How Stablecoins Are Extending U.S. Dollar Dominance

A Policymaker's Guide to Action

Prepared by

The Digital Chamber

Once exclusively utilized for crypto asset transactions, stablecoins[1] are entering the mainstream with adoption expanding beyond crypto trading and becoming less influenced by fluctuations in the broader crypto asset markets. Approximately $170 billion worth of stablecoins are currently in circulation worldwide, with over 98 percent of those pegged to the U.S. dollar.[2] Within the past twelve months, stablecoin transaction volumes have surpassed $20 trillion across nearly 150 million active, unique wallet addresses, exceeding transactional volumes recorded on several traditional payment systems.[3] Stablecoins are emerging as predominantly dollar-based payment infrastructures that offer significant opportunities for end users, who are leading the notable expansion in stablecoin uses cases.

Further, stablecoins' borderless nature allows for the preservation and promotion of U.S. dollar (USD) primacy on-chain at a time when the dollar continues its decline as a percentage of global foreign exchange reserves, off-chain. Recognizing the opportunities, several jurisdictions are developing or have introduced regulatory frameworks designed to support the growth of non-USD-linked stablecoins, while ensuring robust requirements and protections for issuers and end-users, respectively. The competitive landscape is heating up, presenting potential challenges to continued issuance and growth of USD-linked stablecoins and the global attraction to the U.S. dollar. Yet, one formidable competitor remains absent: the United States.

In the following report, The Digital Chamber (TDC) illustrates how stablecoins have decoupled from the broader volatility typically seen in cryptocurrency markets. It highlights the increasing global adoption of USD-linked stablecoins and their critical role in sustaining the U.S. dollar's position as the world's primary reserve currency. Additionally, the report evaluates current U.S. legislative proposals, identifying both the opportunities and challenges in developing a regulatory framework that supports a diverse and responsible stablecoin ecosystem.

TDC[4] is a non-profit trade organization committed to promoting blockchain adoption. We envision a fair and inclusive digital and financial ecosystem where everyone has the opportunity to participate. Access to digital assets is not merely a technological advancement but a fundamental human right, crucial for economic and social empowerment. Through targeted education, advocacy, and strategic collaborations with government and industry stakeholders, we drive innovation and shape policies that create a favorable environment for the blockchain technology ecosystem.

TDC would like to thank Nic Carter of Castle Island Ventures and TDC members of the Stablecoin Policy Report Workstream for their insights and contributions to this report.

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1 Stablecoin Market – Decoupling & Looking Ahead

Stablecoins have often been viewed by regulators and observers exclusively as an on-ramp and off-ramp for realizing crypto asset purchases and sales. However, new research indicates that stablecoins offer substantial value for use cases beyond transactional[5] purposes.

Since the introduction of BitUSD in 2014, the global value of stablecoins in circulation has exploded to more than $170 billion fueled predominately by the rising popularity of several stablecoins, including USDT (Tether), USDC (Circle), and DAI (MakerDAO). In the first half of 2024, more than $2.6 trillion worth of stablecoin transactions were settled, representing roughly 50 percent of all value settled on-chain.[6]

This growth has historically been correlated with the rise in adoption and use of cryptocurrency platforms and exchanges, as public familiarity with digital assets increases, regulatory frameworks coalesce, and developers provide products that serve the needs and goals of local users.[7]

Meanwhile, the local user base continues to diversify. Asked about how cryptocurrencies and stablecoins may interact with one another, one TDC Member remarked, “Stablecoins and traditional crypto markets are serving totally different audiences. Stablecoins are used by emerging market businesses and individuals” in response to low-quality, expensive, or inaccessible local financial institutions or in response to currency fluctuations and mismanaged monetary policy. Crypto, on the other hand, is a more attractive option for users seeking investment opportunities in the growing blockchain ecosystem.

Recent research from Castle Island Ventures (CIV) shows that while the most common use case for stablecoins across five emerging markets remains as an on/off-ramp to trade crypto or non-fungible tokens (NFTs) (50%), non-crypto-related use cases have grown significantly in the past 12 months. These include saving money in dollars (47%), converting currency more economically (43%), earning a yield on held stablecoins (39%), buying and selling goods and services (34%), and sending money internationally (32%) – all of which respondents expect to continue using more frequently over the next year (72%).[8] This suggests a growing number of users who view stablecoins as essential for their daily activities and financial security, with many gradually foregoing transacting in their local currency in favor of stablecoins linked to the U.S. dollar.

International organizations have also recognized the applicability of stablecoins for non-crypto use cases. In December 2022, the United Nations High Commissioner for Refugees (UNHCR) and the Stellar Development Foundation (SDF) carried out a successful pilot project to distribute cash aid via USDC (a USD-linked stablecoin) to a group of individuals displaced by the war in Ukraine.[9]

Box 1: Stellar Aid Assist

Stellar Aid Assist ensures the delivery of humanitarian assistance instantly and directly into the hands of those in need. It combines new and traditional technologies to achieve real-world results: the Stellar blockchain, digital wallets like Vibrant, stablecoins like USDC, and local money services like MoneyGram.

Stellar Aid Assist leverages the Stellar Disbursement Platform (SDP), a general use case bulk disbursement tool that enables organizations to distribute funds to recipients and monitors the disbursement of those funds on the Stellar blockchain.

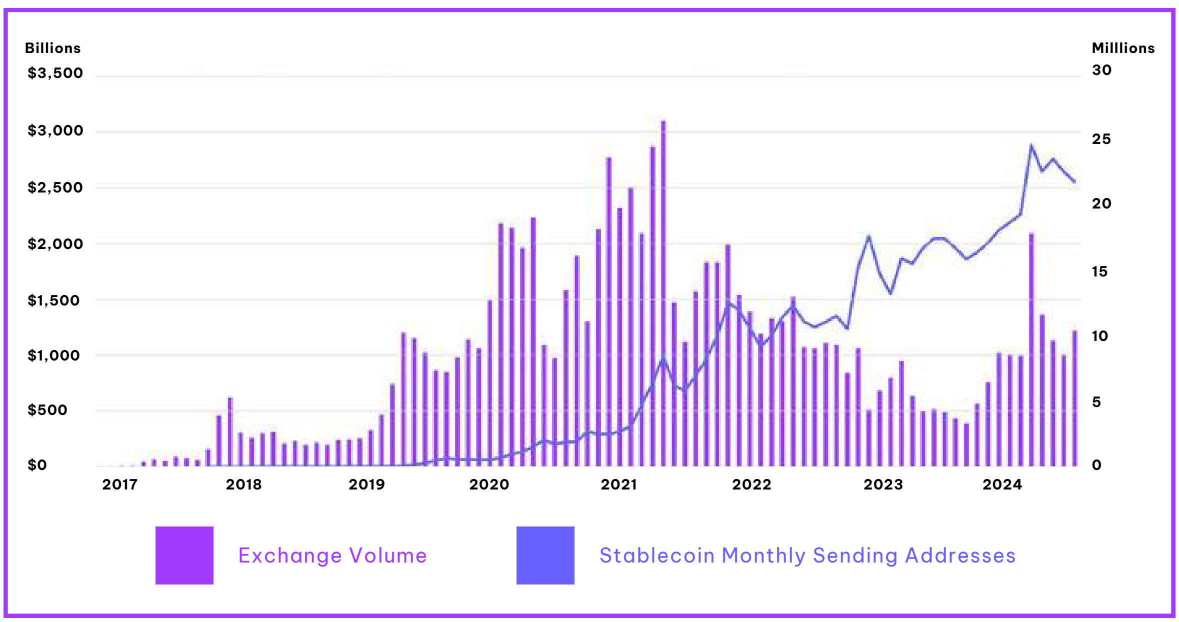
Using Stellar Aid Assist, the UNHCR can deliver aid instantly, in the form of USDC, to the recipient's Vibrant digital wallet, which can be downloaded on a smartphone. Recipients don't need a bank account to receive, safely hold, and transmit funds.

Whenever the need arises, recipients can also convert stablecoins to local cash in an off-ramp like MoneyGram, which continues to operate in Ukraine and neighboring countries.

Since its launch, the program has gradually scaled to new locations, such as Argentina, to disburse grants to refugee entrepreneurs (many from Venezuela), offering greater stability than traditional cash payments in the volatile Argentine peso. So far, the UNHCR has successfully disbursed more than $4.2 million in aid to some 2,500 households using Stellar Aid Assist.

CIV research also shows that stablecoin transactions have increasingly decoupled from cryptocurrency use, indicated by divergences between spot crypto trading volume and stablecoin monthly sending addresses, visualized below:

Spot Crypto Trading Volume vs Stablecoin Monthly Sending Addresses

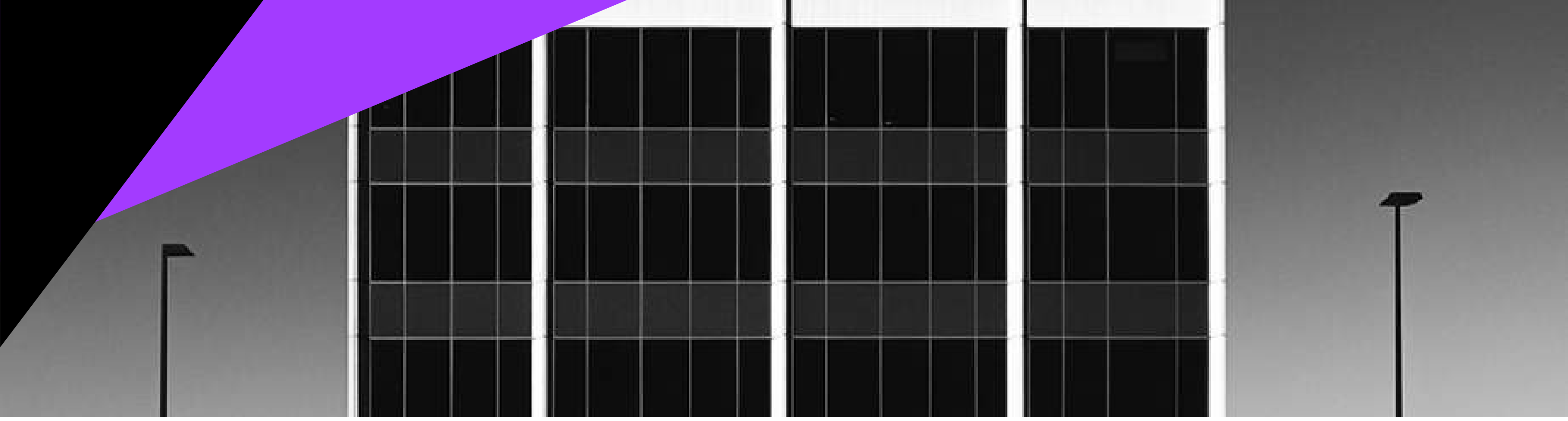


As these trends mature, fostering a responsible regulatory framework around USD-linked stablecoin issuance will weave U.S. economic interests into the fabric of emerging markets – friendly, hostile, and indifferent – around the world, and on-chain.

2 USD-linked Stablecoin Use Globally

For many of the same reasons that the U.S. dollar has long-served as the world's reserve currency, it has also become the dominant reference-asset for stablecoins. Qualities of a stable reserve currency include global acceptance, stability, liquidity, and its issuer maintaining a strong economy and stable political environment.[10] Throughout the 20th century, the U.S. government promoted safe and efficient foreign investment in U.S. Treasury assets and lowered barriers to transacting in USD. By 2000, the USD made up roughly 70 percent of global foreign exchange (FX) reserves.

However, an overreliance on sanctions and economic statecraft (covered in sections 3), along with escalating geopolitical tensions following the COVID-19 pandemic and Russia's 2022 invasion of Ukraine, have pushed foreign governments to seek alternatives to the SWIFT banking network, which operates under significant U.S. regulatory and economic influence. Slowly but steadily, USD FX reserves have fallen from their 2000 high of ~70 percent to 58 percent today, though 88 percent of FX transactions still incorporate the U.S. dollar in their processes.[11]



While foreign leaders may seek to diversify their economies and reduce reliance on the U.S. dollar to maximize policy independence and shield against U.S. geopolitical maneuvering, including the extraterritorial reach of U.S. sanctions, those countries' citizens are increasingly prioritizing acceptance, stability, liquidity, and the backing of a strong referent currency. Stablecoins allow users to realize this preference for U.S. dollars, providing them with greater financial freedom to protect and preserve their financial well-being.

This preference is further highlighted when you consider that stablecoins referencing non-USD assets including gold, Euros, Renminbi, and other commodities and fiat currencies currently account for only one percent of the stablecoin market. Meanwhile, USD-linked stablecoins comprise the remaining 98.97 percent of the market.[12] Existing stablecoins offer a valuable tool for U.S. policymakers to maintain U.S. dollar dominance globally, and industry players are concerned that a lack of fit-for purpose regulatory framework could undermine this advantage. The worry, here, is that the USD will lose its prominence in the digital economy – much like the U.S. dollar is projected to continue its gradual decline as a share of allocated foreign reserves and its current critical role in facilitating international trade.[13]

3

International Relations

Stablecoins are not just a convenient tool for quickly sending value internationally and securely. In their current instantiation, stablecoins necessarily expose users – worldwide – to U.S. monetary policy. U.S. monetary policy, however, is not purely economic.

According to a 2022 Congressional Research Services (CRS) report[14]:

"Through economic sanctions that impede access to the U.S. financial system (financial sanctions), the United States leverages the role of the dollar to advance foreign policy objectives,"

Treasury Secretary Janet Yellen, former Chair of the Federal Reserve and the White House Council of Economic Advisors, added to a long list of trade and geopolitical experts' warnings in August, when she stated:

"There is a risk when we use financial sanctions that are linked to the role of the dollar that over time it could undermine the hegemony of the dollar…[and] of course, it does create a desire on the part of China, of Russia, of Iran to find an alternative."[15]

These warnings have begun to coalesce into technological solutions – such as the Chinese e-CNY and Russian digital ruble – and in multilateral forums – such as the expansion of the BRICS membership countries, or in the continued exploration in interlinking payments infrastructures, including China's Cross-Border Interbank Payment System (CIPS).

Regarding the BRICS recent expansion, the intergovernmental organization has persistently aligned itself against U.S. interests, and is increasingly turning to the use of digital assets to facilitate transactions between member countries – bypassing the U.S. dollar and avoiding U.S. sanctions policies.

Box 2: BRICS+

BRICS[16] is an intergovernmental organization that seeks to establish, among other objectives, a united front on economic policy, including the de-dollarization of global trade and promulgation of new, interconnected financial rails by which member countries transact. The New Development Bank and Contingent Reserve Arrangement for the Global South are among several efforts meant to mimic, if not thwart the influence of the International Monetary Fund and World Bank, respectively.

BRICS+ efforts to counteract U.S. dollar dominance have consistently under-performed vis-à-vis the stated goals of the bloc's Russian and Chinese leadership. Forming in 2010, the bloc's combined GDP by Purchasing Power Parity surpassed the G7's comparable trade bloc in 2018, and while nominal GDP measures indicate that the G7 (representing $45.9 trillion, or 43 percent of global GDP) maintain their economic advantage over the BRICS+ economies (representing $30.8 trillion, or 29 percent of global GDP), growth rates in the BRICS+ – Russia notwithstanding – have, and are expected to, outpace G7 economic growth in the short-to-medium term.

To accomplish this, BRICS+ have accelerated their efforts in recent years to stand-up bi- and multi-lateral trade agreements between member states. The BRICS Pay Consortium was launched in 2024 with the stated intention to (1) create payment gateways connecting existing and prospective settlement and payment systems, and (2) develop an alternative, distributed international settlement system tailored for BRICS+ countries, aligned with the guiding principles of the BRICS+ financial framework. The initiative will (3) implement and scale solutions incorporating modern digital technologies, such as blockchain and artificial intelligence, to enhance the efficiency of international settlements and payments, and (4) actively promote the development of a fair, efficient, and stable global financial architecture. This effort will focus on several key areas: international retail settlements and transfers, international B2B payments, a BRICS+ international settlement unit, the BRICS Pay international payment service, a decentralized interbank messaging system (BRICS Bridge), and expanded payment gateways.

As of this publication, seven of the organization's nine members are actively pursuing or have launched independent central bank digital currencies (CBDCs). These CBDCs are expected to be used to facilitate trade between member nations, posing challenges to the extension of U.S. financial influence aboard.

In the case of retail use, CBDC issuers will have access to an immense amount of citizens' financial data down to the level of microtransactions, posing a significant threat to financial privacy. USD-linked stablecoins represent a free market alternative to these central bank issued digital currencies enabling greater competition between private issuers, preserving the privacy of day-to-day transactions from authoritarian interference, while boosting the role of the U.S. dollar globally.

While international conflict, sanctions, and market de-coupling have led several foreign jurisdictions to reduce reliance on the U.S. financial system, the strong preference for USD-linked stablecoins suggests that global market momentum is reinforcing the USD's role in the digital economy. This dynamic could unintentionally counter foreign efforts to distance themselves from U.S. monetary influence.

This dynamic is also unlikely to disappear given the growing view that geopolitical conditions will continue to deteriorate in the near-term. For instance, The Atlantic Council's Scowcroft Center for Strategy and Security surveyed 167 international experts in geopolitical forecasting, and their responses suggest that conflict and uncertainty will continue to characterize the international landscape over the next decade.[17]

4 Policy – International Stablecoin Frameworks

As global private sector competition in the digital payments ecosystem continues to heat up, many jurisdictions are pulling ahead of the U.S. by laying the policy groundwork for comprehensive stablecoin regulation that fosters innovation while protecting end users. These proactive steps from several global regulators are a marked departure from the U.S. where clear rules of the road for stablecoin issuers do not exist. Below, TDC provides a high-level review of emerging stablecoin regimes in the European Union (EU), the United Kingdom (UK), Singapore, and the United Arab Emirates (UAE).

European Union

The European Union's Markets in Crypto-Assets (MiCA) framework took effect on June 30, 2024. The framework includes – at a very high-level – licensing requirements for custodians and crypto-asset service providers, enhanced consumer protections, and measures to prevent market abuse. As part of MiCA's requirements, stablecoin issuers[18] operating within the European Economic Area will have to come into compliance with MiCA by December 30, 2024, or cease issuance and operations entirely within the region.

However, certain provisions within MiCA could create obstacles for stablecoin issuers and may stifle market innovation, favoring larger, EU-native financial institutions over new market entrants. Notably, MiCA imposes stringent reserve requirements and limits on non-euro transactions, which may hinder competition and growth in the sector.

United Kingdom

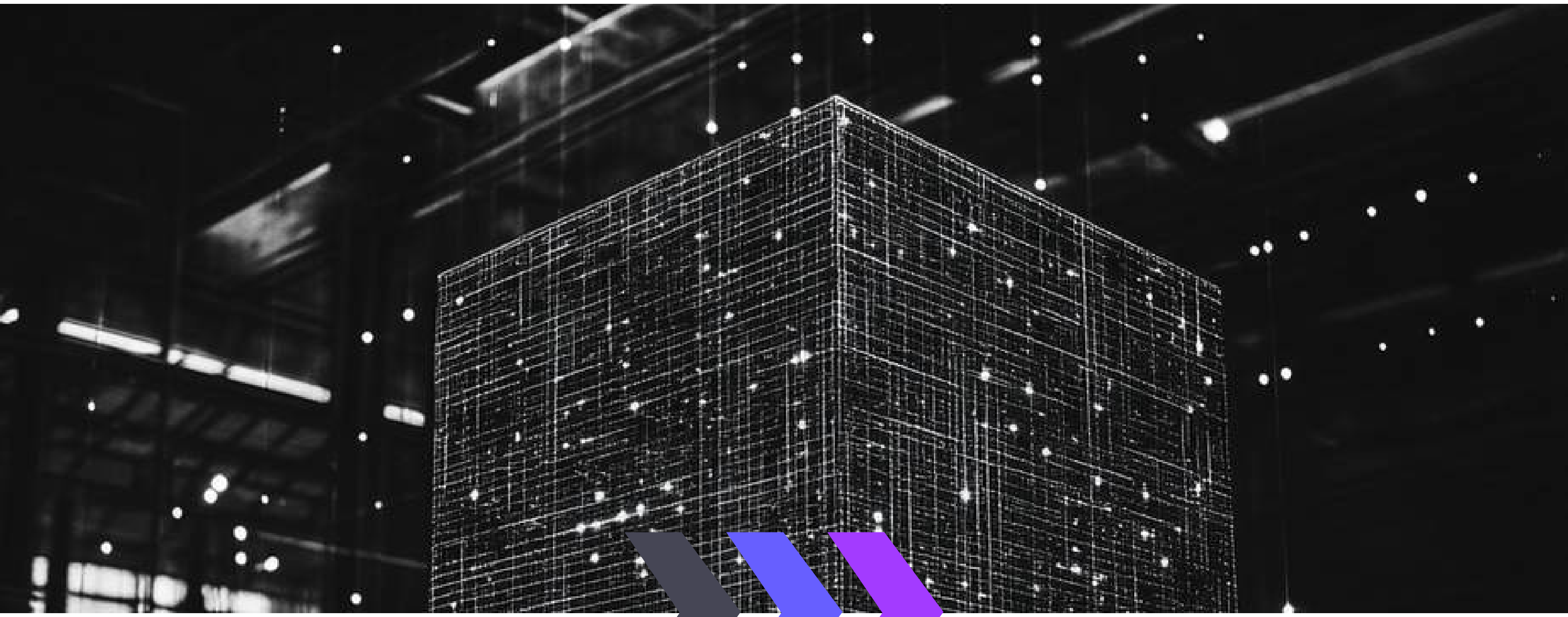
The United Kingdom passed the Financial Services and Markets Act in June 2023. A two-phased approach to stablecoin regulation began with amendments to the UK's Electronic Money Regulations (2011) and Payment Services Regulations (2017) to accommodate stablecoin payments within the country. While the second phase has yet to take effect, the regulatory oversight functions are clear: the Bank of England (BoE) will regulate "systemic stablecoins" that are in wide enough circulation to directly pose a threat to financial stability in the UK, while the Financial Conduct Authority will oversee the wider crypto sector, including non-systemic stablecoins.

Entities regulated under Article 5 of the Regulated Activities Order (RAO) for 'Accepting Deposits' will only be allowed to offer tokenized deposits to retail consumers if these deposits fully qualify for protection under the Financial Services Compensation Scheme (analogous to Federal Deposit Insurance Corporation (FDIC) protections). If such firms wish to issue stablecoins, they must do so through a separate, insolvency-remote entity with a distinct brand. This measure is aimed at ensuring that retail stablecoin holders do not mistakenly believe they have the same protections as traditional depositors.

Like the EU DLT Pilot Regime, the UK also provides developers with access to the Digital Securities Sandbox (DSS) – a supervised pilot program that lets participants operate new technical systems with fewer regulations. The BoE, overseeing DSS operations, has precluded the use of stablecoins for settlement within the sandbox environment. In their response to industry feedback BoE wrote, “At least three respondents called for the Bank to consider accepting stablecoins as a settlement asset, with one noting that restrictions around stablecoins should be considered as out-of-step with the objectives of the DSS.”[19]

Industry respondents continued, “stablecoins are already the dominant settlement asset globally and should the DSS prevent their use, it could render the sandbox less attractive.” [20]

BoE’s official response cites significant financial stability risks associated with the use of stablecoins for wholesale transactions, particularly due to potential credit, liquidity, and operational risks. These concerns stem from the possibility of stablecoins deviating from their par value, which could undermine trust in money and settlement systems. In wholesale markets, particularly, BoE determined the “risks are an order of magnitude greater than [those] posed by retail use cases.” [21] The discussion paper concludes, “Given these risks, at present the Bank will not allow stablecoins or e-money to be used for money settlement in the DSS for any currency,” despite issuing reserve, remuneration, systemic designation, deposit safeguarding, and capital requirements for stablecoins in November 2023.[22]



Singapore

In August 2023, the Monetary Authority of Singapore (MAS) finalized its 'Stablecoin Regulatory Framework."[23] The framework applies to single-currency stablecoins (SCS) pegged to the Singapore Dollar or any G10 currency that is issued in Singapore - providing opportunity for other G10 jurisdictions to lead such as Euro-linked or British Pound-linked stablecoins.[24] Interestingly, the MAS framework provides for greater optionality in allowing for different types of stablecoins[25] to be issued, used or circulated within Singapore not linked to fiat currency. Instead, they will continue to be subject to the existing Digital Payment Token regime which is applicable to other crypto assets in the Singaporean economy.

Non-bank SCS issuers with a total circulation value of less than S$5 million are not required to obtain a Major Payment Institution (MPI) license or comply with the full SCS regulatory framework. These smaller issuers are exempt from meeting certain stability and reserve requirements imposed on larger stablecoin issuers. However, this also means that the stablecoins issued by such non-bank SCS issuers will not be recognized under the formal SCS regime, leaving them without the credibility and stability assurances that regulatory oversight provides. While this creates a low-barrier to entry for small-scale issuers, it could result in challenges regarding trust and consumer confidence, especially in cross-border or large-scale financial transactions, potentially limiting a non-bank SCS issuer's ability to scale.[26]

United Arab Emirates

The Abu Dhabi Global Market (ADGM) introduced regulatory guidelines for crypto assets in the first-quarter of 2018, providing a structured framework for digital assets. These regulations positioned ADGM as one of the earliest jurisdictions to formalize oversight of this ecosystem. Originally overseen by the Financial Services Regulatory Authority (FSRA), the regulation of stablecoins was reassigned to the Central Bank of the UAE (CBUAE) under the Payment Token Services Regulation (PTSR) on May 30, 2024.[27] This regulation removed digital assets and virtual asset service providers from the Retail Payment Services and Card Schemes and Stored Value Facilities regulations, streamlining the licensing process.

The CBUAE has the authority to designate any virtual asset as a ‘payment token,’ introducing a new regulatory pathway for algorithmic stablecoins and stablecoins ‘pegged’ to other stablecoins. In contrast to previous regimes requiring 1:1 fiat reserves for stablecoins, the PTSR allows for more flexibility. The regulation also distinguishes between dirham-linked stablecoins (Dirham or AED is the official currency of the UAE), which can be accepted for payments, and foreign stablecoins (ie. USDT, USDC) which are limited to virtual asset transactions. This means that USD-linked stablecoins are not currently allowed to be used for regular payments but can be used for trading and other virtual asset-related activities. Both the CBUAE and private entities can issue Dirham-linked stablecoins, pursuant to the PTSR guidelines.

On October 14, 2024, the CBUAE principally approved AED Stablecoin LLC as the first issuer of a dirham-pegged stablecoin under its PTSR framework. The license will likely make AED Stablecoin LLC the first entity authorized to issue AED stablecoins (AE Coin) in the UAE.[28]

5 Policy – Towards a U.S. Stablecoin Framework

TDC has long advocated for a responsible stablecoin regulatory framework in the U.S. that supports the vibrant and growing USD-linked stablecoin ecosystem domestically and globally. TDC has submitted numerous responses to regulatory agencies, Congress, and administration officials providing input towards an effective and adaptive regulatory framework that considers the unique models, offerings, use cases, and diversity of regulatory structures of USD-linked stablecoins.

As part of that input, TDC has shared several principles that U.S. policymakers should consider in developing a risk-proportionate and adaptive framework critical to the U.S. stablecoin ecosystem. They are:

- Be technology neutral;
- Regulate proportionate to the risk of an issuer or its affiliates and avoid imposing bank-like regulatory regimes given unique models and risks presented;
- Ensure U.S. global leadership in the blockchain space;
- Recognize stablecoins as both a type of institutional- and retail-focused digital payments instrument, not as an investment product;
- Ensure compliance with AML, sanctions, and countering the financing of terrorism requirements;
- Craft flexible, principles-based rules.

In the chart below, TDC has integrated several recommendations from prior correspondence, along with recent input from members of the TDC Stablecoin Policy Report Workstream. These updates align with and support the principles outlined above.

Collectively, these recommendations offer policymakers a blueprint for developing a robust U.S. stablecoin framework. The blueprint aims to promote consumer choice, uphold established regulator protections at both the state and federal levels, and enhance the U.S.'s competitiveness in payments while reinforcing the dollar's position as the world's reserve currency. We urge policymakers to take these recommendations seriously and act upon them with urgency to ensure that the U.S. remains competitive in the digital asset ecosystem while safeguarding financial stability.

TDC Stablecoin Policy Recommendations

Balanced approach	• Mitigation of risk without stifling innovation. • Legislation will help to counter the perception that the U.S. government remains 'hostile' to digital assets, but the framework must reflect industry needs and expectations otherwise it will further disincentivize issuers from operating in or issuing into the U.S.
Diversity of players	• Allow both banks and non-banks to issue stablecoins, while preserving the separation of banking and commerce. • Restricting stablecoin issuance to banks reduces competition and hinders financial inclusion. There are innate differences between fractional reserve banking and stablecoin issuers maintaining reserves matching, at the very least, the value of stablecoins in circulation.

Diversity of regulatory regimes	• Preservation of viable state regimes, while also allowing for a federal option that correctly distinguishes non-banks from banks, including appropriate oversight (OCC vs. Federal Reserve, respectively). • A federal option for non-bank stablecoin issuers should not be overseen by the Federal Reserve given the lack of historical regulatory treatment or legitimacy of oversight of certain non-bank entities. • Support the adoption of uniform money transmission licensing standards across all 50 states. • Encourage innovative frameworks that reflect the unicity of stablecoins vs. other payment mechanisms to avoid fitting new technology into old frameworks.
Diversity of value	• Not all stablecoins are the same - presenting both unique opportunities as well as novel risks. A tailored approach in many cases is necessary. • Avoid excluding or restricting non-USD denominated stablecoins or foreign issuers of USD-linked stablecoins in any U.S. framework, provided such issuers of non-USD denominated stablecoins or foreign issuers of USD-linked stablecoins adhere to a substantially similar stablecoin regime.
Taxonomy	• Make clear that 'stablecoins' are not to be treated as 'securities' under federal securities regulation.
Reserves	• 1:1 reserve ratio with the amount held in reserves equaling or exceeding the number of stablecoins outstanding. • Implement appropriate regulatory oversight for the establishment and/or maintenance of stablecoin reserves. • Ensure reserves are properly segregated from corporate assets and held in a bankruptcy-remote vehicle for enhanced security and user protection. • Redemption within a prudent timeframe and on par with its pegged value. Contractual terms between stablecoin issuers and holders is necessary. • Disclosures of reserve assets with auditing conducted by a third-party firm. Ensure the parameters of the audit are defined to ensure they are meaningful and not exclusionary.

‘systemic’ designation	• FSOC does not consider current stablecoin arrangements to be systemically important at this time. • Appropriate for federal regulators to consider additional safeguards only when stablecoin payment systems are adopted at significant scale nationwide. Application of systemic risk criteria developed from CPMI IOSCO could be helpful in the future.
Access to Federal Reserve infrastructure	• To substantially reduce, if not eliminate, credit risk in the U.S. stablecoin market, both federal and state regulated stablecoin issuers should be able to hold their reserve assets in an account at the Federal Reserve, providing issuers with immediate access to cash and ability to respond to redemptions in an orderly fashion.
Secondary transactions of stablecoins	• Preserve and protect the permissioned/pseudonymous structure of the current financial services system by protecting a user’s right to initiate secondary transactions of stablecoins without having to undergo continuous KYC/AML checks on each subsequent transaction post-initial issuance by the issuer. • A perfect analogy to this is the initial withdrawal of cash from an ATM, where KYC is conducted on the withdrawer, but no additional KYC is performed for each and every purchase made by that user post initial withdrawal. • This is critical to protecting Fourth Amendment rights in the digital age.
Outsourced CBDC	• Prohibit the Federal Reserve from directly issuing a retail central bank digital currency (CBDC) or indirectly issuing a digital asset that shares similar characteristics through a financial intermediary or other intermediary. Both direct and indirect issuance could give the Federal Reserve far too much control and oversight, posing severe risks to financial privacy and limiting private stablecoin issuance.

Accounting & tax treatment	• IRS must provide for regulatory clarity regarding tax treatment of small differences between a stablecoin's value at the time of purchase and its value at the time of sale. *(collecting this miniscule amount of revenue arguably isn't worth the administrative burden and will be a barrier for U.S. stablecoin adoption).* • Congress must rescind SEC Staff Accounting Bulletin 121 given the inherent financial risks to users from being unable to custody with highly regulated institutions.
Interoperable standards & reciprocal treatment of existing USD-linked stablecoins	• Support and promote U.S. engagement in multilateral forums. • In the development of any regulatory framework, ensure jurisdictional alignment and reciprocity with existing issuers where possible, provided such issuers are regulated under substantially similar stablecoin regimes.

TDC has conducted an internal analysis revealing that an increasing number of digital asset-related bills continue to be introduced in Congress each year. These bills cover a wide array of issues, offering both challenges and opportunities for participants in the evolving digital asset ecosystem. Significantly, several stand-alone bills have recently advanced through both the House Financial Services Committee and/or the House of Representatives with bipartisan support, underscoring the maturation of the conversation around digital assets in the legislative arena.

Included in this legislative momentum are several proposed bills and discussion drafts focused on stablecoins, demonstrating continued commitment among lawmakers to establishing regulatory clarity in this area. Those bills include the House and Senate versions of the *Clarity for Payment Stablecoins Act* sponsored by Rep. Patrick McHenry (R-NC) and Sen. Bill Hagerty (R-TN), respectively. Further, Wyoming Senator Cynthia Lummis (R-WY) and New York Senator Kirsten Gillibrand (D-NY) continue to advocate for the *Lummis Gillibrand Payment Stablecoin Act*.

Related to the above review of TDC policy recommendations, TDC has mapped each stablecoin bill and the 2021 President's Working Group on Financial Markets stablecoin recommendations to several of TDCs recommendations, while also providing for additional considerations and analysis below.

Mapping Stablecoin Legislation to Select TDC Priorities

Select TDC Recommendations		Hagerty	McHenry	Lummis-Gillibrand	PWG Stablecoin Rpt
Diversity of Players	Banks and non-banks allowed to issue payment stablecoins*	✓	✓	½ (non-depository trust companies)	⊘ (IDIs only, prohibition on other entities)
	Clear separation of banking and commerce	½ (limitations on what an issuer can do; not entity specific)	½ (limitations on what an issuer can do; not entity specific)	✓ (limitations on activities; must be "predominately engaged in financial activities")	✓ (limit affiliation w/ commercial entities)
Diversity of Regulatory Agencies	Preservation of viable State regime	✓ (threshold)	✓ (no threshold)	½ (threshold; yet approval rests with the Federal Reserve Board)	⊘ (Federal prudential framework)

	Federal option for non-banks w/ OCC as the primary federal regulator	✓ (OCC specific)	½ (Fed Board oversight of fed qualified nonbank payment stablecoin)	⊘ (non-depository trust companies must register with the Federal Reserve Board; heavy involvement in rulemaking w/ State bank supervisors)	⊘ (FDIC oversight over depository institution; Federal Reserve Board oversight of holding company)
	Transition Process	✓ (360-day transition after a stablecoin issuer reaches $10 billion "market cap" to OCC oversight and reg framework)		✓ (180-day transition for non-depository trust companies to become a 'depository institution' after exceeding $10 billion value of all outstanding stablecoins; pre-conversion planning beginning w/ State bank supervisor at $9 billion)	
Diversity of value	Exclusion of non-USD denominated payment stablecoins	½ (Section 3 arguably prevents any person other than a permitted stablecoin issuer in the U.S. from issuing a payment stablecoin for use by any person in the U.S.); (Section 15 is unclear in terms of what a "substantially similar regime" would look like and what that means for foreign USD-linked stablecoin issuers		½ (Prohibition on offers/sales of a payment stablecoin through the use of any medium/ means of access in the U.S. or to a person living in the U.S.) "Limited" Safe Harbors re: pilot programs; equivalent reg frameworks	✓ (Legislation should apply to stablecoin issuers that have a significant U.S. nexus; legislation "would prohibit" other entities from issuing payment stablecoins)
	Exclusion of foreign issuers of USD-linked payment stablecoins				

Taxonomy	Payment Stablecoins not classified as a 'security'	✓	✓	✓	? (Federal securities laws, CEA out of scope; yet if they do reflect securities or commodities – should be under SEC, CFTC purview)
Reserves	1:1 w/ high quality, highly liquid assets	✓	✓	✓	?[29] (concerns about illiquid assets)
	Segregation of reserves	✓	✓	✓	?[30] (potential for co-mingling cited as a risk)
	Redemptions	✓	✓	✓	?[31] (Limitation to IDIs; lack of clarity regarding redemption rights)
	Disclosure requirements	✓	✓	✓	✓
Accounting	SAB-121[32] addressed	✓	✓	✓	
Interoperable standards & Reciprocal treatment	Interoperability w/ other payment stablecoins	✓ (remains to be seen what these standards will look like)	✓ (remains to be seen what these standards will look like)	✓ (remains to be seen what these standards will look like)	✓[33] (should be included in any legislation)
	Reciprocal / bilateral arrangements to address existing USD-linked payment stablecoins issued overseas	✓ (remains to be seen what these reciprocal arrangements / bilateral agreements look like)		½ "Limited" Safe Harbors re: pilot programs; equivalent reg frameworks	

From a high-level, as the table above shows, there are "similarities" between the various legislative and policy proposals, but when scrutinized further it is evident that there is substantial differentiation in how "similar" provisions are defined within each respective proposal presenting both opportunities and challenges to stablecoin issuers and/or their affiliates under the proposed frameworks. Below, TDC explores this differentiation in further detail.[34]

Diversity of Players

In TDC's Statement for the Record[35] submitted to the House Financial Services Subcommittee on Digital Assets, Financial Technology and Inclusion in advance of the April 2023 hearing entitled, 'Understanding Stablecoins' Role in Payments and the Need for Legislation'[36], TDC states that a legislative framework covering payment stablecoins "should allow banks and non-bank entities to issue stablecoins," provided there are sufficient guardrails that limit an issuer's affiliation with commercial entities thereby preserving the long-standing separation of banking and commerce doctrine.

While the President's Working Group on Financial Markets stablecoin report (PWG report) specifically recommends legislation requiring stablecoin issuers to be insured depository institutions, subject to appropriate supervision and regulation at both the depository institution and holding company level, the three legislative proposals provide for greater optionality in allowing for non-bank stablecoin issuance, though with some built-in restraints.

For instance, all three legislative proposals include limitations on the permitted activities of a stablecoin issuer. At issue, however, is who can issue. In the Lummis-Gillibrand text, non-bank issuance is limited to non-depository trust companies with additional built-in protections designed to protect against non-financial commercial entities engaging or being affiliated with stablecoin issuance and issuers, respectively.[37]

Those built-in protections are absent in the McHenry and Hagerty legislative texts which enable a greater array of non-banks to issue stablecoins or be affiliated with stablecoin issuers.

Diversity of Regulatory Agencies

All three legislative texts would allow for certain stablecoin issuers to be overseen by the appropriate State-based regulator, while also providing the option for stablecoin issuers to apply for federal oversight. The preservation of a pathway for state-based regulation of stablecoin issuers is vital given the innovative (and proven) stablecoin regulatory frameworks already in effect at the State-level that also take into account the different organizational structures of certain stablecoin issuers.

But just how “preserved” are these pathways?

Both the Hagerty and Lummis-Gillibrand legislative texts allow for State qualified payment stablecoin issuers or non-depository trust companies, respectively, to remain under state supervision until a specific threshold is reached. Under the Hagerty discussion draft, state qualified payment stablecoin issuers that have a “market capitalization” of not more than $10 billion and comply with a state-level regulatory regime that is “substantially similar” to the federal regulatory framework as proposed in the discussion draft, may remain under the oversight of the applicable state-level regulatory regime.[38] Under Lummis-Gillibrand, the threshold for non-depository trust companies is the value of all outstanding payment stablecoins in total not exceeding $10 billion (adjusted for inflation).[39]

Meanwhile, the only truly preserved pathway without the requirement to transition to federal oversight once a certain threshold has been breached can be found under the McHenry legislation which contains no threshold for state qualified payment stablecoin issuers. Such issuers are therefore allowed to remain under the oversight of a state stablecoin regulator without having to transition to a federal framework.

Furthermore, it's questionable as to how much autonomy state payment stablecoin regulators would have in their oversight over state qualified payment stablecoin issuers or non-depository trust companies. For instance, as stated in the Lummis-Gillibrand legislative text, the Federal Reserve Board (the Board) is heavily involved in determining whether an application to issue payment stablecoins by a non-depository trust company to a state banking regulator may be approved. As stated in the legislative text, even if the state bank regulator approves the application, the non-depository trust company must still register with the Board [40] which is empowered to deny such registration by a two-thirds vote. If approved, the non-depository trust company would be subject to oversight from both the State bank supervisor and the Board. That said, it is unclear what the next step is for non-depository trust companies that have been approved by their respective state banking regulator yet denied by the Board. [41]

Under the McHenry and Hagerty legislative texts, the Board and the OCC's use of 'exigent circumstances'[42] and how both agencies define this - or the use of "reasonable cause to believe" [43] risks federal encroachment over state regulated non-bank entities without appropriate checks and balances put in place to protect proven state-based regulatory regimes and a state regulator's oversight.

Diversity of Value

As stablecoin regulatory frameworks take shape across various jurisdictions, and non-USD denominated payment stablecoins continue to gain traction abroad alongside the ongoing issuance and dominance of USD-linked stablecoins offshore, there is a pressing need to evaluate how proposed U.S. stablecoin frameworks will accommodate a diverse range of stablecoins and offshore issuers. This assessment should consider pathways for these entities to operate or issue within the U.S., provided they adhere to substantially similar regulatory standards.

None of the three legislative proposals offer clarity on this point.

For example, the Hagerty discussion draft requires primary federal payment stablecoin regulators, in consultation with the National Institute of Standards and Technology (NIST), other relevant standards organizations, and State governments, to assess and, if necessary, prescribe standards for payment stablecoin issuers to promote compatibility and interoperability. A few sections later, the discussion draft also requires the Board, in collaboration with the Secretary of the Treasury, to create and implement reciprocal arrangements or bilateral agreements between the U.S. and jurisdictions with “substantially similar payment stablecoin regulatory regimes” to facilitate international transactions and interoperability with U.S. dollar-denominated stablecoins issued overseas. However, Section 3 of the discussion draft places limitations on what ‘person’ can issue a payment stablecoin by stating that is unlawful for any person other than a ‘permitted payment stablecoin issuer’ in the U.S. to issue a payment stablecoin for use by any person in the U.S. It is unclear whether Section 3 would effectively negate Section 9 (Interoperability standards) and Section 15 (Reciprocity for stablecoins issued overseas) in the discussion draft.

The McHenry legislative text also includes the same interoperability language in the Hagerty discussion draft, while Lummis-Gillibrand contains similar language.[44] However, both legislative texts do not include mention of reciprocity with overseas issuers. Similar to the Hagerty discussion draft, the McHenry legislative text also makes it unlawful for any person other than a permitted payment stablecoin issuer to issue a payment stablecoin for use by any person in the U.S. In the Lummis-Gillibrand legislative text, the prohibition on issuance and offers or sales could also restrict offshore issuers from issuing non-USD or USD-linked payment stablecoins into the U.S. However, the Lummis-Gillibrand text does include the option for the Board to issue regulations providing "limited" safe harbors including pilot programs and recognition of equivalent frameworks, but it is unclear what the federal regulations will look like that establish such pilot programs, and how applicable these "safe harbors" could be to issuers in the current ecosystem.

Similar legislative proposals, yet considerable differences in regulatory treatment and oversight of payment stablecoins and issuers posing both opportunities and challenges towards the development of a responsible regulatory framework that reflects the diversity of issuers and models, the types of issuances, the critical role State-based regimes currently play, and the importance of USD-linked payment stablecoins in strengthening the U.S. dollar's viability and utility globally.

Conclusion

It is clear that we are at an inflection point for the stablecoin ecosystem. Use cases have blossomed beyond merely facilitating crypto trading to offering substantial opportunities for users to improve their financial wellbeing while, at the same time, enhancing the viability and utility of the U.S. dollar globally. Nearly the entire stablecoin market references the U.S. dollar, and a growing number of individuals and firms in emerging markets rely on USD-linked stablecoin networks to facilitate savings, cross-border payments, and corporate cash management, among other daily essentials.

USD-linked stablecoins are a critical tool to extend the global dominance of the U.S. dollar, expand dollar access to new markets, and protect our national security interests. And yet, the U.S. remains on the sidelines in developing an appropriate regulatory framework that can take advantage of the opportunities posed by a USD-linked stablecoin ecosystem. Our absence has paved the way for international actors to develop and launch their own frameworks that could exacerbate challenges to the primacy of the U.S. dollar as the world's reserve currency.

Considering the significant benefits that USD-linked stablecoins provide to a rapidly growing user base, it is imperative for U.S. policymakers to swiftly craft a regulatory framework that empowers the next phase of U.S. dollar diplomacy. Immediate action is essential to secure the dollar's influence and leadership in the digital age.

End Notes

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[1] As stated by the Financial Stability Board (FSB) in a 2023 report, there is "no universally agreed legal or regulatory definition of stablecoin." According to the FSB, a 'stablecoin' "is a crypto asset that aims to maintain a stable value relative to a specified asset, or a pool or basket of assets." There are a variety of stablecoin models, different compositions of reserve assets, different issuers, and novel risks posed that require a tailored and flexible approach towards the development of appropriate and responsible stablecoin policy frameworks. For the purposes of this report, TDC defines a stablecoin as any tokenized representation of a fiat currency circulating on a blockchain. Furthermore, TDC believes there needs to be broader recognition and understanding of the composition of high quality, highly liquid reserve assets that USD-linked stablecoins could reference beyond U.S. Treasury bills, for instance, given the ever-evolving models and unique characteristics of stablecoin issuers. Lastly, and for the purposes of this report, algorithmic stablecoins are not included in the definition.

[2] Castle Island Ventures report, Stablecoins: The Emerging Market Story, September 12, 2024. Available at: https://castleisland.vc/writing/stablecoins-the-emerging-market-story/

[3] DC FinTech Week, Day 2. Data shared by Robby Greenfield, CEO and Founder, Umoja Labs, during the panel, 'Stablecoins Unshackled: New Features, Integrations and Frontiers,' and by Ptichbook Senior Analyst Robert Le, during his presentation on 'The State of Digital Assets and Stablecoins on the Eve of US Elections'. Archived webcast of Day 2 can be found here: https://dcfintechweek.org/

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[4] The Digital Chamber. https://digitalchamber.org/

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[5] Castle Island Ventures report, Stablecoins: The Emerging Market Story, September 12, 2024. Available at: https://castleisland.vc/writing/stablecoins-the-emerging-market-story/

[6] Id.

[7] See: Lennart Ante, Ingo Fiedler, Elias Strehle, The influence of stablecoin issuances on cryptocurrency markets, Finance Research Letters, Volume 41, 2021, ISSN 1544-6123, https://doi.org/10.1016/j.frl.2020.101867.

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[8] Castle Island Ventures report, Stablecoins: The Emerging Market Story, September 12, 2024. Available at: https://castleisland.vc/writing/stablecoins-the-emerging-market-story/

[9] UNHCR launches pilot Cash-Based Intervention Using Blockchain Technology for Humanitarian Payments to People Displaced and Impacted by the War in Ukraine, December 15, 2022. Available at: https://www.unhcr.org/ua/en/52555-unhcr-launches-pilot-cash-based-intervention-using-blockchain-technology-for-humanitarian-payments-to-people-displaced-and-impacted-by-the-war-in-ukraine-unhcr-has-launched-a-first-of-its-kind-integ.html

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[10] Congressional Research Services, September 15 2022, The U.S. Dollar as the World's Dominant Reserve Currency, IF11707

[11] Atlantic Council Geoeconomics Center. (n.d.). Dollar Dominance Monitor. Retrieved 11/6/24, from https://www.atlanticcouncil.org/programs/geoeconomics-center/dollar-dominance-monitor/

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[12] Castle Island Ventures report, Stablecoins: The Emerging Market Story, September 12, 2024. Available at: https://castleisland.vc/writing/stablecoins-the-emerging-market-story/

[13] International Monetary Fund. (2024, June 11). Dollar Dominance in the International Reserve System: An Update. Retrieved 11/6/24, from https://www.imf.org/en/Blogs/Articles/2024/06/11/dollar-dominance-in-the-international-reserve-system-an-update

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[14] CRS Report, The U.S. Dollar as the World's Dominant Reserve Currency, September 15, 2022. Available at: https://crsreports.congress.gov/product/pdf/IF/IF11707

[15] CNN, Zakaria asks Yellen if sanctions on Russia are actually working. Hear her response. Available at: https://www.youtube.com/watch?v=bwgHwzhfoXo

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[16] Original members of the intergovernmental organization were Brazil, Russia, India, China, and South Africa. Five further applications were accepted by the organization in January 2024: Egypt, Ethiopia, Iran, United Arab Emirates, and Saudi Arabia (Argentina was formally invited to join the organization, but Argentinian President Javier Millei withdrew their application signaling potential alignment with U.S. policy priorities).

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[17] Atlantic Council, Scowcroft Center for Strategy and Security. Available at: https://www.atlanticcouncil.org/content-series/atlantic-council-strategy-paper-series/welcome-to-2033/

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[18] Notable differences in MiCA regarding regulatory treatment of e-money tokens (EMT) and asset-referenced tokens (ART).

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[19] Bank of England and FCA Joint Approach to the Digital Securities Sansbox, September 30, 2024. Available at: https://www.bankofengland.co.uk/paper/2024/policy-statement/boe-fca-joint-approach-to-the-digital-securities-sandbox

[20] Ibid

[21] The Bank of England. The Bank of England's approach to innovation in money and payments, July 30, 2024. Available at: https://www.bankofengland.co.uk/paper/2024/dp/the-boes-approach-to-innovation-in-money-and-payments

[22] Ibid

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[23] Monetary Authority of Singapore. MAS Finalises Stablecoin Regulatory Framework, August 15, 2023. Available at: https://www.mas.gov.sg/news/media-releases/2023/mas-finalises-stablecoin-regulatory-framework

[24] Eyeing opportunity, Paxos, together with Anchorage Digital, Bullish (the owner of CoinDesk), Galaxy Digital, Kraken, Nuvei, and Robinhood launched the Global Dollar Network. The stablecoin, USDG, will be issued out of Singapore by Paxos under MAS's stablecoin framework." According to CoinDesk: "By rewarding participant companies rather than end users of the platform, the USDG stablecoin is available in the U.S. via the footprint of the distribution partners, such as Anchorage, which operates in all 50 U.S. states." Further, "DBS Bank, Southeast Asia's largest bank by assets, will serve as the primary banking partner at launch for cash management and custody of USDG reserves." CoinDesk article available at: https://www.coindesk.com/business/2024/11/04/new-global-dollar-stablecoin-backed-by-robinhood-kraken-paxos-and-other-crypto-heavies/

[25] For the MAS directory of financial institutions in the payments sector, holding both Digital Payment Token Service and Major Payment Provider licenses, see: Monetary Authority of Singapore. (n.d.). List of licensed institutions: Major Payment Institutions with Digital Payment Token Service, https://eservices.mas.gov.sg/fid/institution?sector=Payments&category=Major%20Payment%20Institution&activity=Digital%20Payment%20Token%20Service

[26] "Paxos, together with Anchorage Digital, Bullish (the owner of CoinDesk), Galaxy Digital, Kraken, Nuvei, and Robinhood launched the Global Dollar Network. The stablecoin, USDG, will be issued out of Singapore by Paxos under MAS's stablecoin framework." From CoinDesk at: https://www.coindesk.com/business/2024/11/04/new-global-dollar-stablecoin-backed-by-robinhood-kraken-paxos-and-other-crypto-heavies/

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[27] Dubai Circular No. 2/2024 On Regulating and Setting Controls for Requesting Payment by Instalments in the Execution File and Within the Framework of Unifying the Decisions of the Execution Judges and for Enhancing Efficiency of The Services and Facilitating Them for the Customer Pursuant to Accurate and Precise Procedures Simplified Without Complication, May 30, 2024. Available at: https://www.lexismiddleeast.com/law/Dubai/Circular_2_2024/

[28] Gulf Today. AED Stablecoin obtains in-principal approval from the Central Bank of the UAE to establish and issue its own currency, October 14, 2024. Available at: https://www.gulftoday.ae/business/2024/10/13/aed-stablecoin-obtains-in-principal-approval-from-the-central-bank-of-the-uae

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[29] PWG report expressed concerns regarding use of illiquid assets. "The financial stability risks of a stablecoin run would be greater in the context of stablecoins backed by potentially volatile and illiquid assets than in the context of stablecoins backed one-for-one by high quality liquid assets."

[30] According to the PWG report: "Interlinkages between digital asset trading platforms and stablecoins, including in platforms' ownership of stablecoins (and potential co-mingling with customer funds)", was cited as one of many risks that stablecoins could pose.

[31] In particular, the PWG report states: "To accomplish these objectives, legislation should limit stablecoin issuance, and related activities of redemption and maintenance of reserve assets, to entities that are insured depository institutions. The legislation would prohibit other entities from issuing payment stablecoins."

[32] The SEC's Staff Accounting Bulletin 121 presents an unworkable regulatory environment for digital asset custodians by mandating an equivalent liability on the balance sheet for each digital asset held. TDC has initiated several advocacy efforts on Capitol Hill in support of Congressional efforts to nullify SAB-121 given its detrimental impacts to industry and investor protection.

[33] According to the PWG report, "Legislation should also ensure that supervisors have authority to implement standards to promote interoperability among stablecoins."

[34] In the following section, the use of 'payment stablecoin' is reflective of the definitions provided in the three legislative texts as described in the upcoming section.

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[35] Chamber of Digital Commerce Statement for the Record, April 19, 2023. Available at: https://digitalchamber.wpenginepowered.com/wp-content/uploads/2023/04/Chamber-of-Digital-Commerce_HFSC-Subcommittee-Statement-for-the-Record_4.19.23.pdf

[36] House Committee on Financial Services Hearing Entitled, 'Understanding Stablecoins' Role in Payments and the Need for Legislation', April 19, 2023. Available at: https://financialservices.house.gov/calendar/eventsingle.aspx?EventID=408691

[37] In regard to 'controlling interest', the Lummis-Gillibrand legislation states that a person shall be "predominately engaged in financial activities", as defined under the Financial Stability Act of 2020, in order to have a controlling interest in a payment stablecoin issuer.

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[38] Furthermore, Section 14(b)(4) of the Hagerty discussion draft states: ”If... Federal regulators decide to require a stablecoin issuer to transition to regulation under the Federal regulatory framework, Federal regulators shall notify Congress and proceed with requiring such transition only after ratification by Congress.”

[39] TDC recently submitted feedback to Sen. Hagerty’s payment stablecoin discussion draft on November 1, 2024.

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[40] Contents of a complete registration statement to be determined by the Board, in consultation with State Bank supervisors.

[41] This dilemma is somewhat similar to the dilemma issuers could face under the Hagerty discussion draft. As previously discussed in Footnote 38, Section 14(b)(4) of the Hagerty discussion draft states: ”If... Federal regulators decide to require a stablecoin issuer to transition to regulation under the Federal regulatory framework, Federal regulators shall notify Congress and proceed with requiring such transition only after ratification by Congress.” However, it‘s not clear what happens next if Congress fails to ratify a state qualified stablecoin issuer‘s transition to the Federal regulatory framework, as proposed in the discussion draft.

[42] To be defined by the Federal Reserve Board

[43] Not defined in the legislative texts.

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[44] The PWG report also touches on interoperability. In the report, the PWG recommended providing relevant supervisors with the authority “to implement standards to promote interoperability among stablecoins.” The report also suggests that legislation “should apply to stablecoin issuers, custodial wallet providers, and other key entities that are domiciled in the United States, offer products that are accessible to U.S. persons, or that otherwise have a significant U.S. nexus.”