Proceedings of Business and Economic Studies, 2025, Volume 8, Issue 5
http://ojs.bbwpublisher.com/index.php/PBES
Online ISSN: 2209-265X
Print ISSN: 2209-2641

# The Concept of Stablecoins and Their Future Prospects

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**Abstract:** Based on the author's study and research in the virtual currency course at Columbia University's Pre-College Summer Program, combined with discussions with American virtual currency experts, this paper systematically analyzes the definition, operating mechanisms, types, regulatory policies, application scenarios, potential risks, future development, and relationship with the US dollar of stablecoins. The article uses ten core questions as the main thread, comprehensively exploring the position and prospects of stablecoins in the global digital financial landscape, aiming to provide readers with a panoramic understanding from concept to trend.

**Keywords:** Stablecoin; Digital dollar; Blockchain; Stablecoin types; Genius Act; Cross-border payment; DeFi

***Online publication:*** September 26, 2025

## 1. Introduction

From July to August 2025, the author participated in the virtual currency course of the Columbia University Summer School program, conducting three weeks of study and research, and engaging in multiple discussions with renowned American virtual currency expert professors, including Prof. Lindsley Medlin. During the course, we discussed the components that make up blockchain and the future of Bitcoin and AI politically and economically. Before the course ended, President Trump signed the "Guiding and Establishing National Innovation for U.S. Stablecoins Act" (commonly known as the "Genius Act") [1], a landmark piece of legislation with far-reaching impact on the U.S. stablecoin industry.

(1) What exactly are stablecoins? Why are they called digital dollars? How do they differ from Bitcoin?
(2) How do they maintain stability? How is the 'dollar peg' achieved? Who guarantees instant cash redemption?
(3) What are the different types of stablecoins? Which is the most reliable?
(4) Why are industry giants rushing to issue stablecoins? What is their profit model?

(5) Under the strictest regulation, can they still maintain high profits?

(6) Beyond cryptocurrency speculation, what real-world applications do stablecoins have?

(7) Why have national regulatory attitudes shifted so abruptly?

(8) Are stablecoins truly safe? Have the risks been completely eliminated?

(9) Who might emerge as the ultimate winner?

(10) Will stablecoins replace the US dollar?

## 2. What exactly is a stablecoin? Why is it called the digital dollar? How does it differ from Bitcoin?

Recently, the global attitude toward stablecoins has shifted almost overnight. Just a few years ago, they were dismissed as a "crypto toy," a money-laundering tool, and even directly targeted by regulators around the world. Now, the U.S. Congress has passed the Genius Act, bringing stablecoins under the federal regulatory framework—requiring licensing, reserves, and disclosures, with a compliance regime even stricter than that for small banks.

Almost simultaneously, Hong Kong released its Stablecoin Regulatory Ordinance, launched a regulatory sandbox, and prepared to roll out Hong Kong dollar and offshore RMB stablecoins. Singapore, the European Union, Japan, and the Republic of Korea are all rushing to legislate; even Dubai and Abu Dhabi are actively promoting them. Perhaps most surprising, the People's Bank of China—historically one of the most hardline opponents—has recently discussed the possibility of domestic stablecoin pilots at official meetings [2,3].

This is quite a reversal of public perception. What was once widely regarded as an illicit crypto activity is now becoming the new darling of financial reform. It is not just governments—financial and tech giants are piling in as well. Circle (issuer of USDC) successfully went public, with its stock price soaring 750% in a single month. JPMorgan Chase, Citibank, Goldman Sachs, and Bank of America are all moving into stablecoin operations. Even Chinese firms like JD.com, Ant Group, and Xiaomi have registered stablecoin-related companies in Hong Kong.

Naturally, we must ask: What exactly is a stablecoin, and why are countries so eager to embrace it? Is this truly a technological revolution, or just another round of profit-seeking hype?

Let's start from the simplest point—why is it called a "stable" coin? Its primary selling point is stability. In contrast, what is Bitcoin most famous for? Extreme price volatility. Yesterday it might have been USD 80,000, today USD 100,000, and tomorrow perhaps USD 120,000. Traders may enjoy such roller-coaster movements, but if you want to use it to buy something as mundane as a cup of coffee, that volatility becomes a problem. Imagine you buy a coffee in the morning for 0.001 BTC (worth USD 30 at the time), only to find by afternoon that the same amount of Bitcoin is worth USD 100. Either the buyer or the seller ends up feeling shortchanged—hardly ideal for everyday payments.

Thus, while Bitcoin can function like a stock for investment and speculation, it is ill-suited for daily transactions. The question then arises: Could there be a digital currency that operates on a blockchain, remains outside traditional regulatory bottlenecks, enables fast global transfers, yet has a stable value pegged to the U.S. dollar?

The answer gave birth to stablecoins. In one sentence: a stablecoin is the digital dollar of the blockchain world. Like Bitcoin, it can be transferred across borders and run on decentralized networks, but unlike Bitcoin, its value is pegged—usually at 1 USD—so you can confidently use it for payments, trading, and settlement.

## 3. Why can stablecoins remain stable? How does the dollar peg work? Who guarantees cash redemption?

The answer can be summed up in one word: peg.

What does that mean? The issuer makes you a promise—one stablecoin equals one U.S. dollar. When you give the issuer one dollar, they issue you one stablecoin. When you return the stablecoin, they destroy (burn) it and give you back one dollar.

This logic is somewhat like topping up Q Coins for Tencent's online games—except this time, the "Q Coin" is not a virtual token limited to in-game purchases. Instead, it is a globally accepted, price-stable digital dollar that circulates on a decentralized blockchain network, theoretically usable by anyone, anywhere, at any time.

Sounds ideal, right? But here comes the critical question:

Who ensures that this promise is real?

Who guarantees that when you redeem your stablecoin, you will actually get back one U.S. dollar?

This is the core existential question of the stablecoin system. If that promise is broken, the stablecoin's value could collapse instantly.

In theory, the issuer must hold assets of equivalent value to the total outstanding stablecoins—such as U.S. dollars in bank accounts or short-term U.S. Treasury bills—stored in a regulated bank or trust, ensuring full and immediate redemption at any time.

However, in practice, not all stablecoins use the same method to maintain their peg, and this is why their risk profiles vary significantly. Some rely on real dollar reserves to directly back their coins. Others use cryptocurrency collateral to indirectly stabilize prices. Still others depend solely on algorithmic mechanisms to adjust supply and demand in an attempt to maintain stability.

These three methods form the three major collateral models of stablecoins, and they directly determine each coin's stability and security. In the following sections, we will analyze each mechanism in detail—its operating logic, advantages, disadvantages, and viability under different regulatory environments [4].

## 4. Types of stablecoins: Which is the most reliable?

Currently, stablecoins on the market can be broadly divided into three categories [5]:

(1) Fiat-backed stablecoins

(2) Crypto-backed stablecoins

(3) Algorithmic stablecoins

First, fiat-backed stablecoins are now the primary focus of the latest regulatory frameworks worldwide. This is currently the most mainstream—and also the safest—model. The logic is straightforward: you give an issuer one U.S. dollar, they deposit it into a bank account, and issue you one stablecoin. When you redeem the stablecoin, they destroy it (burn it) and return the dollar to you. This is essentially a 1:1 reserve system.

In essence, it is like a digital version of a U.S. dollar exchange window. Representative examples include USDT [6] and USDC. But the key question is: can you fully trust that these issuers actually hold the reserves? Will they misuse the funds? In earlier years, this was indeed the biggest point of distrust in the crypto community. Tether, for example, was criticized for years over its lack of reserve transparency and was even fined.

However, since 2024, the situation has changed dramatically—why? Because the Genius Act was enacted.

The full name of the Genius Act [2,3] is the Guiding and Establishing National Innovation for U.S. Stablecoins Act, and it is currently the most important and influential stablecoin regulatory framework in the world. Key

provisions include:

(1) 100% high-quality reserves: reserves must be in cash or short-term U.S. Treasuries, with no investment in high-risk assets.

(2) Real-time reserve disclosure: users can verify the reserve balance at any time.

(3) User redemption priority: in the event of issuer bankruptcy, reserves must be returned to users first.

(4) Licensing requirements: any entity issuing stablecoins must obtain either federal or state licenses.

In short, the U.S. regulates stablecoins more strictly than small banks. The goal is simple: stablecoins can no longer be "wild" financial products; they must become transparent, compliant, state-regulated digital financial instruments.

What about the EU's MiCA (Markets in Crypto-Assets Regulation)? The EU takes an even more cautious approach. It prohibits interest payments on stablecoins to avoid them becoming "shadow banks" competing with traditional banks. It imposes transaction limits and enforces strict anti-money laundering rules. In essence: you can issue stablecoins, but you cannot undermine the euro's monetary base.

As for Hong Kong's Stablecoin Regulatory Ordinance, the approach is strategic. It allows companies to operate under a sandbox trial, with real-time government oversight, and requires licensing, local registration, reserve disclosure, and anti-money laundering compliance. The primary focus is on the Hong Kong dollar and offshore RMB stablecoins for cross-border payments.

Notably, as of August 1, Hong Kong temporarily raised licensing requirements, limiting approvals to traditional banks—HSBC, Standard Chartered, and Bank of China (Hong Kong)—and rejecting applications from companies like JD.com and Ant Group.

From this, one might conclude that fiat-backed stablecoins are now safer than many shadow banks: fully licensed, backed by verifiable reserves, with guaranteed redemption and legal protection. This type has evolved into a digitalized version of national currencies.

Second, crypto-backed stablecoins—such as DAI issued by MakerDAO [7]—use cryptocurrencies like Ethereum as collateral. For example, a user might deposit USD 150 worth of ETH to generate USD 100 in stablecoins. If ETH's price falls, the system automatically liquidates the collateral. The advantage of this model is decentralization—there is no single controlling company. The drawback is slower responsiveness and higher volatility, making it unsuitable for large-scale payment systems.

Third, algorithmic stablecoins rely solely on algorithms to adjust supply and demand—without any real asset backing. A notable example is Terra's UST, which collapsed in 2022, wiping out over USD 40 billion in market value and triggering one of the most infamous crashes in crypto history [8]. Without tangible reserves, once market confidence evaporates, no algorithm can prevent collapse. This model has effectively been eliminated from the market. According to the Federal Reserve's 2024 report on the impact of stablecoins, large-scale adoption could affect liquidity in the U.S. Treasury market, raising concerns about financial stability [9].

In summary, stablecoins are not merely a variant of Bitcoin—they are blockchain-based applications of digital fiat currencies. Under modern regulatory frameworks, they have become more compliant and safer than before—though the costs of issuance and maintenance have also risen. From a global perspective, stablecoins are not limited to being digital U.S. dollars; they could also become digital yuan or digital versions of any national currency.

## 5. Why are industry giants rushing to issue stablecoins? What is the profit model?

If regulation is now so strict, why are major players still racing to launch stablecoins? How do they make money? The answer is surprisingly simple—and remarkably old-fashioned: interest income.

Imagine this: customers deposit USD 10 billion in fiat currency into your account. They can withdraw it at any time, but for most of the time, that money stays with you. Banks pay you interest on it, but regulations forbid you from paying interest to your customers. If the annual interest rate is 2%, you would earn USD 200 million a year—pure profit.

Now consider the market leader, Tether (issuer of USDT). By the end of 2024, Tether's circulating supply of stablecoins had exceeded USD 150 billion. What does it do with this money? It invests in U.S. Treasuries, overnight reverse repos, and other low-risk instruments—earning steady interest. At an interest rate of 4%, USD 150 billion in reserves would generate USD 6 billion a year, and with additional returns from short-term securities and repo operations, Tether's net profit in 2024 reached USD 13 billion.

How many employees does Tether have? Around 150—meaning nearly USD 100 million profit per employee. That's why some say the most profitable company in the world isn't Apple or Saudi Aramco, but a small firm registered in the British Virgin Islands—Tether. Its exceptional profitability comes from three factors:

(1) Zero-cost liabilities: users hand over fiat for USDT, and the company pays no interest in return.

(2) Low-risk investment income: primarily from U.S. Treasuries, money market funds, and other safe assets.

(3) Massive scale: earning interest on USD 150 billion in deposits transforms its business model beyond traditional banking logic.

These profits were achieved in an era when Tether still faced constant scrutiny and regulatory penalties. Now, with the Genius Act moving stablecoins from a legal gray zone into a fully regulated framework, the amounts sitting in Tether's accounts could grow even larger. No wonder traditional financial and tech giants are now launching their own stablecoins.

Another major issuer, Circle (USDC), uses the same model—its core income is also interest. In 2024, Circle's interest income reached USD 1.68 billion. However, as a latecomer competing with USDT, Circle spent over USD 1 billion of that on exchange partnerships—essentially subsidies—to expand distribution. It's similar to the early credit card alliance model: the issuer creates the card, the partner recruits users, and the issuer rewards the partner with a fee.

Why give money to exchanges? Because stablecoins are built on network effects—the more people use them, the greater their commercial value. Exchanges are the main gateways for user adoption. Circle's aggressive spending is aimed at getting USDC listed on every exchange and integrated into every wallet—much like the early days of the internet "cash burn" wars: spend heavily, grow users, and increase valuation.

## 6. With regulation in place, can stablecoins still be hugely profitable?

Now that strict regulation is here, can stablecoin issuers still earn huge profits? One might think the Genius Act, with its requirements for 100% reserves, restrictions on risky investments, licensing obligations, and real-time disclosures, would compress profit margins.

In the short term, yes—costs rise. But in the long run, regulation may actually benefit industry giants and leave profit potential largely intact. Why?

First, the Genius Act's rules require reserves to be held in low-risk assets—cash and short-term U.S.

Treasuries. With full redemption guarantees, real-time transparency, and no high-risk investment loopholes, profitability is driven almost entirely by the interest rate environment. If the Federal Reserve maintains rates above 4%, stablecoin issuers can generate substantial earnings simply from their reserves. In fact, the current high-rate environment in the U.S. is arguably the single biggest driver of stablecoin profit growth. By contrast, a yen-pegged stablecoin—given Japan's near-zero interest rates—would have minimal income potential. As Federal Reserve Chair Powell emphasized in his 2023 remarks on digital assets, stablecoins must be subject to strong regulatory frameworks to avoid risks to financial stability [10].

Second, regulation creates barriers to entry—effectively a moat for large players. Higher compliance thresholds make it harder for small firms to survive, and licensing will likely be concentrated among established institutions like Circle, PayPal, Visa, and JPMorgan. This could transform the stablecoin market from a "wild west" dominated by crypto-native companies into a sector controlled by tech and financial giants, with profits consolidated in fewer hands.

It is worth noting that while the invention of stablecoins itself is brilliant—some call it the most effortless "money-printing machine" of the century—the Genius Act's name is a coincidence. The law's full title is the Guiding and Establishing National Innovation for U.S. Stablecoins Act, and its acronym happens to spell "Genius."

As for the EU's MiCA regulation, it bans interest payments and limits transaction volumes, meaning stablecoins in Europe cannot offer high-yield deposit products. There, stablecoins function more as payment tools than investment products. In Hong Kong, regulation focuses on cross-border payments and the issuance of Hong Kong dollars and offshore RMB stablecoins. The goal is to position Hong Kong as the stablecoin financial hub of the Asia-Pacific, attracting compliant issuers. This approach channels stablecoins into payment and financial infrastructure roles rather than speculative assets.

## 7. Real-world applications of stablecoins

Are stablecoins only useful for crypto traders, with no real connection to our daily lives? Absolutely not. Consider this counterintuitive fact: in 2024, the annual transaction volume of stablecoins reached USD 27.6 trillion—surpassing the total global payments processed by Visa and Mastercard combined. Surprising? That is just the beginning.

The explosion in stablecoin adoption comes from solving some of the most stubborn problems in global payments—slow cross-border transfers, high banking fees, strict foreign exchange controls, inflation-driven currency depreciation, and the lack of a reliable peg in decentralized finance (DeFi). Let's break down the key use cases:

First: Cross-border payments.

If you want to send USD 100 from China to a friend in the U.S., what are your options?

Bank wire transfer: USD 20 in fees, one to two days to arrive, and a pile of forms to fill out.

PayPal: transaction fees, currency conversion losses, and extra charges for the recipient.

SWIFT: slow, expensive, and opaque.

Now compare that to stablecoins: instant settlement within minutes, fees as low as USD 0.10, and no concept of "cross-border"—it is simply an on-chain transfer. It is essentially a global version of Alipay. This is why giants like Amazon, Walmart, JD.com, and payment providers like Stripe and PayPal are eyeing stablecoins. PayPal has even launched its own—PYUSD—with U.S. regulatory approval [11].

Second: A lifeline for high-inflation economies.

If you live in Argentina, where annual inflation is 150% and your local currency loses value daily, what's the first thing you want to do? Get U.S. dollars. But strict foreign exchange controls mean dollars are almost impossible to obtain. The solution? Stablecoins.

In Argentina, Turkey, and Zimbabwe, people use stablecoins like USDT as digital dollars for savings, shopping, and paying rent. In Argentina, landlords now accept USDT rent payments. In Brazil, the central bank integrated stablecoins directly into its national payment system, PIX, enabling on-chain transactions. Here, stablecoins are no longer speculative tools—they are inflation hedges.

Third: The backbone of DeFi.

DeFi—short for decentralized finance—includes lending, asset management, derivatives, and NFT trading, all conducted on-chain. But all these activities require a stable reference asset; without it, volatility would make them unusable. Stablecoins serve as the base currency of DeFi, much like the U.S. dollar in the traditional financial system. Without them, DeFi simply would not work.

Fourth: Grey zones and black markets.

It is a reality that stablecoins first gained explosive adoption not in e-commerce or payment systems, but in black markets—thanks to anonymity, instant global transfer, and difficulty of freezing funds. This made them a preferred medium for dark web transactions, gambling, and illicit fund flows. This is exactly why global regulators have a love-hate relationship with them: they love the financial innovation and competitiveness, but fear the risks of money laundering and terrorist financing. Key laws such as the U.S. Genius Act, the EU's MiCA framework, and Hong Kong's stablecoin regulations all aim to "bring stablecoins into the sunlight," transforming them from underground tools into legitimate payment infrastructure.

## 8. Why have governments suddenly changed their attitude?

If stablecoins carry risks of money laundering, why are governments now racing to regulate—and even embrace—them? In one phrase: territory control. Governments have realized that whoever sets the rules first can control the industry's future, attract the best companies, define compliance standards, and collect taxes down the road.

The U.S. has been the most aggressive for a simple reason: the overwhelming majority of stablecoins are pegged to the U.S. dollar, making them a digital upgrade of the dollar's international role. With the Genius Act in place, the U.S. has moved quickly:

(1) Require licensed issuance and 100% reserve backing.

(2) Mandate that reserves be held in high-quality, low-risk assets—primarily U.S. Treasuries.

(3) Enforce real-time reserve disclosures and traceable oversight.

Behind this is a clear geostrategic agenda:

(1) Strengthen the U.S. dollar's global dominance.

(2) Boost demand for U.S. Treasuries (Tether alone purchased over USD 30 billion in Treasuries in 2024).

(3) Secure control over the future of global crypto-finance.

In this sense, the shift from "illegal" to "grey area" to "fully regulated" in just 15 years reflects a grand bargain between technology, markets, and political power. Markets are not democratic elections, but they are a form of silent referendum. The U.S. government has simply decided to embrace the "elephant in the room."

Mainland China still bans cryptocurrency, but Hong Kong has rolled out its own stablecoin regulations

(effective August) and launched a sandbox program. Why? To protect its role as an international financial center. Singapore is also moving fast, and Hong Kong cannot afford to fall behind. Hong Kong's focus is on HKD- and offshore RMB-pegged stablecoins, potentially serving as a digital RMB internationalization pilot for cross-border payment scenarios.

Elsewhere, Singapore and Dubai have long welcomed Bitcoin and stablecoins. Singapore aims to be Asia's "Web3 capital," while Dubai offers low taxes and easy licensing—becoming a magnet for crypto companies. The EU, Japan, and South Korea are more cautious:

(1) The EU enforces strict limits, bans stablecoin interest payments, and caps transaction volumes to protect the euro.

(2) Japan and the Republic of Korea have moved from prohibition to pilot programs to regulated allowance—tightening compliance rules over time.

From a macro perspective, stablecoins are not just a technical innovation—they are part of a currency war. The U.S. uses them to project dollar power; China leverages the digital RMB for defense, using Hong Kong as a forward base; the EU takes a defensive, conservative approach; and Singapore and Dubai are competing to be global crypto-finance hubs. Ultimately, stablecoins could become a foundational layer of the future global payment and monetary system [12].

## 9. Are stablecoins really safe? Have the risks disappeared?

Even with the U.S. Genius Act and Hong Kong's new rules, stablecoins are not entirely risk-free. The risks have changed, but they remain.

Risk 1: Rising compliance costs.

New laws require 100% reserves in highly liquid assets (short-term Treasuries, cash), daily or quarterly disclosures, mandatory licensing, and strict anti–money laundering measures. For smaller issuers, these costs are prohibitive—effectively pushing them out of the market. The result: only giants will remain, and stablecoin issuance will resemble quasi-banking.

Risk 2: Centralization and systemic risk [3].

Post-regulation, the market will concentrate heavily on two or three dominant issuers. While this increases safety, it also means that if one fails, the impact will be far greater. Ironically, the original dream of Bitcoin creator Satoshi Nakamoto—financial decentralization—has morphed into a hyper-centralized oligopoly.

Risk 3: Geopolitical vulnerability.

Over 90% of stablecoins are USD-pegged, making their expansion effectively digital dollarization. Emerging economies may ban them outright to protect monetary sovereignty. The U.S. could use stablecoins as a sanctions tool—for example, freezing wallet addresses—though this is harder than controlling SWIFT.

Risk 4: Technology and security threats.

Smart contract vulnerabilities and hacking remain persistent risks. In 2023 alone, cross-chain bridge hacks caused losses exceeding USD 1.2 billion—likely more in unreported cases [13]. Compliance does not mean absolute safety.

## 10. Who might emerge as the ultimate winner?

Who will ultimately dominate the stablecoin market? Will Tether and Circle maintain their reign indefinitely, or

will new challengers rise? There are three main camps entering the arena:

First, the tech and financial giants—Apple, Amazon, PayPal, Visa, and others.

Second, traditional banks such as JPMorgan Chase and Standard Chartered have already begun launching their own stablecoin initiatives.

Third, the established crypto incumbents like USDT and USDC will accelerate their expansion to defend their market share.

The outcome? Stablecoins could evolve into the next-generation payment infrastructure, enabling the U.S. to cement its status as the monetary superpower on the blockchain. Other countries will continue to race to catch up. Within three years, the total market capitalization could exceed USD 1 trillion, with stablecoins used for everything from card payments and cross-border transfers to purchasing NFTs.

In other words, stablecoins are not the endgame—they are merely the opening chapter of a much larger digital finance revolution.

## 11. Will stablecoins replace the U.S. dollar?

Will stablecoins replace the U.S. dollar? The answer is no. On the contrary, they are poised to become a global expansion tool and lifeline for U.S. dollar hegemony. Today, over 90% of stablecoins are pegged to the dollar, making it easier for USD liquidity to flow into global markets, bypassing capital controls, and functioning as the "oil" of the digital economy.

Of course, the future is far from settled. Currency competition will increasingly be fought in the form of stablecoins, and the eventual "dark horse" is yet to be seen. In truth, money has never been truly stable—what remains constant is humanity's desire for trust and stability. Stablecoins are simply the newest form of that pursuit.

Let's imagine: if, within the next five years, the number of stablecoin users exceeds one billion and cross-border payments abandon SWIFT entirely, is that realistic? What if your salary is paid directly in USDT—would the world still look the same?

A final thought: when stablecoins are mandatorily pegged to the U.S. dollar, do anonymity, privacy, and decentralization truly still exist?

## 12. Conclusion and reflections

Through the exploration of ten core questions, it is evident that stablecoins have evolved from a "grey zone" in the crypto world into a strategic pillar of national financial agendas. They are not merely the product of technological innovation, but also a tool in the geopolitical contest over currency power.

In cross-border payments, as an inflation hedge in high-inflation economies, and as the backbone of DeFi, stablecoins demonstrate disruptive potential. Yet, high regulatory thresholds, market concentration, geopolitical tensions, and persistent technological vulnerabilities remain critical concerns.

The future of stablecoins will depend not only on technological and market momentum but also on regulatory strategies and the shifting landscape of global finance. While unlikely to replace the U.S. dollar, stablecoins may well become the "digital engine" driving dollar internationalization.

For ordinary users, understanding stablecoins is not just about grasping a new form of digital currency—it is about gaining a window into the future of the global financial order.

## Disclosure statement

The author declares no conflict of interest.

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