Crypto’s great comeback:

And why the banks should now join the party

by Pierre Pourquery

Executive summary

The regulatory breakthrough that changes everything
After years of institutional exile, cryptocurrency and stablecoins are poised for mainstream adoption by traditional banks. This is driven by a fundamental shift in U.S. and global regulatory frameworks.

The problem: prohibitive cost of capital
Basel Committee capital rules imposed a punitive 1,250% risk weighting on crypto assets, making them economically impossible for banks. A simple example: a $1 million crypto exposure required $1 million in capital, costing $120,000 annually just to break even; requiring at least 12.5% price movement in the right direction merely to avoid losses! Meanwhile, crypto-native firms with zero capital requirements captured 95% of the market.

The catalyst: the US push
In March 2025, U.S. regulators (OCC and FDIC) removed the requirement for advance permission to engage in crypto activities. This forced the Basel Committee's hand. Chair Erik Thedéen acknowledged the rules need "reworking" because they were designed for "bitcoins of this world" but stablecoins have grown dramatically and major jurisdictions like the UK and the US won't implement the current framework.

The transformation: from hundreds of thousands to almost zero cost
Expected regulatory changes will dramatically reduce capital costs:

- Tokenized T-bills: from $120,000 to $0
- Quality stablecoins: from $120,000 to ~$10,000

This shifts stablecoins from economically impossible to highly viable for banks.

The impact: the market is open for banks, not only crypto firms
Banks will finally be able to trade and hold stablecoins, use them for cross-border settlement, reduce trapped nostro/vostro balances, and collapse settlement times from days to minutes. For FX markets specifically, this represents fundamental infrastructure transformation.

The reality check: crypto is not more risky than other assets
My research shows crypto isn't as risky as portrayed; 90% of the crypto lifecycle mirrors traditional assets, with only 10% presenting genuinely high risks. Stablecoins offer proven use cases: inflation protection, efficient cross-border payments, DeFi infrastructure, and trading stability.

The bottom line: it is not too late to catch-up
The regulatory dam has broken. The question is no longer whether banks will embrace digital assets, but how fast banks can catch up with crypto-natives who've dominated the market for years. The math has changed. The market is ready. Capital markets are being reshaped.

After years in the regulatory wilderness, digital assets are poised for their institutional moment; and the implications for traditional finance are staggering.
For the better part of a decade, major financial institutions kept crypto at arm's length. The reasons seemed compelling at the time: unclear regulations, spectacular blowups like FTX and Terra/Luna, and above all, punitive capital requirements that made holding

Bitcoin as expensive as setting money on fire. Basel's infamous 1,250% risk weighting effectively told banks to stay away or face financial suicide.

Top management viewed crypto as too risky. Local regulators lagged in shaping appropriate frameworks, creating a perception of regulatory fog. And when the global Basel Committee on Banking Supervision stepped in, they adopted capital treatments so punitive that trading and market-making activities became mathematically impossible for banks.

Add to these competing priorities, where blockchain technology wasn't seen as urgent, and the lack of internal education and know-how, and you had a perfect storm of institutional avoidance.

But something fundamental has shifted. The game is changing, and it's happening faster than most people realize.

The reality check: crypto isn't as dangerous as portrayed

While banks were sitting on the sidelines, an inconvenient truth was emerging: crypto isn't nearly as risky as the regulatory treatment suggests.

Many policymakers and governments have been racing to position their countries as crypto hubs. From the UK's "global crypto hub" ambition to Japan's updated Foreign Exchange Act and Singapore's pro-innovation stance, regulators have been publicly competing for leadership. But actual rule-making has not caught up with political aspirations, until now.

The data tells a surprising story. Market and volatility risks aren't necessarily higher than other FX currencies, especially emerging market currencies. Operational and technology risks align closely with traditional instruments. Research shows that only 10% of specific crypto risks qualify as high risks. More remarkably, nearly 90% of the crypto lifecycle mirrors traditional assets.

Yes, there are new risks, new controls, new processes and technology to implement. But the vast majority can be leveraged from existing capabilities and risk frameworks. The industry has been treating crypto as alien when it's actually a close cousin to what banks already do.

The price of waiting: crypto natives dominate

The result of traditional finance's hesitation has been stark: crypto-native firms have captured more than 95% of the market share across the entire lifecycle—exchanges, trading, custody, settlement, and payment.

While Coinbase, Binance, and Kraken built empires, JPMorgan and Goldman Sachs watched from the sidelines, hamstrung by capital rules that made participation economically irrational.

The American catalyst

The turning point came in March 2025, when U.S. banking regulators made a series of moves that would reshape the entire landscape.

The Office of the Comptroller of the Currency (OCC), the federal regulator of U.S. national banks, issued guidance that banks under its supervision no longer need to obtain advance permission to engage in certain crypto activities. This includes crypto-asset custody, certain stablecoin activities, and participation in distributed-ledger networks.

Shortly after, the Federal Deposit Insurance Corporation (FDIC) announced that banks could engage in legally permitted crypto-related activities without prior approval, so long as they manage associated risks appropriately.

This wasn't just administrative housekeeping. It removed a major regulatory hurdle for banks, signalling that crypto-related business (custody, stablecoin intermediation, tokenized assets) is becoming mainstream and institution-friendly. More importantly, it forced the Basel Committee's hand.

Basel's moment of reckoning

Erik Thedéen, Chair of the Basel Committee on Banking Supervision, recently made statements that sent shockwaves through the banking world. The BCBS's capital rules for banks' crypto-asset exposures, notably the punitive 1,250% risk weighting for certain crypto exposures, need reconsideration, he admitted, because major jurisdictions such as the US and UK won't implement them in current form.

"What has happened has been fairly dramatic," Thedéen said, pointing to "this very strong increase in stablecoins and how much assets are in that system calls for a different approach."

The shift is driven in large part by the growth of stablecoins (fiat-backed or pegged coins) and banks' increasing interest in them, which changes the risk profile compared to the earlier focus on "bitcoins of this world."

While Thedéen acknowledged that reaching global consensus is "difficult" due to "different views" among regulators, the BCBS has publicly committed to expediting a review of the crypto-asset exposure standard.

The math that killed crypto banking: a detailed breakdown

To understand why the current Basel framework has been such a non-starter for banks, you need to understand how the capital mathematics work. It's a story told in numbers that don't lie.

Basel uses risk-weighted assets (RWA) to determine how much capital a bank must hold against its exposures. The 1,250% risk weight is effectively a way to force banks to deduct the full exposure from capital. I's not just conservative, it's prohibitive.

Let's walk through a concrete example with a $1 million crypto exposure:

Step 1: calculate the Risk-Weighted Asset

- Exposure: $1,000,000
- Risk weight: 1,250% (or 12.5 as a multiplier)
- Required RWA = $1,000,000 × 12.5 = $12,500,000

Step 2: calculate required capital

- Basel requires banks to hold 8% capital against RWA
- Required capital = $12,500,000 × 8% = $1,000,000

Yes, you read that correctly. For every dollar of crypto exposure, a bank must hold a dollar of capital. It's essentially a 100% capital requirement dressed up in risk-weighting language.

Step 3: calculate the cost of capital

- Banks need to earn returns on the capital they deploy
- Typical cost of capital: approximately 12% annually
- Cost of capital = $1,000,000 × 12% = $120,000

Step 4: add other costs

- Operational costs
- Sales and distribution costs
- Technology and infrastructure
- Total additional costs: approximately $5,000

Total cost for this transaction: $125,000

Now here's where it gets brutal. To break even on this $1 million crypto transaction, you would need the price to move 12.5% in your favour. Not to make a profit; just to break even. You're asking traders to consistently predict 12.5% moves in the right direction just to avoid losing money.

This is economic insanity. People trade with the expectation of winning most of the time, not being almost guaranteed to lose. When you compare this to traditional asset classes, the incentives are crystal clear: trade traditional assets and leave crypto alone.

Basel's binary world: group 1 vs. group 2

Basel's framework essentially divided the crypto world into two groups, with vastly different treatments.

Group 1: the "safe" digital assets This includes tokenized traditional assets (like tokenized deposits) and stablecoins that pass strict tests. To qualify, they must:

- Be fully redeemable
- Have complete legal clarity
- Possess a stabilization mechanism
- Demonstrate strong operational risk controls
- Show basis risk (volatility) of less than 10 basis points daily

These assets can be treated more like traditional instruments, with significantly lower capital charges.

Group 2: everything else This is where Bitcoin, Ethereum, Solana, and any stablecoins that don't meet the strict Group 1 tests fall. They get the punitive 1,250% treatment. Basel said explicitly: "crypto-assets with high volatility, lacking clear legal structure, or with no redeemability must not benefit from any diversification or hedging benefits."

What they're really saying is that they treat these cryptos as if they could go to zero overnight; which explains why the capital charge essentially requires 100% backing.

The coming revolution: new math, new markets

Thedéen's recent statements point to a dramatic shift in how regulators will approach digital assets. The Basel Committee Chair has indicated that:

- The rules need complete reworking
- They were designed at a time when regulators only saw "bitcoins of this world"
- The dramatic growth of stablecoins demands a different approach
- Many jurisdictions (especially the US and UK) will likely not implement the current 1,250% framework
- The BCBS will expedite a review

The expected outcome? A much more granular distinction between:

- Fiat-backed stablecoins
- Wholesale settlement tokens
- Tokenized cash
- High-volatility crypto assets

Instead of the current blunt instrument ("everything that isn't perfect gets 1,250%"), regulators are moving toward risk-sensitive treatments that reflect actual risk profiles.

The new math: a transformation in capital economics

Using the same $1 million exposure example, the predicted changes in capital costs will be transformative:

Tokenized 1-Month T-Bills:

- Current cost: $120,000
- Predicted cost: $0

This makes sense—these are essentially government securities in digital form. They should receive the same preferential treatment as their paper equivalents.

Stablecoins (high-quality, meeting strict criteria):

- Current cost: $120,000
- Predicted cost: approximately $10,000

This reflects a risk weighting more aligned with high-quality liquid assets, perhaps in the 20-50% risk weight range rather than 1,250%.

The impact on business models

These aren't minor adjustments. They're the difference between economically viable and economically impossible. A reduction from $120,000 to $10,000 in capital costs transforms the entire business case for banks engaging in stablecoin activities.

For FX operations specifically, this is game-changing. Stablecoins can receive far lower capital charges, making them viable tools for:

- Cross-border settlement
- Liquidity management

- Intraday trading
- Foreign exchange operations

The stablecoin surge: real use cases, real scale

With regulatory clarity emerging and capital treatments normalizing, stablecoins are positioned for explosive growth in institutional finance. The use cases aren't theoretical: they're operational and scaled.

Escape from inflation In countries with high inflation, stablecoins offer individuals and businesses a way to protect wealth from the devaluation of native currencies. Argentina, Turkey, and Nigeria have seen massive stablecoin adoption as citizens seek dollar exposure without access to dollar banking.

Cross-border transactions Stablecoins provide a compelling alternative to traditional correspondent banking for cross-border transactions. They facilitate remittances and international payments at a fraction of the cost and time. What takes days through SWIFT can happen in minutes on blockchain rails.

Decentralized Finance (DeFi) Stablecoins play a crucial role in the DeFi ecosystem, allowing users to access financial services (including lending, borrowing, and yield farming) through a common unit of exchange. The total value locked in DeFi protocols now exceeds $100 billion, with stablecoins serving as the primary medium of exchange.

Trading & hedging Stablecoins offer market participants a way to hedge against market volatility and manage risk. In uncertain market conditions, traders can convert volatile tokens into stablecoins to preserve wealth without exiting the crypto ecosystem entirely—avoiding the friction and delays of moving back to traditional banking.

What this means for traditional banks

The institutional floodgates are about to open. With normalized capital treatment, banks will finally be able to:

- Trade and hold stablecoins intraday without prohibitive capital charges
- Use them for cross-border settlement, dramatically reducing settlement times
- Create liquidity pools that operate 24/7, unlike traditional FX markets
- Reduce nostro and vostro account balances, freeing up billions in trapped liquidity
- Speed settlement from T+2 to minutes or even seconds

The implications for FX businesses are particularly profound. Foreign exchange markets could see their infrastructure fundamentally reimagined around stablecoin rails. The $7.5 trillion daily FX market could gain a new, more efficient layer of settlement infrastructure.

The competitive landscape: can banks catch up?

The irony is almost painful. While traditional banks hesitated, crypto-native firms didn't just enter the market; they built it. They now control 95% of market share across exchanges, custody, settlement, and payments. Coinbase processes more volume than many mid-tier exchanges. Circle's USDC has become infrastructure.

Now, as regulatory clarity emerges and capital charges normalize, incumbent banks get a second chance. But can they compete with battle-tested natives who've spent years building technology, liquidity networks, and customer relationships?

Banks have advantages: regulatory expertise, existing customer relationships, balance sheet strength, and deep institutional trust. But they're years behind on technology and market understanding. The race is on, and the outcome is far from certain.

The verdict: no turning back

Make no mistake; the regulatory dam has broken. The Basel Committee is expediting its review. Major jurisdictions are racing to become crypto hubs. The capital math that once made institutional crypto impossible is being rewritten in real time.

For capital markets and FX operations, we're not talking about adding a new asset class anymore. We're talking about fundamental infrastructure changes in how money moves globally. The technology that was dismissed as too risky, too volatile, and too immature is becoming the backbone of next-generation financial markets.

The question is no longer whether traditional finance will embrace crypto and stablecoins. It's how fast institutions can move, how effectively they can build or acquire the necessary capabilities, and whether they can compete with the crypto-natives who've had the field to themselves for years.

The math has changed. The regulators have moved. The market is ready. What happens next will reshape global finance, investment banks and FX for decades to come.