

## **Central banks, get ready – or not – for the US stablecoin boom**

*di John Orchard e Lewis McLellan*

### **‘A wall of shit-money, and we’re doing nothing about it’**

A key official whose job it is to consider the digitalisation of money at a developed world central bank returned from the Spring International Monetary Fund-World Bank meetings with a deep sense of unease.

While unperturbed by the customary condescension from ‘crypto-native’ digital assets disruptors at closed-door meetings, this person instead came away profoundly unsettled from similar gatherings of central bankers discussing the potentially radical implications of the forthcoming [Genius Act](#) – the US stablecoin bill expected to become law in 2025. This was put in motion by Donald Trump’s 23 January [executive order](#), which set out for the US to lead the world in blockchain-based finance, following several years of partisan wrangling and regulatory inertia.

The executive order, which is neither policy nor law, has upturned policy assumptions and intentions elsewhere. It contains several provisions of worldwide consequence, particularly the prohibition of central bank digital currencies in the US, and the anointing of stablecoins as a means of preserving and enhancing the dollar’s importance internationally. This potentially signals a drastic departure from the traditional finance system built upon commercial banks holding reserves at the central bank and settling between one another there.

### **The implications of tokenising capital markets**

Stablecoins are, at present, primarily retail-facing, competing with banks and payment service providers for commercial payments, particularly cross-border. Their growth in this area is remarkable, and must be matched by a robust regulatory response to prevent compliance arbitrage.

However, there is a more radical possibility that demands even stronger action. If mainstream financial markets adopt distributed ledger technology and move to token-based securities, then an overhaul of cash settlement will be required. Central banks are keen to see the Principles for Financial Market Infrastructures preference for central bank money upheld, but that requires them to adapt the way they provide interbank settlement to ensure it remains useful.

While some central banks are looking for solutions that synchronise existing payments systems with token-based infrastructure, the European Central Bank believes that realising the benefits of DLT-based capital markets requires a tokenised form of central bank money. However, if, for example, central banks are prohibited from issuing a tokenised form of central bank money (or choose not to), then banks may turn to stablecoins. If they do, then central banks will have lost a degree of control over the settlement asset for financial markets. Some central banks elsewhere suggest [this might undermine 'the singleness of money'](#).

This possibility has some concerned. A senior policy-maker at the ECB OMFIF spoke to predicts: a return via stablecoins to the 19th century proliferation of US 'charter banks' which were prone to pro-cyclical crises and [necessitated the creation](#) of the US central bank in the end.

There are other possibilities. Wry industry observers suggest that the Federal Reserve might get around the executive order's prohibition by issuing 'tokenised reserves' rather than 'wholesale CBDC'. And even if they don't, stablecoins may be so regulated that they do not compromise the singleness of money.

### **The Genius Act**

The final text of the Genius bill is not yet determined. It looks likely that central bank reserves will be eligible collateral for stablecoins, but these will only be accessible to banks. Stablecoin master accounts, if they transpired, might help preserve singleness of money and produce a private form of tokenised money backed by central bank reserves.

But an alternative formulation, where non-banks get access to central bank reserve accounts to hold stablecoin reserves, would confront banks with competition for deposits and transaction services from upstart rivals with much lower cost bases, lower regulatory burden, but the same implicit state backstop. The executive order prohibited CBDCs somewhat on the same basis, citing their ‘threat to the financial system’.

It may be that a very robust regulatory framework enables US stablecoins to always behave identically to cash, making the distinction between public and private money irrelevant. Sceptics, [including senators debating the Genius Act](#), point to the impunity with which Trump issued a ‘memecoin’, which, while not a stablecoin, went into circulation despite questionable legality and would have lost to date an unsuspecting initial investor 58% of their money.

### **US stablecoin regulation**

So why the unease of our central banking contact? ‘There is a wall of shit money coming our way, and we’re doing nothing about it,’ he said, in reference to the central banking community at large, and the potential for a proliferation of digital money tokens, which may or may not behave like cash in extremis and may well be denominated in a foreign currency.

Central banks don’t necessarily have agency over stablecoin regulation – this also belongs with lawmakers, finance ministries, securities regulators and payments regulators. Even if they did, there remains a lack of willingness in some places to engage with the new American reality. One major Brics central bank was overheard saying that ‘we should not give stablecoins the sheen of respectability by regulating them’.

Meanwhile, the EO targets the proliferation of US stablecoins worldwide to ‘promote and protect the sovereignty of the US dollar’. Even without domestic regulatory help, Circle’s [well-regarded](#) USDC [has already become a significant medium for remittances in Asia](#), for example. Stablecoins will also be buyers of short-term US government debt, at a time when the US budget [deficit persists at around 6% of gross domestic product](#). Discussions about the reserve status of the dollar persist, with some

observers suggesting the same EO undermined that status with the creation of a strategic crypto reserve.

Many lawmakers find themselves under pressure to enact stablecoin-friendly rules. The Markets in Crypto Assets regulation has been criticised for making stablecoin issuance in Europe too complex, and Tether, the world's largest stablecoin issuer, no longer operates in Europe as a result. But is the alternative to not even try?

### **A 'quick and dirty solution'**

A number of observers have started to worry about the concomitant re-dollarisation of developing markets, which has prompted some to suggest [an acceleration of local stablecoin initiatives](#).

While some central banks continue to use working groups to procrastinate about digital money, which also typically needs the blessing of lawmakers, it might be unfair to suggest central banks are doing nothing. OMFIF has found an acceleration in CBDC plans in response to the EO, [following a deceleration](#). The ECB is [speeding up the path](#) to wCBDC, which, an official has told us, is a response to US developments.

The ECB expects at first to create an interim 'synchronised' platform, developed by the Deutsche Bundesbank, which links the Target 2 system to a DLT platform that cross-references settlement at regular intervals. Progress is expected by the end of 2025.

This 'quick and dirty solution', as one systems provider described it to us, solves one of the conundrums in this technological revolution, which is how to move from one platform to the other without fragmenting the market and its liquidity in the interim, or becoming dependent from one day to the next on a single new untested platform for systemic settlement. The ECB plans later to move to a true 'atomic settlement' platform where all transactions are settled immediately peer-to-peer on the ledger(s), which has been pioneered by the Banque de France. These developments would keep 'public money' at the heart of wholesale finance in the euro area.

### **Network collaboration**

Central banks have also been exploring 'unified ledger' platforms, such as the Hong Kong Monetary Authority's [Project Ensemble](#) or the [Bank](#)

[for International Settlements' Project Agora](#). Such 'regulated liability networks' would bind together central banks and regulated financial institutions into a single or connected tokenisation ecosystem. Making such systems work cross-border between different regulatory jurisdictions, and between foreign commercial and central bank balance sheets, continues to make the project hard to implement.

One of the inventors and key proponents of the idea, Tony McLaughlin, has set it aside and is [now working on a platform](#) which would de-risk stablecoins for banks via a clearing entity. In the face of quickly moving facts on the ground, the private sector may at this rate be the protector of the singleness of money, rather than the public sector institutions whose principal duty it is.

*John Orchard is Chairman of the Digital Monetary Institute and Lewis McLellan is Editor at the Digital Monetary Institute at OMFIF.*