Stablecoin Executive Briefing

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A Conversation on Stablecoins with Loretta J. Mester, Ph.D.
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Introduction

Thank you very much, Bill. I thank the GIC for the opportunity to discuss the topic of stablecoins today. At the Federal Reserve, I chaired the payments committee, which oversaw the Fed's provision of financial services, including the launch of the Fed's instant payments service, FedNow. I came to deeply appreciate how important an efficient and secure payment system is to a well-functioning economy and how fast innovations were happening in the private sector around payments.

Today, I will focus on one of these innovations, fiat stablecoins. Stablecoins have gained everyone's attention with the passage of the GENIUS Act (Guiding and Establishing National Innovation for U.S. Stablecoins Act), which starts to layout a regulatory framework for stablecoins, and with the CLARITY Act (Digital Asset Market Clarity Act), which tries to do the same thing for the broader category of digital assets and is currently working its way through Congress.

Growth of Stablecoins

A fiat stablecoin is a type of cryptocurrency, a form of digital money that is issued by a private-sector entity and is designed to maintain a stable value by being pegged to some type of fiat currency, like the U.S. dollar, and backed by reserves, like short-term Treasury bills.[1]

[1] See Abecasis (2025), Gorton and Zhang, 2023, and Higginson, with Spanz (2025).

Stablecoin transactions take place on a public blockchain-based network – a decentralized system that keeps a record of all transactions across the network. These transactions are "pseudonymous," in that transactions are public but individual users' identities are not known, instead their wallet addresses are known.

Ethereum is an example of a stablecoin network. Tether's stablecoin is called USDT; Circle's is USDC, or U.S. Dollar Coin. Over 90 percent of the stablecoins in circulation are denominated in U.S. dollars, but there are other types of stablecoins out there.[2] For example, Circle has a stablecoin called EURC that is tied to the value of the Euro.

A person can buy stablecoins from an issuer, say by giving the issuer U.S. dollars and receiving the same amount of stablecoins. Holders of stablecoins are supposed to be able to redeem the stablecoins on demand one-for-one with the currency to which the stablecoin is pegged. In this way, they are like bank demand deposits and money market funds.

In theory, you don't need to have a bank account to use stablecoins. You can transact with other holders of stablecoins on the blockchain for a relatively low cost. But, as discussed by Abecasis (2025), today since only a few businesses and individuals accept stablecoins directly, funds have to be transferred to and from the blockchain on traditional payments rails – this is called on ramping and off ramping. So to use stablecoins, you typically need a bank account or an account at another payment-services provider. On top of the on- and off-ramping costs, if it is an international transaction, then there are costs of foreign exchange conversion, too.

[2] See Abecasis (2025).

Visa provides some data on stablecoins on their onchain analytics dashboard.[3] Stablecoin market capitalization reached $250 billion in September. Seventy percent of these were USDT and 29 percent were USDC.

According to Visa, there was about $33 trillion in volume of transactions over the past year, but a large part of these were high-frequency trading bots, exchanges rebalancing their internal treasury, and repeated transactions due to smart contract operations, which do not reflect traditional payment activity.

When they remove these, the dollar volume of transactions falls to about $6.4 trillion over the past year. Retail-sized transactions, defined as those under $250, make up about 0.6 percent of the dollar volume of stable coin transactions, but about 57.2 percent of the number of transactions last month. In terms of dollar volume, there were just a bit over $6 billion last month (which is less than 1 percent of retail sales in the U.S. (which were about $600 billion per month in 2025Q2), or 114 million transactions.

In comparison, Visa's payments dollar volume in FY2024 was $13.2 trillion and number of transactions processed was 233.8 billion.[4]

While stablecoins are not yet a large share of payments transactions, they have gotten attention because of their sharp rate of growth: over the past year, the dollar volume has risen almost 60 percent, and over the past two years it has more than doubled.[5]

[3] The Visa onchain analytics data are available at https://visaonchainanalytics.com/transactions.

[4] See Visa annual report for FY2024 (for the 12 months ending 30 September 2024).

[5] See the Visa onchain analytics dashboard, September to September figures.

Use Cases

Cryptoassets, including stablecoins, have gotten a justifiably bad reputation for being used for illicit activities including trading in illegal products, money laundering, evading government sanctions, and terrorism. These activities are enabled since the exchanges exist outside of the regulated financial system and individuals are not identified. But advocates of stablecoins point to some use cases that benefit users. In particular, advocates point to the ability to accelerate payments through the clearing and settlement stages, to allow for transactions 24/7/365, and to lower the costs of each transaction. This is particularly beneficial for cross-border payments, in which there are still some impediments to efficient transactions. And it appears that, so far, stablecoins are used more frequently in international payment flows than in domestic ones.[6] A portion of these international transactions are remittances of funds from one bank account in one country to another bank account in another country.

Today, banks rely on a network of correspondent banks to move money across borders. There still is not a standardization of operating hours, data standards, and regulatory requirements. This adds cost and time. According to Abecasis (2025), whereas stablecoins are almost instant, legacy payments take 1-5 business days on average to clear and settle. The cost of a transaction on legacy payments rails varies by medium. International wires through SWIFT are $20 to $50 per transaction. ACH payments cost $0.3 to $5 but are often free for users per transaction, and credit cards are about 2.5 percent of the transaction amount for merchants and the cost varies by card for users. In contrast, stablecoin transactions are less than a cent per transaction but adding on the on- and off-ramping costs adds about 1 percent per value of the transaction. But that is still a low cost comparatively.

Some fast and relatively new payments rails in the U.S. for domestic payments have been introduced including Real-Time Payments, the Fed's FedNow service, and same-day ACH that operates through

[6] See Abecasis (2025).

Zelle. As discussed in Abecasis (2025), for cross-border payments there are some relatively new fintechs like Wise and Remitly that also move money quickly, in 2 days or less, and relatively cheaply. They cost about 0.8 to 2.3 percent per international transaction. None of these has reached that much scale yet, so the lower cost and faster speed of stablecoins has appeal.

An additional use case is in emerging markets, where stablecoins provide a way for consumers and businesses to hold a dollar-denominated asset as a store of value. According to Abecasis (2025), flow data show that 60 percent of stablecoin flows are across regions and 40 percent are within regions. Emerging markets have the largest gross stablecoin flows as a share of GDP. Stablecoin flows in Africa and the Middle East are about 2.5 percent of their GDP; in North America and Europe it is about 1.25 percent. The largest flows go from developed markets to emerging market economies. The data from the large cryptocurrency exchanges show that Turkey has the largest purchases relative to GDP, about 3.5 percent, suggesting that people are holding dollar-denominated stablecoins because of the high level of inflation in that country.

Advocates of stablecoins envision development of new financial products that would blend smart contracts, i.e., programmability on the blockchain, with stablecoins so that payments could be programmed to take place automatically when certain conditions were met.[7] Blockchain technology allows many sequential steps to occur all at once, which promises even greater efficiency.[8]

Financial Stability and Stablecoins

Against this backdrop of promise, there are issues of safety and financial stability. There is the potential that stablecoins will continue to be used for illegal purposes. In addition, as with any new asset, there are consumer protection issues. And, there are financial stability concerns to be reckoned with.

[7] See Visa (2025).

[8] See Coy (2025).

At their heart, stablecoins are a kind of private money. This is not the first experience that the U.S. has had with competing monies.[9] The period between 1836 and the Civil War is referred to as the Free Banking Era or Wild Cat Banking Era. It was a time before a national currency was established. This period was generally characterized by financial instability. Individual banks would issue their own currencies. The notes were supposed to be redeemable in species but were collateralized by other kinds of assets that did not always have value. One story goes that the term "wildcat" derives from establishing the banks in remote area where only the wild cats roamed to delay redemption of the notes. There was lax supervision and some of the banks were undercapitalized and failed. Because of this possibility the notes often did not trade at par, people were cautious in using particular banks' notes in transactions. There was considerable instability in the banking system until a national currency was established by the National Bank Act of 1863. With the national currency, people did not have to evaluate whether or not the money was good before using it in a transaction; they knew it would trade at par because the U.S. stood behind it.

Stablecoins are similar to private bank notes in that they are supposed to be redeemable one-for-one for dollars but this actually depends on the health of the issuer and the collateral backing the stablecoin. There are examples of opacity around the collateralization. In 2021, the CFTC fined Tether $41 billion for claiming its stablecoins were fully backed by fiat currency when they were not.[10]

To retain a stable value, stablecoins need to convince their holders that they are redeemable on demand and that means they need to convince holders they are backed by liquid assets. Circle releases a monthly report and Tether releases a quarterly report on their reserves.

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[9] Gorton and Zhang (2023) discuss the similarities of stablecoins with private banknotes that circulated in the Free Banking Era.

[10] See Coy (2025).

As of July 31, 2025, Circle's Circle Reserve Coin reserves are about 30 percent Treasuries and 56 percent U.S. Treasury repos.[11] As of June 30, 2025, Tether's reserves were about 65 percent Treasuries and 11 percent Treasury repos and reserve repos.[12] However, in the past Tether held less in cash equivalents.

Stablecoins are similar to money market funds and bank deposits in that they are redeemable on demand. However, they are less regulated. Both money market funds (MMFs), which are regulated by the Securities and Exchange Commission, and commercial banks, which are regulated by the states and federal government, face minimum liquidity and capital standards.[13]

Like with banks and MMFs, there have been runs on stablecoins. As discussed in Anadu, et al. (2023), in 2022, the Terra stable coin crashed. Terra was not a fiat stablecoin like USDC and USDT, instead it was an algorithmic stablecoin. At its peak, Terra had a market capitalization of over $18 billion. Terra issued two stablecoins. One was TerraUSD and the other was Luna. TerraUSD was designed to be stable, while Luna was designed to fluctuate. The coins were set up with a smart contract so that whenever TerraUSD's value fell below $1, holders would buy TerraUSD and raise its price and whenever it went above $1, holders would sell and buy Luna. But this arbitrage between the two coins created more Luna whenever holders needed to buy it and as the supply of Luna went up, the price went down. It was falling rapidly enough that holders didn't buy Luna even when the price of Terra fell below a dollar. In May 2022, redemptions of Terra caused greater and greater supply of Luna until the algorithm broke.[14]

[11] See Circle's accounting attestations from their independent auditor, Deloitte (2025).

[12] See Tether's accounting attestations from their independent auditor, BDO Italia (2025).

[13] See Anadu, et al. (2023) for further discussion.

[14] As described by Anadu, et al. (2023), the price of Terra dropped to $0.7934, and $17,17 billion in Terra's market value and $20.77 billion in Luna's value was wiped out between May 7 and May 16, 2022.

The run from Terra spread to other stablecoins that were backed by less liquid assets. This included Tether's USDT. It also spread to other types of crypto assets. But U.S. based stablecoins, including USDC, received inflows, not outflows, since they were backed by more traditional assets and so were viewed as less risky.[15]

As discussed in Gorton and Zhang (2025), during the banking stress in 2023 around the failure of Silicon Valley Bank (SVB), USDC experienced a run. On March 8, 2023, SVB announced it planned to sell assets to manage deposit withdraws and to raise capital to cover the realized losses on those sales. Rating agencies downgraded the stock. There was a run on the bank the next day and this led to the failure of the bank, which was put into receivership. When Circle announced it had $3.3 billion in assets backing its stablecoin deposited with SVB, USDC investors began to sell, and the value fell to 87 cents on the dollar.

As this event illustrates, there is an inherent risk in stablecoins as with any other runnable short-term debt. If the backing of the stablecoin becomes suspect to investors, there can be a run on the coin. Some investors might find themselves unable to get the value they are expecting, and there can be spillovers to other assets and the broader economy.

As discussed by the Bank for International Settlements (BIS) (2025), such a scenario would be more likely if, e.g., the stablecoin issuer is not transparent about its reserve holdings or if the issuer's reporting lacks credibility. Poor governance, such as non-segregated funds in the reserve, ambiguous or misunderstood legal obligations of the issuer, or weak mechanisms to allow stablecoin holders to realize or redeem value from the issuer make the issue more vulnerable to runs.

[15] See Anadu, et al. (2023).

GENIUS Act

Since 2023, the U.S., Hong Kong, and Europe have been trying to clarify some of the rules around stablecoins. In the U.S. the GENIUS Act was signed into law this July. The Act is intended to articulate a regulatory framework for stablecoins that mitigate some of the risks, offers some consumer protections, but allows continued innovation.[16] However, as articulated, the framework raises other issues.

The Act pertains only to payment stablecoin issuers. Issuers of other types of stablecoins, e.g., algorithmic stablecoins or commodity stablecoins are not subject to the Act. Payment stablecoins are deemed not to be securities, deposits, or bank liabilities.

The Act requires payment stablecoin issuers to hold reserves of at least 100 percent against the amount outstanding and the reserves have to be safe and liquid assets in the form of U.S. dollars, bank demand deposits, short-term Treasuries, short-term Treasury repos, and short-term tri-party Treasury reverse repos, securities issued by money market funds that hold those types of assets, and other liquid federal government-issued assets. Reserves would be dedicated to backing the stablecoin and not reused for other purposes.

Issuers would have to publish monthly reserve reports and release redemption policies. Stablecoin holders would get a priority claim on reserve assets should the issuer go bankrupt.

No interest can be paid on payment stablecoins, which limits their ability to be a store of value. It also ensures that payment stablecoins will not be securities under SEC oversight.

[16] Law firms WilmerHale (2025) and Paul Hastings (2025) summarize key provisions of the GENIUS Act.

Both domestic and foreign issuers of stablecoins would be subject to know-your-customer, anti-money laundering, and countering the financing of terrorism rules.

Permitted payment stablecoin issuers could include subsidiaries of a bank that apply and receive approval by their federal regulator or in some cases, state regulator, or nonbanks or federal branches of a foreign bank if approved by the OCC. The regulatory framework allows certain bank subsidiaries to be regulated by their state regulator provided the state regulatory regime is similar enough to the federal regulatory regime and the entity has $10 billion or less in outstanding stablecoin issuance. All issuers with over $10 billion in stablecoin circulation will fall under federal oversight. The primary federal regulator for nonbanks will be the OCC.

The Act does not impose capital or liquidity requirements on issuers.

Companies that are not primarily engaged in financial activities would face higher standards for approval and would not be able to issue stablecoins unless approved unanimously by the Stablecoin Certification Review Committee, a new body created by the Act, comprising the Treasury Secretary, the FDIC Chairs, and the Federal Reserve Chair, who can delegate the role to the Vice Chair for Supervision. The Committee would have to find that the company will not pose a material risk to the safety and soundness of the U.S. banking system, financial stability, or deposit insurance fund. This is intended to keep commercial companies and large tech companies from issuing stablecoins unless they partner with an approved financial institution.

The Act precludes foreign entities from issuing stablecoins in the U.S. unless they are regulated by similar rules as U.S. issuers and hold reserves in the U.S. sufficient to meet liquidity demand of U.S. customers.

The Act takes effect 18 months from passage, so January 18, 2027, or 120 days after the federal banking regulators have issued implementing regulations. Payment stablecoins already offered before January 2027 would be allowed to continue to be issued until January 18, 2028.

Financial and Market Stability Issues Remain After the GENIUS Act

The GENIUS Act takes some steps to make stablecoins safer, with requirements on the type of reserves issuers hold, increased transparency about the backing of the stablecoin, and governance provisions such as requiring reserves held in segregated funds. However, the Act does not address the fundamental systemic issues posed by multiple circulating monies and it could introduce new issues. For example, if stablecoins are 100 percent backed by safe and liquid assets, and it is clear that those assets are there and devoted to this use, this would limit credit and liquidity risk for the holders of those coins, but it would also mean there would be fewer safe assets available for other uses, like bank liquidity requirements, which in itself could cause financial stability issues.[17]

As Gorton and Zhang (2025) discuss, even if all stablecoin issues hold reserves in the form of short-run Treasuries, a common shock could bring down the whole system. For example, if interest rates move up more quickly and by more than expected, the value of the Treasury reserves backing the stablecoins falls. Issuers will need to buy more Treasuries to replenish their reserves. Investors may begin to question the ability of the issuer to continue to purchase Treasuries to replenish reserves. The stablecoins will have shifted into information-sensitive assets and investors will start to run if conditions continue to deteriorate. A similar run dynamic can occur whenever there is a shortage of safe assets that are in high demand by multiple entities.

[17] See Garratt, et al. (2022) for further discussion.

But if the stablecoins are not backed 100 percent by safe assets, then the quality of the stablecoins will vary; the collateral backing and reputation of the issuer will matter. The stablecoins will be information-sensitive and subject to runs.

With banks, the regulatory and supervisory structure, as well as deposit insurance, limit the potential for runs. The GENIUS Act does not suggest such a structure for stablecoins. This is one reason that some academics and policymakers prefer tokenized bank deposits to modernize the payments system.[18] With tokenized deposits, bank customers could convert their bank deposit to a digital asset that would circulate on the blockchain and then reconvert digital assets into bank deposits.

As discussed by the BIS (2025), if stablecoins get large enough without an effective apparatus for regulatory and supervisory oversight, they could help to propagate negative shocks across the global financial system. In some situations stablecoins might be viewed as more attractive than bank deposits or Treasury bills since they are easier to liquify. For example, if stablecoins are backed 100 percent by Treasuries, they become like government money market funds. Just as people moved money from prime money market funds to government funds in 2008 and 2020,[19] in times of stress, people might withdraw money from banks and put it into stablecoins.

The GENIUS Act precludes the payment of interest on stablecoins, which would help to mitigate this risk but not eliminate it. By interacting with the Treasury market and competing with other uses for short-term funds, stablecoins might also have adverse effects on the transmission of monetary policy. According to BIS data, stablecoins' current investment in U.S. Treasuries is comparable to that of large

[18] See, e.g., Gorton and Zhang (2025) and Bank for International Settlements (2025).

[19] See Anadu et al. (2023).

sovereign jurisdictions and government money market funds. And BIS analysis indicates that a $3.5 billion increase in stablecoin capitalization depresses Treasury yields by 2.5 to 5 basis points.[20]

If large firms end up issuing a lot of stablecoins, it could complicate the central bank's ability to implement monetary policy. Moreover, firms could become viewed as too-big-to-fail, necessitating government intervention in stress periods. These developments are out of reach now but given the swift growth we have seen over the past two years, it is not unimaginable.

Finally, the current administration aims to preclude the establishment of a central bank digital currency (CBDC) in the U.S.; the President signed an executive order in January prohibiting CBDC and a ban is a provision in the CLARITY Act, which is working its way through Congress. The CBDC is an information-insensitive money that trades at par against bank notes and reserves and that is created and destroyed only by the central bank. It would be a solution to the financial stability problems posed by stablecoins.[21] Central bank money is scalable; there are no congestion problems. The central bank is the only entity that can ensure that required settlement assets, i.e., reserves, are in the right place, at the right time, and in the right quantity.[22] In contrast, cryptocurrency cannot be scaled without higher costs because the issuer cannot expand its balance sheet at will and cannot issue more stablecoin without cash-in-advance. In fact, the fees on Etherium have risen in periods of high transactions volumes, and high congestion has led some investors to move to other blockchains.[23] Some countries are pursuing CBDC and the BIS and several academics endorse it as the preferred solution to modernizing payments.

That concludes my prepared remarks. Thanks for listening and I look forward to the discussion.

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[20] See Bank for International Settlements (2025).

[21] See Gorton and Zhang (2023).

[22] Bank for International Settlements (2025) discusses these issues.

[23] See Bank for International Settlements (2025).

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