

# STABLECOINS

Stablecoins are digital assets designed to maintain a **stable price** and **reduce volatility**, typically by being **pegged to external assets** with a stable value or by **regulating supply through an algorithm**

## TYPES

- FIAT-BACKED**  
Pegged to fiat currency, holding fiat reserves equivalent to stablecoins in circulation
- COMMODITY-BACKED**  
Pegged to physical assets including metals, oil, and real-estate
- CRYPTO-BACKED**  
Pegged to crypto, generally as a collateralized debt position (CDP)
- ALGORITHMIC**  
Some crypto-backed stablecoins use algorithms and smart contracts to manage supply of tokens with monetary incentives and fees to keep price stable

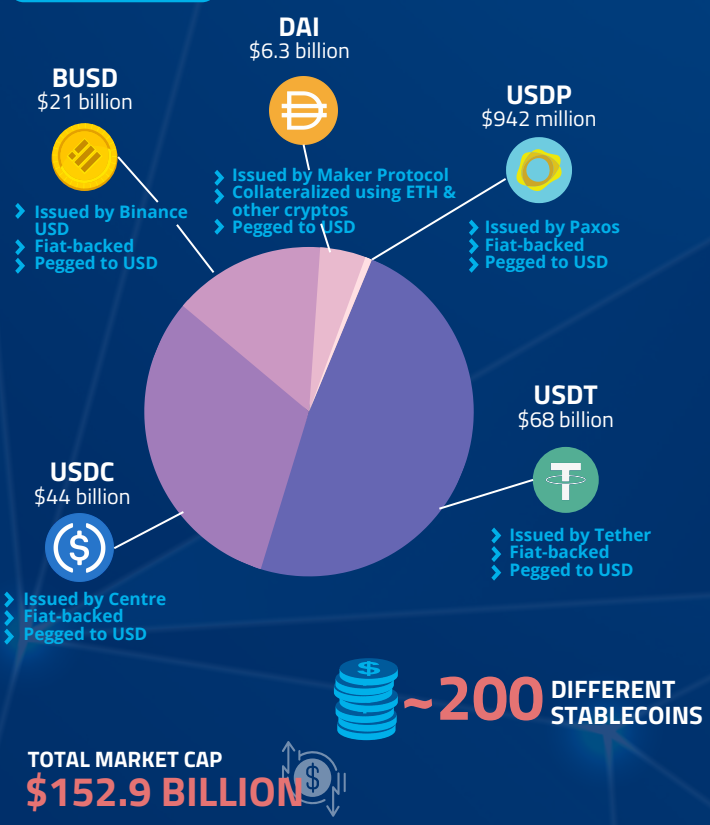
## USES FOR STABLECOINS

- REMITTANCES**  
Enable sending money abroad at minimal cost. Remittances to low and middle income countries were estimated at \$589 billion for 2021
- DECENTRALIZED FINANCE (DeFi)**  
Currency with which DeFi applications are built, spanning across a range of alternative financial services
- COMMERCIAL TRANSACTIONS**  
Enable low-cost, cross-border, and direct payments with immediate settlement and currency conversions
- TRADING**  
A tool to access crypto trading platforms without having to hold fiat directly or incur fees and frictions from the traditional banking system
- FINANCIAL INSTITUTIONS**  
Increase efficiencies and decrease costs with instant fund transfers between in-house accounts
- CORPORATE TREASURIES**  
Improve liquidity management with efficient and transparent fund flows

Stablecoins enable the internet of value, where sending money becomes as easy as sending an email

## TOP 5 STABLECOINS

by Market Cap



## FOCUSES FOR REGULATION

### OTHER ISSUES -

- Applicability of Howey Test to treat stablecoins as securities
- How to treat centralized vs. decentralized models
- Where reserves are held
- Insurance

- **RESERVES** - Ensuring adequate quality and amount of reserves to back stablecoins in circulation, including third party attestations
- **REDEMPTION POLICY** - Timeframe, cost, and ease (e.g., what platform to use and any fees to redeem funds)
- **FINANCIAL STABILITY** - Preventing disruptions to the current banking system (e.g., bank runs)
- **CONSUMER & INVESTOR PROTECTIONS** - Ensuring redeemability of stablecoins and limiting losses
- **RISKS OF ALGORITHMIC STABLECOIN STRUCTURES** - Given that there may be no collateral

## MAJOR GLOBAL REGULATIONS

- Markets in Crypto Assets (MICA)**  
Crypto regulation in the EU, covering stablecoins
- Principles for Financial Market Infrastructures (PFMIs)**  
Application of PFMIs to systemically important stablecoin arrangements and relevant entities
- Financial Stability Board (FSB)**  
Recommendations for Global Stablecoin Arrangements
- New York Department of Financial Services (NYDFS)**  
Guidance on Issuance of US Dollar-Backed Stablecoins

There is legislation in the works to prohibit algorithmic stablecoins and highlight their risks

1 <https://www.gemini.com/cryptopedia/what-are-stablecoins-how-do-they-work#section-algorithmic-stablecoins> 2 <https://coinmarketcap.com/charts/> (October 19, 2022)  
 3 [https://www.knomad.org/sites/default/files/2021-11/Migration\\_Brief%2035\\_1.pdf](https://www.knomad.org/sites/default/files/2021-11/Migration_Brief%2035_1.pdf) 4 <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52020PC0593> 5 <https://www.fsb.org/wp-content/uploads/P131020-3.pdf>  
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