

STABLECOINS: WHAT STRATEGIC CHOICES FOR EUROPE?



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Distributed ledger technology and tokenisation in the EU

Distributed ledger technology (DLT) and blockchain are increasingly intersecting with mainstream financial services. They can reduce payment and settlement frictions, improve liquidity management, enable programmability and streamline reconciliation. Together, these technologies could pave the way for an 'internet of value', where value and assets can be transferred between parties without the need for an intermediary. While it remains uncertain whether this vision will be fully achieved, Commissioner Albuquerque noted last December that DLT and tokenisation may well become the new operating system of financial markets.

The expansion of crypto-asset trading has driven demand for reliable on-chain settlement assets, which in turn is driving up demand for stablecoins. So far, most stablecoins are denominated in US dollars, reflecting the fact that most crypto-asset markets are also priced in US dollar. The growing tokenisation of traditional financial instruments – such as shares, bonds and investment funds – on distributed ledgers will create additional demand for tokenised settlement assets or tokenised money. It is quite likely that these tokenised assets and tokenised money would be denominated in the currency of the underlying financial instrument.

Stablecoins may enhance efficiency in certain cross-border payments, where traditional bank-based systems remain costly, fragmented and slow. However, their added value within the EU's already efficient, competitive and increasingly instant retail payments market currently appears more limited, and stablecoin capitalisation remains small relative to traditional financial markets. Nevertheless, EU currency-pegged or denominated stablecoins could offer the EU a strategic advantage at a moment when digital money may increasingly become a global digital infrastructure. A strong ecosystem of euro-denominated stablecoins would not only reinforce the international role of the euro, but also support a resilient, competitive and innovative European digital economy.

In contrast to stablecoins, tokenised deposits remain to date much less developed, and their adoption in open networks is negligible. Such deposits preserve the existing two-tier monetary system while enabling programmable settlement. Their most promising applications could lie in treasury operations, liquidity management and settlement of tokenised securities within Europe. However, their non-bearer nature makes them less suited for global payments.

In the EU, work on central bank digital currency (CBDC) is ongoing on both retail and wholesale domains. The digital euro aims to enable sovereign retail payments and reinforce strategic autonomy in an increasingly digital economy. In parallel, the ECB is exploring wholesale solutions – notably through the Pontes and Appia projects – to provide risk-free settlement for tokenised financial transactions and DLT-compatible central bank money. Although stablecoins could in theory serve as the settlement leg for tokenised assets, a wholesale CBDC would offer tokenised central bank money on DLT, preserving the safety and finality that underpin financial stability. In addition, with no US plans for a wholesale US dollar CBDC, a euro wholesale CBDC could strengthen the euro's appeal as a settlement currency in global tokenised markets.

The EU has been an early mover in crypto-asset regulation. The Markets in Crypto-Assets Regulation (MiCA), adopted in 2023 and fully applicable since December 2024, establishes a harmonised framework for crypto-asset service providers, and issuers of crypto assets, including stablecoins. It introduces prudential, governance and reserve requirements for asset-referenced tokens and e-money tokens. That said, MiCA does not cover tokenised deposits or securities, which remain subject to existing banking and securities legislation.

DLT and tokenisation may revolutionise EU finance—regulation to keep pace with innovation.

To foster innovation, the EU has moreover adopted the DLT Pilot Regime Regulation, which allows market participants to test trading and settlement of tokenised shares, bonds and UCITS under targeted exemptions from MiFID II and CSDR, while maintaining investor protection and market integrity. Participation has been modest so far, prompting the Commission – as part of the Savings and Investments Union – to propose an extension of the regime's duration and scope to foster scale and competitiveness. This was an important step, as jurisdictions around the world are increasingly supporting distributed ledger technology and tokenisation in their capital markets.



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European monetary sovereignty: instruments, challenges and the way forward

The digitalisation of monetary and payment systems has long ceased to be a matter of theoretical speculation, it is now actively and significantly reshaping the European financial architecture. Against the backdrop of an increasingly fragmented geopolitical landscape and rapid technological change, European policymakers are confronted with a set of novel and structurally significant challenges. Three distinct yet functionally interrelated instruments have emerged as the primary focus of regulatory attention: stablecoins, the digital euro (in its capacity as a central bank digital currency; CBDC) and tokenised bank deposits. Despite their divergent characterizations, these instruments share an overlapping risk profile, and this is a matter of increasing urgency.

Stablecoins carry significant potential across substantial segments of the financial services value chain, principally by virtue of their capacity to facilitate faster, more cost-efficient and more direct cross-border payment and settlement transactions. Global stablecoin market capitalization has doubled since 2023, reaching approximately €300 billion, with USD-denominated stablecoins representing 99% of total volume. The Markets in Crypto-Assets Regulation (MiCAR) establishes a robust and innovation-friendly framework for crypto-assets, explicitly acknowledging the transnational character of stablecoins and extending its scope to instruments issued both within and outside the European Union. The exponential growth of stablecoins warrant regulatory attention as it presents challenges for European financial stability. The Commission Services have noted that stablecoins, especially those operating under a multi-issuance model, may pose systemic risks. The commitment to 1:1 fiat convertibility is not without its inherent risks; the associated risk spectrum includes liquidity and counterparty risks as well as the potential for cyber and operational risks. Nevertheless, MiCAR already addresses these risks through mandatory reserve and liquidity requirements. Furthermore, MiCAR requires global stablecoin issuers to establish a legal entity within the European Union to ensure that they are directly subject to EU regulation, supervision and insolvency procedures.

The tokenisation of deposits, while legally remaining deposits under EU banking law, offers meaningful opportunities to enhance the operational efficiency of transfers of funds from on-chain deposit accounts, not least through the introduction of programmability features. The European Banking Authority (EBA) identifies potential challenges including questions of consumer protection, heightened operational risk, and the application of the AML/CFT framework. The introduction of a digital euro has the potential to provide Europeans with a European public option, grounded in European technology and infrastructure, capable of facilitating seamless digital payments throughout the euro area. Beyond retail functionality, the digital euro has the potential to enable banks to offer their

clients comprehensive payment solutions that reduce or ultimately eliminate structural dependence on non-European, predominantly US-based, payment systems.

The regulatory direction is unambiguous: Europe must commit to the construction of a digitally sovereign monetary and payment ecosystem anchored in MiCAR-compliant stablecoins, tokenised bank deposits, and the digital euro. These instruments have the potential to enhance efficiency, foster financial innovation and strengthen institutional resilience, while preserving the banking sector's crucial role in financing the real economy. The fundamental question confronting the European Union is therefore not whether to embrace digital money, but rather how to sequence its introduction in a manner that simultaneously ensures the preservation of financial stability and the protection of consumers.

Europe must commit to the construction of a digitally sovereign monetary and payment ecosystem.

A broad consensus of all relevant stakeholders has emerged around the imperative to strike an appropriate balance between innovation and prudential caution and European integration and global interoperability. The policy decisions taken at EU level over the coming years will determine whether Europe assumes a leadership position in digital money innovation or becomes dependent on external systems that may not align with European values and strategic interests. A coherent regulation, supervision, and infrastructure in the European Union will build a monetary and payment ecosystem genuinely suited to the demands for the digital age whilst maintaining the financial stability that underpins economic prosperity and public trust.



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About a future EU monetary architecture

Digitalization contributes to the discussion on a future EU monetary architecture certain 'new' instruments: Firstly, the digital Euro, i.e. a digital form of central bank money ('CBDC'). Secondly, tokenized deposits, which are representations of commercial bank money mirroring traditional deposits, typically issued on private permissioned DLT. Thirdly, MiCA-regulated 'stablecoins'. The latter consist of EMTs, which always reference one single official currency, and of ARTs referencing another value or right or a combination thereof, including one or more official currencies, with EUR-denominated ones being encouraged policy-wise. The subsequently rising imperative is coherence and stability, while allowing for innovation, hence preserving above all 'trust in money', i.e. the settling of payments at full value 'without questions asked'. This means not undermining commercial banks' funding models and, ultimately, the financing of the EU economy under the conventional 'two-tier monetary system': Bank deposits are convertible at par against central bank money, hence exhibiting 'singleness' guaranteed by central bank money, which is the highest form of money.

The rising imperative is primarily coherence and stability, hence preserving 'trust in money'.

Based on the above, CBDC and tokenized deposits are digital representations of the respective existing off-chain instruments, hence 'new' only in terms of technological format. However, stablecoins are not a representation, but the result of technological and financial innovation, requiring assessment against the background of the two-tier system: Unlike CBDC, stablecoins are privately issued; and unlike tokenized deposits a stablecoin issuer does neither have to be a bank nor does it settle in central bank accounts, thus excluding singleness. The question arises if stablecoins could possibly compensate lack of singleness by means of their 'promise of stability' (peg, reserve backing and collateralized redeemability). However, this is not always possible, as they trade at varying exchange rates, whereas ARTs specifically are redeemed by law in the market value of the assets referenced and not at par. Besides, the various risks to which stablecoin reserve assets are subject to, could also reduce a stablecoin's value, raising due diligence concerns exacerbating non-singleness. Furthermore, MiCA requires to match issuance and redemption of ARTs by a corresponding increase or decrease in the reserve and to issue EMTs upon receipt of funds. This implies in both cases full upfront payment by holders, raising elasticity concerns. Besides, ARTs and EMTs may fulfil only the functions of a

means of exchange as per MiCA's policy intention. Finally, most stablecoins operate on public permissionless DLTs raising technological decentralization-related issues as to governance, trust, accountability and undesired immutability. Thus, the 'promise of acceptance' embedded in stablecoins, including the EUR-denominated ones, is weaker compared to CBDC and tokenized deposits.

Bearing the need for a primarily coherent and stable monetary architecture in mind, such architecture should build on the existing two-tier system with CBDC ranking *pari passu* with the EUR: It is the digital representation of the highest form of money, of sovereign issuance and guarantees trust in money, as it is the trusted safe asset against which tokenized deposits are settled. Deposits and tokenized deposits should follow, so long as these can operationally settle in central bank accounts. As per current state of things their real-world convertibility can be smoothly mirrored in DLT, whereas the adoption of the CBDC will offer 'singleness at scale'. Stablecoins should rank behind these, given lack of singleness, their functioning only as a means of exchange, non-elasticity and the technological decentralization-related concerns. Given also that the vast majority of stablecoins are denominated in USD at present, EU monetary sovereignty needs to be observed before stablecoins find their place in a future EU monetary architecture, seemingly in a subsidiary/experimental role. In addition, stablecoins require ongoing supervisory monitoring, given the contagion risk as a result of their hetero-referential stabilization mechanism.

A different structure would raise concerns as to preserving 'trust in money', both *vis-a-vis* the role of central banks as guarantors of such trust and of commercial banks as the 'interface to the real economy' through the singleness exhibited by deposits. Monetary sovereignty concerns in the form of stealth dollarization, would also be raised. Financial stability concerns would also be raised, as a 'stablecoin run' could materialize the contagion risk and lead to fire-sales of safe, real-world assets.



SASHA MILLS

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Trust in money: building a safe UK regime for systemic stablecoins

The UK is shaping tomorrow's stablecoins into money you can trust.

Money is only money if people trust it. If stablecoins are to be used widely for payments in the UK economy, they must be as dependable as existing forms of money. That trust depends on clear rules, strong backing, and confidence that money will hold its value in all conditions. Our proposed systemic stablecoin regime is designed with the future role of stablecoins in real-world payments in mind.

Key objectives and design principles

The first and guiding objective of our proposed regime is to maintain financial stability through protecting trust in money, while enabling responsible innovation in payments. Our consultation sets out clear proposals to ensure systemic stablecoins deliver stability of value, a robust legal claim, and redemption at par in fiat currency. In simple terms, if stablecoins want to operate as money they should be held to the same standards as money.

The UK is shaping tomorrow's stablecoins into money you can trust.

We are designing a “multi-money” system; regulated stablecoins operating alongside other forms of money (such as tokenised bank deposits) and critically, all underpinned by central bank money and modernised payment infrastructure. It is not our role to “pick a winner”, but to ensure new forms of money can coexist safely and predictably to maximise benefits for households and businesses in the UK.

A core part of maintaining that trust is ensuring that systemic stablecoins can always be redeemed at par, in fiat currency, whenever users choose to do so. Our proposals emphasise that redemption must be smooth, timely and predictable, supported by high-quality backing assets that can be monetised quickly, including in periods of market stress. But backing assets alone are not enough: users also need confidence in a clear legal claim and a frictionless redemption process that operates reliably in all conditions. Delivering this redemption assurance is central to ensuring stablecoins function within a multi-money system and uphold the standards needed to preserve public confidence.

Finally, our approach is founded in coherent regulation across authorities. Together with the FCA, we are working closely to ensure clear boundaries and smooth transitions between the

FCA's non-systemic regime and the systemic regime where stablecoins will be jointly regulated by the Bank and the FCA. There is a ‘step-up’ regime for stablecoins recognised as systemic at launch to support business growth at the start.

The guardrails: Making stablecoins safe at scale

Revisiting our guiding objective, our proposed regime targets key risks (runs, liquidity strains, shortfalls in backing assets and a disorderly transition to new forms of digital money).

Firstly, the Bank will offer systemic stablecoin issuers the means to mitigate against the risk of runs and potential liquidity strains by providing access to a deposit account at the Bank of England – where issuers will hold the cash proportion of their backing assets and we are also considering putting in place a lender-of-last-resort facility to help issuers monetise non-cash backing assets in all states of the world.

Reflecting industry feedback on business-model viability, issuers will be permitted to hold a majority of backing assets in interest-bearing short-term UK government debt securities.

This regime is also trying to ensure an orderly transition to new forms of digital money. Currently UK households and businesses are heavily reliant on the banking sector for credit and that stablecoins – unlike banks – provide payment services, not credit. We think that limits are required, at least in transition, to mitigate financial stability risks stemming from outflows of deposits from the banking sector and the impact this could have on the provision of credit to UK businesses and households.

Finally, in wholesale markets, our message remains consistent. Central bank money should remain the anchor settlement asset. We remain committed to supporting controlled experimentation with the FCA to test the use of regulated stablecoins as a settlement asset in the Digital Securities Sandbox, to help us understand how any future role for stablecoins in the wholesale space. We are reflecting on the feedback we've received from industry on our proposals and on how we can best support responsible payments innovation in the UK.



DENIS BEAU

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Promoting the private supply of tokenised money, alongside the provision of CBDC

In recent years, rising geopolitical tensions, rapid payment digitalisation, and the emergence of tokenised finance have shed fresh light on the role played in Europe by non-EU players and technologies in our payment systems and the rapid growth of USD-backed stablecoins. These shifts are increasing the risk of a loss of stability and strategic autonomy of our payment system for the euro.

Strong and concerted action between European public and private players is needed, to develop secure, efficient, pan-European payment solutions based, for settlement assets, on the complementarity and substitutability at par between central bank money and private money issued by properly regulated European financial intermediaries.

The Banque de France is contributing to this by developing its policy stance and actions, within the framework of the Eurosystem and under the aegis of the ECB, to strengthen three key lines of defense: the regulatory framework, central bank money payment services, and the supply of private settlement assets in addition to the supply of CBDCs:

First, the Banque de France strongly advocated the adoption of regulations that protect consumer protection and the development of cryptoassets within a framework of trust. With PSD₂ in force and PSD₃ forthcoming, the EU regulatory framework is robust. Nevertheless, as regards crypto-assets, MiCA only partially addresses some changes, notably in the event of widespread use of non-European issued stablecoins. Thus, we are pressing for a strengthening of MiCA, including restrictions on the use of stablecoins for everyday payments and tighter rules on multi-issuer models.

Second, for several years now, the Banque de France has promoted adapting Eurosystem services in central bank money to the digitalisation of payments and tokenised finance. This is essential to maintain the anchor role played by central bank money in ensuring the stability of our payment system. It aims to change the form in which central bank money is made available for everyday payments and wholesale payments, but also to leverage new infrastructures suited to the issuance and circulation of tokenised assets on decentralised infrastructures such as blockchains.

To this end, the Eurosystem has launched three strategic and complementary projects:

- The digital euro. Its aim is to ensure that a means of payment in central bank money in the form of a “digital banknote” with the main attributes of a “paper” banknote remains available in the range of pan-European payments for digitalised

transactions. It should thus facilitate the development of the digitalisation of payments in Europe, by preserving the freedom of choice we enjoy between public and private monies for our everyday payments and by promoting synergies with private European payment solutions, with a shared aim of strengthening our strategic autonomy.

- The Pontes project. This project aims to provide participants in the tokenised financial asset ecosystem, particularly intermediaries, with a suitable central bank currency that is also tokenised and available on a blockchain. The objective is to ensure that central bank money, which is the safest settlement asset, remains the preferred settlement asset for financial asset transactions, which present the most sensitive systemic stakes. An initial version of this “wholesale” central bank digital currency will be available to banking institutions by the end of 2026.
- The Appia project. The aim of this project is to explore the potential of distributed ledger technologies (DLT) with a view to designing, in the medium term, a new generation of critical infrastructure for the European post-trade market, dedicated and adapted to the development of tokenised finance.

Tokenised private money offer is needed to replicate the two-tier system in the tokenised ecosystem.

Lastly, regarding the supply of public and private settlement assets in euro, we at the Banque de France consider that, while the provision of an appropriate CBDC is essential, central bank money is not intended to meet all the settlement asset needs of the European real and digital economies. Alongside this, it is necessary to have a significant and effective supply of private money, particularly for everyday payments, which can be exchanged reliably at par with central bank money, provided by regulated players, foremost among which are naturally the major players in the provision of payment services, namely banks. Tokenised private money offer is needed to replicate the two-tier system in the tokenised ecosystem.

The discussions and initiatives currently being developed by European financial intermediaries, such as those conducted by the European Payments Initiative (EPI) consortium, or those aimed at developing a range of tokenised deposits and stablecoins in euro, particularly to meet the cross-border transaction and cash management needs of international companies, are therefore very important and welcome, and we stand ready to play a facilitating role in the development of these products wherever necessary.



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Europe must develop euro-denominated stablecoins issued by EU institutions

Societe Generale-Forge is a subsidiary of the Societe Generale group created 5 years ago to explore the potential of digital assets to boost the competitiveness and integrity of the financial system. Societe Generale-Forge is a leader in tokenization, which has been behind many pioneering transactions since 2020, including the European Investment Bank's first bond issuance on blockchain. **Societe Generale-Forge is also part of the only Tier 1 banking group in the world to issue stablecoins in both euros and dollars, both regulated under MiCA.**

Digital assets are a tremendous opportunity for the European financial system.

First, they will facilitate the growth of tomorrow. Blockchain technology is set to be the main driver of productivity gains in the financial sector over the next 5 to 10 years as it enables transactions to be carried out instantaneously (instead of 2 days today), available 24/7 and available worldwide. As the Draghi report showed, over the last 20 years, the main reason behind Europe's slower growth compared to the US has been the lesser integration of productivity gains from the Internet and new technologies into the European economy. For the next 20 years, it is essential that the European financial sector invests in blockchain technology to create the growth of tomorrow that we need to finance our economies and social protection.

Second, digital and financial sovereignty is a critical issue for Europe. Right now, we are building the foundations for the global financial infrastructure of tomorrow. Unfortunately, Europe has largely missed the Internet revolution, because the tech giants are non-European, which now raises questions of sovereignty and democracy. The same technological shift is taking place in the financial system, and it is essential that Europe equips itself with financial infrastructures and financial assets (tokenised financial instruments, central bank digital currencies, tokenised commercial bank money such as regulated stablecoins) in order to maintain its autonomy in financing its economy.

When we talk about the challenges of digital assets for Europe, there are 3 topics to address: tokenization of financial instruments, cryptoassets and the new forms of money that are CBDCs and stablecoins.

1. **On tokenization**, Europe has been a pioneer in bond issuance on the primary market. **The challenge now is to create secondary markets for security tokens.**

This is a major competitiveness issue for Europe because the United States have already announced in the White House report on digital financial technology its desire to

switch all capital markets to blockchain and to guarantee the leadership of American companies in these new markets. As a result, Nasdaq, one of the largest US markets, announced that it has filed a case with the regulator to switch all its market segments to blockchain.

2. **On cryptoassets regulation**, Europe was also a pioneer with the MiCA Regulation. **The challenge now is to enable traditional banks and financial intermediaries to develop these services for their customers by easing the prudential regime applicable to cryptoassets.** This is in line with the recent statements by the Chairman of the Basel Committee.
3. **On the new forms of tokenised payments**, the challenge before us is absolutely fundamental. The aim is to recreate a solid and stable monetary architecture on the new blockchain infrastructure in order to benefit from its productivity gains.

Stablecoins enable major productivity gains in the financial industry.

Alongside the CBDC, it is essential to develop tokenised payments that will make it possible to pay for transactions on the blockchain infrastructure. This is the whole purpose of Societe Generale-Forge's action. We were the first to issue a euro stablecoin in 2023, then a US dollar stablecoin in 2025 and still today we are the only Tier 1 banking group in the world to issue stablecoins. In this respect, it can be said that Europe is ahead of the curve and has an international industrial flagship. But that's not enough.

It is absolutely crucial that Europe develops strong regulated euro stablecoins issued by European entities. Stablecoins are not a risk but an opportunity for the EU. The global development of regulated euro stablecoins will also contribute to the international role of the euro.

In conclusion, I would like to reiterate one thing: **blockchain technology and digital assets are transforming the financial sector, and it is important that Europe supports this evolution**, including the international development of European players, to enable tomorrow's growth and guarantee tomorrow's sovereignty. In this respect, the political direction given by European institutions on these topics is crucial.