

## The stablecoin war

di Nikou Asgari

Crypto companies and Wall Street banks are locked in a fierce battle over regulations governing the digital currency, reflecting a broader question about who will control the future of money.

Every second as many as 6,000 transactions zap through JPMorgan's systems globally, as commuters tap their phones to pay for coffees, shoppers buy new clothes online, or businesses send wages to employees living in different corners of the world.

Most people barely think about the behind-the-scenes financial plumbing that makes these and other transactions happen. But crypto companies are seeking to change that by muscling into the financial system and eventually running the money that powers the world.

These efforts centre on stablecoins, a type of digital cash that is pegged one-to-one with currencies such as the dollar, and their expanding role in the financial system.



Crypto advocates say stablecoins are an improvement upon regular money because they are designed for a digital world and are both faster and easier to move. The staunchest want them to supplant existing money completely. Wall Street banks, however, see their expansion as a risky experiment that potentially threatens the stability of the financial system, and are aggressively pushing back.

At the heart of the fight are the rules that govern the US crypto industry — and, in particular, the question of whether crypto companies should be allowed to pay interest to people who hold stablecoins on their platforms.

Under regulations passed last year, issuers of stablecoins cannot offer interest, or yield — but crypto exchanges such as Coinbase, Kraken or Gemini can. Banks are lobbying heavily in Washington to ensure that what they call a “loophole” is closed as part of a landmark cryptocurrency bill going through Congress, which will set the rules for the entire industry.

The banks say allowing crypto exchanges to pay interest means they are essentially acting like banks, and this poses risks to the wider financial system. Crypto companies say killing “rewards” on stablecoins is a way for banks to remove competition.

The debate broke out into the open in January when Coinbase sensationally withdrew its support for the draft rules, with chief executive Brian Armstrong saying: “We'd rather have no bill than a bad bill.” Lobby groups from both sides are meeting this week in Washington to try to hash out a compromise.

The tension over stablecoin yield points to the broader question of how much access crypto companies should have to mainstream finance.

The Federal Reserve is weighing whether to let crypto companies have “skinny” master accounts at the central bank, which would plug them directly into the Fed's systems and networks that enable the movement of funds. Banks are opposed to this too.

The fight is set to be a fierce one. While the banking lobby still has huge influence, the crypto industry also has clout in Washington. It has amassed a \$193mn war chest ahead of the midterm elections, having already spent millions of dollars backing pro-crypto politicians in previous elections. Crypto also has the support of President Donald Trump himself, whose family company runs its own stablecoin and has applied for a US banking licence.

While the EU has established its own stablecoin and crypto rules, the US fight will have wider repercussions for the future global financial system.

“This is a big moment not only for the banks but for any financial institution or fintech firm that has been operating in a world in which stablecoins have not been front and centre so far,” says Mark Palmer, managing director at financial services firm Benchmark.

Stablecoins “have the endorsement of the current administration and Treasury secretary, who has already made it clear that he expects massive growth in this space”, he adds.

The concept of stablecoins burst into the mainstream in 2019, when Facebook launched its Libra project.

The argument went that Libra could modernise global payment systems, slashing the costs of cross-border transactions and promoting financial inclusion in developing countries.

But the tech giant's bold move into global finance was met with a widespread backlash as regulators worried about the risks to financial stability and privacy.

The Libra project was shut down but in the years since, stablecoins have taken on a life of their own; globally, about \$310bn worth are now circulating, according to Artemis Analytics, backed by a pot of mostly safe assets such as US Treasuries.

The biggest ones are issued by the crypto companies Tether and Circle and mainly used by traders as a conduit between digital assets and sovereign currencies such as the dollar. In developing countries, meanwhile, stablecoins are often used as a currency alternative with a stable value.

Proponents say stablecoins are a faster payment method than existing systems. “We're modernising cross-border payments,” says Jack McDonald, senior vice-president of stablecoins at Ripple, which runs the RLUSD stablecoin. “Institutions are using it for crossborder payments, corporates, retailers, any number of international conglomerates who need to move money within their own networks.”

Trump's return to the White House last year spurred huge interest and investment in digital currencies globally, as the president made crypto a national strategic priority.

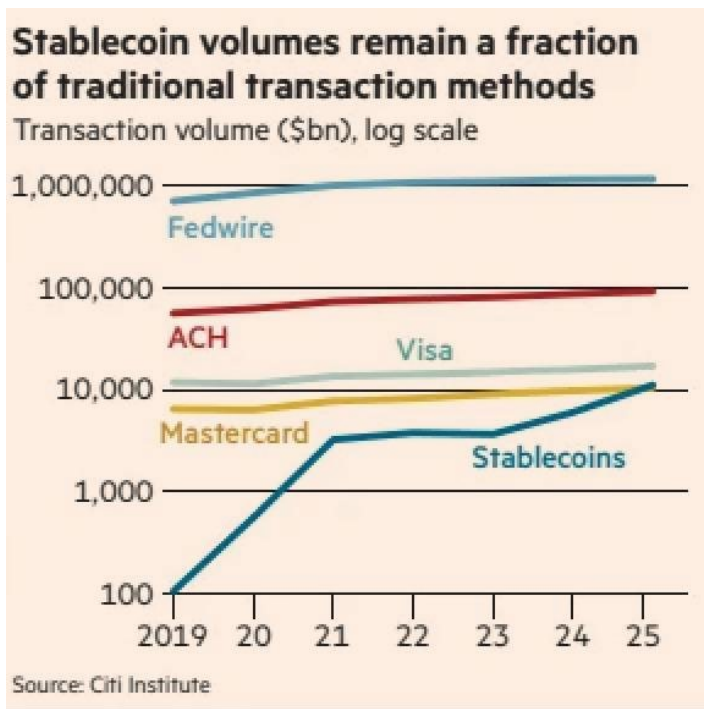
The US passed stablecoin regulations in July 2025, to much excitement from crypto executives who believed it would further grow the market.

But Wall Street banks say that allowing crypto platforms to pay interest will entice individuals to move their deposits away from banks and into unregulated crypto companies instead.

It “introduces significant risks” and will “threaten to drain deposits from regulated institutions”, a group of US bank trade associations wrote in a letter to the US Senate last month.

The scale of potential outflows from the banking system is up for debate. Research by Jessie Wang, a principal economist at the Federal Reserve, showed that as little as \$65bn worth of deposits could move from banks and into stablecoins in a scenario of low demand.

But bank executives point to Treasury analysis from April 2025 that showed about \$6.6tn worth of deposits could exit the banking system and be placed in stablecoins instead.



Jeremy Barnum, chief financial officer at JPMorgan Chase, America's biggest bank, has warned of the “creation of a parallel banking system”, where crypto companies can pay interest like banks do but without the same prudential safeguards. It “is an obviously . . . dangerous and undesirable thing”, he said.

Crypto executives argue that banks are simply scared of competition.

McDonald of Ripple says their worries “are really more of an anti-competitive concern than anything else. Banks feel like that's threatening the deposit business that they have where they generally don't pay any interest on deposits that a consumer may have.”

“It's totally absurd,” said Jeremy Allaire, chief executive of Circle, at the World Economic Forum in Davos. “This is exactly what was said when government money market funds emerged, the exact same arguments were made,” he said, adding that there was no vast deposit drain then.

But banks and some regulators say their concerns run deeper than mere competition. They worry that if deposits leave the traditional system and are held in stablecoins instead, then banks will have less money to lend to companies in the real economy, or to homeowners as mortgages.

“Each notch of liquidity they lose makes them less stable, less profitable,” says Philipp Paech, associate professor at the London School of Economics and former chair of the European Commission expert group on fintech. “Liquidity in the general financial system would go down, it would make lending more expensive, make banks less profitable and also in systemic terms, make the traditional financial system less stable.”

Some are also concerned that the next phase involves crypto companies morphing into banks themselves. Circle and Ripple, among others, have received conditional approval from the US Treasury's

Office of the Comptroller of the Currency for national trust bank charters, meaning they will be federally regulated and able to carry out activities such as custody and brokerage services. Crypto exchange Bybit is planning to start offering bank accounts directly to customers, in a sign of digital assets companies' evolution.

The Bank Policy Institute opposed them getting these charters, saying last year that it would allow crypto companies “to choose a lighter regulatory touch while offering bank-like products”, and “heighten systemic risk”.

Circle's Allaire said at Davos that “lending itself is moving away from the risk-taking of banks. A huge amount of lending is moving towards private credit.” He said he wanted stablecoins to be “cash instrument money, prudentially supervised, very very safe money, then we want to build models for lending that build on top of stablecoins”.

If stablecoins become further entwined with the existing financial system, a run or de-peg, where the coin is no longer equivalent to one dollar or one euro, could have financial stability implications. If a stablecoin issuer does not have the stated reserves, or if its assets are illiquid, that can cause the token to lose its peg, especially at a time of high redemptions.

Stablecoin issuers such as Tether and Circle hoover up billions of dollars' worth of Treasuries to back their tokens. “A run on these stablecoins could trigger a fire sale of their reserve assets, which could affect the functioning of US Treasury markets,” European Central Bank economists wrote recently.

In March 2023, when Silicon Valley Bank collapsed, the stablecoin USDC briefly fell below \$1 after its issuer Circle revealed that about 8 per cent of its reserves were held at the failed lender. It urged a rescue plan for the bank, which ultimately was agreed, but the de-peg event underscored the delicate links between traditional banking and stablecoin companies.

“When the panic comes and people are trying to exit out of these products and exit out of stablecoins, that's where you're going to have a run on the Treasury market,” says Hilary Allen, a professor at the American University Washington College of Law.

The growth of stablecoins is “potentially disintermediating the banks, it's potentially dislocating the availability of credit and then of course you've got more money outside of the banking system. That implicates central banking policy,” Allen says.

For stablecoins to truly rewire the global banking system they will need to be used more widely. At present, they are mostly used by traders to move in and out of cryptocurrencies and although they are growing, they remain small compared with global financial markets. Financial institutions use them mainly to free up money, as collateral and because they trade continuously, rather than trading on delayed settlement systems like traditional securities markets.

McDonald of Ripple says stablecoins pose a threat to “a portion” of banks' businesses, adding that “if the banks are envious of what we're doing then they should get in our shoes and compete alongside us”.

Many are doing just that. The EU's landmark crypto rules came into force at the end of 2024 and have encouraged euro-backed coins to be created. Société Générale now runs its own euro and dollar-denominated stablecoins, while 10 European lenders including BNP Paribas and UniCredit have joined together to create a euro-backed stablecoin, and Standard Chartered is building a Hong Kong-dollar denominated token with partners. The heads of Citi and Bank of America said last year they were exploring creating their own stablecoins too.

Despite the investments, some view stablecoins as less than groundbreaking. “They have a very clear payment function, this is completely uncontested and also it's not really anything new,” says Paech of the LSE, pointing to e-money — the cash equivalent used by services such as PayPal — as a comparison. “You're basically moving around these claims; this is not very different from stablecoins.”

In Europe, where instant payments are commonplace, the only place where stablecoins have an advantage are in “the dodgy corners of the economy”, he says. “If you want to launder your money, then they're great.”

Stablecoins “dominate” illicit money movements and accounted for 84 per cent of illicit transaction volume globally last year, according to crypto research company Chainalysis. Tether in particular is regularly featured in international criminal cases as criminals use its token to move money without being traced. Tether has strongly defended itself against accusations that it facilitates criminal activity, saying it collaborates with law enforcement agencies across 48 countries to root out abuses by bad actors.

While banks are pushing back on some aspects of stablecoins, they are simultaneously partnering with crypto companies to hedge their bets on a new, tokenised future.

Almost all major banks are running projects experimenting with stablecoins or other forms of tokenised money such as putting customer deposits on the blockchain. Many believe that future stock, bond and fund markets will be tokenised, which could create a more central role for stablecoins in the financial system.

“Clearly, there is some risk for some firms, maybe for many firms, and some version of a threat to the business model,” JPMorgan's Barnum said recently about stablecoins. “It's about avoiding the creation of a parallel ecosystem that has all the same economic properties and risks without appropriate regulation.”