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Stablecoins: Benefits, issues and policy challenges

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Risks vs benefits

Stablecoins could trigger taxpayer bailouts, warns Nobel economics laureate

Digital tokens perceived as safe assets come with hidden risks for retail investors, says Jean Tirole



Economics professor Jean Tirole said he was 'very, very worried' about supervision of stablecoins © Tino

Fed's Waller says stablecoins could lower payment prices

By Michael S. Derby

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Federal Reserve Governor Christopher Waller speaks during The Clearing House Annual Conference in New York City, U.S. November 12, 2024. REUTERS/Brendan McDermid/ File Photo [Purchase Licensing Rights](#)

NEW YORK, July 10 (Reuters) - Federal Reserve Governor Christopher Waller said Thursday stablecoins will bolster competition in the payments system, and that that was a good thing.

The rise of stablecoins will make many types of payments cheaper and faster, Waller said at an event at the Dallas Fed. "And that's the goal for me, as a free-market capitalist economist, is that I want competition in payments to drive down the cost for households and consumers and businesses. That's it," Waller said.

Stablecoins could drive innovation and competition

Innovation

- Based on DLT: decentralized, transparent, secure, atomic settlement ...
- Programmability & composability

Competition

- Opens new business models and players (PSPs/wallets)
- Alternative to correspondent banking arrangement

Examples of uses cases (current and potential)

- On/off ramp for crypto and cross-border payments
- Collateral for flash loans
- Treasury liquidity management



However, the positive impacts of stablecoins are not guaranteed

Technology advantages $\neq$ business outcome

- Fees and service quality are shaped more by business choices than technology limits
- Market structure, network scale, and business model matter

Edges of stablecoin arrangements can dominate

- Ramps, FX, compliance, and traditional rails

Uniformity and interoperability currently missing

- Stablecoins differ by their backing, redemption costs, and the degree of public trust
- Interoperability across ledger is difficult in practice

Policy makers are starting to move towards regulating stablecoins

Regulations

- US (GENIUS), EU (MICA), Japan (PSA), UK (FAC guidelines), Japan (FSA), Singapore (MAS) ...
- **Canada:** currently under provincial securities regulation, federal regulation is under consideration

Policy challenges

- Risk management (run & redemption, reserve quality, concentration ...)
- Enforcing integrity (AML/CFT)
- Fee regulation
- Interoperability

Good policy design needs in-depth research



Financial Stability and Integrity

- **Integrity of the AMF/CFT regimes**
- Bank disintermediation & deposit flight
- Monetary-sovereignty concerns
- ...

Monetary Policy

- **Transmission & pass-through**
- Currency substitution
- ...

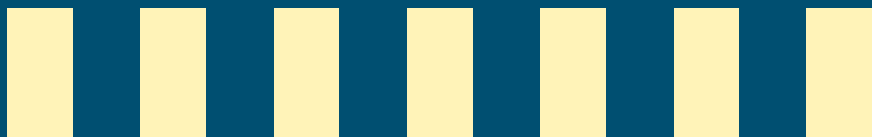


Access and Competition Issues

- **Access to RTGS or provision of public settlement infrastructure**
- Network effects
- Abuse of dominance
- ...

Main takeaways

- **Stablecoins hold promise to bring positive changes to payments**— faster settlement, programmability, and new business models
- **Benefits are not guaranteed** — adoption fees and speed depend on business models, market structure, uniformity of stablecoins, and interoperability across ledgers
- **Policy challenges**— to ensure integrity and stability in the transition
- **More research needed**— on the role of central bank core infrastructure, competition, and financial stability



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Thank you!



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