10</sup>. Hong Kong, on the other hand, provides a single definition of stablecoin, capturing any that reference either a single asset or a "pool or basket of assets". While there is no set regulation in the United Kingdom (UK) yet, Andrew Bailey, Governor of the Bank of England, argues that stablecoins require the following to be used "in the real economy"<sup>11</sup>: (i) reserve assets should be free of financial risk; (ii) an insurance scheme (as with bank deposits), and a statutory resolution arrangement that ensures their holders are preferred creditors in any insolvency process should be adopted; and (iii) the terms of exchange of stablecoins must be (per the name) stable.

With similar types of considerations, if not the same conclusions, regulation on stablecoins is starting to take shape throughout the world. In light of the proliferation of stablecoins, as they look to become an essential part of the financial system, regulatory frameworks are becoming necessary to integrate and develop them.

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6 [With significant failures in a short period of time, as exemplified by the collapse of Terra in May 2022, algorithmic stablecoins have mostly fallen out of favour outside of crypto trading spaces. Further, their issuance was effectively banned by many jurisdictions.](#)

7 [Circle, USDC landing page](#)

8 [JPYC landing page](#)

9 [Tether Gold landing page](#)

10 European Union, arts. 3(6) and (7), EU MiCA

11 Financial Times, Andrew Bailey, *The new stablecoin regime*, published on 1 October 2025



# Regulation around the globe

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Ever since the establishment of the first stablecoins, authorities have kept a close eye on the technology (with some taking proactive steps to regulate, and most taking a more passive stance).

However, in the past three years, the development of regulatory frameworks and efforts to integrate stablecoins into the traditional payment systems have markedly intensified, with major jurisdictions either having regulations in place or taking concrete steps in that direction. For example, the following major jurisdictions either already have regulations in place, or are in advanced stages of the legislative process:

- EU – Published Regulation (EU) 2023/1114, the Markets in Crypto-Assets Regulation (“EU MiCAR”), in July 2023. Titles III and IV, which regulate stablecoins, became applicable as of June 2024<sup>12</sup>;
- Hong Kong (HK) – Stablecoins Ordinance was approved by the Legislative Council in May 2025, taking effect in August of the same year<sup>13</sup>;
- Japan – In June 2022, an amendment to the Payment Services Act was approved, introducing regulation on stablecoins into law<sup>14</sup>, with it taking effect in June 2023;
- Singapore – In August 2023 the Monetary Authority of Singapore (MAS) published the Stablecoin Regulatory Framework, which applies to any fiat-backed stablecoins pegged to Singaporean Dollars or G10 currencies<sup>15</sup>;
- UK – The Financial Conduct Authority published CP25/14 in May 2025, on rules for stablecoin issuance, with the consultation period ending in July 2025<sup>16</sup>, and added a stablecoins cohort to their Regulatory Sandbox on 26 November 2025<sup>17</sup>. Additionally, the Bank of England published a Consultation Paper in November 2025, with a proposed regulatory regime for sterling-denominated “systemic stablecoins”, with the consultation period ending in February 2026<sup>18</sup> (the “Systemic Stablecoin CP”). Legislation on cryptoassets (including “qualifying stablecoins”) is expected to be put before Parliament in the near future, with the UK government aiming to introduce the new licensing regime by the end of 2026<sup>19</sup>;
- USA – The GENIUS Act, which provides a framework for the regulation of payment stablecoins, was signed into law in July 2025<sup>20</sup>. At the latest, it will take effect on January 2027<sup>21</sup>;

These are not the only jurisdictions which saw proposals for the regulation of stablecoins. Others, such as Australia<sup>22</sup>, Brazil<sup>23</sup>, Canada<sup>24</sup>, Nigeria<sup>25</sup>, South Korea<sup>26</sup>, Switzerland<sup>27</sup> and the United Arab Emirates<sup>28</sup> either have regulations under discussion or already in force regulating stablecoins specifically, or more generally under the “virtual assets” umbrella. It is clear to most jurisdictions that there is now a need to regulate them.

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<sup>12</sup> European Union, EU MiCAR

<sup>13</sup> Hong Kong Monetary Authority, ‘Regulatory Regime for Stablecoin Issuers’, page last revised on 15 August 2025

<sup>14</sup> Anderson, Mori & Tomotsune, ‘Amendments to the Payment Services Act and the Act on Prevention of Transfer of Criminal Proceeds, etc. (Introduction of Regulations on Stablecoins)’, published on September 2022

<sup>15</sup> Monetary Authority of Singapore, ‘MAS Finalises Stablecoin Regulatory Framework’, published on 15 August 2023

<sup>16</sup> United Kingdom, Financial Conduct Authority, CP25/14: *Stablecoin issuance and cryptoasset custody*, published on 28 May 2025

<sup>17</sup> United Kingdom, Financial Conduct Authority, *Regulatory Sandbox: stablecoins cohort*, published on 26 November 2025

<sup>18</sup> United Kingdom, Bank of England, *Proposed regulatory regime for sterling-denominated systemic stablecoins Consultation Paper*, published on 10 November 2025

<sup>19</sup> Linklaters, *UK cryptoasset regulation: where are we now?*, published on 22 October 2025

<sup>20</sup> United States of America, GENIUS Act of 2025 text

<sup>21</sup> United States of America, The White House, *Fact Sheet: President Donald J. Trump Signs GENIUS Act into Law*, published on 18 July 2025

<sup>22</sup> Australia, Australian Securities and Investments Commission (ASIC), ‘ASIC supports innovation through exemptions for distributors of Australian stablecoin’, published on 18 September 2025

<sup>23</sup> Brazil, Law No. 14.478, from 21 December 2022

<sup>24</sup> Canada, Budget 2025, published on November 2025

<sup>25</sup> Nigeria, Investments and Securities Act, 2025, published on 2 May 2025

<sup>26</sup> South Korea, Act on the Protection of Virtual Asset Users, from 18 July 2023

<sup>27</sup> Switzerland, *Federal Council moves forward with stablecoins and crypto: consultation launched*, published on 22 October 2025

<sup>28</sup> United Arab Emirates, Central Bank of the U.A.E. Rulebook Payment Token Services Regulation, effective from 31 August 2024

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While there is variation in approach and level of caution, some common threads have emerged from different regulatory frameworks. By comparing (proposed or in force) regulations in the EU, HK, Japan, Singapore, the UK and USA we can identify the following points of convergence<sup>29</sup>:

- Reserve Assets: Issuers of stablecoins are generally required to maintain at least 1:1 backing with reserve assets which are highly liquid and low risk;
- Interest: none of the verified regulations allow for interest to be accrued for holders of reserve assets;
- Safeguarding: reserves must be held by a third-party custodian, and segregated from the issuer's assets; and
- Redemption: stablecoins must be redeemable at par value.

In general, the main goal of regulators seems to be providing legal certainty and enabling growth and innovation in financial services, while mitigating potential risks and preserving financial stability. As a form of payment purportedly idealised as an alternative to traditional and digital payment methods, there are inherent risks that regulators must take into account, including AML/CFT concerns, fluctuation, prudential and run risks, among others.

One of the greatest risks to the safe development of the stablecoin market is fragmentation. As described above, jurisdictions have reached common ground in key themes, highlighting what regulators seem to view as the baseline for their use as payment instruments. There are also global initiatives aiming to mitigate this risk. The Financial Stability Board issued, in July 2023, ten high-level recommendations for the regulation, supervision and oversight of “global stablecoin arrangements”<sup>30</sup>. It then followed in October 2025 with a thematic review of their global regulatory framework for crypto-asset activities (which includes their stablecoin recommendations). Additionally, the Basel Committee on Banking Supervision (BCBS) issued in July 2024 their standards on the disclosure of crypto-asset exposures<sup>31</sup>.

However, there could still be greater cooperation and coordination, to avoid gaps and inconsistencies that could pose risk to financial stability, especially in arrangements that are modelled to operate across multiple jurisdictions<sup>32</sup>. While some are, for example, already fully aligned to the FSB recommendations (EU and Hong Kong), others require some more development to reach that stage (eg Japan) or are still implementing their frameworks (eg USA)<sup>33</sup>.

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<sup>29</sup> Ernst & Young, *Global approaches to stablecoin regulation*, published on July 2025

<sup>30</sup> Financial Stability Board, *High-level Recommendations for the Regulation, Supervision and Oversight of Global Stablecoin Arrangements*, published on 17 July 2023

<sup>31</sup> Basel Committee on Banking Supervision, *Disclosure of cryptoasset exposures*, published on July 2024

<sup>32</sup> Financial Stability Board, 'Thematic Review on FSB Global Regulatory Framework for Crypto-asset Activities', published on 16 October 2025

<sup>33</sup> *ibid*

# Practical Application in the Capital Markets

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Stablecoins have potential for use in plenty of areas within the crypto ecosystem. There are, however, other potential use cases which can be explored. Among these, we can focus on one area: capital markets. Here, the main practical use that is seen for them, specifically single currency fiat-backed stablecoins, is as on-chain settlement assets, ie "cash-on-chain". Some recent examples of these applications are, as seen in [ICMA's Tracker of New FinTech Applications in Bond Markets](#) and among others, the announcement (i) by Deutsche Börse Group and Circle announced collaboration to advance stablecoin adoption in Europe<sup>34</sup>, and (ii) of the establishment of a consortium of ten European banks to launch an euro-denominated stablecoin<sup>35</sup>.

Currently, stablecoins are an integral part of the crypto ecosystem, being mainly used as a bridge to the crypto ecosystem and facilitator for trades in other crypto-assets (with 88% of stablecoin transactions in 2024 being in crypto trading pairing), with a still limited (but growing) secondary use case as a form of payment (representing 6% of total stablecoin transactions in 2024)<sup>36</sup>.

Plenty of research, PoC tests and live use cases exist involving the use of fiat-backed stablecoins as a settlement asset. Under Project Guardian, a global collaborative initiative between policymakers and the financial industry to enhance liquidity and efficiency of financial markets through asset tokenisation, initiated by the MAS, a deeper dive was made into the use of different types of settlement assets by the fixed income workstream, led by ICMA. The resulting paper, published as an addendum to the [Guardian Fixed Income Framework](#), produced a comprehensive explanation of the characteristics and considerations for the use of stablecoins (among other options) as a settlement asset.

Differently from wholesale CBDC and tokenised bank liabilities, fiat-backed stablecoins are generally unrestricted in access, being accessible to both wholesale and retail. They are highly programmable, allowing for configuration of access level at (i) DLT or blockchain network level, (ii) application/interface level or (iii) even at token level<sup>37</sup>.

This greater level of access and high programmability does not come without its drawbacks. Some of them come from the limited scale and novelty of the market, and others come from inherent risks of the technology. Further, some are a result of regulatory constraints imposed by authorities to safeguard consumers, especially as they may also be accessed by retail. Particularly, the following are interesting to highlight<sup>38</sup>:

- Additional transaction costs: as an example, gas fees, which apply if the stablecoin is deployed on a public blockchain, may spike during congestion;
- Interest: in general, fiat-backed stablecoins are not interest-bearing, as opposed to wholesale CBDC and tokenised bank liabilities;
- Pre-funding: currently, the availability of credit in stablecoins is very limited. This may change as banks gain clarity on their regulatory and prudential treatment;
- Custody considerations: when they are deployed in a third-party infrastructure, additional custody and access risks can appear. Further, the limited transparency of custodial arrangements increases operational and legal risks; and
- Technology risk: tied to the underlying network and smart contracts, it could be subjected to their outages, congestions, bugs, among others.

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<sup>34</sup> Clearstream, *Deutsche Börse Group and Circle Announce Collaboration to Advance Stablecoin Adoption in Europe*, published on 30 September 2025

<sup>35</sup> Qivalis landing page

<sup>36</sup> European Systemic Risk Board (ESRB), *Crypto-assets and decentralised finance*, published on October 2025

<sup>37</sup> Monetary Authority of Singapore, *Project Guardian Fixed Income Framework, DvP Settlement Guide Addendum*, published on November 2025

<sup>38</sup> Ibid



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It is important to stress that not all of these are inherent to stablecoins, nor are they all that needs to be considered (other aspects include eg the risk illiquidity of reserve assets and great variation in redemption rights depending on the issuer). Some are also shared by other on-chain settlement assets (eg custody considerations), and others dependent on the chosen underlying infrastructure and implementation (eg technology risks).

There are also limitations to the use of stablecoins as settlement assets that do not come from the product or underlying technology itself. Instead, some regulators have imposed, or propose to impose limits, with examples including: (i) Switzerland, which limits deposits of stablecoins to CHF 100 million per client. The removal of this limit is, however, under discussion in the latest consultation launched by the Federal Council<sup>39</sup>; and (iii) the UK's Systemic Stablecoin CP, in which the Bank of England clarifies that both it and the FCA do not plan to permit the use of stablecoins as settlement assets in wholesale transactions as of yet. Instead, this will be allowed only under the Digital Securities Sandbox and, pending the results of these trials, only then will they make a final decision on their use<sup>40</sup>.

Even with these restrictions, it is clear that stablecoins have the potential to be used in the capital markets. They can provide new opportunities for participants, potentially "unlocking" 24/7 on-chain settlement of tokenised securities, providing liquidity outside of the traditional trading and settlement cycles, and extending their reach to more wholesale and (especially) retail markets<sup>41</sup>.

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<sup>39</sup> Switzerland, *Federal Council moves forward with stablecoins and crypto: consultation launched*, published on 22 October 2025

<sup>40</sup> United Kingdom, Bank of England, *Proposed regulatory regime for sterling-denominated systemic stablecoins Consultation Paper*, published on 10 November 2025

<sup>41</sup> Monetary Authority of Singapore, *Project Guardian Fixed Income Framework, DvP Settlement Guide Addendum*, published on November 2025

# Conclusion

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Interest in stablecoins is rising. As the market has grown exponentially, and with the USA signing the GENIUS Act into law, the topic continues to attract interest from consumers, intermediaries and, especially, regulators.

As digital representations of value that are designed to maintain a stable value by referencing an asset or pool of assets, stablecoins are presented as a form of payment similar to the currencies which they usually reference, with their precise definition varying per jurisdiction.

In the past three years, the development of regulatory frameworks and efforts to integrate stablecoins into the traditional payment systems have markedly intensified. While there is some variation in approaches, a few points of convergence have emerged between jurisdictions, with most aligning on a few critical points. As regulators seek to provide legal certainty and enable growth and innovation while tackling a number of risks, they must consider and mitigate one of the greatest risks to the market, which is that of fragmentation. While there are global initiatives aiming to solve this issue, there could still be greater cooperation and coordination between countries.

There are also possibilities for stablecoins to be explored in the capital markets, in which they can be used as a form of settlement asset similar to wholesale CBDCs or tokenised bank liabilities, with its own advantages and disadvantages. Stablecoins, however, also hit a unique roadblock compared to other settlement assets: regulatory limitations, including restrictions on deposit amounts and permitted use cases.

Even with these considerations, stablecoins have plenty of potential, bringing new opportunities for participants, possibly "unlocking" 24/7 on-chain settlement, providing liquidity outside of the traditional cycles, and extending the reach of fixed income products to more wholesale and retail markets.

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